

**UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT**

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Nos. 03-55894 & 03-56236  
METRO-GOLDWYN-MAYER STUDIOS INC., *et al.*,  
Plaintiffs-Appellants,  
v.  
GROKSTER LTD., *et al.*,  
Defendants-Appellees.

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No. 03-55901  
JERRY LEIBER, individually d.b.a. Jerry Leiber Music, *et al.*,  
Plaintiffs-Appellants,  
v.  
GROKSTER LTD., *et al.*,  
Defendants-Appellees.

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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

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**APPELLEE STREAMCAST NETWORKS, INC.'S  
OPENING BRIEF**

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## **CORPORATE DISCLOSURE STATEMENT**

Pursuant to Rule 26.1 of the Federal Rules of Appellate Procedure, Appellee StreamCast Networks, Inc. certify that it is a wholly-owned subsidiary of Sterling Bridge, Inc., an Oregon corporation. Additionally, no publicly held corporation or other publicly held entity owns 10% or more of StreamCast Networks, Inc.

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## **I. JURISDICTION**

Appellee StreamCast Networks, Inc.<sup>1</sup> (“StreamCast”) adopts the jurisdictional statement in the opening brief of appellee Grokster, Ltd. (“Grokster”).

## **II. ISSUES ON APPEAL**

Did the District Court correctly conclude that, where a product is capable of substantial noninfringing uses, a plaintiff urging contributory copyright infringement liability must demonstrate more than general knowledge on the part of the vendor that the product is being used for infringement by some end-users?

Did the District Court correctly conclude that a vendor of general purpose software cannot be held vicariously liable for copyright infringement where the software vendor retains absolutely no control over the infringing activities of direct infringers?

## **III. INTRODUCTION**

This case raises a question whose answer defines the border between copyright and innovation: when should the distributor of a multi-purpose tool be held liable for the infringements that may be committed by end-users of the tool?

While copyright’s secondary liability principles have deep roots, the first time the copyright industries attempted to use these judge-made

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<sup>1</sup> StreamCast Networks, Inc. was formerly known as MusicCity.com, Inc.



doctrines to attack a technology vendor was in *Sony Corporation of America v. Universal City Studios*, 464 U.S. 417 (1984) (“*Sony-Betamax*”). In considering whether copyright’s judge-made secondary liability principles could be extended to reach the Betamax video tape recorder, the Supreme Court recognized that a finding of liability would effectively “enlarge the scope of respondents’ statutory monopolies to encompass control over an article of commerce.” *Id.* at 421.

The motion picture companies pointed out that Sony’s own executives knew that the product’s main use would be for infringement. *Id.* at 489. The Court was unmoved. The motion picture companies urged the Court to consider the proportion of infringing uses to which the Betamax was put. The Court demurred, opting for a “mere capability” standard. *Id.* at 442. The motion picture companies offered that the Betamax could easily have been redesigned to eliminate only the infringing uses of the Betamax. *Id.* at 494. The Court refused to be drawn into the business of redesigning technologies.

Noting the “varied permutations of competing interests that are inevitably implicated by ... new technology,” the Court rejected the invitation to transform copyright’s secondary liability principles into a judicial mechanism for regulating new technologies. *Id.* at 431. “It may well be that Congress will take a fresh look at this new technology,” opined the Court, leaving to the legislature the task of striking the proper balance between copyright and innovation. *Id.* at 456.

In this case, the copyright industries again ask the courts to transform

copyright's secondary liability principles into a mechanism for technology regulation. The District Court correctly declined the invitation, recognizing that *Sony-Betamax*, as well as this Court's ruling in *A&M Records v. Napster, Inc.*, 239 F. 3d 1004 (9th Cir. 2001), imposes limits on the scope of secondary liability as applied to technologies capable of substantial noninfringing uses. Plaintiffs' arguments, in the words of the District Court, are "nothing more than an invitation to judicial policymaking—a course that the Supreme Court has specifically warned against in the copyright context." *Metro-Goldwin-Mayer Studios, Inc. v. Grokster, Ltd.*, JER 27:7704<sup>2</sup> (June 18, 2003 order).

The District Court ruling should be affirmed.

#### IV. STATEMENT OF THE CASE

##### A. Procedural History.

Twenty-eight companies representing the record and motion picture industries,<sup>3</sup> as well as two song-writers and several music publishers,<sup>4</sup> filed two suits against StreamCast and Grokster, alleging contributory and vicarious copyright infringement. The District Court subsequently

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<sup>2</sup> Citations to the record are contained in Appellants' Joint Excerpts of Record or Appellee's Supplemental Joint Excerpts of Record. All citations will be in the form "JER vol:page".

<sup>3</sup> Plaintiffs in the action brought by the record label and motion picture industries will be referred to herein as the "MGM Plaintiffs."

<sup>4</sup> Plaintiffs in the action brought by music publishers will be referred to herein as the "Leiber Plaintiffs."

consolidated the actions for discovery.<sup>5</sup>

On September 9, 2002, StreamCast filed two motions for partial summary judgment, one each aimed at Plaintiffs' contributory infringement and vicarious liability claims. JER 1:230 (contributory); JER 1:254 (vicarious). At the same time, Grokster and Plaintiffs moved for complete summary judgment as to all claims. JER 1:142 (Grokster); JER 3:656 (Plaintiffs).

In an April 25, 2003 order, as amended and clarified by a subsequent order on June 18, 2003, the District Court granted StreamCast's motion, and granted Grokster's motion in part. *MGM v. Grokster*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003) (April 25 order); JER 27:7698 (June 18 order). While the original April 25 order declared that Plaintiffs' cross-motions were denied, the June 18 amending order clarifies that "[t]he Court declined to rule on the current record as to the potential liability arising from 'past versions' of Defendants' products and services." JER 27:7699. The June 18 Order also granted motions for partial final judgment under Rule 54(b) and certification for interlocutory appeal under 28 U.S.C. § 1292(b). *Id.* This appeal followed.

**B. The Scope of This Appeal.**

The scope of this appeal is limited. With respect to StreamCast, the question is whether any disputed issue of material fact prevents the entry of judgment in favor of StreamCast *with respect to the gnutella-based versions*

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<sup>5</sup> The actions also name several other defendants, not involved in this appeal, who distribute the Kazaa software program.

*of the Morpheus software that have been distributed by StreamCast since March 2002.* That is the only question on which the District Court ruled below, and the only one on which it granted Rule 54(b) partial final judgment and § 1292(b) certification.

In its April 25 ruling, the District Court expressly noted the limitations of its ruling, stating that the “[o]rder does not reach the question whether either Defendant is liable for damages arising from *past* versions of their software, or from other past activities.” *MGM v. Grokster*, 259 F. Supp. 2d at 1033 (emphasis in original). In its June 18 order, the District Court amended its earlier ruling to make clear that it “declined to rule on the current record as to the potential liability arising from ‘past versions’ of Defendants’ products and services.” JER 27:7699. The court further emphasized the point when entering Rule 54(b) partial final judgment, stating that “the Court directs entry of partial final judgment on the claims concerning the ‘current versions’ of Defendants’ products and services as to which the April 25 order granted summary judgment.” JER 27:7701.

StreamCast’s motions below were limited for two reasons. First, they responded to Plaintiffs’ statements that their chief goal in the case is permanent injunctive relief, something that can only be obtained against the current versions of the Morpheus software.<sup>6</sup> Second, there were no disputed

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<sup>6</sup> In responding to this Court’s June 5, 2003 order to show cause why their original premature appeal ought not be dismissed, Plaintiffs argued that appellate jurisdiction was proper under § 1292(a)(1) because the April 25 ruling had the “practical effect” of denying them injunctive relief. Even were this argument were not foreclosed by *Carson v. American Brands, Inc.*, 450

issues of material fact with respect to the features and design of the gnutella-versions of the software, as the software was designed by StreamCast and fully examined during discovery by experts from both sides.<sup>7</sup>

Rather than address the narrow question on which the District Court ruled, Plaintiffs press this Court to address the many questions on which the District Court did *not* rule. In fact, Plaintiffs’ urge this Court to finally adjudicate the question of liability as to all versions of Morpheus and Grokster—past, present and future—notwithstanding the fact that the District Court has “declined to rule” on this question. This Court’s appellate jurisdiction does not extend so far.

## V. FACTS

### A. Overview.

At a conceptual level, the Morpheus software is essentially the Internet equivalent of a megaphone. It allows a person who is connected to the Internet to lean out his window and ask his neighbors, “I’m looking for this, do you have it?” Because his neighbors also have megaphones, they can lean out of their windows and either answer, “yes, I have it, I’ll send it right over,” or relay the request on down the block, “John in 7C is looking for

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U.S. 79 (1981), it cannot expand the scope of this appeal beyond the current versions of Morpheus, which are obviously the only versions subject to injunctive relief.

<sup>7</sup> With respect to earlier “Fastrack” versions of the Morpheus software, in contrast, numerous factual issues remain disputed as a result of recalcitrance on the part of the Kazaa entities to produce the relevant computer source code in discovery. *See, e.g.*, JER 28:8211-12 (lack of source code makes it impossible to determine whether “filtering” is possible).

this, do you have it?” In such a circumstance, of course, no court could conclude that the megaphone manufacturer should be held liable for the neighbors’ infringements.

Plaintiffs, of course, mischaracterize the Morpheus software as more akin to Napster’s MusicShare software, which directed all searches, queries and responses through a central set of servers maintained and controlled by Napster. *See A&M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004, 1012 (9th Cir. 2001). In essence, rather than giving each neighbor a megaphone, the Napster architecture required every user to send a note to the central office (“I’m looking for this, does anyone have it?”), where the note was then compared against an index compiled by Napster’s computers (“one moment please... yes, John in 7C has it”). *See id.* Napster’s computers would then courier a note back to the asking party. *See id.* This architecture afforded Napster perfect knowledge and complete control over the file-sharing activities of its users, and thus satisfied the traditional elements for secondary copyright infringement liability.

