

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 03-55894 & 03-56236

METRO-GOLDWYN-MAYER STUDIOS INC., *et al.*,
Plaintiffs-Appellants,

v.

GROKSTER LTD., *et al.*,
Defendants-Appellees.

No. 03-55901

JERRY LEIBER, individually d.b.a. Jerry Leiber Music, *et al.*,
Plaintiffs-Appellants,

v.

GROKSTER LTD., *et al.*,
Defendants-Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Case Nos. CV-01-08541-SVW & CV-01-09923-SVW
Honorable Stephen V. Wilson, United States District Court Judge

MGM PLAINTIFFS-APPELLANTS' OPENING BRIEF

[FILED UNDER SEAL]

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 26.1 of the Federal Rules of Appellate Procedure, Plaintiffs-Appellants Metro-Goldwyn-Mayer Studios Inc.; Columbia Pictures Industries, Inc.; Disney Enterprises, Inc.; New Line Cinema Corporation; Paramount Pictures Corporation; Time Warner Entertainment Co., L.P.; Twentieth Century Fox Film Corporation; Universal City Studios LLLP (f/k/a Universal City Studios, Inc.); Arista Records, Inc.; Atlantic Recording Corporation; Rhino Entertainment Company; Bad Boy Records; Capitol Records, Inc.; Elektra Entertainment Group Inc.; Hollywood Records, Inc.; Interscope Records; LaFace Records; London-Sire Records Inc.; Motown Record Company, L.P.; The RCA Records Label, a unit of BMG Music d/b/a/ BMG Entertainment; Sony Music Entertainment Inc.; UMG Recordings, Inc.; Virgin Records America, Inc.; Walt Disney Records; Warner Bros. Records Inc.; WEA International Inc.; Warner Music Latina Inc.; and Zomba Recording Corporation (each a private, non-governmental party) – certify that the following are all of the corporate parents and other publicly held companies owning 10% or more of any plaintiff's stock:

AOL Time Warner Inc.
Bertelsmann, Inc.
Bertelsmann AG
EMI Group PLC
Fox Entertainment Group, Inc.
Matsushita Electric Industrial Co.

Metro-Goldwyn-Mayer Inc.
The News Corporation Limited
Sony Corporation
Viacom Inc.
Vivendi Universal, S.A.
The Walt Disney Co.

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JURISDICTION

The District Court has jurisdiction pursuant to the Copyright Act, 17 U.S.C. §§101 *et seq.*, and 28 U.S.C. §1338(a) and (b). Jurisdiction over this appeal is under 28 U.S.C §§1291 and 1291(a)(1).

ISSUES ON APPEAL

1. Must a copyright owner asserting a claim for contributory infringement against operators of online file-copying and distribution networks prove the defendants have actual knowledge of their users' specific acts of direct infringement (at the exclusion of constructive knowledge), and that such knowledge is acquired at a point in time when the defendants can stop those particular infringements?

2. Does the *Sony-Betamax* "staple article of commerce" defense shield defendants from liability even though: (a) they have knowledge of infringing activity; (b) they created and maintain dynamic networks to facilitate the infringement of plaintiffs' works through which they continuously interact with their users; and (c) they failed to present evidence of the extent of any commercially significant substantial noninfringing uses of their networks?

3. May defendants who operate and profit directly from online file-copying and distribution networks, and who have the ability to prevent or limit infringement on those networks, escape liability for vicarious copyright

infringement by shifting certain network functions onto the computers of their users, or by deliberately abandoning some of the features that gave them control over their networks in an effort to disclaim the ability to supervise or control their users' direct infringement?

4. Even under the District Court's erroneous standards of contributory and vicarious copyright infringement, did it err in granting summary judgment on the premise that there were no material facts in dispute by ignoring or rejecting evidence demonstrating that Defendants were liable for such infringement?

INTRODUCTION

For two hundred years our copyright laws have encouraged and enabled storytellers, songwriters, recording artists, and filmmakers to create and disseminate a diverse body of expressive works that has no equal in the world. These works enrich our lives and entertain us. Their creation and distribution employs hundreds of thousands of people, and is supported by hundreds of billions of dollars invested in reliance on the protection afforded by copyright.

All of that is at risk in this lawsuit. The doctrines of contributory and vicarious copyright infringement recently were reaffirmed as applicable in the online world in this Court's landmark decision in *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1005 (9th Cir. 2001) ("*Napster*"). This appeal will

determine whether those doctrines will have any practical effect or can easily be circumvented and nullified by businesses that enable, facilitate, and profit from massive online copyright infringement.

Plaintiffs-Appellants (“Plaintiffs”) own or control the vast majority of copyrighted motion pictures and sound recordings in the United States.¹ Defendants-Appellees StreamCast Networks, Inc. and Grokster Ltd. (“Defendants”), self-styled “next Napsters,” created, maintain, and control computer networks overwhelmingly used by millions to copy unauthorized versions of Plaintiffs’ music and movies. Defendants reap millions of dollars in revenue from their on-line trading bazaars by selling advertising they display to their users while they engage in infringement.

This case is not about Plaintiffs embracing or opposing technological innovation. It is about the conduct of businesses that intentionally misuse commonly available Internet “peer-to-peer” technology to profit from copyrights they do not own for works they did not create. Defendants easily could integrate a technological solution to prevent the infringement that predominates their networks. They choose not to. Instead, Defendants deliberately turn a blind eye to their users’ infringement because

¹ Plaintiffs-Appellants in the consolidated *Leiber, et al. v. Grokster, Ltd.*, appeal, No. 03-55901, represent a certified class of over 27,000 songwriters and music publishers.

free access to Plaintiffs' content is what draws Defendants' users to their networks and gives those networks value.

When the District Court granted summary judgment for Defendants as to the "current versions" of their systems, and denied summary judgment to Plaintiffs, it concluded that Defendants are not liable for contributory or vicarious copyright infringement. In doing so, it sharply departed from the law of this Circuit and dramatically redrew the law of secondary infringement to set near-impossible standards for liability in an online environment.

In *Napster*, this Court applied the traditional law of contributory and vicarious infringement to a company that, like Defendants, operated an online network that enabled users to search for, copy, and distribute unauthorized copies of copyrighted works. 239 F.3d at 1019, *citing Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996). This Court ruled that relief against Napster was "not only warranted but required," 239 F.3d at 1027, because Napster had: (1) actual and constructive knowledge of infringement, and materially contributed to it by supplying software, facilitating connections between computers, and providing other support to make that infringement possible (contributory infringement); and (2) financially profited from that infringing activity despite having the ability to supervise and control it

(vicarious infringement). Applying established legal principles to the online environment, this Court recognized that organizers of infringing networks could not be held liable merely because of the capability of the technology to infringe, but that they *should be* held liable if they knowingly contribute to infringement or profit from it when they are in fact able to curtail it. Although the similarities between Napster and Defendants are patent, Napster's precise conduct and the specific details of its technology are not the only situations in which these doctrines apply online.

The District Court acknowledged that large-scale direct infringement was occurring on Defendants' networks, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F.Supp.2d 1029, 1038 (C.D.Cal. 2003), that Defendants "clearly know that many if not most of [their users] who download their software subsequently use it to infringe copyrights," *id.* at 1037, that Defendants "derive a financial benefit from the infringement," *id.* at 1044, and that "Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares," *id.* at 1046. Despite these realities, the District Court failed to follow the principles of secondary liability recognized in *Napster*, *Fonovisa*, and earlier cases.

With respect to contributory infringement, the District Court ruled that Defendants' knowledge of massive, continuing infringement on their networks did not suffice; that, for Defendants to be liable, actual knowledge of specific acts of infringement must occur at a time when those infringements somehow could be prevented; and that Defendants must actively participate in direct acts of infringement over and above the distribution of networking software and the provision of ongoing access and services (and ignored substantial evidence they do). With respect to vicarious infringement, the District Court ruled that the supervision and ability to police that this Court recognized as sufficient in *Napster* were insufficient to establish liability unless Plaintiffs proved that Defendants could prevent specific infringements before their software "passed to end-users" (and ignored substantial evidence Defendants could do so *after* the software was on users' computers). These extraordinarily restrictive standards have never been the test in this or any other Circuit.

The decision below is not an application of copyright law to the online world but an abdication. If affirmed, it will gravely threaten any possibility for meaningful copyright protection in the digital era. There is no genuine dispute that the *raison d'etre* of Defendants' networks is the unlawful exchange of copyrighted songs and movies. The harm to Plaintiffs continues to

be enormous: Defendants have, in essence, unlocked the door to every video and record store in the country and invited every person to come in and copy as much as they want, in flat violation of Plaintiffs' copyrights.

Because review of a summary judgment is *de novo*, this Court considers afresh the law of secondary infringement as applied to the facts. This review will demonstrate not only that the District Court erred in granting summary judgment for Defendants, but that Defendants are culpable as contributory and vicarious infringers as a matter of law, and that summary judgment should have been granted for Plaintiffs.

STATEMENT OF THE CASE

On October 2, 2001, Plaintiffs filed suit for contributory and vicarious copyright infringement. On April 25, 2003, the District Court granted Defendants' motions for summary judgment with respect to the "current versions" of their products and services, and denied Plaintiffs' cross-motion for summary judgment on liability. 259 F.Supp.2d 1029. The Court expressly declined to rule as to Defendants' liability for earlier versions of their networks or other past activities. *Id.* at 1033.

On May 23, 2003, Plaintiffs filed a Notice of Appeal from the District Court's April 25 Order pursuant to 28 U.S.C. §1292(a)(1). On June 18, 2003, the District Court amended its prior order and directed entry of partial

final judgment under Federal Rule of Civil Procedure 54(b). JER7698.² On July 10, 2003, Plaintiffs timely filed a Notice of Appeal from that Order and an amended Notice of Appeal from the May 23 Order.

