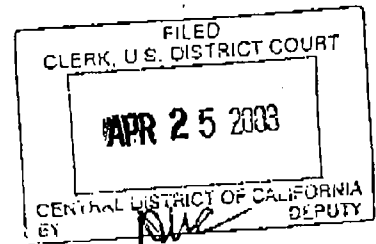


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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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METRO-GOLDWYN-MAYER STUDIOS,)
INC., et al.,)
)
) Plaintiffs,)

v.)

GROKSTER, LTD., et al.,)
)
) Defendants.)

CV 01-08541-SVW (PJWx)
CV 01-09923-SVW (PJWx)

ORDER GRANTING DEFENDANTS
GROKSTER, LTD.'S AND
STREAMCAST NETWORKS, INC.'S
MOTIONS FOR SUMMARY JUDGMENT
AND DENYING PLAINTIFFS' MOTION
FOR SUMMARY JUDGMENT WITH
RESPECT TO DEFENDANTS GROKSTER,
LTD. AND STREAMCAST NETWORKS,
INC.

JERRY LIEBER, et al.,)
)
) Plaintiffs,)

v.)

CONSUMER EMPOWERMENT BV a/k/a)
FASTTRACK, et al.,)
)
) Defendants.)

AND RELATED COUNTERCLAIMS)
)

///

1 I. INTRODUCTION

2 Plaintiffs bring these actions for copyright infringement under
3 17 U.S.C. §§ 501, et seq. The Court has jurisdiction pursuant to 28
4 U.S.C. § 1331. Plaintiffs¹ and Defendants StreamCast Networks, Inc.
5 and Grokster, Ltd. ("Defendants") filed cross-motions for summary
6 judgment with regard to contributory and vicarious infringement.
7 Plaintiffs contend that Defendants' conduct renders them liable for
8 copyright infringement committed by users of Defendants' software.
9 Defendants argue, however, that they merely provide software to users
10 over whom they have no control, and thus that no liability may accrue
11 to them under copyright law.

12 Both parties believe that there are no disputed issues of fact
13 material to Defendants' liability, and thus that there are no factual
14 disputes requiring a trial. Instead, both sides maintain that the
15 only question before the Court (as to liability) is a legal one:
16 whether Defendants' materially undisputed conduct gives rise to
17 copyright liability.

18
19 ¹ Plaintiffs in the Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.
20 case, CV 01-8541, consist of two groups: 1) the "Motion Picture Studio Plaintiffs": Metro-Goldwyn-Mayer Studios,
21 Inc.; Columbia Pictures Industries, Inc.; Disney Enterprises, Inc.; New Line Cinema Corp.; Paramount Pictures Corp.; Time
22 Warner Entertainment; Twentieth Century Fox Film Corp.; and Universal City Studios, Inc.; and, 2) the "Record Company
23 Plaintiffs": Arista Records, Inc.; Atlantic Recording Corp.; Rhino Entertainment; Bad Boy Records; Capitol Records; Elektra
24 Entertainment; Hollywood Records, Inc.; Interscope Records; LaFace Records; London-Sire Records; Motown Record Co., LP; BMG
25 Entertainment; Sony Music Entertainment, Inc.; UMG Recordings, Inc.; Virgin Records America, Inc.; Walt Disney Records; Warner
26 Brothers Records, Inc.; WEA International, Inc.; WEA Latina, Inc.; and Zomba Recording Corp.

27 Plaintiffs in the Lieber v. Consumer Empowerment BV case, CV
28 01-9923, the "Music Publisher Plaintiffs," are a class of professional songwriters and music publishers.

1 For the reasons stated herein, the Court GRANTS Defendants'
2 Motions for Summary Judgment and DENIES Plaintiffs' Motion for
3 Summary Judgment with respect to Defendants Grokster and StreamCast.
4

5 **II. FACTUAL/PROCEDURAL BACKGROUND**

6 **A. General Background**

7 These cases arise from the free exchange of copyrighted music,
8 movies and other digital media over the Internet. When the actions
9 were originally filed, Defendants Grokster, Ltd. ("Grokster"),
10 StreamCast Networks, Inc. (formerly known as MusicCity Networks,
11 Inc.) ("StreamCast"), and Kazaa BV (formerly known as Consumer
12 Empowerment BV) ("Kazaa BV"), distributed software that enabled users
13 to exchange digital media via a peer-to-peer transfer network. In
14 the Metro-Goldwyn-Mayer v. Grokster case, CV-01-8541, Plaintiffs are
15 organizations in the motion picture and music recording industries,
16 and bring this action against Defendants for copyright infringement,
17 pursuant to 17 U.S.C. §§ 501, et seq. In the Lieber v. Consumer
18 Empowerment case, CV-01-9923, Plaintiffs are professional songwriters
19 and music publishers bringing a class action against the same
20 Defendants for copyright infringement, although their Complaint lists
21 separate causes of action for contributory infringement and vicarious
22 infringement. The cases have been consolidated for discovery and
23 pretrial purposes.