To decide whether StreamCast is more like the megaphone manufacturer or the central index operator, this Court will need to understand how the Morpheus software works. Then, in order to properly apply the teachings of *Sony-Betamax*, this Court will need to consider whether the Morpheus software is “capable of substantial noninfringing uses.”

**B. Morpheus: What it Is and how it Works.**

At the heart of this lawsuit are three separate software products, Morpheus, Grokster and Kazaa, each distributed by a different Defendant. Only Morpheus and Grokster are involved in the instant appeal.

When the action was originally filed, all three software products were built upon the same “Fastrack” peer-to-peer networking technology licensed from Consumer Empowerment BV, the original developer and distributor of the Kazaa application. JER 1:284. In March 2002, StreamCast moved from the “Fastrack” technology to a nonproprietary alternative known as “gnutella.” JER 1:284 n.1. All versions of Morpheus since that time have been built on the gnutella technology. JER 1:284. As discussed above, the District Court’s rulings were expressly limited to the post-March 2002 Morpheus software. In this brief, therefore, references to “Morpheus” should be understood to refer solely to the current, gnutella-based versions of the software unless otherwise noted.

The Morpheus software program is a communication tool that allows users to independently connect with one another to form a user network, commonly known as a “peer-to-peer” (“P2P”) network.<sup>8</sup> JER 2:308. Using the P2P networking functionality of the software, users may search for and

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<sup>8</sup> Because the source code for the Morpheus software was produced in discovery and examined by experts, there is no factual dispute regarding how it works. For a more complete explanation, see Professor Gribble’s initial declaration, JER 2:307-85, as well as Gene Kan’s description, Gene Kan, *Gnutella*, in *PEER TO PEER: HARNESSING THE POWER OF DISRUPTIVE TECHNOLOGIES* (Andy Oram, ed. 2001) (reproduced at JER 2:569-85). See also Mathias Strasser, *Beyond Napster: How the Law Might Respond to a Changing Internet Architecture*, 28 N. KY. L. REV. 660, 694-99 (2001).

share any kind of computer file, including text, images, audio, video, and software files, with other computer users connected to the network. JER 1:285; JER 2:309. The searching and file-sharing functions are entirely decentralized—after downloading and installing the Morpheus software on their computers, users decide for themselves what information to seek out, send and receive with the software, without any further involvement from StreamCast. JER 1:292; JER 2:312.

Gnutella itself is a nonproprietary (“open”) networking protocol originally developed by employees of Nullsoft (an AOL-Time Warner subsidiary and affiliate of several Plaintiffs) intended to enable communications among computers over the public Internet. JER 2:309; JER 2:571. Gnutella is an open protocol (i.e., publicly disclosed and free for use by all), much like the HTTP protocol that defines the World Wide Web. JER 2:309. Consequently, anyone can build and distribute gnutella-compatible software, just as anyone can create a web browser that will interoperate with websites. *Id.* Morpheus is only one of several gnutella-compatible products (others include gnucleus, Limewire, Bearshare and Xolox). *Id.*; JER 1:285. A user of any of these products can search for and share files with users of any of the others. *Id.* Thousands upon thousands of computers running gnutella software from many vendors are connected with one another at any given moment, forming a single global gnutella user network. JER 1:284.

Decentralization is the hallmark feature of gnutella-based software products, including Morpheus. JER 2:309-11. After the Morpheus software



is downloaded and installed, a user must connect to the Internet through an Internet Service Provider (“ISP”). In order to join the gnutella network for the first time, the Morpheus software must obtain the IP address of at least one other user who is connected to the network, a process known as “bootstrapping.” JER 1:285-87; JER 2:315-17. In order to accomplish this, the Morpheus software automatically contacts a “host cache,” maintained by third parties unrelated to StreamCast. *Id.* The host cache responds with a list of the IP addresses of other computers worldwide that are at that moment running gnutella-compatible software. *Id.* The Morpheus software then uses the IP addresses to contact these other gnutella users, thereby joining the user to the global gnutella network. *Id.*

Unlike Napster and many other P2P networks, Morpheus users are not required to identify themselves with any user-specific “user name” or other code when joining the gnutella network. JER 1:287; JER 2:313-15; JER 30:8715. The only information required for connecting to the gnutella network is an IP address of another person using gnutella-compatible software, which is obtained from sources unrelated to StreamCast. *Id.*

Once connected to the gnutella network, a Morpheus user seeking a particular file must enter a search term into the Morpheus software’s search screen on the user’s computer. JER 1:287-88; JER 2:318-20. The software then transmits the search request to other nearby computers on the gnutella network to which it is connected. *Id.*

Once a search request is sent, the search process resembles a giant

game of “Telephone,” with the search request propagating from user to user through the gnutella network. *Id.* A neighboring computer receiving a search request compares the search term against the filenames of the files its user has chosen to share. JER 2:319. If it finds a matching filename (or portion thereof) among its available files, the receiving computer responds with a “QueryHit” message containing the filename of the matching file and its own IP address. *Id.* In addition to comparing the query against the filenames of items shared by it, the software also forwards the search request to computers near it on the gnutella network. *Id.*

The Morpheus software displays to its user all the “QueryHit” responses in a “Search Results” window. *Id.* To download a file listed in the “Search Results,” the user “double-clicks” the desired file in the “Search Results” window. *Id.* This sends a request directly to the IP address of the computer sharing the file, and the two computers then establish a direct file transfer connection to accomplish the download. JER 2:320.

Because the gnutella network is self-organizing, StreamCast has no involvement whatsoever with the search and transfer of files among users who chose to utilize the P2P networking functions of the Morpheus software. JER 1:289, 292; JER 2:312. StreamCast does not maintain any file indices, does not process search requests, does not compile search results, does not send search results to a user, and has no ability to monitor the file-trading activities of users. *Id.* In fact, the Morpheus software does not report any information on the content of searches to any StreamCast server. JER

2:320.

Moreover, StreamCast's computer servers do not participate in identifying locations of user files, do not participate in requesting those files for transfer, do not communicate with the host users, do not participate in the transfer files from one user to another, do not control or monitor transfers of files, and do not control or monitor management or use of files. JER 1:289. StreamCast's servers receive no information regarding any particular files being transferred among users.<sup>9</sup> *Id.*; JER 2:320. In fact, if all of StreamCast's servers were disabled and these above-described functions were unavailable, Morpheus users would still be able to join the gnutella network, conduct searches and share files. JER 1:292; JER 2:321-23.<sup>10</sup>

StreamCast's involvement with the Morpheus software, after its download by the user, is very limited. For example, the first time a user launches the Morpheus software, the user is asked, but not required, to supply certain demographic information (e.g., email address and connection speed) that is collected by a computer maintained by StreamCast. JER 2:313-14. In addition, while running, the Morpheus software activates several components of the user's Microsoft's Internet Explorer web browser. JER 2:321. These components contact web servers maintained by

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<sup>9</sup> The gnutella versions of Morpheus do not employ any encryption to disguise the nature of any traffic on the gnutella network.

<sup>10</sup> The best Plaintiffs' expert could do was speculate that Morpheus might degrade "over time." JER 7:1952. In deposition, the expert was forced to withdraw even that assertion. JER 26:7627-32.

StreamCast, which provide the background graphics for the user interface of the Morpheus software, as well as banner and pop-up advertisements that appear whenever the user is running the Morpheus software. *Id.* The Morpheus software also sends a logon notification message to StreamCast's servers when launched, consisting of a unique serial number and the duration of its last session on the network, that is used to roughly estimate the number of active Morpheus users. JER 1:291. StreamCast is also able to change certain networking parameters for all copies of Morpheus through the use of specially-formatted "XML" information included on its website. JER 10:2651-54; JER 30:8736 n.2.

It is undisputed that none of these interactions with StreamCast gives StreamCast any ability to discover, control or monitor what Morpheus users choose to search for, share or download. JER 1:292; JER 2:321-23; JER 26:7571-99 (Plaintiffs' expert); JER 26:7636; JER 29:8436-37 (Plaintiffs' expert).

The Morpheus software includes several rudimentary "filters," intended to help users to protect themselves from certain adult content or computer viruses. The adult content filter is a simple "naughty words" filter. The user decides whether to activate the filter and has editorial control over the words to be censored. JER 29:8439. The virus filter simply blocks certain file types associated with common computer viruses (e.g., ".exe" or ".vbs" files). JER 29:8441. The user has complete control over whether or not to activate these filters. JER 30:8719. Consequently, these filters give

StreamCast no ability to control what Morpheus users search for, share or download.

StreamCast also has no ability to remotely alter, disable or upgrade the Morpheus software once it has been downloaded and installed by the user. JER 2:322-23.<sup>11</sup> In short, once the software leaves its hands, StreamCast has no control over what any individual Morpheus user does with the software. JER 1:292.

In this regard, StreamCast is no different from other software vendors who distribute communications tools capable of being misused. Microsoft, for example, has no ability to control the unlawful uses to which its Internet Explorer web browser is doubtless put (including locating and downloading infringing works). Similarly, QUALCOMM has no ability to control the uses to which its popular, advertising-supported Eudora email software is put (including sending copyrighted works). Each of these products can be and is used by some individuals to locate, distribute and download copyrighted material without authorization. Each could have been designed to function differently to make these activities more difficult, or to permit remote monitoring and control of user activities.

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<sup>11</sup> Like most other software vendors, StreamCast makes upgrades of its software available to its users. The undisputed evidence makes it clear that StreamCast has no ability to “force” users to upgrade their software. JER 26:7632-36. At most, StreamCast has the ability to instigate the download and installation of an upgrade. *Id.* Unless Morpheus users consent to the installation, however, the upgrade does not take place. *Id.* This requirement of positive user consent is consistent with computer security “best practices,” lest malicious hackers illegally exploit “auto-upgrade” features to commandeer computers. JER 26:7635; JER 29:8429.

**C. Substantial Noninfringing Uses of Morpheus.**

As explained further below, the Supreme Court in *Sony-Betamax* made it clear that the mere capability of substantial noninfringing uses is all that is required to protect a new technology from an attack grounded on allegations of contributory copyright infringement. The unrefuted evidence submitted by StreamCast establishes that Morpheus is not only capable of substantial noninfringing uses, but is being used for noninfringing purposes today.