STATEMENT OF FACTS

Defendants are in the business of aiding and abetting copyright infringement. They created, maintain, and control computer networks based on “peer-to-peer” Internet technology similar to that employed by the notorious Napster system. From their inceptions providing near-identical “clone” versions of the Napster system, through their adopting the “FastTrack” networking technology (which Grokster still employs), to StreamCast’s current use of a variant of the “Gnutella” peer-to-peer platform, Defendants’ businesses have been designed and modified to best enable and facilitate the infringement of copyrighted works. As Defendants know and intend, their networks are used overwhelmingly by millions of users to infringe copyrights. During the proceedings below, ***90% of the works available on the FastTrack network demonstrably were infringing, and over 70% belonged to Plaintiffs.***

JER1913; *see also* JER1911-12, 2001, 2003, 2007-39, 2065, 2087-88. The ready availability of these infringing works attracts users to Defendants’ networks. JER3458, 3534-37, 4191-94, 4198. Defendants then directly benefit

² Plaintiffs’ Joint Excerpts of Record are cited “JER____.”

from “the illicit draw of their wares,” 259 F.Supp.2d at 1046, by charging advertisers millions to deliver continuous on-screen advertising to their networks of users, *id.* at 1044. JER0117, 2305-08, 2502-03, 2630-32, 2860, 3105-06, 3247-49, 3485, 4196-97, 4498, 4501, 5037, 5083-84.

A. Origins of Defendants’ Networks.

In 1999, Napster began to operate a peer-to-peer system that helped users unlawfully copy and distribute copyrighted works. Napster made available free software for users to download. When installed on a user’s computer, that software connected the user to a central computer (“server”) that compiled and continuously updated an index of “MP3” (compressed recording) files that users then connected to the system were making available from their computers to other users. In response to a user’s search query, the central computer returned a list of matching files located on other users’ computers. By clicking on the name of a song or movie, the user would copy (“download”) it to his own computer directly from the offering user, and automatically make that newly copied file available for further distribution (“uploading”) to other users. The infringing content was transferred “peer-to-peer” without passing through any Napster computer. JER787-89; *Napster*, 239 F.3d at 1011-12; *A&M Records, Inc. v. Napster, Inc.*, 114 F.Supp.2d 896, 905-908 (N.D.Cal. 2000)(“*A&M Records*”).

Defendants launched their businesses with the goal of emulating Napster. JER2709-10, 2817, 2828, 3534-37, 5609, 5930, 6653. They built and operated their own systems, called “OpenNap,” that employed a reverse-engineered variant of Napster software. Those systems functioned in all material respects like Napster, except that Defendants’ systems allowed users to search for and download any type of digital file, including movies. JER789-90; 2210, 2331-38, 2852-53, 2968-70, 4492, 4694, 6559-73. Even after this Court affirmed an injunction against Napster, Defendants continued to fill the void left by Napster by creating “the next Napster” and “Do[ing] Napster better.” JER 2828, 3537; 259 F.Supp.2d at 1036.

Knowing that Napster’s role in facilitating copyright infringement caused the Court to enjoin it, Defendants nevertheless aggressively sought to attract Napster’s infringing users. JER2817, 3470, 3477, 3544, 5932. StreamCast’s then-CEO boasted: “we are the logical choice to pick up the bulk of the 74 million users that are about to ‘turn Napster off.’” JER5932. StreamCast promoted its OpenNap network as “The #1 Alternative to Napster” and as the “Alternative Napster Network.” JER3458, 3534-39, 3900, 4191. Grokster’s principals operated their own separate OpenNap network called “Swaptor.” JER790, 2852-53. This strategy resulted in “staggering growth” of

Defendants' networks. JER3534-39; *see also* JER3328-29, 3474, 3545-46, 3553, 4200, 6196.

B. Defendants' "FastTrack" Network.

Once Defendants succeeded attracting millions of Napster users, they created superficial technical differences between their systems and Napster while maintaining their valuable user bases and business model. Around Spring 2001, StreamCast and Grokster entered into license agreements with Kazaa B.V., a Dutch entity that had developed a peer-to-peer copying and distribution technology called "FastTrack." JER790, 5137-54, 5403-22, 6250. Kazaa already was offering FastTrack-based user software to the public, and had formed a "Kazaa" network of infringing users.³ Defendants' license agreements with Kazaa permitted them to distribute FastTrack software under their own brand and to demand modifications of the FastTrack source code – so long as they continued to pay Kazaa its license fee. *Id.*; JER3015, 5114.⁴ Defendants' and Kazaa's versions of the FastTrack software were interoperable; their users formed one network and had access to each others' files. JER790, 5140, 5407, 6250. The FastTrack network is not an open network like the

³ Kazaa is a defendant below. Rather than providing discovery, Kazaa sold or transferred assets to an Australian-based entity (now a defendant) incorporated in the island of Vanuatu, then refused to participate further in this action. The District Court recently ordered the entry of Kazaa's default.

⁴ "The source code of a program is its operating instructions in a format that a computer programmer can read and use to maintain and revise a program." *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 752 n.1 (7th Cir. 2002).

Internet; it is “closed,” with only users operating the FastTrack software offered by Kazaa and its licensees, Defendants Grokster and StreamCast, having access to the network. JER790, 5141, 5407, 4299-4300.

After securing licenses from Kazaa, Defendants “migrated” their millions of users from their OpenNap systems to their FastTrack-based systems, which Grokster named “Grokster” and StreamCast called “Morpheus.” JER2220-22, 2342, 2347-48, 2365, 2701-03, 2939-40. As StreamCast recognized, “if we do not get the consumers migrated we do not have a company[.]” JER3304. Grokster even inserted the word “Napster” in the metatags for its website so that Internet users searching for “Napster” would find Grokster’s website. JER3033-35, 6233-34.⁵ Defendants distributed the FastTrack software for free from their websites to users who entered into contractual relationships with them through “Terms of Service” -- Grokster’s which includes an express license agreement. JER6336-43, 6628-35. Under that license, Defendants expressly maintained ownership of the copies of that software, which connects users to the FastTrack network. JER6340. StreamCast abandoned its license agreement during the litigation. JER274, 293, 1941.

⁵ “Metatags” are code put in websites to help search engines find them. *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796, 800 n.2 (9th Cir. 2002).

Initially on Defendants' FastTrack network, a first-time user had to register and provide a username and a password before being allowed to connect to the network and search for files. JER793, 808, 2378-82, 2866, 2895-96, 3399, 4406, 6065, 6130. At the beginning of each subsequent use, the user's software communicated with Defendants' central computer to log the user onto the network. JER793-95, 2383, 2395-96. Defendants used these "login" servers to block access to users who had violated Defendants' rules. JER808-09; 2326-30, 2417, 3021-22. However, four months after Plaintiffs filed this lawsuit, Defendants abandoned this mandatory registration. JER793, 2395-96, 2895-96, 2932-33.

As soon as a user logs on to the network, Defendants' FastTrack software sends to an index a list of digital files stored on the user's computer that are available for others to copy. JER094, 107, 792-94. The index contains the names and characteristics of all available files, and the Internet Protocol (IP) addresses of the user computers making them available. JER791-92. When a user logs off the network, that user's file names are deleted. Defendants' network updates the indices thousands of times each day to ensure that the works listed are available for immediate distribution and copying. JER793-99, 807, 811-12, 4258-59. When a user submits a search query, it is processed by

the computer that hosts the index, which provides the user a list of files that meet the search criteria. JER093-94, 107, 198, 791-94.

The one difference between the Napster system and the FastTrack network is the location of the computers that perform the indexing. Instead of residing on one of many central computers of the system operator (as with Napster and Defendants' OpenNap networks), Defendants "subcontract" the indexing function among its licensed users' computers, which Defendants call "supernodes." JER794, 6053, 6066, 6125, 6145, 6180-86. A supernode is a user computer that Defendants' software selects as powerful enough to maintain an index and perform search functions. JER793, 6126, 6182-83. A user's computer starts or stops being a supernode as needed for network performance, without any input by the user. JER793-94, 2389, 5149, 6182-83. Defendants' software also determines to which supernode a user will be connected each time the user logs on. JER4452. One supernode typically has hundreds of users connected to it. JER793, 4452.

To enable their users to access their networks, Defendants place into the user software a listing of dozens of IP addresses of user computers that are likely to function as supernodes.⁶ JER795, 2476-77, 6125, 6145. Upon first

⁶ Defendants initially operated their own special supernodes, known as "root" or "seed server" supernodes, from their own computers. When users wanted to connect to the network, their software first would connect their computers to

use of the software, the user's computer "calls" addresses on that list until it finds a supernode. JER2398. Each time a user logs on to the FastTrack system, the user's computer receives a fresh list of supernodes to connect the next time. JER2536. Defendants periodically update the list of supernode addresses they have placed in their user software, to ensure that users will continue to be able to connect to the network. JER2558-59.

C. The FastTrack User Experience.

From the perspective of a user looking for free, infringing copies of Plaintiffs' works, the FastTrack network operates the same way as did Napster. JER791-92, 2970, 3545, 4066, 4219, 6078. To search for infringing works on the FastTrack network, a user simply types a song or movie name into a search box on the computer screen. JER107, 198, 791, 5196. The request is transmitted by the user software to the supernode to which the user is connected. That supernode searches its index of available files, and may forward the search request to other supernodes to search their indices. JER094, 107, 198, 5219, 6066. The supernode returns a list of search results, identifying (by their "screen name") the users then on the network who are offering the

Defendants' central "root" supernodes to receive a list of the IP addresses of user supernodes. JER793, 801-02, 2397-98, 2400, 2424-25, 2430-31, 2865, 2889, 2953, 3399, 6130. Before Plaintiffs filed this lawsuit, Defendants also operated their own supernodes that performed indexing functions identical to those performed by Napster's central servers. JER795, 3403-06. After the filing of this action, Defendants abandoned their direct operation of supernodes, instead relying on user computers Defendants' software designates as supernodes. JER2553-54, 2891-92, 3421-22.

requested music and movies for distribution and copying. JER791, 6066. The search results also provide information about the size of those files, their IP addresses, and the speed of the offering users' Internet connections. JER4271, 4676.

A user clicks on the name of the file containing the music or movie he or she wants to copy. Through Defendants' user software, the user's computer is connected to the computer of the user offering that work. It is then downloaded onto the requesting user's computer, JER791, 5186, 5219, 6096, and a new, infringing copy is created that the user can access at any time, distribute to other users, and "burn" to a CD-R or DVD-R. Defendants' software is designed so that unless users take affirmative steps to prevent it, their infringing copies automatically are made available for further distribution in an increasing cycle of "viral" distribution. JER0792, 5212, 6182-83.

D. Grokster's Ongoing Maintenance of the FastTrack Network.

StreamCast operated its FastTrack network from April 2001 to February 2002. JER2239-41. Grokster still provides FastTrack user software and access to the closed FastTrack network, and pays license fees to Kazaa for the right to provide this access. JER5138.