24 Each Defendant distributes free software, which users can
25 download free of charge. Although Grokster, StreamCast and Kazaa BV
26 independently branded, marketed and distributed their respective
27 software, all three platforms initially were powered by the same
28

1 FastTrack networking technology. The FastTrack technology was
2 developed by Defendants Niklas Zennström and Janus Friis, who also
3 launched Kazaa BV.² FastTrack was then licensed to Kazaa BV,
4 Grokster and StreamCast for use in each company's file-sharing
5 software. As a result, users of these software platforms essentially
6 were connected to the same peer-to-peer network and were able to
7 exchange files seamlessly.

8 However, StreamCast no longer uses the FastTrack technology.
9 Rather, StreamCast now employs the "open" (i.e., not proprietary)
10 Gnutella technology, and distributes its own software - Morpheus -
11 instead of a branded version of the Kazaa Media Desktop. Grokster,
12 meanwhile, continues to distribute a branded version of the Kazaa
13 Media Desktop, which operates on the same FastTrack technology as the
14 Sharman/Kazaa software.

15 B. Operation of the StreamCast (Morpheus) and Grokster
16 Software

17 Although novel in important respects, both the Grokster and
18 Morpheus platforms operate in a manner conceptually analogous to the
19 Napster system described at length by the district court in A & M
20 Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896 (N.D. Cal. 2000).

21 In both cases, the software can be transferred to the user's
22 computer, or "downloaded," from servers operated by Defendants. Once
23

24 ² Since this case was originally filed, the operation of
25 the "Kazaa system" has passed from Kazaa BV to Defendant Sharman
26 Networks. In addition, Kazaa BV has apparently ceased defending
27 this action. Because Kazaa BV has failed to defend this action,
28 the Court will enter default against Defendant Kazaa BV (an Order
regarding the entry of default will issue separately). The
remainder of this Order relates only to Plaintiffs' claims
against Defendants Grokster and StreamCast.

1 installed, a user may elect to "share" certain files located on the
2 user's computer, including, for instance, music files, video files,
3 software applications, e-books and text files. When launched on the
4 user's computer, the software automatically connects to a peer-to-
5 peer network (FastTrack in Grokster's case; Gnutella in the case of
6 Morpheus), and makes any shared files available for transfer to any
7 other user currently connected to the same peer-to-peer network.

8 Both the Morpheus and Grokster software provide a range of means
9 through which a user may search through the respective pool of shared
10 files. For instance, a user can select to search only among audio
11 files, and then enter a keyword, title, or artist search. Once a
12 search commences, the software displays a list (or partial list) of
13 users who are currently sharing files that match the search criteria,
14 including data such as the estimated time required to transfer each
15 file.

16 The user may then click on a specific listing to initiate a
17 direct transfer from the source computer to the requesting user's
18 computer. When the transfer is complete, the requesting user and
19 source user have identical copies of the file, and the requesting
20 user may also start sharing the file with others. Multiple transfers
21 to other users ("uploads"), or from other users ("downloads"), may
22 occur simultaneously to and from a single user's computer.

23 Both platforms include other incidental features, such as
24 facilities for organizing, viewing and playing media files, and for
25 communicating with other users.

26 ///

27 ///

28

1 C. Limitations of this Order

2 Because Plaintiffs principally seek prospective injunctive
3 relief, the Court at this time considers only whether the current
4 versions of Grokster's and StreamCast's products and services subject
5 either party to liability. This Order does not reach the question
6 whether either Defendant is liable for damages arising from past
7 versions of their software, or from other past activities.

8 Additionally, it is important to reiterate that the instant
9 motions concern only the software operated by Defendants StreamCast
10 (the Morpheus software) and Grokster (the Grokster software).
11 Defendant Sharman Networks, proprietor of the Kazaa.com website and
12 Kazaa Media Desktop, is not a party to these Motions. Accordingly,
13 the Court offers no opinion in this Order as to Sharman's potential
14 liability.

