UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 03-55894 & 03-56236

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

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

No. 03-55901

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

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

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

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

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BRIEF AMICI CURIAE OF THE COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION AND NETCOALITION

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Dated: September 26, 2003

CORPORATE DISCLOSURE STATEMENT OF AMICI

1. Pursuant to Federal Rule of Appellate Procedure 26.1, *amicus* Computer & Communications Industry Association ("CCIA") states that it is a non-profit trade association and as such has no parent corporation nor any issued stock or partnership shares of any kind. A complete list of CCIA's members is publicly available at: <http://www.ccianet.org/membership.php3#>.

2. Pursuant to Federal Rule of Appellate Procedure 26.1, *amicus* NetCoalition states that it is a non-profit trade association and as such has no parent corporation nor any issued stock or partnership shares of any kind. A complete list of NetCoalition's members is publicly available at: <http://www.netcoalition.com/who/>.

Jason M. Mahler
COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION

Dated: September 26, 2003

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INTEREST OF AMICI

The Computer & Communications Industry Association ("CCIA") is an association of computer, communications, Internet and technology companies that range from small entrepreneurial firms to some of the largest members of the industry. CCIA's members include equipment manufacturers, software developers, providers of electronic commerce, networking, telecommunications and online services, resellers, systems integrators, and third-party vendors. Its member companies employ nearly one million people and generate annual revenues exceeding $200 billion. CCIA's mission is to further the interests of its members, their customers, and the industry at large by serving as the leading industry advocate in promoting open, barrier-free competition in the offering of computer and communications products and services worldwide.[1]

NetCoalition serves as the public policy voice for some of the world's most innovative Internet companies on the key legislative and administrative proposals affecting the online world. NetCoalition provides creative and effective solutions to the critical legal and technological issues facing the Internet. By enabling industry leaders, policymakers, and the public to

[1] StreamCast once was a member of CCIA but no longer is.

engage directly, NetCoalition has helped ensure the integrity, usefulness, and continued expansion of this dynamic new medium.

The U.S. Supreme Court in *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417 (1984) ("*Betamax*"), and this Court in *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)("*Napster*"), created fair and practical rules for secondary copyright liability. These rules have unleashed the creative powers of the information technology industry and led directly to the growth of the Internet. Appellants and their *amici* now seek to change these rules, and replace them with new standards that would as a practical matter give the entertainment industry a veto power over the development of innovative products and services. Although appellants and their *amici* claim that the District Court below misunderstood this Court's holdings in *Napster*, it is they who misread *Napster*. This misreading would wreck havoc in the information and technology industries, and would harm users of digital information.

We do not condone the infringement that occurs over the Internet in general and peer-to peer networks in particular. However, the misinterpretation of *Betamax* and *Napster* is not the proper solution to this problem. Accordingly, this Court should resist the misreading of *Betamax* and *Napster* urged by appellants and their *amici*.

All parties have consented to the filing of this brief.

ARGUMENT

I. The Rules Advocated By Appellants and Their Amici Would Undermine The Supreme Court's *Betamax* Decision and Thereby Cause Irreparable Harm to the Information Technology and Internet Industries.

This case is about more than the legality of peer-to-peer software. It is about the future of the information technology ("IT") industry, the Internet, and the fair use of digital works.

The legal foundation upon which the IT industry stands is the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417 (1984)("*Betamax*"). In *Betamax*, the Supreme Court proclaimed that the manufacturer of a product could not be held secondarily liable for infringing uses of the product so long as the product was capable of substantial noninfringing uses. That clear standard gave venture capitalists, engineers, and manufacturers the confidence and certainty that they could invest their resources in developing a wide range of consumer IT products without facing copyright liability. These products include personal computers, laptops, scanners, printers, and the software that enables them to operate.