Grokster continues to communicate with its users' computers *after* they have installed its software. In conjunction with its licensor Kazaa, it sends

messages directly to its users' computers that software upgrades are available. In this way, Grokster has upgraded its users' software such that only upgraded software is accepted by its network. JER804-05, 808, 810, 2871-72, 2884-85, 2948-49, 3671, 4145, 5119. Further, Grokster's licensor Kazaa has adjusted the functioning of the FastTrack network from a central location to fine-tune its performance. JER802, 805, 2380, 2388-90, 2412-13, 2438-40, 2444, 2465, 3427. Grokster's central computers also send its users advertising and other web content that appears on users' computer screens while they search for and copy infringing works. JER197, 796-97, 2935. It is paid based on each advertisement delivered to each user, JER2898-99, 6079, and carefully monitors the number of such "impressions" delivered. JER2860, 5083-84.

Grokster has complemented these network communications by providing detailed instructions to users on how to use the system, including a personalized "support" function through which it responded to user requests for assistance, JER2854-55, 2873, 2903, 2906, 2913-19, 4940, 4959, 4966, 4968, 4980, 4982, 4984, 4994, 4999, 5009, 6298-6319, chat rooms and moderated bulletin boards, JER797, 2855, 6269-95, and a "newsletter," JER2887-88, 4878-924, 6268. Grokster actively assists its users in locating and making unauthorized copies, going so far as to give users "helpful" advice on how to do

this more effectively. JER4968, 4980 (advice how to download Plaintiffs' *Lord of the Rings*, *Resident Evil*, and *Big Fat Liar*).

Grokster's user license agreement expressly gives Grokster the right to terminate users. JER6339. Grokster is able to and has banned specific users from its network. JER808-09, 2936. It has participated in blocking from the network "hackers" seeking unauthorized access to it. JER810, 2877-79. Moreover, as is evidenced by the conduct of Grokster's licensor Kazaa and Defendant StreamCast when it was a Kazaa licensee, the FastTrack technology can block access to groups of IP addresses, JER809, 2386-87, 2511-12, 2515-16, firms that help copyright owners monitor infringement, and robotic programs that search for infringing content, JER809-10, 2451, 2454-55, 2458, 2665, 2785-87, 3391, 4287. Under its FastTrack license with Kazaa, Grokster also has the right "to disable the Network" by disconnecting Grokster from Kazaa users. JER5142. (StreamCast had the same right when it was a Kazaa licensee. JER4663; 4682-83.)

Grokster's user license agreement also gives it the right to block ("limit") files users make available. JER6337. Grokster has the ability to block or filter *infringing files* from its network. Grokster filters out and makes unavailable for copying (unless the user disables that function) offensive and pornographic content, as well as files that may contain viruses or "bogus"

content (*i.e.*, small files that do not contain full versions of the identified content). JER792, 812-13, 2869-70, 2999-3000, 4880, 4942, 4982, 5015, 5128. Grokster similarly could filter or block distribution of infringing material, JER726-28, 755-57, 764-65, 817-22, and Grokster already can identify the content of files transferred on its network by using information known as “metadata” and “hash” values, JER813-16, 2976-78, 3016-17.⁷ This same information readily could be used to identify and prevent distribution of copyrighted works. *Id.* As Grokster knows, available file “fingerprinting” technologies allow it to identify the acoustic or visual properties of an audio or video file, and to prevent unauthorized distribution and copying, while permitting the distribution of any authorized or noninfringing works. JER721-28, 754-66, 819-22, 2958-59, 4372-73. Grokster refuses to implement such technologies. JER3010-11.

E. StreamCast’s “Gnutella”-Type Network.

Around February 2002, a payment dispute arose between StreamCast and its licensor, Kazaa. In response, Kazaa, with Grokster’s cooperation, ***disconnected all*** StreamCast users ***permanently*** from the FastTrack network, leaving them unable to download works. JER797, 811, 2239-41, 2401, 2581-97, 2599-2600, 2879-83, 3005-08, 3377-81, 4338, 4353-

⁷ “Metadata” is a description of the contents of a file; “hashes” are unique digital identifiers, or “signatures” for a file. JER813-14.

54. StreamCast reacted quickly to maintain its user base. It distributed new user software based in part upon new technology it developed, JER4340-41, 5938-39, and in part upon the “Gnutella” protocol, another peer-to-peer technology. JER797-99, 2625-27. Like its FastTrack network, StreamCast’s current “Morpheus” network facilitates infringement by providing its users with the same indexing, search capabilities, and ability to copy and distribute infringing works. *Id.* As before, StreamCast profits by collecting fees for displaying advertising to users while they are connected to its network. JER2305, 2308.

StreamCast’s Gnutella-based network exhibits many of the characteristics of its FastTrack predecessor. JER807, 1441, 1593-95, 1729. One version of StreamCast’s software has selected users’ computers, which it terms “ultrapeers,” to direct users to infringing works. JER288, 799, 1590. Another version provides the IP addresses of other Gnutella-based users to enable a Morpheus user to connect to the network. JER799, 2633-43. StreamCast’s central computers regularly communicate with its users’ software, including to command the software to perform tasks, such as switching the manner in which it processes searches. JER800, 1729-30, 2650-54, 2656. StreamCast can centrally change the functioning of its users’ software, modifying and updating it (which it did *sixteen times* in one five-day period).

JER800, 2658, 7210. StreamCast is capable of providing automatic “updates” of its software, and has the capability to force upgrades of user software automatically. JER799-800, 1776-77, 1787, 1937, 1943-48, 7241-46.

StreamCast also continuously sends its users web content, such as graphics, announcements, and advertising, from its central computers. JER807, 7218-39.

In at least one respect, StreamCast’s current system goes even further than its FastTrack system to make infringing works available. To maximize the number of files on the network, StreamCast software automatically searches users’ computers and makes available *on its Morpheus network* files on users’ computers that are associated with *other* file distribution and copying systems (such as Kazaa), without the users’ prior knowledge, and even if the user has affirmatively tried to prevent such distribution. JER1956-58, 1984-88, 7254, 7256-57, 7285-86.

StreamCast also employs filtering technology to prevent downloading certain types of files, including viruses. JER799, 2659-61.

However, like Grokster, StreamCast continues to refuse to implement available technology to filter or block infringing works. StreamCast revealed the true reason for its refusal in an internal discussion of a proposal from a company offering one such filtering technology: “What this is, is a technology that will allow Morpheus to see what our users are sharing so that in turn we can ‘tie into

a rights payment infrastructure.’ *I know this is something we DO NOT want to do, but am not sure how I need to word that.*” JER4368-73 (capitalization in original). See also JER3108 (“If we have too much information on our users then we can be accused of having a Napster like relationship with them where we know what they are doing and specifically what they are listening to, that is when we are in jeopardy of legal pursuit”); JER4085.

Defendants know that their networks are used as they intended. In the words of one StreamCast user in an e-mail to the company: “I used to use Napster all the time, and when they began battling in court I decided to look for a new place to look for all the music I love. I wanted to tell you that *I have never had a problem finding any songs I want . . . its easy to find the latest tunes.*” JER3171 (emphasis added). It is easy to find any type of pirated media on Defendants’ systems. Songs by top-selling artists, such as Garth Brooks, Madonna, The Eagles, Jennifer Lopez, Janet Jackson, and Eminem are available with the click of a mouse, as is music that had not yet been released to the public. JER593-624, 638, 748-50, 752.259-66, 3296, 3514, 3516, 3519, 3576, 4121, 4293-95, 4334, 4336, 4423, 4437, 4470, 4479, 5003, 6680. Motion pictures, many of them still playing in first-run theaters, are available. JER713.52. Defendants’ reap the financial rewards for enabling the distribution and copying of these infringing works.

Regardless of the ways in which Defendants have tinkered with their peer-to-peer technology, their *conduct* has remained the same. The networks of infringing users that Defendants created would not exist and grow without Defendants' myriad contributions. Those contributions enable Defendants' users to search for, locate, copy, and further distribute millions of infringing copies of music and movies. Defendants' users can engage in these activities only because of the software, modifications and upgrades, search capabilities, advice, and other services Defendants provide, only when logged onto and part of Defendants' networks, and only when interacting with other infringing users connected to Defendants' networks.

SUMMARY OF ARGUMENT

The District Court ruled that to be liable for contributory copyright infringement, Defendants had to possess actual knowledge of a specific infringement at a time when Defendants can do something to stop that particular infringement. Such knowledge is not required. As this Court has held, a defendant is liable for contributory infringement when the defendant, with actual or constructive knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of a direct infringer. Defendants have abundant knowledge, from a variety of sources, that rampant infringement is occurring on their network.

The District Court also took an improperly limited view of what constitutes material contribution, holding that Defendants only provided software. 259 F.Supp.2d at 1043. This ignored that Defendants' software creates, organizes and maintains the very networks that enable their users to infringe. Traditionally, providing a contribution to the actual infringement, such as by providing support, the site or environment, the audience, or the means of direct infringement is sufficient to establish liability.

Defendants' claim that they simply provide a "staple article of commerce," and thus are immune under *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) ("*Sony-Betamax*"), must be rejected here, just as this Court rejected it in *Napster*. Defendants know their users are massively infringing Plaintiffs' copyrights, and, therefore, the *Sony-Betamax* defense, is inapplicable. Moreover, Defendants do not provide a "staple article" that is capable of commercially significant substantial noninfringing use, as defined by the courts.

The District Court also imposed unprecedented restrictions on a plaintiff's right to recover for vicarious copyright infringement. Such liability is imposed upon a defendant that has the right and ability to supervise or control the infringing activity and a direct financial benefit from the activity. The District Court rightly found that Defendants derived a direct financial benefit

from their users' infringing activity. But in creating a new standard, and in contradiction to the evidence Plaintiffs had adduced, the District Court held that Defendants had no power to control the infringing conduct of their users *as it was occurring*. The Court erred because it ignored Defendants' present ability to prevent infringement by filtering or blocking infringing material from their networks, and the numerous ways Defendants have the legal or practical right, which they exercise, to police their users' conduct.