15
16 III. SUMMARY JUDGMENT STANDARD

17 Rule 56(c) requires summary judgment for the moving party when
18 the evidence, viewed in the light most favorable to the nonmoving
19 party, shows that there is no genuine issue as to any material fact,
20 and that the moving party is entitled to judgment as a matter of law.
21 See Fed. R. Civ. P. 56(c); Tarin v. County of Los Angeles, 123 F.3d
22 1259, 1263 (9th Cir. 1997). The moving party bears the initial
23 burden of establishing the absence of a genuine issue of material
24 fact. See Celotex Corp. v. Catrett, 477 U.S. 317, 323-24, 106 S. Ct.
25 2548, 2553, 91 L.Ed.2d 265 (1986).

26 That burden may be met by "'showing' - that is, pointing out to
27 the district court - that there is an absence of evidence to support
28

1 the nonmoving party's case." Id. at 325, 106 S.Ct. at 2554. Once
2 the moving party has met its initial burden, Rule 56(e) requires the
3 nonmoving party to go beyond the pleadings and identify specific
4 facts that show a genuine issue for trial. See id. at 324, 106 S.Ct.
5 at 2553; Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S.
6 Ct. 2505, 2510, 91 L.Ed.2d 202 (1986).

7 When deciding cross-motions for summary judgment, a district
8 court retains the responsibility to examine the record to ensure that
9 no disputed issues of fact exist, despite the parties' assurances to
10 that effect. Fair Housing Council of Riverside County, Inc. v.
11 Riverside Two, 249 F.3d 1132, 1136-37 (9th Cir. 2001); see Chevron
12 USA, Inc. v. Cayetano, 224 F.3d 1030, 1038 n.6 (9th Cir. 2000).

13 However, the Court is not obligated "to scour the record in
14 search of a genuine issue of triable fact. [The Court] rel[ies] on
15 the nonmoving party to identify with reasonable particularity the
16 evidence that precludes summary judgment." Kennan v. Allan, 91 F.3d
17 1275, 1279 (9th Cir. 1996) (citations and internal quotation marks
18 omitted). Furthermore, only genuine disputes - where the evidence is
19 such that a reasonable jury could return a verdict for the nonmoving
20 party - "over facts that might affect the outcome of the suit under
21 the governing law will properly preclude the entry of summary
22 judgment." See Anderson v. Liberty Lobby, Inc., 477 U.S. at 248, 106
23 S. Ct. at 2510; see also Arpin v. Santa Clara Valley Transp. Agency,
24 261 F.3d 912, 919 (9th Cir. 2001) (the nonmoving party must offer
25 specific evidence from which a reasonable jury could return a verdict
26 in its favor).

27 ///
28

1 IV. DISCUSSION

2 Plaintiffs argue that Defendants are liable for both
3 contributory and vicarious copyright infringement. As a threshold
4 matter, in order to find either contributory or vicarious
5 infringement liability, Plaintiffs must demonstrate that Defendants'
6 end-users are themselves engaged in direct copyright infringement,
7 A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1013 n.2 (9th
8 Cir. 2001) ("Napster") (citation omitted) ("Secondary liability for
9 copyright infringement does not exist in the absence of direct
10 infringement by a third party.").

11 A. Direct Infringement

12 To establish a prima facie case of copyright infringement,
13 Plaintiffs must show: (1) copyright ownership of the allegedly
14 infringing material, and (2) unauthorized copying of the work that is
15 the original. Id. at 1013 (citations omitted). With regard to the
16 second prong, "[Plaintiffs] must demonstrate that the alleged
17 infringers violate at least one exclusive right granted to copyright
18 holders under 17 U.S.C. § 106." Id.

19 With regard to copyright ownership, Defendants, along with the
20 Record Company and Motion Picture Studio Plaintiffs, have stipulated
21 for purposes of these Motions that the sound recordings referenced in
22 the First Amended Complaint are owned by each Plaintiff asserting
23 ownership. (See Lapple Decl., Ex. 10; MGM Plaintiffs' First Amended
24 Complaint ("FAC"), Exs. A and B (list of sound recordings)).