StreamCast introduced undisputed evidence demonstrating that certain artists and authors welcome distribution of their works on P2P networks, including the gnutella network. JER 2:521-29. For example, nine-time Grammy nominated singer-songwriter Janis Ian credits P2P sharing of her music for increased CD sales. JER 2:387-90. In addition, numerous well-known bands including Phish, Pearl Jam, the Dave Matthews Band and John Mayer have authorized sharing of live concert recordings among fans. JER 3:645-51. The gnutella network is also being used to distribute “shareware” and “freeware” software that is authorized for redistribution. JER 2:529; JER 3:631; JER 26:7608.

StreamCast also introduced undisputed evidence that commercial ventures are now “seeding” P2P networks, including the gnutella network, with entertainment and promotional content that has been authorized for distribution in these channels. JER 26:7606-08. J!VE Media, for example, is a for-profit company that has built a business helping copyright owners to

distribute files protected by “digital rights management” technologies on P2P networks, including the gnutella network. JER 2:502-505. The for-profit Prelinger Archives encourages P2P sharing of its content in order to generate new sales leads. JER 2:513-17. Plaintiffs’ own *amici*, in fact, trumpet that “[w]ith regard specifically to peer-to-peer transfer of media files, examples of legitimate enterprises abound.” Music Services Amicus Brief at 5.

This emerging commercial exploitation of P2P networks is not surprising, as these networks make it possible for content owners to rely on users to provide the most costly computing resources involved in digital distribution, such as hard disk storage and “bandwidth.” JER 2:503.

The Morpheus software is also being used to distribute and obtain public domain and government works. One use of Morpheus is in furtherance of Project Gutenberg, a project that has been working since 1973 to convert thousands of public domain texts to digital form for distribution over the Internet. JER 2:401-06. As Brewster Kahle, founder of the non-profit Internet Archive, has noted: “Peer-to-peer file sharing technologies, like those offered by the Morpheus, Grokster and Kazaa software, overcome many of the limitations of centralized download and streaming technologies and constitute a valuable advance in technology for those seeking to provide universal access to public domain material.” JER 2:507-11. Project Gutenberg eBooks are readily available through the Morpheus software program and the gnutella network, as are a variety of government works, including NASA photographs. JER 3:630-31.

The District Court correctly concluded that “Plaintiffs do not dispute that Defendants’ software is being used, and could be used, for noninfringing purposes.” *MGM v. Grokster*, 259 F. Supp. 2d at 1036. In fact, Plaintiffs’ own expert admitted as much during his deposition. JER 29:8475.

Plaintiffs belatedly<sup>12</sup> claim in their opening brief on appeal that StreamCast’s evidence is somehow inadmissible because its declarants did not have first-hand knowledge regarding the availability of their works on the gnutella network. Of course, this objection misses the point. The declarants testified that their works were properly authorized for sharing.<sup>13</sup> The declaration of Patricia Hoekman, in turn, established that these works were available on the gnutella network. JER 3:63-31. Plaintiffs submitted no contrary evidence. In fact, Plaintiffs’ own investigators, utilizing a deliberately blinkered search strategy, were unable to avoid finding works by Shakespeare, the King James Bible, the Koran, the Communist Manifesto, and several Platonic dialogs, thereby corroborating Ms. Hoekman’s findings. JER 3B:752.109-113.

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<sup>12</sup> When this issue was raised by Plaintiffs in their motion for certification for interlocutory appeal, the District Court responded that “Plaintiffs have essentially not disputed that Defendants’ software has current and potential noninfringing uses, and it is curious that Plaintiffs would seek to squarely address this issue for the first time on appeal.” JER 27:7704.

<sup>13</sup> This testimony is exactly the sort that the Supreme Court found dispositive in *Sony-Betamax*, 464 U.S. at 445 n.27 (testimony by Mr. Rogers that he had no objection to time-shifting of his program by viewers).



**D. Trends in Consumer Technologies and Congressional Responses.**

The rise of P2P networking continues a long-standing historical trend in technological innovation: the migration of ever-more powerful publishing tools into the hands of individuals. The trend has been driven by obvious marketplace demand: individuals desire tools that enable the creation, reproduction, and distribution of information.

This demand has spurred technological innovation that has delivered enormous benefits, both for society at large and the copyright industries. Virtually every American has enjoyed the benefits delivered by the audio cassette recorder, the photocopier, the VCR, the personal computer, and the Internet. The copyright industries, meanwhile, have seen the size of their own markets, as well as the value of their content libraries, increase enormously in part due to the new markets opened up by these technologies. Over the last century, new technologies and copyrighted works have been *complementary*—advances in the former have, over time, invariably increased the value of the latter.

Nevertheless, in the short term, incumbent copyright owners have responded with alarm as the tools of creation, reproduction and distribution become more widely and cheaply available. The proliferation of these tools plainly makes the job of enforcing copyright laws more complex.

Balancing these interrelated social costs and benefits—the long-term benefits that arise from unfettered technological innovation against the short-term challenges faced by incumbent copyright industries—has been a task

historically left to Congress. On some occasions, Congress has created compulsory licenses to mediate the tension. *See* 17 U.S.C. §§ 111 (cable television), 114 (webcasting), 115 (compulsory “mechanical” license, crafted for the player piano), 116 (jukeboxes), 119 (satellite television). On other occasions, Congress has resisted entirely the demands of copyright industries for controls over new technologies. *See* JAMES LARDNER, *FAST FORWARD* 269-88 (revised ed. 2002) (detailing unsuccessful legislative efforts to impose taxes on blank videocassettes). In a few cases, Congress has crafted narrow technology mandates, *see* 17 U.S.C. § 1001, et seq. (levies and technology mandates applicable to digital audio recording devices), or granted additional rights to copyright owners who take steps to protect their works, *see* 17 U.S.C. § 1201 (additional protection for technical measures used to protect copyrighted works).

Today, the issue of the proper balance between innovation and copyright is once again before Congress. Industry associations representing many Plaintiffs in this action are actively lobbying Congress to adopt a variety of legislative solutions aimed at addressing new Internet technologies, including P2P networks. *See* H.R. 2885, 108th Cong. (2003) (bill to regulate P2P software); H.R. 2752, 108th Cong. (2003) (bill to enhance criminal copyright penalties for P2P file sharing and regulate software); H.R. 2517, 108th Cong. (2003) (bill to enhance criminal copyright enforcement and create Internet education programs). H.R. 5211, 107th Cong. (2002) (bill to authorize copyright owners to take technical

measures to halt unauthorized P2P file-sharing); S. 2048, 107th Cong. (2002) (bill to impose federally mandated content-protection technologies on software and devices). Other respected commentators have proposed different legislative solutions, including compulsory licensing, as a more sensible alternative to the challenges posed by new Internet technologies. *See, e.g.,* Neil Weinstock Netanel, *Impose a Noncommercial Use Levy to Allow Free P2P File-Swapping and Remixing*, 17 HARVARD J. LAW & TECH. (forthcoming 2003)<sup>14</sup>; Raymond Shi Ray Ku, *The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology*, 69 U. CHI. L. REV. 263, 312-15 (2002).

## VI. SUMMARY OF ARGUMENT

Plaintiffs' arguments for reversal appear to rest on two grounds: first, an enormous collection of facts regarding *other* defendants and *other* products; and, second, a radical expansion of the judge-made doctrines of secondary copyright liability. With respect to the first, Plaintiffs simply fail to demonstrate the existence of a disputed material issue of fact *with respect to the gnutella versions of the Morpheus software*. With respect to the second, Plaintiffs' radical reinterpretation of copyright's secondary liability principles is foreclosed by both binding precedent and common sense.

With respect to contributory infringement, the District Court correctly applied *Sony-Betamax* and *Napster*. Those cases establish that, where a

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<sup>14</sup> Available from <[http://ssrn.com/abstract\\_id=352560](http://ssrn.com/abstract_id=352560)>.

technology has substantial noninfringing uses, a plaintiff must establish that the accused defendant had knowledge of specific infringing activities at a time when it could do something about them. Here, the District Court correctly concluded that Plaintiffs failed to shoulder their summary judgment burden under this standard.

With respect to vicarious liability, once the Morpheus software product is distributed to end-users, StreamCast has no right or ability to control what information those end-users choose to search for, share or download. In the face of this undisputed fact, Plaintiffs are left arguing that StreamCast should be held vicariously liable because it “could have designed its software differently.” The District Court properly rejected this expansive view of vicarious liability.

Finally, the Leiber Plaintiffs abandon the established principles of contributory and vicarious infringement altogether, urging the Court to supplant them with an unprecedented enterprise liability analysis. This argument is not only at odds with *Sony-Betamax* and *Napster*, but actually underscores the wisdom of “consistent deference to Congress when major technological innovations alter the market for copyrighted works.” *Sony-Betamax*, 464 U.S. at 431.

## VII. ARGUMENT

### A. The District Court Correctly Held StreamCast Not Liable for Contributory Infringement.

#### 1. Sony-Betamax Prevents Copyright Owners from Using Their Statutory Monopoly to Stifle Innovation.

In evaluating a contributory copyright infringement claim against a technology vendor, the Supreme Court’s *Sony-Betamax* opinion represents the starting point. Realizing that courts must act cautiously when extending judge-made secondary liability principles to new technologies, the Court established the rule on which innovators of all stripes have come to depend—that manufacturers and distributors of mass-market technology suitable for a variety of uses may not be subjected to liability for its creation or distribution so long as the products are “merely capable of substantial noninfringing uses.” *Sony-Betamax*, 464 U.S. at 442. This rule applies even if the technology may be expected to be, and in fact is, used by the public for infringing uses. *Id.*

Holding that the Betamax was capable of at least two noninfringing uses—taping programs authorized for recording and fair use “time shifting” of programs—the Court ruled in favor of Sony. *See id.* This decision has since been applied to protect software that had only a single noninfringing use. *See Vault Corp. v. Quaid Software, Ltd.*, 847 F. 2d 255 (5th Cir. 1988).