ARGUMENT

I. STANDARD OF REVIEW.

Orders denying and granting summary judgment are reviewed *de novo*. *Balint v. Carson City*, 180 F.3d 1047 (9th Cir. 1999) (*en banc*). "The appellate court must determine, viewing the evidence in the light most favorable to the nonmoving party, whether the District Court correctly applied the relevant substantive law and whether there are any genuine issues of material fact." *Id.* at 1050.

II. DEFENDANTS ARE LIABLE FOR CONTRIBUTORY COPYRIGHT INFRINGEMENT.

The law of contributory copyright infringement is based on "the common law doctrine that one who knowingly participates or furthers a tortious act is jointly and severally liable with the prime tortfeasor." *Gershwin Publishing Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir.

1971) (quotation omitted). Because a tortfeasor may knowingly participate in or further an unlawful enterprise in many different ways, courts hold:

(1) knowledge of infringing activity does not mean advance knowledge of specific acts of infringement; and (2) many types of contribution other than active and current involvement in a specific direct infringement may subject a defendant to liability.

This Court has articulated the established elements of contributory copyright infringement: “[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a contributory infringer.” *Fonovisa*, 76 F.3d at 264, quoting *Gershwin*, 443 F.2d at 1162.⁸ In *Napster*, this Court reaffirmed the standard for knowledge: “Contributory liability requires that the secondary infringer ‘know or have reason to know’ of the direct infringement.” 239 F.3d at 1021.

⁸ Defendants’ users are direct infringers. 259 F.Supp. 2d at 1034-35. See *Napster*, 239 F.3d at 1014 (“Napster users who upload file names to the search index for distribution violate plaintiffs’ distribution rights. Napster users who download files containing copyrighted music violate plaintiffs’ reproduction rights”).

A. Defendants Have More Than Sufficient Knowledge.

1. Defendants Possess Knowledge of Infringement Held Sufficient in *Napster*

In *Napster*, this Court held that actual and constructive knowledge that infringing material was available on an online system satisfied the knowledge requirement. 239 F.3d at 1022. The Court relied on two examples of actual knowledge that made it “apparent” that Napster had sufficient knowledge of infringement. First, the Court noted that “the Recording Industry Association of America (‘RIAA’) informed Napster of more than 12,000 infringing files, some of which are still available.” *Napster*, 239 F.3d at 1020 n.5. With these notices, the Court recognized, the plaintiffs made sure that Napster could not deny awareness of rampant use of its system for infringement.

Second, the Court identified as “actual knowledge” Napster’s admission of just such awareness. “[A] document authored by Napster co-founder . . . mentioned ‘the need to remain ignorant of users’ real names and IP addresses since they are exchanging pirated music.’” *Id.* Significantly, the example relied on by the Court did not disclose Napster’s knowledge of any specific infringing works, but its actual knowledge of ongoing infringing activities.

Here, the record reveals the same evidence, and more, of Defendants' actual knowledge of infringement:

Plaintiffs "sent Defendants thousands of notices regarding alleged infringement." 259 F.Supp.2d at 1036; JER716-17, 730-32, 740, 742, 744-46, 774-78. These notices identified millions of infringements, including the names of the infringed works, the names of the infringing files, and the names of users distributing the infringing works. JER744-46. All of Plaintiffs' most popular copyrighted works, among others, remained available for copying and distribution on Defendants' systems. JER744-46, 748-50, 752.024-104.

Defendants' executives also admitted their knowledge of the piracy their systems were designed to enable. For instance, one of StreamCast's top executives admitted that the company risked criticism that it "***built a business on the back of pirated music.***" JER5635 (emphasis added). StreamCast promoted itself to advertisers by touting the amount of infringing content that would lure a large audience, stating: "***Better Music Programming . . .*** For example, ***a search on Morpheus resulted in pages of Madonna tracks***, while the same search on MP3.com [a legitimate service] resulted in only two Madonna tracks (one English, one Spanish)." JER4627 (emphasis added). Grokster hid the word "Napster" in the metatags of its Web site so that it could attract those trying to find the next network to facilitate infringement.

JER3033-35, 6233-34. And when Grokster started deleting bulletin board postings from its users who openly were looking for infringing works, Grokster explained that these admissions of obvious infringement on its network “would have negatively impacted the lawsuit.” JER2928.

Additional evidence of Defendants’ actual knowledge of infringement included numerous e-mails in which Defendants advised their users how to download copyrighted works, including *The Matrix*, *Blair Witch Project*, *Tomb Raider*, *Pearl Harbor*, *Lord of the Rings*, *Resident Evil*, and *Big Fat Liar*. JER3230, 3238, 3287, 4968, 4980. Defendants’ bulletin boards and e-mails to Defendants listed works available for unauthorized copying and distribution, including music by Michael Jackson and Johnny Mathis, and motion pictures, including *Gladiator*, *Lord of the Rings*, *Shrek*, and *The Matrix*. JER3131, 3144, 3181, 3189, 4071, 6533. A StreamCast executive even complained in an internal e-mail when he discovered that a rival file-copying system was displaying more search results of infringing copies of a popular artist’s works: “I downloaded [rival B]earshare to compare, and they are much larger, I typed in garth brooks and got 2700 songs, on Morpheus I got 60.” JER3576 (emphasis added). Grokster’s response to a user’s complaint about the difficulty in copying a specific video game epitomized its attitude and knowledge: “why are you complaining? Everything that you get out of the

network is free. *You could always do the legal thing, and go buy the game, we suppose?*” JER4959 (emphasis added).

In light of these, and numerous other examples, the District Court acknowledged that “Plaintiffs point to a massive volume of” evidence of “similar” actual knowledge to that found sufficient in *Napster*, and concluded that “Defendants clearly know that many if not most of those individuals who download their software subsequently use it to infringe copyrights.” 259 F.Supp.2d at 1036, 1037; JER2223-24, 2714-17, 2722-23, 2988-89, 3080-81, 3285, 3385, 3576, 3617.

Plaintiffs also produced additional evidence that Defendants knew or had reason to know of their users’ infringement:

- Just as “Napster executives have downloaded copyrighted songs from the system,” *Napster*, 239 F.3d at 1020 n.5, here “various searches were performed by Defendants’ executives for copyrighted song titles or artists.” 259 F.Supp.2d at 1036; JER2223-24, 2714-17, 2722-23, 2988-89, 3080-81, 3285, 3385, 3576, 3617.

- Just as Napster “promoted the site with ‘screen shots listing infringing files,’” *Napster*, 239 F.3d at 1020 n.5, StreamCast included in promotional materials search results featuring *The Eagles Greatest Hits*, the best selling album of all time, as well as music by Sting, Puff Daddy, Shania

Twain, Bruce Springsteen, Miles Davis, Carlos Santana, and John Lee Hooker. JER4135, 4141-43, 4149, 4293-95, 4470. Displaying just the sort of “willful blindness” that qualifies as culpable knowledge, on one such document StreamCast intentionally blurred the titles of copyrighted music (e.g., by Sting and The Police) stating “[h]ere is an example of keeping our examples *but covering our asses.*” JER3522-24 (emphasis added).

Such evidence traditionally has been sufficient for liability. *See Napster*, 239 F.3d at 1021; *Fonovisa*, 76 F.3d at 261, 264 (general knowledge from letters notifying swap meet operator that vendors were selling counterfeit tapes); *Hotaling v. Church of Latter-Day Saints*, 118 F.3d 199, 204 (4th Cir. 1997)(“[N]o one can expect a copyright holder to prove particular instances of use by the public when the proof is impossible to produce because the infringing [defendant] has not kept records of public use”); *In re Aimster Copyright Litigation*, 252 F.Supp.2d 634, 651 (N.D.Ill. 2002) (rejecting contention that knowledge of actual transfers of specific copyrighted works was necessary: “there is absolutely no indication in the precedential authority that such *specificity* of knowledge is required in the contributory infringement context”)(emphasis in original), *aff’d*, 334 F.3d 643, 650 (7th Cir. 2003)(file-copying network that purportedly was unable to identify specific files because of encryption it had implemented nevertheless was liable because “[w]illful

blindness is knowledge, in copyright law . . . , as it is in the law generally”);

Sega Enterprises, Ltd. v. MAPHIA, 857 F.Supp. 679, 686-87 (N.D.Cal.

1994)(knowledge established “[e]ven if Defendants do not know exactly when

games will be uploaded to or downloaded from” its service); *A&M Records,*

Inc. v. Abdallah, 948 F.Supp. 1449, 1457-58 (C.D. Cal 1996)(“Although there

is no direct evidence that [defendant] knew he was contributing to the illegal

copying of each of [the] 156 different sound recordings [at issue], ...

[defendant] was aware that he was contributing to the counterfeiting of many

different sound recordings”). *See also Fonovisa v. Napster*, 2002 WL 398676

(N.D.Cal.) at *5, a later lawsuit against Napster by another plaintiff. (*Napster*

“did not create a new knowledge standard for contributory infringement.

Instead, the court relied on the traditional formulation that either constructive or actual knowledge is sufficient”).

2. The Law Does Not Require Knowledge To Be Acquired At The Moment Defendants Can Stop The Particular Infringement.

Despite the extensive evidence, the District Court held Defendants’ knowledge of infringement insufficient, finding it not timely enough to permit Defendants to take action against specific infringements (*i.e.*, when Defendants can “do something about it.”) 259 F.Supp.2d at 1038. But this standard of liability raises the bar far too high. It is inconsistent with established precedent,

improperly importing the requirement of ability to control (an element of vicarious infringement) into contributory infringement, where no control is necessary for the imposition of liability. *See, e.g., Casella v. Morris*, 820 F.2d 362, 365, n.4 (11th Cir. 1987)(“the question of [defendant’s] control is irrelevant to contributory infringement analysis”).⁹ Conduct that encourages or assists infringement and knowledge of infringement are the only elements of contributory liability. *See Fonovisa*, 76 F.3d at 264. There is no rationale why they must be contemporaneous with an ability to prevent specific infringements to which a defendant knowingly contributes.