25 While the Music Publisher Plaintiffs have refused to join in the
26 stipulation, the Court assumes that Plaintiffs could establish
27 ownership or control of at least some of the copyrights listed in
28

1 their Second Supplemental Rule 26 Disclosures.³ (See Breen Decl. ¶ 7
2 & Ex. A; Dozier Decl. ¶¶ 8, 10 & Exs. A-B; Stoller Decl. ¶¶ 17-21 &
3 Exs. B-F; Lieber Decl. ¶ 3; Jaegerman Decl. ¶¶ 5-7 & Exs. A-E;
4 Goldsen Decl. ¶ 4 & Exs. A-E; I. Robinson Decl. ¶¶ 6-8 & Exs. A-E.)

5 Furthermore, it is undisputed that at least some of the
6 individuals who use Defendants' software are engaged in direct
7 copyright infringement of Plaintiffs' copyrighted works. In Napster,
8 the Ninth Circuit explained: "[T]he evidence establishes that a
9 majority of Napster users use the service to download and upload
10 copyrighted music. . . . And by doing that, it constitutes - the
11 uses constitute direct infringement of plaintiffs' musical
12 compositions, recordings." Napster, 239 F.3d at 1013-14 (quoting
13 transcript from district court proceedings) (internal quotation marks
14 omitted).

15 Just as in Napster, many of those who use Defendants' software
16 do so to download copyrighted media files, including those owned by
17 Plaintiffs, (see, e.g., Pls.' Statement of Uncontroverted Facts
18 ("Pls.' SUF") 3(j), 3(t); Griffin Depo. 278:5-10 and Ex. 291), and
19

20 ³ The Court notes that this issue is moot in light of the
Court's ruling.

21 Additionally, because the Music Publisher Plaintiffs did not
22 stipulate to the ownership of the copyrights in question,
23 Defendant StreamCast filed a Rule 56(f) motion requesting further
24 discovery regarding the Music Publisher Plaintiffs' ownership of
25 the copyrights in question. See Fed. R. Civ. P. 56(f). While
26 StreamCast contends that with further discovery, the evidence
27 will show that the Music Publisher Plaintiffs do not actually own
28 or control several of the copyrights in question, ownership of at
least some of the copyrights is not disputed. Thus, this
allegedly disputed fact does not affect the Cross-Motions for
Summary Judgment, but would have been relevant in a later phase
of the litigation. However, this Motion also is moot in light of
the Court's ruling. Accordingly, the Court DENIES Defendant
Streamcast's Rule 56(f) Motion.

1 thereby infringe Plaintiffs' rights of reproduction and distribution.
2 See Napster, 239 F.3d at 1014 (citations omitted). Thus, for
3 purposes of these motions, Plaintiffs have established direct
4 infringement of their copyrighted works by some end-users of
5 Defendants' software.⁴

6 B. Contributory Infringement

7 Under the doctrine of contributory copyright infringement, one
8 is liable for contributory infringement if "with knowledge of the
9 infringing activity, [he/she] induces, causes or materially
10 contributes to the infringing conduct of another[.]" Napster, 239
11 F.3d at 1019 (citations and internal quotation marks omitted).

12 There are two factors that come into play in determining
13 liability for contributory infringement: (1) knowledge, and (2)
14 material contribution. The secondary infringer must "know, or have
15 reason to know of [the] direct infringement." Adobe Systems Inc. v.
16 Canus Prods., Inc., 173 F. Supp. 2d 1044, 1048 (C.D. Cal. 2001)
17 (citations and internal quotation marks omitted). Furthermore, with
18 regard to the second element, "liability [for contributory
19 infringement] exists if the defendant engages in personal conduct
20 that encourages or assists the infringement." Napster, 239 F.3d at
21 1019 (citation and internal quotation marks omitted).

22 1. Knowledge of Infringing Activity

23 In order to be held liable for contributory infringement, the
24 secondary infringer must know or have reason to know of the direct
25

26 ⁴ Defendants argue that Plaintiffs should not be able to
27 sue for copyright infringement because they misuse their
28 copyrights by violating U.S. antitrust laws. Because the Court
denies Plaintiffs' Motion for Summary Judgment, see infra, the
Court does not reach the issue of copyright misuse.

1 infringement. See Napster, 239 F.3d at 1020. Evidence of actual
2 knowledge of specific acts of infringement is required for
3 contributory infringement liability. Id. at 1021.