The Supreme Court’s analysis begins from the recognition that a judicial finding of contributory infringement “would enlarge the scope of respondents’ statutory monopolies to encompass control over an article of

commerce that is not the subject of copyright protection.” *Sony-Betamax*, 464 U.S. at 421. The Court emphasizes the importance of not allowing copyright owners to leverage their statutory monopoly into technology markets. *See id.* at 441 n.21. (“It seems extraordinary to suggest that the Copyright Act confers upon all copyright owners collectively, much less the two respondents in this case, the exclusive right to distribute VTR’s simply because they may be used to infringe copyrights. That, however, is the logical implication of their claim.”).<sup>15</sup>

The Court turned to patent law for guidance, noting that the Patent Act “expressly provides that the sale of a ‘staple article or commodity of commerce suitable for substantial noninfringing use’ is not contributory infringement.” *Id.* at 440. The Court then explained the rationale for this limit:

[I]n contributory infringement cases arising under the patent laws the Court has always recognized the critical importance of not allowing the patentee to extend his monopoly beyond the limits of his specific grant. These cases deny the patentee any right to control the distribution of unpatented articles unless they are unsuited for any commercial noninfringing use. Unless a commodity has no use except through practice of the patented method, the patentee has no right to claim that its

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<sup>15</sup> The amicus submission by the music service vendors is particularly perplexing on this point. These companies appear to have premised their business models on the erroneous notion that copyright’s statutory monopoly does, in fact, extend deeply into digital technology markets. They further appear to have assumed that their content licensors would wield this monopoly power to sweep the field clear of technologies that might undermine those business models. They now ask this Court to cast aside the teachings of *Sony-Betamax* to vindicate their expectations. Notably, Apple Computer, the most successful digital music distributor to date, is not among their number.

distribution constitutes contributory infringement.

*Id.* at 441 (emphasis added, internal quotations and citations omitted).

Importing this insight from patent law to copyright law, the Court concluded that the challenged product “need merely be capable of substantial noninfringing uses” in order to avoid liability. *Id.* at 442.

The “mere capability” standard is the core of the Supreme Court’s holding, creating a bright-line test that is readily amenable to summary judgment. Such a bright line test also secures for innovators a zone of necessary security from the uncertainties of potential copyright litigation. The Court expressly rejected any consideration of the potential for infringing uses, or any measure of the proportion of infringing to noninfringing uses.<sup>16</sup> It was on that very point that the Supreme Court reversed the Ninth Circuit. *See id.* at 428 (noting that the Ninth Circuit had erroneously focused on “the major use” of the Betamax); *see also id.* at 498-99 (Blackmun, J., dissenting). In fact, the Court specifically held that one “substantial noninfringing use” for the Betamax was to tape programs authorized by copyright owners for recording, notwithstanding the fact that such uses accounted for a small portion of all uses. *Id.* at 424 (finding that 7.3% of all Betamax use was to record professional sports, and that this use constituted a substantial noninfringing use); *id.* at 493-94 & n.45 (dissenters recognizing

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<sup>16</sup> The Seventh Circuit recently in dicta took a different view. *See In re Aimster Copyright Litig.*, 334 F.3d 643, 649 (7th Cir. 2003) (suggesting that courts must weigh proportion of infringing and noninfringing uses). StreamCast respectfully notes that this dicta cannot be squared with *Sony-Betamax*.

this holding).<sup>17</sup>

This Court in *Napster* also underscored the Supreme Court’s bright-line “mere capability” standard. On this point this Court criticized the district court:

We depart from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant noninfringing uses. The district court improperly confined the use analysis to current uses, ignoring the system’s capabilities. Consequently, the district court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use.

*Napster*, 139 F. 3d at 1021 (internal citations omitted).

Consequently, *Sony-Betamax* and *Napster* render irrelevant Plaintiffs’ repeated arguments regarding the *proportion* of infringing to noninfringing uses of the Morpheus software.<sup>18</sup> They cannot deny the software’s *capability* for noninfringing uses.

## 2. Morpheus is Capable of Substantial Noninfringing Uses.

The District Court had no difficulty concluding that “Defendants’ software is being used, and could be used, for substantial noninfringing purposes.” *MGM v. Grokster*, 259 F. Supp. 2d at 1036. As discussed in detail above, StreamCast submitted undisputed evidence on this point.

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<sup>17</sup> The Supreme Court also provided an example of a product that has no substantial noninfringing use—the film reels in *Kalem v. Harper Bros.*, 222 U.S. 55 (1911). See *Sony-Betamax*, 464 U.S. at 436.

<sup>18</sup> Plaintiffs rely on a survey purportedly showing that 75% of files available on Defendants’ networks infringe Plaintiffs’ copyrights. This survey, however, only surveyed files on the Fastrack network. JER 1910. Accordingly, its findings are irrelevant to Morpheus. Plaintiffs introduced no evidence regarding the proportion of infringing to noninfringing uses on the gnutella network.



StreamCast's evidence went not only unrebutted by Plaintiffs, but was actually corroborated by Plaintiffs' own experts and declarants. *See* JER 29:8475 (Prof. Kleinrock admission); JER 3B:752.109-13 (public domain works found by Plaintiffs' declarant).

Although the Supreme Court in *Sony-Betamax* did not have occasion to explore the limits of what uses might be viewed as "substantial," the uses for Morpheus are "substantial" along any relevant dimension that can be imagined: they are commercial,<sup>19</sup> and they further the important public policy goals that animate copyright.<sup>20</sup>

3. Contributory Infringement Requires the Conjunction of Specific Knowledge and a Capacity to Act.

Notwithstanding the substantial noninfringing capabilities of Morpheus, Plaintiffs contend that StreamCast knows that Morpheus users are engaging in infringement, and that such knowledge strips StreamCast of the protections of *Sony-Betamax*. The District Court correctly rejected this view, concluding that where a technology is capable of substantial noninfringing uses, more is required than general knowledge that the technology is being used for infringement.

Instead, the District Court correctly observed that "[t]here are two factors that come into play in determining liability for contributory

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<sup>19</sup> JER 2:502-05 (J!VE Media, a for-profit company); JER 2:513-17 (Prelinger Archives, a for-profit company); JER 2:387-90 (Janis Ian, commercial artist).

<sup>20</sup> JER 2:507-11 (P2P technologies support the public domain); JER 2:401-06 (same).

infringement: (1) knowledge, and (2) material contribution.” *MGM v. Grokster*, 259 F. Supp. 2d at 1035. After noting the relevance of *Sony-Betamax*, the court correctly concluded that the knowledge involved must relate to specific acts of infringement, and that the material contribution element implies, at minimum, some capacity to act on such knowledge:

The question ... is whether actual knowledge of specific infringement accrues at a time when [StreamCast] materially contributes to the alleged infringement, and can therefore do something about it.

*Id.* (omitting emphasis in original); accord *Fonovisa, Inc. v. Napster, Inc.*, 2002 WL 398676 at \*7 (N.D. Cal. Jan. 28, 2002) (“This combination of knowledge and failure to act trumped *Sony-Betamax* concerns.”) (emphasis added). Both binding precedent and common sense support the District Court’s understanding of the relevant legal standard.

The fundamental teaching of *Sony-Betamax* is that general knowledge (whether actual or constructive) of infringing uses cannot satisfy the knowledge requirement for contributory infringement where a technology is also capable of substantial noninfringing uses. See *Sony-Betamax*, 464 U.S. at 439 (finding no precedent to support liability against Sony based “on the fact that they have sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material.”); see also *Aimster*, 334 F. 3d at 649 (rejecting notion that a mere showing of “anything more than” constructive knowledge trumps *Sony-Betamax*); *Napster*, 239 F. 3d at 1020 (rejecting notion that

“merely supplying the means to accomplish an infringing activity leads to imposition of liability”); *Vault*, 847 F. 2d at 262 (no liability even where software vendor had “actual knowledge that its product is used to make unauthorized copies of copyrighted material”).

Indeed, Sony’s executives admitted in deposition that they knew that the *main use* of the Betamax would be for infringement. *See Universal City Studios, Inc. v. Sony Corp. of Amer.*, 480 F. Supp. 429, 459 (C.D. Cal. 1979). If general knowledge, absent the capacity to act, were sufficient for imposition of contributory liability, then Sony would today be liable for the infringing uses of VCRs by consumers, Xerox would be liable for the infringing activities at every copy shop in America, and Dell would be liable for every infringing CD made with a CD burner built into a Dell computer.

This Court’s *Napster* opinion further supports the District Court’s holding that general knowledge of infringement is insufficient. In *Napster*, this Court *began* its analysis by noting that the record supported the district court’s findings that Napster had both constructive and actual knowledge of infringement by its users. *Napster*, 239 F. 3d at 1020. This Court, however, did not end its analysis there (as Plaintiffs would have the Court do in this appeal).<sup>21</sup> Rather, this Court held that the Napster technology was capable of

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<sup>21</sup> For this reason, the MGM Plaintiffs’ assertion that “[i]n *Napster*, this Court held that actual and constructive knowledge that infringing material was available on an online system satisfied the knowledge requirement” is incorrect. MGM Brief at 27. Had this, in fact, been enough to justify liability in *Napster*, this Court’s lengthy analysis of *Sony-Betamax* and *Religious Technology Center v. Netcom Comm. Svcs.*, 907 F. Supp.

noninfringing uses, concluded that the *Sony-Betamax* doctrine applied, and thus required more than generalized knowledge of infringement: “[I]n an online context, evidence of actual knowledge of *specific acts* of infringement *is required* to hold a computer system operator liable for contributory infringement.” *Id.* at 1021 (emphasis added).

In the end, this Court expressly conditioned contributory liability on the conjunction of specific knowledge and a capacity to act, observing “that Napster has *actual* knowledge that *specific* infringing material is available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material.” *Id.* at 1022 (emphasis in original). Plaintiffs admit as much in their opening briefs,<sup>22</sup> but urge the Court now to expand contributory infringement well beyond the limits recognized in *Napster*.