Actual or constructive knowledge of infringement rarely is contemporaneous with infringement. Even actual knowledge of the details of infringement, especially knowledge acquired by direct notice, often comes *after* the specific infringing acts that are the subject of the notice are completed. In *Fonovisa*, this Court held that the defendant swap meet had the requisite knowledge even though the notices it received that its vendors were selling counterfeit recordings came *after* those transitory vendors had left the premises

⁹ The doctrines of contributory and vicarious infringement are separate doctrines with distinct elements and independent origins in the law. *See, e.g., Fonovisa*, 76 F.3d at 261-62, 64 (vicarious infringement is “an outgrowth of the agency principles of respondeat superior”; contributory infringement “stems from the notion that one who directly contributes to another’s infringement should be held accountable”); *Napster I*, 239 F.3d at 1019 and 1022 (discussing both doctrines separately); *see also* 17 U.S.C. §§512(c),(d); 1201(c)(2) (recognizing the two doctrines in the online context).

to be replaced by other sellers of infringing recordings. *Id.*, 76 F.3d at 264. (“There is no question that plaintiff adequately alleged the element of knowledge” based upon sheriff’s seizure of 38,000 counterfeit recordings in 1991, and a letter *the following year* from the sheriff notifying defendants of “on-going sales of infringing materials”)(emphasis added). *See also Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F.Supp. 1492, 1494 (C.D.Cal. 1994)(additional letter to swap meet from police officer six months before suit).

Similarly, *Napster* did not require proof of knowledge of specific infringements at the very moment users were infringing, recognizing that was virtually impossible in an online environment. Defendants’ indices of infringing works, like *Napster*’s, constantly are changing, as users (and their all-important files containing copies of Plaintiffs’ works) join and leave the network: “The collective directory is fluid; it tracks users who are connected in real time, displaying only file names that are immediately accessible.” *Napster*, 239 F.3d at 1012. Because of this ever-changing availability of copyrighted works, notices of infringement to *Napster* necessarily arrived after any given infringement had occurred. Yet those notices – equivalent to the notices Plaintiffs sent to Defendants here – were sufficient to establish knowledge of *ongoing* infringement and contributory infringement liability. *Napster*, 239 F.3d at 1020 n.5.

The District Court purported to base its requirement that a defendant must have actual knowledge of infringement *only* at a time when it can stop the particular infringement on *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F.Supp. 1361 (N.D.Cal. 1995), but it misinterpreted the significance of that holding and the way in which this Court referenced the facts of *Netcom* in *Napster*.¹⁰

This Court in *Napster* discussed the facts of *Netcom* in the context of both knowledge *and* contribution: “We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of *and contributes to* direct infringement.” 239 F.3d at 1021 (emphasis added). This Court held that, under the facts of *Netcom*, knowledge of “likely” infringement would be sufficient: “The [*Netcom*] court determined that for the operator to have sufficient knowledge, the copyright holder must provide the necessary documentation to show there is *likely* infringement[.]” *Id.* (emphasis added). The contribution element would then be satisfied by permitting continued distribution of the infringing work: “If such documentation was provided, the

¹⁰ Moreover, as discussed below, even under the District Court’s incorrect standard, Plaintiffs provided the requisite evidence that Defendants could stop ongoing infringement of specific copyrighted works, including by available filtering or blocking technology. See Section III(C); see also *Netcom*, 907 F.Supp. at 1375 (“it is fair, assuming Netcom is able to take simple measures to prevent further damage to plaintiffs’ copyrighted works, to hold Netcom liable”).

court reasoned that Netcom would be liable for contributory infringement because its failure to remove the material and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation[.]” *Id.*

In other words, the failure to remove infringing material and stop infringement can be, in and of itself, a material contribution. But this Court did not hold that the precise facts of *Napster* or *Netcom* were the *only* way that contributory infringement liability could attach in the online context, as the District Court did, referring to the facts of *Netcom* as the “only” way of proving contributory liability. 259 F.Supp.2d at 1036. Nor did this Court’s discussion of *Netcom* purport to change the law of contributory infringement to limit culpable knowledge to mean only knowledge gained at the precise time a defendant can remove infringing material. *See Fonovisa, Inc. v. Napster, Inc.*, 2002 WL 398676, *6 (*Napster* “never explicitly adopted a specially tailored knowledge standard for computer service providers”); *see also Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F.Supp. 949, 965 (C.D.Cal. 1997)(recognizing that *Netcom* “rejected an Internet service provider’s argument that its knowledge of infringement must be unequivocal in order for it to face contributory liability”), *aff’d*, 194 F.3d 980 (9th Cir. 1999).

Netcom involved a single, direct infringer posting copyrighted material on an independent Internet bulletin board service (“BBS”). He

accessed the BBS through Netcom, “one of the largest providers of Internet access in the United States.” 907 F.Supp. at 1366. Netcom argued that it did not know or have reason to know that the infringer would infringe prior to his postings and that notice from the plaintiff (the only alleged source of knowledge) was “too equivocal,” given the circumstances – “a dispute between a former minister and a church he is criticizing.” *Id.* at 1374. In this unique context, the district court concluded that “Netcom may be able to show that its lack of knowledge . . . was reasonable,” *id.*, and denied its motion for summary judgment.

Unlike Netcom, “Napster is not an Internet service provider that acts as a mere conduit for the transfer of files.” *A&M Records*, 114 F.Supp.2d at 919. Neither are Defendants. Unlike Netcom’s equivocal knowledge of isolated infringement, Defendants’ knowledge of the massive, constant infringement over their networks is clear. This evidence was virtually identical to that of *Napster*, including actual knowledge that specific infringing material was made available on Defendants’ networks. Thus, just as *Netcom* “would not mandate a determination that Napster, Inc. lacks the knowledge requisite to contributory infringement,” *Napster*, 239 F.3d at 1021 (quoting the district court, 114 F.Supp.2d at 919), it does not mandate a determination that Defendants here lack sufficient knowledge.

3. The *Sony-Betamax* Defense Does Not Apply To Defendants' Conduct.

In *Sony-Betamax*, the Supreme Court held that manufacturers and retailers of products (videotape recorders) that have “commercially significant noninfringing uses” could not be liable for contributory infringement by imputing to them the requisite knowledge of infringement *merely* from “the fact that [they] sold equipment with constructive knowledge of the fact that [their] customers *may* use that equipment to make unauthorized copies of copyrighted material.” 464 U.S. at 439, 442 (emphasis added). Therefore, a minority of copyright holders (who had not suffered any demonstrated harm), could not make unlawful an entire product whose use “primarily” was noninfringing. *Id.* at 440 n.21, 443, 446, 451.

The undisputed facts here differ in every material respect from *Sony-Betamax*: Plaintiffs represent most of the copyright holders whose works are being infringed on Defendants' networks; Plaintiffs do not seek to stop a technology, only the preventable infringing uses of networks designed, promoted, and primarily used for copying *and* global distribution of copyrighted works; and Plaintiffs seek to end ongoing irreparable harm, without preventing any legitimate uses of the technology.

**(a) Defendants' Knowledge Of
Infringement Renders *Sony-Betamax*
Inapplicable.**

Like Defendants, Napster sought refuge under the *Sony-Betamax* “staple article of commerce” defense. Napster argued that the existence of some noninfringing uses of its network completely shielded it from all liability for contributory infringement, regardless of the extent of the infringement on its system. *A&M Records*, 114 F.Supp.2d at 913-14. This Court rejected that expansive reading of *Sony-Betamax*, which would have immunized virtually all online infringement. Instead, closely following the Supreme Court’s language, it held that *Sony-Betamax* required only that the court “not impute the requisite level of knowledge to Napster *merely* because peer-to-peer file sharing technology *may be used* to infringe plaintiffs’ copyrights.” *Napster*, 239 F.3d at 1020-21 (emphasis added).

Therefore, *even if* noninfringing uses existed, “Napster’s actual, specific knowledge of direct infringement renders *Sony*’s holding of limited assistance to Napster,” *id.* at 1020, and,

Regardless of the number of Napster’s infringing versus noninfringing uses, the evidentiary record here supported the district court’s finding that plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users’ infringement of plaintiffs’ copyrights.

Id. at 1021. The Court concluded that “sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system.” *Id.* Defendants undisputedly possess the same actual (and constructive) knowledge as Napster; therefore, *Sony-Betamax* is of “little assistance” to them. *See* Section II(A)(1).

(b) *Sony-Betamax* Does Not Apply To Defendants’ Infringing Networks.

Sony-Betamax also is inapplicable where Defendants do much more than simply sell a product (“a staple article”) to an end user. In *Sony-Betamax*, “[t]he only contact between Sony and the users of the Betamax . . . occurred at the moment of sale.” 464 U.S. at 438. By contrast, as in *Napster*, Defendants here set up dynamic, ever-changing networks through which they continually interact with their users. *Sony-Betamax*, 464 U.S. at 437 (contributory liability in cases “involving an *ongoing relationship* between the direct infringer and the contributory infringer at the time the infringing conduct occurred” is “manifestly just”) (emphasis added).

Additionally, in *Sony-Betamax*, users were engaged in fair use when they “primar[il]y” made a single copy (later erased) to view free, over-the-air television programming at a different time than the original broadcast. *Id.* at 423, 455. Those copies were not further distributed. *Id.* at 425 (“[n]o issue concerning the transfer of tapes to other persons . . . was raised”). The

copies made by Defendants' users are not fair use, *Napster*, 239 F.3d at 1014-15, and Defendants' networks are designed to enable and facilitate unlawful ***distribution*** of millions of copies

As a threshold matter, the *Sony-Betamax* doctrine does not even apply unless Defendants' product is "capable of commercially significant noninfringing uses." 464 U.S. at 442. Remarkably, the District Court found that "it is undisputed that there are substantial noninfringing uses for Defendants' software." 259 F.Supp.2d at 1035. To the contrary, Plaintiffs vigorously disputed that proposition. JER710-12, 1027-28, 1908-14, 2000-39. However, the only evidence the District Court cited was Defendants' evidence; it never mentioned Plaintiffs' evidence that the alleged noninfringing uses were minimal, if not trivial, since approximately 90% of the files available on Defendants' FastTrack network were infringing or likely infringing, and 75% of those files were owned by Plaintiffs. JER1908-14, 2000-39.¹¹ In fact, the percentage of infringing use was equivalent to Napster: 87% of the files on the Napster system were infringing, and more than 70% were owned by plaintiffs. *A&M Records*, 114 F.Supp.2d at 903. ***Defendants did not present any contrary evidence*** as to the substantiality of claimed noninfringing uses.

¹¹ Nor were the remaining 10% found to be noninfringing. The status of the majority of the remaining files could not be determined because of difficulties in identifying what those files were. JER2004.