4 In Sony Corp. of America v. Universal City Studios, Inc., 464
5 U.S. 417, 104 S. Ct. 774 (1984), sale of video cassette recorders
6 ("VCR"s) did not subject Sony to contributory copyright liability,
7 even though Sony knew as a general matter that the machines could be
8 used, and were being used, to infringe the plaintiffs' copyrighted
9 works. Because video tape recorders were capable of both infringing
10 and "substantial noninfringing uses," generic or "constructive"
11 knowledge of infringing activity was insufficient to warrant
12 liability based on the mere retail of Sony's products. See id. at
13 442. "[T]he sale of copying equipment, like the sale of other
14 articles of commerce, does not constitute contributory infringement"
15 if the product is "capable of substantial noninfringing uses." Id.

16 Here, it is undisputed that there are substantial noninfringing
17 uses for Defendants' software - e.g., distributing movie trailers,
18 free songs or other non-copyrighted works; using the software in
19 countries where it is legal; or sharing the works of Shakespeare.
20 (See Ian Decl. ¶¶ 11-13; Newby Decl. ¶ 12; Prelinger Decl. ¶¶ 11-18;
21 Kahle Decl. ¶¶ 14-20; Mayers Decl. ¶¶ 5-8, 11, 14-17; Sinnreich Decl.
22 ¶¶ 1-6; Busher Decl. ¶¶ 8-34; Hoekman Decl. ¶¶ 3-9.) For instance,
23 StreamCast has adduced evidence that the Morpheus program is
24 regularly used to facilitate and search for public domain materials,
25 government documents, media content for which distribution is
26 authorized, media content as to which the rights owners do not object
27 to distribution, and computer software for which distribution is
28 permitted. (See Newby Decl. ¶ 12; Prelinger Decl. ¶¶ 11-18; Kahle

1 Decl. ¶¶ 14-20; Hoekman Decl. ¶¶ 3-4, 5-7, 8, 9; Ian Decl. ¶¶ 11-13;
2 Sinnreich Decl. ¶¶ 8-24, 33, 34; Mayers Decl. ¶¶ 5-7, 14-17; Busher
3 Decl. ¶¶ 1-12.) The same is true of Grokster's software. (See,
4 e.g., Mayers Decl. ¶¶ 6-7; Pls.' Ex. 34 (D. Rung Depo. Ex. 7) at
5 3562-64 (describing Grokster's partnership with GigAmerica, a company
6 which claimed to host music from 6,000 independent bands and
7 musicians as of May 2002).)

8 Furthermore, as the Supreme Court has explained, the existence
9 of substantial noninfringing uses turns not only on a product's
10 current uses, but also on potential future noninfringing uses. See
11 Sony, 464 U.S. at 442; see also Napster, 239 F.3d at 1020-21.
12 Plaintiffs do not dispute that Defendants' software is being used,
13 and could be used, for substantial noninfringing purposes.

14 In light of Sony, the Ninth Circuit in Napster refused to
15 "impute the requisite level of knowledge to Napster merely because
16 peer-to-peer file-sharing technology may be used to infringe
17 plaintiffs' copyrights." 239 F.3d at 1020-21. Just as Sony could
18 not be held liable for contributory infringement simply because it
19 sold video tape recorders that could be used unlawfully, Napster
20 would not be liable simply because it distributed software that could
21 be used to infringe copyrights. "[A]bsent any specific information
22 which identifies infringing activity, a computer system operator
23 cannot be liable for contributory infringement merely because the
24 structure of the system allows for the exchange of copyrighted
25 material." Napster, 239 F.3d at 1021 (citing Sony, 464 U.S. at 436,
26 442-43).

27 Rather, liability for contributory infringement accrues where a
28 defendant has actual - not merely constructive - knowledge of the

1 infringement at a time during which the defendant materially
2 contributes to that infringement. See Napster, 239 F.3d at 1020-22.

3 In other words, as the Ninth Circuit explained, defendants are
4 liable for contributory infringement only if they (1) have specific
5 knowledge of infringement at a time at which they contribute to the
6 infringement, and (2) fail to act upon that information. See
7 Napster, 239 F.3d at 1021 (citation omitted) ("We agree that if a
8 computer system operator learns of specific infringing material
9 available on his system and fails to purge such material from the
10 system, the operator knows of and contributes to direct
11 infringement.").