Prior to the sale of these products, the investors and manufacturers have known that consumers could use them to infringe the copyrights in computer programs, computer games, sound recordings, motion pictures, and many literary works. And once the products have been on the market, the investors and manufacturers have known for a certainty that some consumers have in fact used the products for infringing purposes. The investors and manufacturers likewise have known that government and business employees have used their workplace computers to make infringing copies, although perhaps to a lesser degree than their home computers. Nonetheless, under the *Betamax* standard, the investors and manufacturers have also known that they were safe from copyright liability because these products were all capable of substantial noninfringing uses.

In the nearly twenty years since the *Betamax* decision, the IT revolution has created millions of jobs in the U.S. and abroad. It has increased the productivity of businesses, and dramatically enhanced people's ability to access and use information. Although digital technology has exposed the entertainment industry to copyright infringement, it has also benefited the entertainment industry in numerous ways. Computer graphics are routinely used in the production of both live action and animated films and television shows to make special effects look more realistic. Digital recording technology enables a small number of musicians and technicians to create the sound of an orchestra. Digital storage media such as compact discs and digital versatile discs ("DVDs") provide consumers with previously unimaginable audio and video quality. DVDs have created a huge new market for the picture industry -- $ 11.7 billion in 2002 alone.[2]

In their briefs, appellants and their *amici* contend that the District Court misapplied this Court's holdings in *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)("*Napster*"), as well as the Supreme Court's *Betamax* decision. But what they really are advocating is for this Court to significantly limit the applicability of *Betamax*, and to replace this Court's holdings in *Napster* with those of Judge Posner in *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003)("*Aimster*"). *See, e.g.*, MGM Plaintiff-Appellants' Opening Brief at 42 ("MGM Brief"); Brief in Support of Reversal by *Amici Curiae* Law Professors and Treatise Authors at 22-23 ("Boorstyn Brief"); Brief of *Amici Curiae* of FullAudio Corp. *et al.* at 17-18 ("FullAudio Brief"); Brief of *Amici Curiae* American Film Marketing Association *et al.* at 14 ("AFMA Brief").

In *Aimster*, Judge Posner explicitly disagreed with *Napster* and implicitly disagreed with *Betamax*. *Aimster*, 334 F.3d at 649. Judge Posner

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[2] Brett Sporich, *DVD Boom Continues*, Billboard, August 16, 2003, at 42.

read into *Betamax* a non-existent cost-benefit test, stating that "when a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement." *Id*. Later, Judge Posner articulated the following rule: "Even when there are noninfringing uses of an Internet file-sharing service ... if the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses." *Id*. at 653.

This rule, if adopted nationwide, could cripple the IT industry.[3] In order to avoid copyright liability, a company that marketed a product would have to constantly assess: 1) whether the infringing uses were substantial; and 2) if they were substantial, whether the infringements could be reduced or eliminated in a manner that would not be disproportionately costly. Judge Posner did not define how substantial the infringing uses would have to be, nor how disproportionate the costs of avoiding the infringement. Judge Posner also did not appreciate how costly and technically difficult it can be for a provider of technology products or services to monitor their use and

[3] Because Judge Posner found that Aimster had not demonstrated any noninfringing uses, this statement is mere *dicta*.

determine whether the use infringed copyright. Since virtually all IT products have some infringing uses, manufacturers and service providers would operate in a perpetual state of uncertainty and confront unending litigation as copyright owners and courts second guessed every engineering decision the manufacturers made.

Equally harmful would be the vicarious liability rule advocated by appellants and their amici. They contend that the defendants should incur vicarious liability because the defendants had the right and ability to include filters that could limit infringement in the new releases of their software, but elected not to do so. MGM Brief at 58-62; Boorstyn Brief at 27; AFMA Brief at 31. But if P2P software distributors have a legal duty to use infringement filters, so too do all other software and hardware firms. This rule would require Microsoft to redesign Windows to filter out infringing works and prevent the transmission of infringing material over the Internet. Hewlett-Packard would be forced to re-engineer its personal computers to preclude the installation of P2P software. AOL would be required to reconfigure its email and instant messaging service to inhibit the attachment of files containing infringing works.