The District Court below sensibly declined this invitation. The requirement that knowledge relate to a specific infringement, and that it come at a time when the defendant could do something about it, is grounded not just in the relevant precedents, but in common sense. If a court were to hold technology vendors liable on the basis of general knowledge that came at a time when the vendor was unable to act upon the information, this

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1361 (N.D. Cal. 1995), would have been entirely superfluous. *See Napster*, 239 F. 3d at 1020-22.

<sup>22</sup> Plaintiffs admit that this Court relied on the conjunction of specific knowledge and a capacity to act in the *Napster* ruling, but now urge that this showing should be viewed as merely sufficient, not necessary, for a showing of liability. *See* MGM Brief at 36.

would create a bizarre form of “springing” copyright liability. Were that the law, the motion picture Plaintiffs would today be entitled to re-file their contributory infringement claim against Sony, so long as they included in their complaint a few news reports and user surveys regarding the infringing activities of VCR users. Similar actions could be filed at any time against the makers of PCs, networking software and photocopiers. In such a world, even reading the newspaper would be fraught with peril for technology executives, lest they come across an article discussing infringing uses of their products and thereby acquire general knowledge that triggers liability.<sup>23</sup>

In the face of these binding precedents, Plaintiffs blithely assert that evidence of general knowledge “traditionally has been sufficient for liability.” MGM Brief at 31. Of the cases they cite (other than this Court’s *Napster* ruling, discussed above), only two involve a technology vendor distributing technologies capable of substantial noninfringing uses, and neither supports the proposition that general knowledge, absent the capacity to act, is enough.<sup>24</sup>

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<sup>23</sup> Such a view is also entirely at odds with the breadth of both the majority and minority opinions in *Sony-Betamax*. See *Sony-Betamax*, 464 U.S. at 421 (“Given these findings, there is no basis in the Copyright Act upon which respondents can hold petitioners liable for distributing VTRs to the general public.”) (emphasis added); *id.* at 486-93 (Blackmun, J., dissenting).

Judge Posner, moreover, recently took the opportunity to reject Plaintiffs’ view in *In re Aimster*, 334 F.3d at 649.

<sup>24</sup> *Fonovisa v. Cherry Auction*, 76 F. 3d 254 (9th Cir. 1996), *Hotaling v. Church of Latter-Day Saints*, 118 F. 3d 199 (4th Cir. 1997), and *Sega Entersps. v. MAPHIA*, 857 F. Supp. 679 (N.D. Cal. 1994), did not involve secondary liability for a technology vendor. *A&M Records v. Abdallah* involved time-loaded cassettes that were custom-made for piracy, and thus

The first is *Fonovisa v. Napster*, 2002 WL 398676 (N.D. Cal. Jan. 28, 2002). That ruling involved a motion to dismiss, in which Napster argued that evidence of actual knowledge was necessary to pierce the protections of *Sony-Betamax*. The district court disagreed, noting that either actual or constructive knowledge can be enough to establish contributory infringement. *See id.* at \*7.

Despite Plaintiffs' contrary claim, this opinion does not suggest that *general* knowledge is enough for liability.<sup>25</sup> *See id.* at \*11 (“[A]bsent any specific information which identifies infringing activity, a computer system operator cannot be held liable for contributory infringement...”) (quoting *Napster*, 239 F. 3d at 1021). In *Fonovisa v. Napster*, the court struggled with the question of whether constructive knowledge could give rise to contributory infringement in the face of *Sony-Betamax*. The crucial question raised in the instant appeal, in contrast, is whether Plaintiffs have presented evidence that StreamCast had *any* knowledge (whether actual or constructive) of the *relevant sort* (that a specific Morpheus user was engaging in infringing activity) at the *relevant time* (when StreamCast could have done something about it).

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had no substantial noninfringing uses. *See A&M Records v. Abdallah*, 948 F. Supp. 1449, 1456 (C.D. Cal. 1996).

<sup>25</sup> StreamCast notes that the District Court below conditioned liability on “actual—not merely constructive—knowledge.” *See MGM v. Grokster*, 259 F.Supp.2d at 1036. StreamCast submits that it should prevail under either standard, since Plaintiffs failed to submit any evidence that would establish *specific* knowledge, whether actual or constructive, of infringing activities on the part of particular Morpheus users at a time when StreamCast could have done something about such activities.

Napster had precisely this knowledge. Because its centralized file index processed users' search requests and kept a real-time record of what files were being offered for downloading, Napster had specific knowledge that particular users were infringing at a time when it could have prevented further infringement by those users. *See Napster*, 239 F. 3d at 1022. In the words of Judge Patel, "[t]his combination of knowledge and failure to act trump[s] *Sony-Betamax* concerns." *Fonovisa v. Napster*, 2002 WL 398676 at \*7.<sup>26</sup>

Plaintiffs' citation to *Aimster*, a case involving a file-sharing system akin to the Napster system, is also misplaced. In that case, the defendant had failed to introduce *any* evidence of substantial noninfringing uses, thereby forfeiting the protections of *Sony-Betamax* altogether. *See Aimster*, 334 F. 3d at 653. This makes the case a garden-variety example of a secondary infringer who contributed materials solely suitable for infringing use.<sup>27</sup> *Cf. Abdallah*, 948 F. Supp. at 1456.

In any event, to the extent the district court in *Aimster* held that general knowledge might be enough, *see In re Aimster Copyright Litigation*,

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<sup>26</sup> Judge Patel's example of the kind of evidence that might show constructive knowledge is also instructive: if Napster extended an *individual invitation* to a *specific individual* with a large collection of music in order to supplement the stock of files available, such conduct could support a finding of constructive knowledge sufficient to overcome *Sony-Betamax*. *See id.* at \*7. The constructive knowledge in the court's example is both specific as to a particular individual's infringing conduct, and admits of Napster's capacity to act upon such knowledge in the form of blocking the user from accessing the network.

<sup>27</sup> This fact also renders the Seventh Circuit's discussion of *Sony-Betamax* entirely dicta.



252 F. Supp. 2d 634, 651 (N.D. Ill. 2002) (concluding that “specificity of knowledge” is not required), the Seventh Circuit explicitly reversed that portion of the district court’s opinion, *see Aimster*, 334 F. 3d at 649. In fact, the Seventh Circuit went so far as to suggest that even “actual knowledge of specific infringing uses” would not be enough to overcome *Sony-Betamax*, expressly criticizing this Court’s contrary ruling in *Napster*. *See id.*<sup>28</sup>

4. The District Court Correctly Understood the Element of Material Contribution.

Plaintiffs’ separately attack the District Court’s sensible view that the traditional element of “material contribution” requires, at minimum, that the relevant specific knowledge come at a time when a defendant can do something about the infringing activities.

Material contribution “stems from the notion that one who *directly contributes* to another’s infringement should be held accountable.” *MGM v. Grokster*, 259 F. Supp. 2d at 1038 (emphasis in original; quoting *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F. 3d 254, 264 (9th Cir. 1996)). The Supreme Court has made it clear that merely developing and distributing the technology used by third parties for infringement does not constitute “material contribution.” *See Sony-Betamax*, 464 U.S. at 436-38. Providing general support and technical assistance to your customers is not enough; the contribution must bear a direct relationship *to the infringing activity* in order

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<sup>28</sup> StreamCast agrees with Judge Posner on this point, but recognizes that this Court is bound by *Napster*.



to be “material.” *See Napster*, 239 F. 3d at 1019 (contributory infringement requires “personal conduct that encourages and assists *the infringement*”) (emphasis added); *Marvullo v. Gruner & Jahr*, 105 F. Supp. 2d 225, 230 (S.D.N.Y. 2000) (“The authorization or assistance must bear a direct relationship to the infringing acts....”); *Netcom*, 907 F. Supp. at 1375 (contribution must be “to the infringing conduct” and “substantial”); *Demetriades v. Kaufmann*, 690 F. Supp. 289, 293-94 (S.D.N.Y. 1988) (brokering a real estate deal connected to infringement is not a material contribution).

In the context of this appeal, the notion of “material contribution” requires, at minimum, that the defendant have some capacity to do something about infringing activity brought to its attention:

Thus, here, the critical question is whether Grokster and StreamCast do anything, aside from distributing software, to actively facilitate—or whether they could do anything to stop—their users’ infringing activity.

*MGM v. Grokster*, 259 F. Supp. 2d at 1039.

Plaintiffs’ opening brief mischaracterizes the District Court’s holding, contending that Judge Wilson required that notice must be “contemporaneous” with the capacity to act, or somehow arrive “at the moment” a defendant can act to prevent impending infringement. *See MGM Brief* at 33. The District Court said no such thing. *See MGM v. Grokster*, 259 F. Supp. 2d at 1037.

The District Court stated simply that knowledge must come at a time

when a defendant can “do something” about the infringing activities. *See id.* at 1038. Nothing about the District Court’s view requires that knowledge must be “contemporaneous” or arrive “before” the infringing activity takes place. The question, rather, is whether the defendant “fails to act” with respect to the identified infringer.<sup>29</sup> *Fonovisa v. Cherry Auction* and *Napster* make this point plain—in both cases, the defendants had the capability to act on the notices of infringement. By continuing to render necessary and material assistance to the identified infringers *after* having received notice, these defendants were held to have “materially contributed” to the infringement. *See Napster*, 239 F. 3d at 1022 (“Without the support services defendant provides, Napster users could not find and download the music they want with the ease of which defendant boasts.”).

Plaintiffs also complain that the District Court’s requirement of a “capacity to act” improperly mingles the “control” element from vicarious liability with the “knowledge” element of contributory infringement. This is belied by the District Court’s ruling, which recognizes that the “capacity to act” requirement simply recapitulates the connection between the two traditional elements for contributory infringement: knowledge and material contribution. *See MGM v. Grokster*, 259 F. Supp. 2d at 1038 (“The

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<sup>29</sup> Plaintiffs also contend that StreamCast has the capacity to act on notices regarding infringing uses because StreamCast could redesign the software so that it monitors and controls user activities. No court has ever taken so broad a view of contributory infringement, and *Sony-Betamax* specifically rejects such a notion. *See Sony-Betamax*, 464 U.S. at 494 (dissenters proposing that Sony might redesign VCRs).

question...is whether actual knowledge of specific infringement accrues at a time when either Defendant materially contributes to the alleged infringement, and can therefore do something about it.”)