12 With respect to Napster's "actual knowledge" of infringement,
13 the court cited: (1) a document authored by one of Napster's founders
14 mentioning "the need to remain ignorant of users' real names and IP
15 addresses 'since they are exchanging pirated music'"; and (2) the
16 fact that the Recording Industry Association of America notified
17 Napster of more than 12,000 infringing files on its system, some of
18 which were still available. Id. at 1020, n.5 (citation and internal
19 quotation marks omitted).

20 In this case, Plaintiffs point to a massive volume of similar
21 evidence, including documents suggesting that both Defendants
22 marketed themselves as "the next Napster," that various searches were
23 performed by Defendants' executives for copyrighted song titles or
24 artists, that various internal documents reveal Defendants were aware
25 that their users were infringing copyrights, and that Plaintiffs sent
26 Defendants thousands of notices regarding alleged infringement.

27 (See, e.g., Hardison Depo. 173:8-20 & Ex. 129; Creighton Decl. ¶¶ 19-
28 20 & Exs. 10-17; Charlesworth Decl. ¶¶ 4-19 & Exs. A-P; Breen Decl.

1 ¶¶ 5-10 & Ex. A; Weiss Depo. 126:19-127:22; Kleinrock Decl. ¶¶ 23-28;
2 D. Rung Depo. 221:5-222:8; M. Rung Depo. 31:10-17, 73:3-74:17; Weiss
3 Depo. 89:23-91:6; Kallman Depo. 78:19-79:1; Weiss Depo. 85:12-18,
4 217:7-221:12; 227:8-233:1, 234:18-235:19, 329:13-331:23, 595:12-596:3
5 & Ex. 24; Hardison Depo. 87:1-15; 122:8-21; 170:17-171:3 & Exs. 110,
6 115 & 129; Borkowski Decl. Ex. 31; Griffin Depo. 157:7-12; 159:2-17;
7 161:5-162:10 & Ex. 260; J. Tung Depo. 75:13-77:25; Bodenstein Decl. ¶
8 3 & Exs. 1-7.) In other words, Defendants clearly know that many if
9 not most of those individuals who download their software
10 subsequently use it to infringe copyrights.

11 However, Defendants correctly point out that in order to be
12 liable under a theory of contributory infringement, they must have
13 actual knowledge of infringement at a time when they can use that
14 knowledge to stop the particular infringement. In other words,
15 Plaintiffs' notices of infringing conduct are irrelevant if they
16 arrive when Defendants do nothing to facilitate, and cannot do
17 anything to stop, the alleged infringement.

18 This distinction is illustrated by Religious Tech. Center v.
19 Netcom On-Line Communication Servs., Inc., 907 F. Supp. 1361 (N.D.
20 Cal. 1995) ("Netcom"), a case informing the Ninth Circuit decision in
21 Napster. The Netcom court distinguished a line of cases cited by the
22 plaintiff, which concerned a landlord's liability for contributory
23 infringement in the landlord-tenant context. These cases held "that
24 there is no contributory infringement by the lessors of premises that
25 are later used for infringement unless the lessor had knowledge of
26 the intended use at the time of the signing of the lease." Id. at
27 1373 (citation and footnote omitted).

28 ///

1 In other words, once the lease is signed, the landlord has no
2 control over his/her tenant's use of the premises for infringing
3 activities. Thus, any knowledge of the infringement that the
4 landlord acquires after the tenant is in control is insufficient to
5 establish contributory infringement liability, because there is
6 nothing the landlord does to facilitate the infringement, or could do
7 to stop it. In contrast, the Netcom court explained that "Netcom not
8 only leases space but also serves as an access provider, which
9 includes the storage and transmission of information necessary to
10 facilitate [the end user's] postings to [an Internet newsgroup].
11 Unlike a landlord, Netcom retains some control over[] the use of its
12 system." Id. at 1373-74.

13 It was critical to the court that the allegedly infringing
14 messages were transmitted to Netcom, briefly resided on servers
15 controlled by Netcom, and then were distributed by Netcom to other
16 Internet systems. See id. "With an easy software modification
17 Netcom could identify postings that contain particular words or come
18 from particular individuals[,] and delete those postings from its
19 system (thereby preventing their propagation). Id. at 1376.
20 Furthermore, Netcom was able to suspend user accounts - as it had
21 done on at least 1,000 occasions - and preclude any access and
22 distribution by a particular user through Netcom servers. Id.