In other words, appellants are recasting vicarious liability as a means of requiring IT companies to implement digital rights management ("DRM") systems. They are trying to get this Court to grant what Congress has already denied.

In March 2002, Senator Ernest Hollings of South Carolina, Chairman of the Senate Commerce Committee, introduced S. 2048, the Consumer Broadband and Digital Television Promotion Act. The Hollings bill would have given copyright owners, consumer groups, and the manufacturers of digital media devices twelve months to reach an agreement on "security system standards for use in digital media devices…."[4] If within those twelve months the parties reached an agreement, the Federal Communications Commission ("FCC") would have adopted those standards as a legally binding regulation. On the other hand, if the parties did not reach agreement, the FCC would have been required to initiate a rulemaking proceeding to adopt a standard.

The Hollings bill came under sharp attack from the IT industry, which questioned the bill's assumptions and substance.[5] Additionally, the bill's requirement that IT companies include DRM systems represented a departure from the legislative compromise of Title I of the Digital

[4] Digital media devices were defined broadly enough to include all computers and consumer electronic devices such as CD and DVD players.

[5] For a more detailed discussion of the Hollings bill, see Masanobu Katoh, *Intellectual Property and the Internet: A Japanese Perspective*, 2002 U. Ill. J. L. Tech. & Policy 333, 342-347 (2002).

Millennium Copyright Act ("DMCA"). The IT industry had agreed to the DMCA's prohibition on the manufacture of circumvention devices and components only because of the inclusion of the "no mandate clause" in 17 U.S.C. § 1201(c)(3): "Nothing in this section shall require that the design of, or design and selection of parts and components for, a consumer electronics, telecommunications, or computing product provide for a response to any particular technological measure…." Notwithstanding this provision, the Hollings bill would have required all digital media devices to respond to the security system standards established pursuant to the legislation.

The Hollings bill also departed from the legislative compromise in Title III of the DMCA. One of the conditions for an Internet service provider to be eligible for the DMCA's safe harbors was that it accommodated and did not interfere with standard technical copyright protection measures that had been developed "pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary multi-industry standards process." 17 U.S.C. § 512(i)(2)(A). A security system developed and mandated by the FCC obviously differs from a consensus standard developed pursuant to a voluntary multi-industry process.

Because of the strong opposition it aroused, the Hollings bill did not progress beyond the Senate Commerce Committee, and it died with the end of the 107th Congress. Having failed to convince Congress to reverse its "no mandate" policy judgment in the DMCA, Appellants now request this Court to reach essentially the same result by means of expansive application of the vicarious liability doctrine.

If this Court adopts appellants' position, the entertainment industry will be empowered to dictate to the IT industry how to design its products. To avoid endless cycles of copyright litigation, IT companies will have no choice but to include whatever DRM systems the entertainment industry demands. These DRM systems could inhibit the functionality of IT products and impede innovation. Additionally, the DRM systems inevitably will diminish users' ability to make lawful copies. This is because it is impossible to design a DRM system that can distinguish between fair uses and infringing uses.[6] Thus, a DRM system that effectively prevents infringing uses will also prevent some fair uses.

In short, the contributory infringement and vicarious liability standards advocated by appellants and their *amici* would fundamentally change the character of the IT industry in this country. Instead of a highly

[6] Edward W. Felten, *A Skeptical View of DRM and Fair Use*, Communications of the ACM (April 2003) at 57, 58; C.J. Alice Chen and Aaron Burstein, *The Law and Technology of Digital Rights Management*, 18 Berkeley Tech. L.J. 487, 491 (2003).

innovative and competitive sector, where new products are rushed to market in an effort to satisfy consumer demand and capture market-share, the IT industry will be regulated by copyright lawyers from the entertainment industry. These lawyers will second guess every engineering decision made by every IT company, and will insist upon DRM systems that limit the many lawful uses recognized by Congress and the courts. This result is precisely what the Supreme Court rejected in *Betamax*: enlargement of "the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not subject to copyright protection." *Betamax*, 464 U.S. at 421.