5. The District Court Correctly Rejected Plaintiffs’ Irrelevant Evidence and Allegations.

The District Court properly found that Plaintiffs failed to introduce any evidence demonstrating that StreamCast had knowledge of infringing activities on the part of specific Morpheus users at a time when it could do something about it.

In their recital of “knowledge” evidence, Plaintiffs lump together all manner of materials suggesting general knowledge that Morpheus can be and is being used for infringement, but never address specific knowledge. For example, Plaintiffs make much of allegations that the co-defendants “patterned themselves” after Napster, and that StreamCast sought to attract former Napster and OpenNap users. Even if true,<sup>30</sup> these allegations are irrelevant to the question of whether StreamCast had specific knowledge regarding infringement by particular Morpheus users. Plaintiffs’ discussion of StreamCast’s earlier OpenNap technology is similarly irrelevant, as awareness of possible infringing conduct relating to that earlier technology cannot convey any information about the activities of any particular Morpheus users. Similarly, allegations regarding the internal use of

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<sup>30</sup> Whether StreamCast set out to emulate the *infringing conduct* of Napster, as opposed to improving on its innovative peer-to-peer architecture, is hotly disputed in the record. JER 30:8725-26.

copyrighted music in network testing do not give rise to any specific knowledge regarding infringing activities by any particular Morpheus users. Nor, for that matter, does occasional personal use by StreamCast personnel of the Morpheus software.

The Leiber Plaintiffs' contention, raised for the first time on appeal,<sup>31</sup> that "willful blindness" evidence can be enough to satisfy the specific knowledge requirement is also unavailing. "Willful blindness," if it means anything in this context, must mean that the defendant had knowledge, or access to knowledge, of infringing activity but chose to "bury his head in the sand." There is absolutely no evidence in the record that StreamCast acted in this fashion with respect to Morpheus. As the undisputed evidence submitted by technical experts on both sides makes clear, StreamCast has no ability to monitor or control what materials Morpheus users search for, download or share.<sup>32</sup> Unlike the Napster technology, gnutella software does not "phone home" and report on the activities of its users, any more than Microsoft's Outlook email software monitors what materials users may attach to their emails.

Contrast this with the willfully blind defendant in *Aimster*. In that case, the court found that the Aimster software routed user searches and responses through a central server controlled by Aimster, much like the

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<sup>31</sup> Plaintiffs between them filed 3 briefs, spanning 108 pages, before the District Court in response to the instant cross motions. The term "willful blindness" never appears, not once.

<sup>32</sup> See Section V.B., *supra*, at p. 13.

Napster system. *See Aimster*, 334 F. 3d at 646-47. The defendant thus had access to perfect knowledge regarding user activities. In an effort to “bury his head in the sand,” the defendant caused the network traffic to be encrypted. *See id.* at 650. In essence, he did the digital equivalent of “looking the other way.”

The Morpheus software simply does not work that way. StreamCast does not sit astride a central switching station, able to monitor what users are up to.<sup>33</sup> Nothing in copyright law requires that StreamCast redesign its software to be centralized, any more than it requires Microsoft to redesign its email software to require centralized monitoring of messages users may send with it.<sup>34</sup> It cannot be that the failure to design your product so as to monitor users constitutes “willful blindness,” lest vendors of virtually every “internet-aware” device, from PCs to photocopiers to fax machines, find themselves facing unlimited secondary liability.

Shorn of irrelevant allegations, what Plaintiffs are left with are the voluminous “infringement notices” that they have periodically delivered to StreamCast. As the District Court found, however, to the extent that these notices create specific knowledge, they come too late.<sup>35</sup> The undisputed facts

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<sup>33</sup> *See* Section V.B., *supra*, at pp. 11-14.

<sup>34</sup> The fact that StreamCast’s design decision may have been motivated, in part, by a desire to avoid violating copyright laws makes StreamCast no different from any technology company that endeavors to make sure that its products do not violate copyright laws.

<sup>35</sup> As noted at the outset, this discussion is limited to the gnutella versions of Morpheus. With respect to the earlier versions of Morpheus, StreamCast blocked infringing users in response to Plaintiffs’ notices. JER

establish that StreamCast lacks any capacity to act in response to the notices received from Plaintiffs. JER 26:7571-99; JER 26:7636; JER 29:8436-37; JER 30:8715; JER 30:8735.

Users of the Morpheus software program take advantage of the program's full file-sharing functionality without StreamCast's continuing involvement. Users join the network, select which files to share, send and receive searches, and download files, all without the involvement of any StreamCast servers.<sup>36</sup> StreamCast could shut its doors completely and eliminate all of its servers, and Morpheus user would continue to be able to join the gnutella network, search for, and share files. JER 1:292; JER 2:321-23. Once the user has downloaded Morpheus, StreamCast possesses neither the legal right to repossess the software, nor the technical ability to disable it, just as Sony lacked the ability to repossess or disable a VCR after distributing it to the public. JER 2:322-23; JER 26:7632-36; JER 29:8429. Short of modifying the architecture of the technology,<sup>37</sup> the undisputed evidence establishes that StreamCast has no capacity to respond to the notices delivered by Plaintiffs.

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30:8724. Whether StreamCast, once notified by Plaintiffs of infringing activity by a Morpheus user, did everything within its power to prevent such activities remains a disputed issue below.

<sup>36</sup> See Section V.B., *supra*, at pp. 11-14.

<sup>37</sup> For the reasons discussed below, no court has ever held that principles of secondary copyright infringement liability impose a duty on a technology vendor to redesign its technology absent a prior finding of liability.

**B. StreamCast is Not Vicariously Liable.**<sup>38</sup>

1. StreamCast Has No Right or Ability To Control the Infringing Activities of Morpheus Users.

With respect to vicarious liability, Plaintiffs must point to evidence demonstrating that StreamCast has “the right and ability to supervise the infringing activities” of Morpheus users—in other words, the searching, sharing and downloading of Plaintiffs’ copyrighted works. *Fonovisa v. Cherry Auction*, 76 F. 3d at 262. There is no dispute that, within the existing architecture of the Morpheus software, StreamCast has no right or ability to control these activities. JER 1:292; JER 2:321-23; JER 26:7571-99 (Plaintiffs’ expert); JER 26:7636; JER 29:8436-37 (Plaintiffs’ expert).

Courts examining the “control” element of vicarious liability have noted that the cases fall along a spectrum. *See Adobe Systems Inc. v. Canus Productions*, 173 F. Supp. 2d 1044, 1053 (C.D. Cal. 2001). At one end of the “control” spectrum is the employer-employee relationship, the heartland and origin of copyright’s vicarious liability doctrine. *See, e.g., Screen Gems-Columbia Music v. Mark-Fi Records*, 327 F. Supp. 788, 792 (S.D.N.Y. 1971) (advertising agency employee’s involvement in infringing conduct creates vicarious liability for his employer), *rev’d on other grounds*, 453 F. 2d 552 (2d Cir. 1972). At the other end is the landlord-tenant relationship, where courts have consistently refused to impose vicarious

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<sup>38</sup> *Napster* held that the teachings of *Sony-Betamax* have no application to vicarious liability. *See Napster*, 239 F.3d at 1022. StreamCast respectfully disagrees, but understands this Court is bound by *Napster*.

copyright liability. *See Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F. 2d 304, 307 (2d Cir. 1963). Courts have been willing to extend the reach of vicarious liability along the spectrum to include non-employees, but only where there exists an analogous right and ability to supervise and control the allegedly infringing activity. *See id.*

This Court's opinions in *Napster* and *Fonovisa v. Cherry Auction* represent the high water mark for the "control" element of vicarious liability. In *Fonovisa v. Cherry Auction*, this Court was satisfied that the "control" element could be satisfied for pleading purposes by an allegation that swap meet operator Cherry Auction "had the right to terminate vendors for any reason whatsoever and through that right had the ability to control the activities of vendors on the premises." *Fonovisa v. Cherry Auction*, 76 F. 3d at 262. In this Court's view, a contractual relationship that effectively reserved to the defendant an expansive right to police vendor conduct on the swap meet's premises could be "sufficient to satisfy the control requirement." *Id.* at 263.

In *Napster*, this Court reiterated that a broad reservation of rights, coupled with Napster's practical ability to block access to its own facilities, could satisfy the control requirement. *See Napster*, 239 F. 3d at 1023-24. The Court, however went on to scold the district court for failing to recognize that "the boundaries of the *premises* that Napster 'controls and patrols' are limited," and cautioned that "Napster's reserved 'right and ability' to police is cabined by the system's *current architecture*." *Id.* at



1024 (emphasis added).

Accordingly, this Court in *Napster* recognized that, in the technology context, a defendant has the obligation to police only within the “premises” that it controls and only within the limits of the “current architecture.” In *Napster*’s case, this Court found a substantial likelihood of liability because *Napster*’s file name indices, which resided on *Napster*’s computer servers, were “within the premises that *Napster* has the ability to police,” and that *Napster* had the right and ability to block infringers from accessing the indices. *Id.*

The undisputed evidence makes it clear that StreamCast’s relationship to its users is quite different from that of Cherry Auction to its tenants or *Napster* to its users. First, contrary to Plaintiffs’ suggestion, StreamCast retains no formal legal control over Morpheus users. JER 30:8715. StreamCast maintains no contractual relationship with users, and hence has no legal right to prevent those who have downloaded the software from using it, whether for infringement or any other purpose.<sup>39</sup>

More important is the undisputed fact that StreamCast has no *practical* control over the file-sharing activities of Morpheus users. Because the gnutella network is self-sustaining and maintained by individuals and entities not controlled by or affiliated with StreamCast, StreamCast has no

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<sup>39</sup> Plaintiffs make much of StreamCast’s decision not to employ a licensing agreement for the gnutella versions of Morpheus. Plaintiffs, however, cite no authority to support their outlandish suggestion that a technology vendor must maintain an ongoing contractual relationship with its customers or face vicarious liability.

ability to control who may or may not access the network. JER 1:287-92. Moreover, because the gnutella protocol does not require users to “log-on” with user specific names or accounts, StreamCast has no ability to restrict access to the network to particular users. *Id.*; JER 2:313-15; JER 30:8715. Having downloaded the Morpheus software, anyone with a PC and Internet access can join the gnutella network, perform searches, and share files without any further involvement by StreamCast. JER 1:292; JER 2:312.