The District Court never quantified what it meant when it concluded that noninfringing uses were “substantial.” It likewise made no effort to determine whether those asserted noninfringing uses were “commercially significant,” entirely ignoring those necessary aspects of the *Sony-Betamax* standard. *Sony-Betamax*, 464 U.S. at 442 (“commercially significant noninfringing uses”); *Napster*, 239 F.3d at 1021 (same); *In re Certain Personal Computers*, 224 U.S.P.Q. 270, 279 (U.S. Int’l Trade Comm’n 1984)(“commercially significant” use); *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 846 (11th Cir. 1990)(defendant utilized devices “primarily as infringement aids and not for legitimate, noninfringing uses”); *Abdallah*, 948 F.Supp. at 1456 (“insubstantial” noninfringing uses insufficient); *Sega*, 857 F.Supp. at 685 (N.D.Cal. 1994)(“incidental capabilities” insufficient); *see also Aimster*, 334 F.3d at 649 (noninfringing use must be “probable,” and when there are “noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement”).

In fact, the only evidence of “commercially significant” use of Defendants’ networks was their use for infringement, *e.g.*, every one of the “Top 100” recordings on Billboard’s chart of popular recordings and the Top 10 recordings of every week for the past year available in multiple copies, as well

as recordings not yet released to the public. JER748-50. But, the District Court disregarded that evidence, instead simply enumerating general categories of supposed “noninfringing uses” that in fact were infringing, unsupported by the evidence, *de minimis*, or otherwise irrelevant.¹²

A determination of contributory infringement here would not prohibit the technology’s noninfringing uses, but it would prevent its infringing ones. See *RCA Records v. All-Fast Systems, Inc.*, 594 F.Supp. 335, 339 (S.D.N.Y. 1984); *Compaq Computer Corp. v. Procom Technology, Inc.*, 908 F.Supp. 1409, 1424 (S.D.Tex. 1995). In *Sony-Betamax*, however, “a finding of contributory infringement would inevitably frustrate the interests” of legitimate users by making unlawful an entire technology, 464 U.S. at 446. The District Court’s opinion turns the *Sony-Betamax* doctrine on its head by permitting minimal (and even hypothetical), commercially insignificant noninfringing uses to immunize massive infringing uses that Defendants can – but refuse to – prevent.

¹² The District Court referred to: (1) distributing movie trailers; (2) free songs or other non-copyrighted works; (3) using Defendants’ software in countries where it is legal; and (4) distributing the works of Shakespeare. *MGM*, 259 F.Supp.2d at 1035. However: movie trailers are subject to copyright (*Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*, Slip. Opp. No. 00-5236 (D.N.J. Aug. 7, 2003)); virtually all sound recordings, musical compositions, and motion pictures are protected (17 U.S.C. §§102(a)(2),(6),(7) and 301(c)), and Plaintiffs collectively own most of those that are distributed over Defendants’ networks; Plaintiffs allege infringement of *U.S.* copyrights owned by *U.S.* Plaintiffs in the *U.S.*; and evidence of distribution of Shakespeare’s works was *de minimis*, with only *one* copy located JER747, 752.217.

B. Defendants More Than Sufficiently Contribute To The Infringing Activity On Their Networks.

Liability for contributory infringement exists if a defendant knowingly “induces, causes or materially contributes to the infringing conduct of another,” or in other words, “engages in personal conduct that encourages or assists the infringement.” *Napster*, 239 F.3d at 1019 (quotations omitted). A defendant may contribute to infringement in a number of ways. *Id.* at 1022 (“without the support services defendant provides . . . users could not find and download the music they want with the ease of which defendants boast”); *Fonovisa*, 76 F.3d at 264 (swap meet “actively strives to provide the environment and the market for counterfeit recordings to thrive”); *Gershwin*, 443 F.2d at 1163 (“pervasive participation” in creating the audience); *see also Aimster*, 252 F.Supp.2d at 652 (“Instead of parking spaces, advertising, and plumbing [as in *Fonovisa*], defendants have provided the software and support services necessary for individual Aimster users to connect with each other”).

The evidence established Defendants’ material contribution to infringement of Plaintiffs’ works. They supply the proprietary software, search engine, and means of establishing connections between their users’ computers. Defendants’ systems are designed to provide a “road map” to find and copy popular music and motion pictures. *See, e.g., Sega Enterprises, Ltd. v. MAPHIA*, 948 F.Supp. 923, 933 (N.D.Cal. 1996)(defendant “provided the

facilities for copying the games by providing, monitoring, and operating the BBS software, hardware, and phone lines necessary for the users to upload and download games” and “provided a road map on his BBS for easy identification of Sega games available for downloading”).

Providing software to attract users and organize Defendants’ infringing networks alone can satisfy the contribution element. “Contributory infringement itself is of two types – personal conduct that forms part of or furthers the infringement, **and contribution of machinery or goods that provide the means to infringe.**” M. & D. Nimmer, *On Copyright* § 12.04[A][2][a] at 2-78 (emphasis added); *see also Matthew Bender Co v. West Publishing Co.*, 158 F.3d at 693, 706 (2d Cir. 1998)(providing machinery or goods that facilitate infringement); *Abdallah*, 948 F.Supp. 1449 (C.D.Cal. 1996) (providing time-specific tapes); *Atari, Inc. v. JS&A Group, Inc.*, 597 F.Supp. 5 (N.D.Ill. 1983)(providing machine capable of copying video games).

Their free, branded software was how Defendants **began** their contribution and formed their networks; but they have done far more. Defendants’ software is not static; it enables the formation and growth of copying and distribution networks that otherwise would not exist. That is why one Defendant boasted that it provided an interactive user experience, “**not just [a software] application** like WinMX, and other similar applications.”

JER5941 (emphasis added). Defendants contributed to the networks they formed by:

- Setting up, organizing, and promoting a market and audience to distribute infringing works to other members of the network, including: migrating a core base of infringing users and works from Napster clones; initially operating their own central computers to handle user registration and login functions; operating their own centralized supernodes on which Defendants maintained indices of files available from the users connected to those supernodes and processing search requests from those connected users; and providing and periodically updating Internet addresses of multiple supernodes in the user software to make it easier for users to connect to Defendants' networks and locate infringing works. *Supra* at 9-19; *see Gershwin Pub. Corp. v. Columbia Artists Management, Inc.*, 312 F.Supp. 581 (S.D.N.Y. 1970), *aff'd*, 443 F.2d 1159 (2d Cir. 1971)(formation and supervision of associations that put on infringing concerts was sufficient contribution); *Fonovisa*, 76 F.3d at 264 (“provid[ing] the environment and market” for infringement).

- Providing an infrastructure for users to search for, copy, and distribute copyrighted music, movies, and other works without authority.

JER738-46, 774-79, 791-800, 1910-13, 6266; *supra* at 9-19; *see Napster*, 239

F.3d at 1011; *A&M Records*, 114 F.Supp.2d at 920 (Napster “supplies the proprietary software, search engine, servers, and means of establishing a connection between users’ computers”).

- Providing their users with free upgrades and updates of the user software to add features that enhance the user experience and maintain the performance and/or security of the systems. *Supra* at 16-17, 20-21; *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984)(providing financial and administrative services for direct infringers).

- Taking steps to maintain the anonymity of their users and the secrecy of their users’ activities, and to protect their systems. JER798, 803, 2585, 2833-34, 2895, 2897, 3567, 4519, 5713, 6053, 6066; *see* 114 F.Supp.2d at 905 (“after a user logs-on, her physical address information is no longer available to the Napster server”); *Fonovisa*, 76 F.3d at 264 (swap meet provided anonymity to infringing vendors).

- Providing their users with means of technical or other assistance relating to use of the systems, including detailed written instructions on how to use the systems, firewall circumvention, e-mail help services, chat rooms, bulletin and message boards, “help” pages, and periodic newsletters. *Supra* at 17-18, 20-21; *see Napster*, 239 F.3d at 1011 (“Napster provides technical support for the indexing and searching of MP3 files, as well as for its

other functions, including a 'chat room'"); *A&M Records*, 114 F.Supp.2d at 907. This assistance included information on how to copy specific infringing movies and sound recordings. *Cable/Home Communications Corp. v. Network Productions, Inc.*, 902 F.2d 829 (11th Cir. 1990)(television demonstration how to use pirated software chip); *Aimster*, 252 F.Supp.2d at 643 (tutorial on downloading infringing works).

- Promoting the infringing use of their networks by, for example, advertising and promoting their networks as ones where one can find infringing content. *Supra* at 28-29. *ScreenGems-Columbia Music, Inc. v. Mark Fi Records, Inc.*, 327 F.Supp. 788 (S.D.N.Y. 1971)(radio promotions of record that contained infringing compositions was sufficient contribution), *rev'd on other grounds*, 453 F.2d 552 (2d Cir. 1972).

In defining material contribution, this Court in *Fonovisa* discussed and reversed the district court which had found lack of contribution by the defendant swap meet, Cherry Auction, because, as the district court there stated:

Merely renting booth space is not 'substantial participation' in the vendors' infringement activities. Defendants were not in the business of directing vendors' actions by telling them, or even suggesting to them, what and when and how and to whom to sell. Cherry Auction's so-called 'role' would have been the same if vendors rented the space to just sit on. There is no way to infer from the complaint that Cherry Auction acted *in concert* with the vendors to accomplish the common purpose or plan of selling counterfeits. Any 'participation' was passive, at most,

and not nearly ‘substantial’ enough to warrant defendants the label of joint tortfeasors.”

Fonovisa, 847 F.Supp. at 1492 (emphasis added). This Court rejected that limitation (essentially the same as the District Court’s here),¹³ and “had little difficulty” finding material contribution, stating that providing the “environment and market . . . cannot be termed ‘passive’”:

The district court apparently took the view that contribution to infringement should be limited to circumstances in which the defendant “expressly promoted or encouraged the sale of counterfeit products, or in some manner protected the identity of the infringers.” 847 F.Supp. 1492, 1496. . . . We agree with the Third Circuit’s analysis . . . that providing the site and facilities for known infringing activity is sufficient to establish contributory liability.

Id., 76 F.3d at 264 (citation omitted).