23 Accordingly, the relevant time frame for purposes of assessing
24 contributory infringement covered the entire "relationship" between
25 Netcom and its users. Thus, the contributory infringement claim was
26 to be decided not based on Netcom's knowledge at the time it entered
27 into the relevant user agreement, but rather based on any knowledge
28 acquired or possessed while Netcom contributed to the alleged

1 infringement - i.e., "when Netcom provided its services to allow [the
2 end user] to infringe plaintiffs' copyrights." Id. at 1374 (citation
3 omitted). The Netcom court denied summary judgment because there was
4 "a genuine issue as to whether Netcom knew of any infringement []
5 before it was too late to do anything about it." Id.

6 Here, it is undisputed that Defendants are generally aware that
7 many of their users employ Defendants' software to infringe
8 copyrighted works. (See, e.g., Grokster's Mot. at 15 ("[Grokster] is
9 of course aware as a general matter that some of its users are
10 infringing copyrights.")) The question, however, is whether actual
11 knowledge of specific infringement accrues at a time when either
12 Defendant materially contributes to the alleged infringement, and can
13 therefore do something about it.

14 2. Material Contribution to the Infringing Activity of
15 Another

16 As noted supra, "liability [for contributory infringement]
17 exists if the defendant engages in personal conduct that encourages
18 or assists the infringement." Napster, 239 F.3d at 1019 (citation
19 and internal quotation marks omitted). To be liable for contributory
20 infringement, Defendants must "materially contribute[]" to the
21 infringing activity. Id. (citations and internal quotation marks
22 omitted).

23 The original formulation of this doctrine "stems from the notion
24 that one who directly contributes to another's infringement should be
25 held accountable." Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d
26 259, 264 (9th Cir. 1996) (emphasis added) (citations omitted).
27 Traditionally, one is liable for contributory infringement if, "with
28 knowledge of the infringing activity, [he or she] induces, causes or

1 materially contributes to the infringing conduct of another[.]”
2 Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159,
3 1162 (2d Cir. 1971) (cited by Fonovisa, 76 F.3d at 264). The Ninth
4 Circuit concluded in Napster that “liability exists if the defendant
5 engages in personal conduct that encourages or assists the
6 infringement.” 239 F.3d at 1019 (citation and internal quotation
7 marks omitted).

8 In concluding that Napster materially contributed to the
9 infringement, the Ninth Circuit relied on the district court's
10 finding that “without the support services defendant provides,
11 Napster users could not find and download the music they want with
12 the ease of which defendant boasts.” Napster, 239 F.3d at 1022
13 (quoting A & M Records, Inc. v. Napster, 114 F. Supp. 2d at 919-20)
14 (internal quotation marks omitted).

15 The district court explained that “Napster is an integrated
16 service designed to enable users to locate and download MP3 music
17 files.” A & M Records v. Napster, 114 F. Supp. 2d at 920.
18 Furthermore, the Ninth Circuit agreed with the district court that
19 because Napster provided the “site and facilities” for direct
20 infringement, Napster materially contributed to the infringement.
21 Napster, 239 F.3d at 1022.

22 In reaching this conclusion, the Napster court followed the
23 reasoning of Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, an
24 earlier Ninth Circuit case. In Fonovisa, the defendant operated a
25 swap meet where many of the vendors sold counterfeit goods. Id. at
26 260. In concluding that the plaintiff's allegations supported its
27 claim for contributory infringement against the defendant swap meet
28 operator, the court found significant that the defendant did more

1 than provide the space for vendors to sell their goods. The
2 defendant provided other services - utilities, parking, advertising,
3 plumbing, customers - which enabled the infringement to occur in
4 large quantities. Id. at 264.

5 The court further explained that the defendant did not have to
6 directly promote the infringing products to be held liable - it was
7 enough that the defendant provided "the site and facilities for known
8 infringing activity[.]" Id. While the defendant attempted to
9 persuade the court that it provided rental space alone, the court
10 explained that the defendant swap meet operator "actively str[ove] to
11 provide the environment and the market for counterfeit sales to
12 thrive. Its participation in the sales cannot be termed 'passive,'
13 as [the defendant] would prefer." Id.