II. Appellants and Their *Amici* Misrepresent This Court's Ruling in *Napster*.

Appellants and their amici go to great lengths to reinterpret this Court's decision in *Napster*. They need to reinterpret *Napster* because a straightforward application of this Court's holdings to the facts found by the District Court compel the result reached by the District Court. *Napster*, however, needs no reinterpretation because this Court got it right the first time.

A. Appellants Misunderstand the *Napster* Court's Holdings Concerning Contributory Infringement.

In the hundreds of pages appellants and their *amici* devote to *Napster*, they conveniently overlook the most important sentence concerning contributory infringement. This Court stated, "[w]e are compelled to make a clear distinction between the architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system." *Napster*, 239 F.3d at 1020. This distinction between architecture and conduct is the key to *Napster*, to this case, and to contributory infringement analysis in the digital era.

This Court explained that the architecture of a product or service must be evaluated in accordance with the *Betamax*, capable of substantial noninfringing use, standard. This Court stated that "a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material. To enjoin simply because a computer network allows for infringing use would, in our opinion, violate *Sony* and potentially restrict activity unrelated to infringing use." *Id*. at 1021 (citations omitted). Thus, if Shawn Fanning had simply designed the Napster system and left it to others to operate, he would have incurred no contributory infringement liability because the architecture was capable of substantial noninfringing uses.

But Fanning did not just design the system, he also operated it – his company engaged in ongoing conduct with respect to the architecture. Conduct, as opposed to architecture, is evaluated under the familiar two part standard that imposes liability on a person who 1) knowingly 2) induces, causes, or materially aids the infringing conduct of another person. In the online context, this two part test is met "if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system...." *Id*.

The District Court recognized the distinction between architecture and conduct: "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 Studios Inc. v. Grokster Ltd*., 259 F. Supp. 2d 1029, 1039 (C.D. Cal. 2003)("*Grokster*"). The District Court concluded that unlike Napster, which operated the site and facilities through which infringing conduct occurred on an ongoing basis, Grokster and StreamCast did not engage in any conduct that materially contributed to infringement. They simply supplied the architecture. If the "Defendant[s] closed their doors and deactivated all the computers within their control, users of their products could continue sharing files with little or no interruption." *Id*. at 1041. The District Court here found that unlike Napster, Grokster and StreamCast did not maintain systems from which they could purge infringing material.

Appellants suggest that Grokster and StreamCast did in fact provide users of their software with a variety of services that maintained the performance and security of the P2P networks. MGM Brief at 47. For example, appellants contend that the district court ignored “expert evidence that Defendants’ networks would deteriorate and ultimately likely cease if Defendants stopped their continuing contributions.” *Id*. at 51. This Court should review any alleged factual errors by the District Court concerning the role Grokster or SteamCast played in maintaining the P2P networks under the appropriate legal standard. If the Court concludes that Grokster or StreamCast played such a substantial role in the continuing operation of the networks that they in effect controlled their use, their conduct starts to look more like Napster’s. *See also Betamax*, 464 U.S. at 437.

Significantly, this Court’s architecture/conduct distinction bears a striking resemblance to contributory infringement under the patent laws. The Supreme Court derived its *Betamax* standard from 35 U.S.C. § 271(c), where a seller or importer of a component of a patented machine, or a material used in the practice of a patented invention, did not contribute to infringement if the component or material was “a staple article or commodity of commerce suitable for substantial noninfringing use...." But 35 U.S.C. § 271(c) is just part of the equation. Under 35 U.S.C. § 271(b), the seller of the staple article of commerce could still infringe a patent if he "actively induces infringement of a patent...."

Thus, the architecture of a product or service is evaluated under the *Betamax* test, which derives from Section 271(c) of the Patent Act. But a person's "conduct in relation to the operational capacity" of that product or service can still trigger liability if it induces infringement, as under Section 271(b). Examples of inducement would include advertising that the product could be used to infringe, or providing demonstrations of how to use the product to infringe. *See Aimster*, 334 F.3d at 651. (Aimster's tutorial demonstrating the sharing of copyrighted music "is the invitation to infringement that the Supreme Court found was missing in *Sony*.")