The District Court also emphasized that Grokster was “only” a licensee of Kazaa and claimed not to have access to the source code for its user software. 259 F.Supp.2d at 1039-40. That, however, does not make its contribution any less material. Grokster obtained by license and provides to its users the FastTrack software, upgrades, and other services. Grokster supports Kazaa by paying a substantial license fee based on its gross receipts so that

¹³ The District Court relied on dicta from an out-of-circuit district court opinion in adopting the same incorrect standard this Court rejected in *Fonovisa*: “To be liable for contributory infringement . . . [t]he authorization or assistance must bear a direct relationship to the infringing acts, and the contributory infringer must have acted *in concert* with the direct infringer.” *MGM*, 259 F.Supp.2d at 1042, citing *Marvullo v. Gruner & Jahr*, 105 F.Supp.2d 225, 230 (S.D.N.Y. 2000) (emphasis added). The other authority cited by the District Court does not require “concerted” action. *Arista Records, Inc. v. MP3 Board, Inc.*, 2002 U.S. Dist. LEXIS 16165 (S.D.N.Y. 2002).

Grokster's users can continue to access the FastTrack network. JER2898-99, 5138. Grokster's contract with Kazaa gives it the right to demand modifications of that software, JER3015, 5114, 5154, and Grokster could write its own software to interact with the FastTrack user software that would change the way in which that software functions. JER5139.

Likewise, that one aspect of Defendants' technology generates file indices on user "supernode" computers, rather than on computers owned by Defendants, does not eliminate Defendants' material contribution. The indices would not have existed without Defendants' involvement. The evidence demonstrated that indexing supernodes were selected by Defendants' software, Defendants provided their users the necessary ability to connect to supernodes, and supernodes are operated by users who, pursuant to Terms of Service, have an ongoing contractual relationship with Defendants that could be subject to termination based on user misconduct as defined by Defendants. JER6339, 6631-32.

Defendants' contribution similarly is not diminished by the erroneous (or at least strongly contested) assertion that "[i]f either Defendant closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption." 259 F.Supp.2d at 1041. Initially, of course, this speculation ignores Defendants'

substantial contribution in *setting up* and *operating* their networks. It also ignores that the only reason Defendants' users might be able to continue to infringe – for a period of time – after a hypothetical “door closing” is because of Defendants' contributions in the first place. It ignores Plaintiffs' expert evidence that Defendants' networks would deteriorate and ultimately likely cease if Defendants stopped their continuing contributions. JER1952. And, finally, it ignores that, for the payment of its 60% of gross revenues, Grokster retains a license that permits its users to connect to the FastTrack network. JER2898-99. If Grokster failed to pay for and maintain its license, its users would be shut out of the FastTrack network, as were StreamCast's users, who demonstrably could *not* “continue sharing files with little or no interruption.” 259 F.Supp.2d at 1041; *supra* at 19 (disconnecting StreamCast from network).

The District Court found that Defendants did not contribute to infringement because “[u]sers connect to the respective networks, select which files to share, send and receive searches, and download files, all with no material involvement of Defendants.” 259 F.Supp.2d at 1041. The same is true of Napster users. The relevant point is that the ability of Defendants' users to do all of those things was the direct result of Defendants' contributions. In Napster's case (as well as Defendants'), these functions occurred automatically after a user downloaded Napster's free software. *See generally Napster*, 239

F.3d at 1011-1012 (describing Napster's automatic functions). *The infringing content never passed through Napster's computers, just as it does not pass through Defendants.*' *Id.* at 1012; *see also Netcom*, 907 F.Supp. at 1375 ("providing a service that allows for automatic distribution of . . . infringing and noninfringing" postings). In Napster's case, as well as Defendants', users could infringe only when connected to the network formed by Defendants' software, and only from other anonymous users who were logged on at the same time. *Id.*

Ultimately, Defendants provide their networks of users with the means, environment, and support that enable them to engage in infringement by "facilitat[ing] or contribut[ing] to the actual exchange of files." 259 F.Supp.2d at 1042. Defendants not only materially contribute to, they induce and cause massive infringements by their networks of users. *See Fonovisa*, 76 F.3d at 264 (contributory infringement applies to one who "induces, causes *or* materially contributes")(emphasis added).

III. DEFENDANTS ARE LIABLE FOR VICARIOUS COPYRIGHT INFRINGEMENT.

The law of vicarious copyright infringement developed to hold responsible those who reap financial benefits from the activities of direct infringers they are in a position to supervise or control:

When an individual seeks to profit from an enterprise in which identifiable types of losses are expected to occur, it is ordinarily fair and reasonable to place responsibility for those losses on the person who

profits, even if that person makes arrangements for others to perform the acts that foreseeably cause the losses. . . . In addition, placing responsibility for the loss on the enterprise has the added benefit of creating a greater incentive for the enterprise to police its operations carefully to avoid unnecessary losses.

Polygram Int'l Publishing, Inc. v. Nevada/TIG, Inc., 855 F.Supp. 1314, 1325

(D.Mass. 1994);¹⁴ *see Shapiro, Bernstein & Co. v. H.L. Green, Co.*, 316 F.2d

304, 306 (2d Cir. 1963) (“When the right and ability to supervise coalesce with

an obvious and direct financial interest in the exploitation of copyrighted

materials – even in the absence of actual knowledge that the copyright

monopoly is being impaired . . . the purposes of copyright law may be best

effectuated by the imposition of liability upon the beneficiary of that

exploitation”).

This Court has articulated the elements of vicarious infringement as follows: a defendant is liable if it “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”

Napster, 239 F.3d at 1022, *quoting Fonovisa*, 76 F.3d at 262. Knowledge is not

an element of vicarious infringement, *Gershwin*, 443 F.2d at 1162, and the

Sony-Betamax defense is inapplicable to vicarious infringement. *Napster*,

239 F.3d at 1022.

¹⁴ This Court referred to Judge Keeton’s opinion as “the most . . . comprehensive discussion of the evolution of the doctrine of vicarious liability for copyright infringement.” *Fonovisa*, 76 F.3d at 262.

A. **Defendants Derive A Financial Benefit From Infringement And Have The Ability To Supervise Or Control Infringement.**

The District Court recognized that “it is clear that Defendants derive a financial benefit from the infringing conduct.” 259 F.Supp.2d at 1043. The District Court then focused its analysis on the supervision or control element, and narrowly limited the definition of control, requiring the ability to actively control user conduct “*after* the product has passed to end-users.” *Id.* at 1045 (emphasis in original). The ability to control is not so narrowly circumscribed; and, in any event, the evidence was that Defendants did have the ability to control infringement even “after the product passed to end-users.”

In *Fonovisa*, the district court had narrowly defined the requisite right and ability to supervise or control infringement, holding the swap meet did not meet the standard because it did not directly oversee infringers or control the specific infringing works they sold:

The argument that defendants could have ‘policed’ the vendors by refusing to lease spaces to them has only specious appeal. For one thing, the *Shapiro* court speaks of *a priori* supervisory power; that is, the ***power to supervise the direct infringers in the general course of business, e.g., what to sell***, whom to hire, how much to charge. Defendants could not inferably have assumed this supervisory role over the vendors.

. . .

Like most flea markets, it does little more than avail to others a bare site to carry out their own business transactions. It is not in the business of overseeing that market, ensuring the integrity of the goods sold, or otherwise pleasing customers. It is therefore ill-

equipped to do those things, and imposing vicarious liability would force the auction to take foreign measures such as hiring an “intellectual property patrol.”

847 F.Supp. at 1497 (emphasis added). This Court reversed. It held that the swap meet could supervise and control infringing conduct even though it did not supervise what the direct infringers sold after they were provided the site and facilities from which they conducted their infringing businesses. *Fonovisa*, 76 F.3d at 262-63; *see also Netcom*, 907 F.Supp. at 1376 (“Whether such sanctions [*e.g.*, deleting infringing postings] occurred before or after the abusive conduct is not material to whether Netcom can exercise control”).

In *Fonovisa*, this Court recognized as sufficient supervision or control both the formal, contractual right, exemplified by *Shapiro*, and the practical ability, based on the “pervasive participation in the formation and direction of the direct infringers, including promoting them (*i.e.*, creating an audience for them),” exemplified by *Gershwin*.

In practice, H.L. Green Company was not actively involved in the sale of records and the concessionaire controlled and supervised the individual employees. Nevertheless, H.L. Green’s ability to police its concessionaire – which parallels Cherry Auction’s ability to police its vendors under Cherry Auction’s similarly broad contract with its vendors – was sufficient to satisfy the control requirement.

In *Gershwin*, the defendant lacked the formal, contractual ability to control the direct infringer. Nevertheless, because of defendant’s “pervasive participation in the formation and direction” of the direct infringers, including promoting them (*i.e.*, creating an audience for them), the court found that defendants were in a position to police the direct

infringers and held that the control element was satisfied.

76 F.3d at 263 (citations omitted). Applying this principle to an online business, this Court held that “[t]he ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.” *Napster*, 239 F.3d at 1023. Both Defendants have the formal contractual, *and* practical, ability to supervise or control their networks.

B. Defendants Can Legally And Practically Control User Access.

Defendants provide access to the networks they create. JER4487. (“Morpheus [StreamCast’s user software] is the gateway to the Network . . . It’s not about the technology – it’s about the Network”). *See* JER4340-41. (“After Morpheus users were blocked from accessing the FastTrack network because of StreamCast’s dispute with Kazaa, StreamCast assured its users that it was “committed to [getting] you back up on the network as soon as possible”). Defendants’ Terms of Service and other documents repeatedly refer to their systems as “services” and “networks,” JER1000-07, 6628-34, recognizing the ongoing relationships Defendants have with their users (*e.g.*, users agree to indemnify Defendants for claims “arising out of content you [users] submit, post to or transmit through the Service”). *See Shapiro*, 316 F.2d at 308 (vicarious infringer must suffer because he has “at least the ability to guard against infringement (by an indemnity agreement)”; *Netcom*, 907 F.Supp. at

1376 (“Further evidence of Netcom’s right to restrict infringing activity is its prohibition of copyright infringement and its requirement that its subscribers indemnify it for any damage to third parties.”).

Defendants’ Terms of Service have provided that Defendants have the right to ban users and/or block infringing content from their systems.