Not only do *Napster* and *Fonovisa* fail to support a finding of control here, but other vicarious liability precedents preclude such a finding. For example, in *Ellison v. Robertson*, 189 F. Supp. 2d 1051 (C.D. Cal. 2002),<sup>40</sup> Judge Cooper held that defendant America Online (“AOL”) did not have the “right and ability to control” the infringing activity in question, despite having considerably more control over the infringing activity there than StreamCast has here, and despite the direct involvement of AOL’s own servers in content trafficking. *Ellison* involved the unauthorized reproduction of literary works on an Internet newsgroup that was reproduced, stored and made available to subscribers by AOL. *See id.* at 1053-54. In ruling against the plaintiff’s vicarious liability claim, the court found that AOL “could delete or block users’ access to the infringing posting.” *See id.* at 1062. The servers maintained by AOL would thus appear to fall plainly within the “premises” controlled by AOL. Nevertheless,

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<sup>40</sup> This case is currently on appeal to this Court. *See* No. 02-55797.

because AOL's right and ability to control did not extend to the "infringing activity at the root level," the court went on to hold this level of control was "insufficient to constitute 'the right and ability to control the infringing activity' as that term is used in the context of vicarious copyright infringement." *Id.*

In contrast to AOL's control over its own newsgroup servers in *Ellison*, StreamCast has no control over the activities of those who use the Morpheus software. As discussed above, the undisputed facts establish that StreamCast has no control over what Morpheus users choose to search for, share and download.<sup>41</sup> If StreamCast were to cease operation altogether and shutter all of its "premises," users of the Morpheus software would continue to be able to join the gnutella network, perform searches, and share files. JER 1:292; JER 2:321-23; JER 26:7627-32.

StreamCast has even less control over Morpheus users than landlords have over their tenants. It is well-established that the landlord-tenant relationship generally will not support a vicarious copyright liability claim. *See Shapiro*, 316 F. 2d at 307. This notwithstanding the fact that landlords in many states are able to evict tenants upon discovering that the premises are being used for unlawful activity (presumably including copyright infringement). *See* RESTATEMENT (SECOND) OF PROPERTY, LAND. & TEN. § 12.5; CAL CIV. CODE § 1161(4); N.Y. REAL PROP. § 231. Landlords are also

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<sup>41</sup> *See* Section V.B., *supra*, at pp. 12-14.

able to restrict by contract the uses to which a property may be put. StreamCast has no analogous right or ability to dispossess users of their Morpheus software, or otherwise prevent its continued use. As with most other software, from Microsoft's Internet Explorer to QUALCOMM's Eudora email client, once a user has installed the software, there is nothing StreamCast can do to control its use.

In an effort to conjure evidence of control where none exists, Plaintiffs point to StreamCast's ability to influence certain characteristics of all instances of the Morpheus software generally. StreamCast retains the ability to remotely fine-tune the networking behavior for all Morpheus users.<sup>42</sup> It also periodically offers updated versions of the software to users for download.<sup>43</sup> But this evidence is irrelevant to the central issue—whether StreamCast has the ability to control what Morpheus users search for, share and download. *See Adobe v. Canus*, 173 F. Supp. 2d at 1053 (“control” element not met despite control over general characteristics of trade show); *Ellison*, 189 F. Supp. 2d at 1062. Even Plaintiffs' experts admitted that none of the features that Plaintiffs point to enable StreamCast to control what

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<sup>42</sup> This is accomplished via the “auto.xml” file, a text file stored on StreamCast's servers that is read by the Morpheus software on a regular basis while it is running. This file automatically imparts certain technical information when queried by the Morpheus software. Plaintiffs' own expert admits that nothing in the functioning of the “auto.xml” file affords StreamCast any ability to control what any particular user searches for, shares or downloads. JER 26:7571-99; JER 26:7636.

<sup>43</sup> Plaintiffs suggest that StreamCast can “force” an upgrade on existing Morpheus users, and could thereby control infringing activity by altering the software and forcing it upon users. The record incontrovertibly establishes that Plaintiffs are mistaken. *See* n. 11, *supra*.

Morpheus users search for, share or download. JER 26:7571-99; JER 26:7636.

Similarly, Plaintiffs’ claim that StreamCast’s “pervasive participation” is sufficient to support the imposition of vicarious liability is built on a foundation of irrelevancies. Nothing presented by Plaintiffs demonstrates that StreamCast “participates” in the infringing activities of Morpheus users—namely, the searching for, sharing, and downloading of files. In fact, all of the evidence supports the opposite conclusion—it is undisputed that none of the search requests, search results, or file transfers accomplished by Morpheus users ever traverses any StreamCast servers. JER 1:289; JER 1:292; JER 2:312; JER 2:320.

2. Plaintiffs’ Claim that StreamCast “Could Have Designed It Differently” Does Not Establish Control.

In the face of undisputed evidence that the Morpheus software does not afford StreamCast any control over users, Plaintiffs finally argue that StreamCast should be liable for its failure to include a “copyright filtering” mechanism in the Morpheus software.<sup>44</sup> This brings us to the heart of Plaintiffs’ argument regarding control: that the “control” element is satisfied because *StreamCast could have designed its software differently*, so as to

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<sup>44</sup> The feasibility of implementing such a system for P2P networks remains disputed. *See* JER 29:8318-23; JER 30:8756-57. Napster, after investing thousands of engineering-hours and retaining an outside company with expertise in this area, failed in their efforts to implement effective filtering for copyrighted works. *See A&M Records v. Napster*, 284 F. 3d 1091, 1098 (9th Cir. 2001) (*Napster II*). As Plaintiffs’ own declarants candidly admit, none of their filtering systems has ever been successfully deployed on a public P2P network. JER 28:8256; JER 29:8298-99.

enable control over the activities of Morpheus users. The District Court properly rejected this unprecedented transformation of the “control” element:

The doctrine of vicarious infringement does not contemplate liability based upon the fact that a product could be made such that it is less susceptible to unlawful use, where no control over the *user* of the product exists.

*MGM v. Grokster*, 259 F. Supp. 2d at 1045-46 (emphasis in original).

The duty to modify a product only arises once vicarious liability has been established, which in turn requires a demonstration that the defendant controls the directly infringing activity. Turning this axiom on its head, Plaintiffs invite the Court to transform vicarious copyright liability into a general affirmative duty on the part of technology vendors to design technologies to protect the interests of copyright owners. In such a world, innovation would necessarily suffer, as the specter of unlimited secondary copyright liability would chill the efforts of innovators.

Plaintiffs’ radical notion has been repeatedly rejected by the courts. In fact, two of the motion picture Plaintiffs here made exactly this argument before the district court in the *Sony-Betamax* case more than 20 years ago, where it was firmly rejected. *See Sony-Betamax*, 480 F. Supp. at 462 (rejecting as evidence of “control” Sony’s ability to redesign the Betamax to include a jamming system or remove the tuner).

Plaintiffs’ argument is also foreclosed by *Napster*, where this Court held that any duty to police that arises out of vicarious liability principles “is

cabined by the system’s *current architecture*.” *Napster*, 239 F. 3d at 1024 (emphasis added). The Court further noted that Napster only had control over a central index of file names, and was not able to otherwise “read” the content of files being shared by users. *Id.* Rather than premising vicarious liability on Napster’s failure to modify its technology to do more to protect Plaintiffs’ copyrights, this Court stated that Napster’s efforts to police were properly limited to policing the existing “file name indices” maintained by Napster. *Id.*<sup>45</sup>

This Court’s holding that vicarious liability principles are cabined by a technology’s “current architecture” is in accord with the views of other courts. *See, e.g., Ellison*, 189 F. Supp. 2d at 1060-62 (AOL’s ability to redesign its system did not trigger vicarious liability); *Adobe v. Canus*, 173 F. Supp. 2d at 1054-55 (court evaluates “control” in light of the security force defendant trade show had hired, notwithstanding the fact that trade show could have hired more, better trained security staff); *Artists Music v. Reed Publishing*, 31 U.S.P.Q. 2d 1623, 1627 (S.D.N.Y. 1994) (vicarious liability imposes no duty on trade show to hire copyright-savvy security staff).

If Plaintiffs believe that their radically reconceived vision of vicarious liability represents the proper balance between copyright and innovation,

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<sup>45</sup> After the district court’s injunction issued, Napster voluntarily took steps to reengineer its system to support a copyright filtering mechanism premised on “acoustic filtering,” precisely the technology the Plaintiffs urge on StreamCast. *See Napster II*, 284 F.3d at 1097. That technology failed. *See id.*

they are free to advocate for their vision in Congress.<sup>46</sup> The Supreme Court, however, has made it clear that it is not the place of copyright's judge-made secondary liability doctrines to resolve this policy debate. *See Sony-Betamax*, 464 U.S. at 441 & n.21.

**C. Secondary Liability in Copyright, for Good Reasons, has Never been Premised on Simple Enterprise Liability.**

Perhaps recognizing that their argument has no basis in traditional secondary copyright liability principles, the Leiber Plaintiffs abandon the jurisprudence of contributory and vicarious copyright liability altogether, and ask this Court to replace it with an expansive form of enterprise liability. *See Leiber Brief* at 23-29.

In making this proposal, the Leiber Plaintiffs make explicit their underlying view—that the limits recognized in *Sony-Betamax* and *Napster* should be cast aside because enforcement against the actual wrongdoers is difficult. On closer examination, however, a thoughtful application of enterprise liability principles actually augurs against Plaintiffs.