B. Appellants Misunderstand the *Napster* Court's Holdings Concerning Vicarious Liability.

Appellants argue that Grokster's and StreamCast's technical ability to include filters in new releases of their software satisfies the "ability to supervise the infringing activity" requirement for vicarious liability. MGM Brief at 58-62. As support, appellants cite this court's second Napster decision, *A & M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091 (9th Cir. 2002)("*Napster II*"). *See* MGM Brief at 60, 62; Boorstyn Brief at 27. To be sure, in *Napster II* this Court found that Napster could be required to implement a filtering system based on audio fingerprinting technology. However, this requirement was part of the *remedy* ordered by the district court *after* finding Napster vicariously liable. It had nothing to do with establishing Napster's liability in the first place.

In its vicarious liability determination in its first *Napster* decision, this Court made no mention of filters or Napster reconfiguring its service. To the contrary, this Court noted that "the boundaries of the premises that Napster 'controls and patrols' are limited." *Napster*, 239 F.3d at 1023. This Court went on to state that "Napster's reserved 'right and ability' to police is cabined by the system's *current* architecture." *Id*. at 1024 (emphasis supplied). Thus, this Court held that a firm's theoretical ability to redesign its product or service to prevent infringement did not create a legal duty to do so.

The District Court's vicarious liability holding is in complete accord with *Napster*. The "current architecture" of FastTrack and Gnutella cabins Grokster's and StreamCast's ability to control infringing conduct. The infringement occurs after the software has passed to the end user, when neither Grokster nor StreamCast have any control over the user. The District Court correctly held that "[t]he 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....” *Grokster*, 259 F. Supp. 2d at 1045-46.

III. Conclusion

The District Court observed that it was “not blind to the possibility that Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefitting financially from the illicit draw of their wares.” *Id*. at 1046. Nonetheless, it correctly recognized that in order to provide the plaintiffs with the relief they sought, it would have “to expand existing copyright law beyond its well drawn boundaries.” *Id*.

We understand appellants’ frustration with P2P networks and with the *Betamax*, *Napster*, and the district court’s decisions. However, the secondary liability rules appellants advocate would cause irreparable injury to the IT industry, Internet companies, and users. In the long run, these rules will also harm appellants, who will be denied markets that the IT industry otherwise would have created for them.

Appellants claim that the District Court’s decision leaves them powerless to combat infringement over P2P networks. Two recent developments prove the opposite. First, the Recording Industry Association of America (RIAA) has begun to sue individual file traders engaged in large scale infringement. While the RIAA may not have selected all its targets wisely,[7] this strategy appears to have caused a decrease in file trading.[8] Second, legal downloads of sound recordings are finally available in a low cost, user-friendly manner. In iTunes' first two months of operation, for example, users downloaded over five million songs for 99 cents a piece.[9] The combination of vigorous enforcement against hard core infringers and attractive business models for legal downloads should solve appellants' problems with P2P networks without crippling the IT industry.

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[7] *E.g.*, Frank Ahrens, *RIAA's Lawsuits Meets Surprised Targets: Single Mother in Calif., 12 Year-Old Girl in N.Y. Among Defendants*, Washington Post, September 10, 2003, at E1; Benny Evangelista, *Download Lawsuit Dismissed; RIAA Drops Claim That Grandmother Stole Online Music*, San Francisco Chronicle, September 25, 2003, at B1.

[8] Tim Knauss, *Lawsuits Scare Off CNY Music Downloaders*, Syracuse Post Standard, September 14, 2003, at A1.

[9] Press Release, Apple Corporation, iTune Music Store Hits Five Million Downloads (June 23, 2003).

Accordingly, this Court should reject the reinterpretation of *Betamax* and *Napster* urged by appellants and their *amici*.

Respectfully submitted,

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