Napster, 239 F.3d at 1023 (Napster “expressly reserves ‘the right to refuse service and terminate accounts’”). *See also Netcom*, 907 F.Supp. at 1376 (reservation of right to take remedial action against subscribers is evidence of ability to control). Defendants, either alone or with the complicity of their licensor Kazaa, have the contractual and practical ability to control access, including by banning or terminating users; blocking access to groups of IP addresses (blocking access to all users whose computers are found at those addresses); preventing access by companies retained by copyright owners to monitor and police copyright infringement on Defendants’ systems; blocking “bots” (robotic programs that search for infringing content) from their networks; and blocking “hackers” trying to access Defendants’ networks using unauthorized software. *See supra* at 18. Defendants’ license agreements with Kazaa reserved to them the right to “disable the Network” they created by disconnecting their users from Kazaa users, and vice versa. In the most

dramatic example of blocking access, FastTrack licensor Kazaa and Grokster blocked *all* StreamCast users from the FastTrack network. *Supra* at 19.

In addition to blocking access, Defendants have the ability to control the manner in which their users use Defendants' networks, by controlling their user software centrally. They have the ability to, among other things, affect user software in its performance even after that software has "passed to end users," such as by upgrading their software so that only new versions could connect to the network. StreamCast can ever force users to accept such upgrades. *Supra* at 21. Defendants could use such abilities to stop users from making and distributing infringing copies.

C. **Defendants Can Limit Or Prevent Infringement By Filtering Or Blocking Infringing Works.**

It was not seriously disputed that Defendants could avail themselves of effective means to keep infringing files, not just infringing users, from their systems. The District Court refused even to consider Plaintiffs' substantial evidence concerning filtering technology already used by or readily available to Defendants. 259 F.Supp.2d at 1045 ("whether these safeguards are practicable is immaterial to this analysis").

Napster held that "[t]urning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability," *Napster*, 239 F.3d at

1023. This Court held that because Napster had the ability to identify file names on its network, and had exercised its right to bar infringing users from the network, its ability to detect and prevent infringements required Napster to exercise its “reserved right to police . . . its fullest extent.” *Id.*; *see also Fonovisa*, 76 F.3d at 261, *Gershwin*, 443 F.2d at 1161-62 (“failure to police the conduct of the primary infringer” leads to vicarious liability).

Erroneously concluding that this responsibility to detect and prevent stemmed from the fact that file names were indexed on Napster’s computers, the District Court stated: “the centralized search indices and mandatory registration system gave Napster both ‘knowledge’ of what was being exchanged, and an ability to police those exchanges.” 259 F.Supp.2d at 1044. But in *Napster*, this Court did not rest its reasoning on the physical location of the file indices. This Court recognized that the physical location of Napster’s computers was not the basis of its duty: “[a]s a practical matter, *Napster, its users and the record company plaintiffs have equal access to infringing material by employing Napster’s ‘search function.’*” *Napster*, 239 F.3d at 1024 (emphasis added). Similarly, by using their own search functions, the Defendants here have the very same ability to detect infringers.¹⁵

¹⁵ As for the “mandatory registration” server that Napster used to block infringing users, Defendants *also* employed the very same supervision and control mechanism here. *Supra* at 13. The only difference is that Defendants

The record demonstrated that Defendants' ability to detect and block particular files was more extensive than Napster's. Indeed, all files in a FastTrack users' download directory were "always" under the "control" of Defendants. JER812. It was undisputed, for example, that Defendants *currently* filter or block certain material available over their networks, *i.e.*, pornographic works, viruses, and bogus files. 259 F.Supp.2d at 1045; *supra* at 18-22. Defendants' software also extracts "metadata" and "hash" values from a file that can be used to screen or filter infringement. *Id.*; *supra* at 19. Defendants can block or filter infringing content from their networks even *after* the initial distribution of their software to their users. This Court affirmed Napster's shutdown after it failed to implement a new filtering system based on audio fingerprinting technology and to block infringement by analyzing the contents of files *on users' computers*. *A&M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091, 1097-98 (9th Cir. 2002) ("*Napster II*"); *see also Netcom*, 907 F.Supp. at 1376 (triable issue of fact based on plaintiff's expert opinion that "with an easy software modification Netcom could identify postings that contain particular words or come from particular individuals").

abandoned that mechanism during the course of this litigation. But that abandonment merely confirms Defendants' liability for *failing to exercise* their undisputed ability to supervise infringing activity. *See* Section III(D). Moreover, Napster was required to do so even though its user registration procedure "does not require a real name or address," *A&M Records*, 114 F.Supp.2d at 905, and even though "after a user logs-on, her physical address information is no longer available to the Napster server." *Id.*

Plaintiffs presented extensive evidence of precisely that type of filtering technology – that “Defendants could with relative ease employ emerging ‘digital fingerprinting’ technology that would block out a substantial percentage of copyrighted songs.” 259 F.Supp.2d at 1045. Although “Defendants dispute[d] the feasibility and efficacy of these remedies,” *id.*, they never disputed that they would have limited infringement. Defendants clearly have the ability to include in their software (and to require present users to upgrade to such modified software) the means to filter infringing works.¹⁶

The District Court rejected all this evidence “as immaterial,” holding there could be no vicarious liability even if a “product could be made such that it is less susceptible to unlawful use, where no control over the *user* of the product exists.” 259 F.Supp.2d at 1045-46 (emphasis in original). This is directly contrary to this Court’s ruling in *Napster* requiring Napster to police the infringing conduct of its users, rather than “turn a blind eye” to conduct that also occurred after its software was “passed to end-users.” 239 F.3d at 1023. *See Napster II*, 284 F.3d at 1098 (“Napster must do *everything feasible* to block” copyrighted works from its system, affirming the District Court’s shut

¹⁶ StreamCast’s expert conceded that filtering could be implemented in a decentralized (or “distributed”) network: “as an instance of filter-in or filter-out now at work, there’s a ton of systems that use this capability, including such things as distributed file systems.” JER1564. Such filtering would either block the copying or distribution of works not authorized by the copyright owner (filter out) or permit the copying and distribution of authorized works (filter in).

down order of Napster until it did so); *id.* at 1097-1098 (“it was a proper exercise of the district court’s supervisory authority to require use of the new filtering mechanism”).

That Napster employed a centralized index while Defendants now use a decentralized one is both legally and factually irrelevant to the ability and obligation to police infringing conduct. *Aimster*, 252 F.Supp.2d at 642 n.5. Napster possessed the requisite ability to filter or block infringing works even though, as with Defendants, infringing content never passed through its computers. Despite that fact, as part of “its duty to police the system,” Napster was required to develop and fully implement a “new filter [that] analyzed the contents of a file [on users’ computers] using audio fingerprinting technology.” *Napster II*, 284 F.3d at 1097-98; *see also Fonovisa*, 847 F.Supp at 1497 (swap meet possessed requisite ability to supervise or control even though it lacked “the power to supervise the direct infringers in the general course of business”). As demonstrated above, Defendants possess the same ability.

D. Defendants’ Abandonment Of Components That Enhanced Their Ability To Supervise Or Control Is Further Evidence Of That Ability.

Defendants are vicariously liable if they have the *right and ability* to supervise or control, regardless of whether they choose to exercise it. *Fonovisa*, 76 F.3d at 262-263; *Gershwin*, 443 F.2d at 1161-1163. Accordingly,

further evidence of Defendants' ability to supervise or control is found in prior versions of their networks, which included components that Defendants implemented but then abandoned. The District Court ignored this evidence by carving out all but Defendants' then "current" networks from its analysis. 259 F.Supp.2d at 1033.

For example, Defendants initially operated supernodes on their own central computers that were necessary for users to gain access to their systems. These supernodes acted precisely as did Napster's central computers – creating an index of files offered by users connected to them and processing user search requests. *Supra* at 14-15 and n. 6. Defendants also operated central computers that provided the supernode IP addresses to enable or facilitate users' connection to their networks, and registered and logged users onto their system. *Supra* at 13. Defendants implemented the ability to block specific users. Simply by deleting a user name and password from their computers, Defendants could prevent any user from connecting to their networks. *Supra* at 13, 18. In a clear attempt to "turn a blind eye" to its ability to supervise or control, after this litigation, StreamCast even abandoned its user license agreement. JER274, 293, 1941. There is no stronger evidence of failing to exercise the ability to supervise than affirmatively *disabling* that ability.

CONCLUSION

In its conclusion, the District Court sought “legislative guidance” while ongoing infringement continued. 259 F.Supp.2d at 1046. However, as this Court very recently observed in another case involving theft of property over the Internet, the courts should not “stand idle while people give away the property of others.” *Kremen v. Cohen*, 2003 U.S.App. LEXIS 14830, *31-32 (9th Cir. 2003). The Orders granting Defendants’ motions for summary judgment and denying Plaintiffs’ cross-motions should be reversed, and summary judgment on liability should be entered in favor of Plaintiffs. In the alternative, this Court should remand for further proceedings.

Dated: August 18, 2003

Respectfully submitted,

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STATEMENT OF RELATED CASES

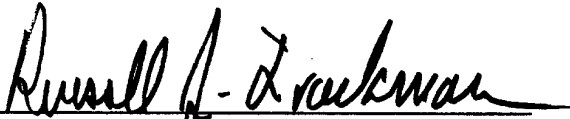
This appeal is related to *Leiber, et al. v. Grokster Ltd., et al.*, No. 03-55901, with which it has been consolidated.

“FORM 8” CERTIFICATION OF COMPLIANCE TO
FED. R. APP. P. 32(a)(7)(C) AND CIRCUIT RULES 32-1 AND 32-2

I certify, pursuant to Fed. R. App. P. 32(a)(7)(C) and Circuit Rules 32-1 and 32-2, 5 that the attached MGM Plaintiffs-Appellants’ Opening Brief is proportionally spaced, has a typeface of 14 point or more, and contains 13,992 words (based on the word processing system used to prepare the brief).

Dated: August 18, 2003

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PROOF OF SERVICE

STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am employed in the county of Los Angeles, State of California. I am over the age of 18, and not a party to the within action; my business address is Mitchell Silberberg & Knupp LLP, 11377 West Olympic Boulevard, Los Angeles, California 90064-1683.

On August 18, 2003, I served the foregoing document described as **MGM PLAINTIFFS-APPELLANTS' OPENING BRIEF** on the parties in this action by placing **TWO copies** thereof enclosed in sealed envelopes addressed as follows, and taking the action described below:

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I declare that I am employed in the office of a member of the bar of this Court at whose direction the service was made.

Sunni Donmoyer

MGM STUDIOS, INC., et al. v. GROKSTER, LTD., et al.

Case Nos. 03-55894, 03-56236, 03-55901

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