As Professor Yen recognizes, “enterprise liability easily becomes liability without limit.” Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 GEO. L. J. 1833, 1856 (2000). As a result, tort law has never

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<sup>46</sup> In fact, several Plaintiffs have publicly supported a bill introduced last year by Senator Hollings that proposed moving toward precisely such a rule. *See Consumer Broadband and Digital Television Promotion Act*, S. 2048, 107th, 2d Sess. (2002). The measure met with little enthusiasm in Congress and has not been reintroduced.



accepted simple enterprise liability, instead relying on more limited concepts like proximate cause, defect, unreasonable dangerousness, and numerous other more limited doctrines. *See id.* at 1856-1865 (discussing rejection of enterprise liability in tort contexts).

Enterprise liability, if applied in copyright law, would similarly create liability without limit. “[I]f the mere ability to affect user infringement, raise compensation, and spread loss is enough to impose enterprise liability, then practically all providers of information technology could be held vicariously liable for ... infringement.” *Id.* at 1864. After all, Microsoft could take steps to redesign its Outlook email software to monitor email messages for infringing content. It could also modify its Windows operating system to “filter” for copyrighted works and prevent *any* application from sending infringing materials over the Internet. This would doubtless be far more effective at eliminating P2P infringement world-wide than any measure StreamCast could take. Of course, copyright law requires no such thing, nor should it. In fact, there are a variety of reasons why judicial imposition of simple enterprise liability principles is inconsistent with the structure and rationales of copyright law in particular.

First, and most important, the unthinking application of enterprise liability in the copyright context fails to adequately take the value of technological innovation into account. For example, where a new technology might unleash previously untapped social value, imposing enterprise liability prematurely would result in a net loss to society.

This is precisely the way the free market in innovative technologies operates. The VCR is an apt example. In the years since *Sony-Betamax* was decided, the VCR generated enormous unanticipated social value, both in terms of consumer surplus and manufacturer profits. Even more compelling is the social value that the VCR generated for copyright owners themselves—for nearly two decades, the VCR has unleashed an enormous amount of previously untapped value in older films. *See generally* HAROLD L. VOGEL, ENTERTAINMENT INDUSTRY ECONOMICS 91 (5th ed. 2001) (beginning in 1986, home video revenues outstrip theatrical revenues). The VCR is not unique in this regard; virtually every new media technology of the past 100 years has proven that technology and copyrights are complementary products. *See generally* JESSICA LITMAN, DIGITAL COPYRIGHT 106-07 (2001) (discussing player pianos and cable television).

That two of the Plaintiffs in this action attempted for 8 years to litigate the VCR off the market, notwithstanding its role in ultimately boosting the asset value of their films, underscores another reason to avoid enterprise liability in copyright. In any industry, incumbent market leaders have rational reasons to oppose disruptive technologies, even where they would enhance the wealth of the industry as a whole in the long run. *See generally* CLAYTON CHRISTENSEN, THE INNOVATORS DILEMMA: WHEN NEW TECHNOLOGIES CAUSE GREAT FIRMS TO FAIL ix-xxiv (1997) (discussing ways in which disruptive innovation cause market leaders to fail). In the case of the music and motion picture industries, permitting the incumbent leaders

to suppress disruptive technologies will leave not just society, but copyright owners themselves poorer over the long run.

Second, copyright's rigid remedial regime makes copyright an especially poor fit for judicial application of enterprise liability principles. The rationale for enterprise liability depends upon its acting as a mechanism to force enterprises to efficiently internalize social costs. Unfortunately, statutory damages, criminal sanctions, and relaxed standards for injunctive relief make this result impossible in the copyright context, as the relief mandated by statute to copyright owners has no relation to the actual social harm (i.e., lost profits) caused by infringement. In secondary liability cases involving mass-market technologies, statutory damages calculated on the basis of each work infringed will mandate multi-billion dollar damage awards in almost every case.

Third, enterprise liability is inequitable where the targeted enterprise does not capture any of the surplus value of infringement, as is the case in any competitive technology market. Here, StreamCast makes money from advertising and software bundling. Yet its competitors offer products without advertising that can be used to engage in exactly the same activities (infringing and otherwise) that Morpheus makes possible—indeed, they participate in the same gnutella networks as, and thus have full access to, all Morpheus users. Thus, the revenue Morpheus receives from advertising must be fairly ascribed to Morpheus' features or branding, not due to the availability of infringing files, since users could get the same files using

other ad-free software.

Elementary economics makes this plain. In a competitive market, a seller is inexorably driven by the forces of supply and demand to sell its products at marginal cost. StreamCast faces near-perfect competition in a market with nonexistent barriers to entry. Since all gnutella applications are equally susceptible to use for infringing activities, it is clear that to the extent Morpheus users are willing to receive advertising (and thus contribute to StreamCast's revenues), it is due to the superiority of the product's interface, the success of StreamCast's branding efforts, or other advantage imparted by StreamCast's ability to differentiate its product from competing offerings. None of the revenues can fairly be traced to the value of copyrighted works that may be infringed.

In sum, judicially-administered common law principles of enterprise liability are ill-suited to address the complex tensions between copyright and new technologies. This was, of course, the animating insight of the Supreme Court's ruling in *Sony-Betamax*. See 464 U.S. at 431 (emphasizing "consistent deference to Congress" when addressing intersection of copyright and new technologies). There are numerous legislative tools that are better suited to the task. "In the end, whatever incentive authors need, society should deliver it using the combination of mechanisms that imposes the least social cost." William Landes & Douglas Lichtman, *Indirect Liability for Copyright Infringement: An Economic Perspective*, 16 HARV. J.L. & TECH 395, 407 (2003).

As discussed in Section V.D. above, Congress has repeatedly adjusted copyright law in response to disruptive technologies, sometimes employing compulsory licensing, *see* 17 U.S.C. §§ 111 (cable TV), 114 (webcasting), 115 (sound recordings), sometimes limited technology mandates, *see* 17 U.S.C. §§ 1002 (digital audio recorders), 1201(k) (VCRs), sometimes modifying copyright's remedial scheme, *see* 17 U.S.C. § 512 (safe harbors for online service providers), sometimes letting the chips fall where they may, *see* LARDNER, FAST FORWARD at 269-88 (detailing Congressional rejection of blank video tape levy).<sup>47</sup> Rather than displacing Congress' varied array of policy levers, the Supreme Court has counseled an approach that encourages the legislature to address disruptive technologies in the first instance. *See Sony-Betamax*, 464 U.S. at 431.

This is precisely the lesson applied by the District Court in this case. *See MGM v. Grokster*, 259 F. Supp. 2d at 1046 (“[A]dditional legislative guidance may be well-counseled.”).

**D. Disputed Issues of Fact Regarding Earlier Versions of Morpheus Preclude Summary Judgment for Plaintiffs.**

As discussed above, the scope of this appeal is properly confined to a consideration of the current (i.e., gnutella) versions of the Morpheus software. Nevertheless, even if review of Plaintiffs' cross-motions as to

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<sup>47</sup> The Leiber Plaintiffs in their brief lay out the complex of legislative solutions that Congress has employed to balance the needs of song-writers with technological progress, characterized by a set of interlocking compulsory licenses nearly a century old. *See* Leiber Brief at 30-34. It is puzzling that they now ask the courts to step in and take over the task.

prior versions were properly before this Court, numerous disputed issues of material fact preclude summary judgment.

With respect to contributory infringement, disputed issues relating to the FastTrack versions of the Morpheus software (“FastTrack Versions”) include:

- Whether the notices provided by Plaintiffs gave sufficient information to StreamCast or arrived at a proper point in time. JER 30:8671-8705, JER 3B:0752.003-005, JER 3B:0752.014-016, JER 3B0752.024-.104; JER 30:8731, JER 30:8736-38, JER 30:8743-44.
- Whether StreamCast “promoted” the FastTrack Versions externally using copyrighted files without authorization of the copyright holder. JER 30:8726.
- Whether StreamCast could control the features, provide an upgrade, or improve or monitor the performance, functioning or security of the FastTrack Versions. JER 30:8714, JER 30:8708-09.
- Whether the registration, login functions, or limited operation of a root supernode by StreamCast performed any critical functions for use of the FastTrack Versions by users to search or download files. JER 30:8708-10, JER 29:8363-5.
- Whether StreamCast (as opposed to Kazaa) communicated with FastTrack supernodes, JER 30:8708, or embedded or updated Internet addresses in the FastTrack Versions. JER 30: 8710, JER

29:8378.

- Whether StreamCast provided any technical assistance to FastTrack Version users engaging in copyright infringement using chat rooms or bulletin boards. JER 30:8718.

In addition to those listed above, with respect to vicarious liability disputed issues relating to the FastTrack Versions include:

- Whether StreamCast blocked or attempted to block copyright holder monitoring or policing of copyright infringement by FastTrack Version users. JER 29:8369-70, JER 30:8717.
- Whether implementing copyright “filtering” was feasible and within StreamCast’s (as opposed to Kazaa’s) capabilities. JER 30:8718.
- Whether StreamCast effectively blocked infringing Morpheus users upon receiving notices from the Plaintiffs. JER 30:8724.

Finally, Plaintiffs’ summary judgment motion was premature when made below, in light of StreamCast’s need for additional discovery in order to develop its copyright misuse defense. *See* JER 30-8858-59; JER 29:8049-188.

## VIII. CONCLUSION

For the reasons discussed above, the District Court’s order should be affirmed in all respects.

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## **STATEMENT OF RELATED CASES**

Other than the cases consolidated in this action, *Metro-Goldwyn-Mayer Studios Inc., et al. v. Grokster Ltd., et al.*, case nos. 03-55894 and 03-56236, and *Leiber, et al. v. Grokster Ltd., et al.*, case no. 03-55901, StreamCast Networks, Inc. is not aware of any related cases.

## **CERTIFICATE OF COMPLIANCE**

1. This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) because this brief contains 13,761 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

2. This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Word 2000 version 9 in Times New Roman, 14-point font.

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By \_\_\_\_\_

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