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Grokster Calls It Quits on Sharing Music Files

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LOS ANGELES, Nov. 7 - Grokster, a developer of file-swapping software used to trade copyrighted music and movie files, said Monday that it would halt distribution of the software and cut off support for its associated network as part of a landmark settlement with the recording industry and Hollywood studios.

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The pact comes four months after the Supreme Court unanimously ruled that Grokster could be held liable for copyright infringement by users of its software, a decision that delivered a decisive victory for entertainment companies, particularly music labels, which have blamed widespread digital piracy for a worldwide slump in sales.

The court decision sent the case back to a trial court, but the settlement - submitted to a

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federal judge in Los Angeles on Monday - averts further legal wrangling for Grokster in the four-year-old lawsuit. Grokster also agreed to pay up to \$50 million in damages, though music executives say they do not expect to collect because the software company lacks the resources to pay.

The deal also includes an injunction that bars Grokster from directly or indirectly infringing plaintiffs' copyrighted material.

While Grokster is disappearing in its original form, the underlying case that culminated in the Supreme Court showdown may continue. Grokster's co-defendant in the case, Streamcast Networks, the promoter of a file-sharing network known as Morpheus, has indicated it plans to keep battling the movie studios and record labels in court.

And it is a global problem. In Hong Kong on Monday, a man was sentenced to three months in jail for using an Internet file-sharing system to make three Hollywood movies available for free downloading. [Page 4.]

More broadly, the popularity of file-sharing networks shows little sign of waning in the wake of the settlement or the earlier court decision. An estimated 9.2 million people are using various so-called peer-to-peer networks at any one time, according to BigChampagne, a data service. The figure has edged up from 8.8 million in June.

With Monday's settlement, "I don't think, practically speaking, we're expecting to see much impact in the peer-to-peer landscape," said Eric Garland, BigChampagne's chief executive. "People moved on from tools like Grokster some time ago."

The entertainment industry continues to scramble to keep pace, taking legal action against file-sharing networks in Australia and South Korea. The campaign, spearheaded by the Recording Industry Association of America, has also aimed at individuals. (The major labels have sued more than 15,000 people since the effort began two years ago.)

The recording industry has said that its legal campaign is intended to gradually deter the entrepreneurs who run many of the biggest file-sharing networks and the advertisers that support them, all while driving music fans to authorized services like iTunes from [Apple Computer](#), which sells songs

A result, industry executives say, should be to corral digital piracy to the point that it is a tolerable nuisance instead of a huge drain.

If the industry can hang on, music executives say, its four major record corporations will eventually rejuvenate their businesses with new products, including digital downloads, ring tones and music videos.

So far this year, sales of downloads at licensed services - where consumers are favoring the purchase of cheaper individual songs over more expensive full-length albums by a wide margin - have risen sharply. But the gains are not enough to offset the decline in "physical" album sales, which have been dwindling for four of the last five years.

For its part, Grokster has added a new message to its Web site: "There are legal services for downloading music and movies. This service is not one of them."

The company said it planned to create a "safe and legal" service and refer users to a new Web site, www.grokster3g.com. Grokster is expected to be absorbed by Mashboxx, a new venture run by Wayne Rosso, a former Grokster president, who has already struck a deal to license music from [Sony](#) BMG Music Entertainment, the world's second-biggest music company.

Consumers who have already downloaded the Grokster software can still use it to trade files, though they risk being sued.

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