14 While Napster provided its software free of charge, the district
15 court explained, and the Ninth Circuit agreed, that Napster was no
16 different than the swap meet operator in Fonovisa - "The swap meet
17 provided services like parking, booth space, advertising, and
18 clientele. [Citation.] Here, Napster, Inc. supplies the proprietary
19 software, search engine, servers, and means of establishing a
20 connection between users' computers." A & M Records v. Napster, 114
21 F. Supp. 2d at 920; see also Napster, 239 F.3d at 1022 ("The district
22 court correctly applied the reasoning from Fonovisa, and properly
23 found that Napster materially contributes to direct infringement.").

24 Furthermore, in addition to the software, Napster provided a
25 network - the "site and facilities" for the infringement to take
26 place. Napster hosted a central list of the files available on each
27 user's computer, and thus served as the axis of the file-sharing

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1 network's wheel. When Napster closed down, the Napster file-sharing
2 network disappeared with it.

3 As noted supra, the court in Netcom reached similar conclusions.
4 Netcom was distinct from a landlord because it was also an "access
5 provider," and because it stored and transmitted the allegedly
6 infringing newsgroup posts at issue in the case. Netcom, 907 F.
7 Supp. at 1373-74. Netcom's services were "necessary to facilitate"
8 the infringing postings of which Netcom allegedly had been notified.
9 Id. If Plaintiffs could prove Netcom's knowledge of these postings,
10 Netcom would be liable "for contributory infringement since its
11 failure to simply cancel [the end user's] infringing message and
12 thereby stop an infringing copy from being distributed worldwide
13 constitutes substantial participation in [the end user's] public
14 distribution of the message." Id. at 1374 (citation omitted) (quoted
15 in Napster, 239 F.3d at 1022).

16 Thus, here, the critical question is whether Grokster and
17 StreamCast do anything, aside from distributing software, to actively
18 facilitate - or whether they could do anything to stop - their users'
19 infringing activity.

20 Plaintiffs argue that Defendants, like Napster, do much to
21 facilitate the actual exchange of copyrighted files, and thus
22 materially contribute to the infringement. In their original Motion,
23 Plaintiffs - who lumped together the activities of Grokster and
24 StreamCast with those of Kazaa BV - asserted that these Defendants
25 provide the "means, environment, and support . . . that enable users
26 to . . . locate, distribute and copy" copyrighted works. (Pls.'s MSJ
27 at 21.)

28 ///

1 As Plaintiffs' own Proposed Statement of Uncontroverted Facts
2 reflects, however, the facts are somewhat distinct - though
3 materially undisputed - with respect to each Defendant.

4 a. Grokster

5 Grokster currently distributes a branded version of the Kazaa
6 Media Desktop, originally licensed by Consumer Empowerment BV (and
7 now controlled by Sharman). (See D. Rung Decl. ¶ 3.) Grokster does
8 not have access to the source code for the application, and cannot
9 alter it in any way. (D. Rung Decl. ¶ 3.) Grokster's primary
10 ability to affect its users' experience derives from its ability to
11 configure a "start page" and provide advertising automatically
12 retrieved by the Grokster client software. (D. Rung Decl. ¶ 3.)

13 Grokster does not operate a centralized file-sharing network
14 like that seen in Napster. Rather, the Grokster-licensed Kazaa Media
15 Desktop software employs FastTrack networking technology, which is
16 licensed by Sharman and is not owned by Grokster.

17 One of the central features distinguishing FastTrack-based
18 software from other peer-to-peer technology is the dynamic, or
19 variable use of "supernodes." A "node" is an end-point on the
20 Internet, typically a user's computer. A "supernode" is a node that
21 has a heightened function, accumulating information from numerous
22 other nodes. (Smith Opp. Decl. ¶¶ 70-71.) An individual node using
23 FastTrack-based software automatically self-selects its own supernode
24 status; a user's node may be a supernode one day and not on the

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1 following day, depending on resource needs and availability of the
2 network.⁵ (Smith Opp. Decl. ¶ 72.)

3 This creates a two-tiered organizational structure, with groups
4 of nodes clustered around a single supernode. When a user starts
5 his/her software, the user's computer finds a supernode and accesses
6 the network. The process of locating a supernode has varied over
7 time. The undisputed evidence is that the Grokster software is
8 preset with a list of "root supernodes," each of which functions
9 principally to connect users to the network by directing them to
10 active supernodes. While Grokster may briefly have had some control
11 over a root supernode, Plaintiffs do not dispute that Grokster no
12 longer operates such a supernode.⁶ Thus, the technical process of
13 locating and connecting to a supernode - and the FastTrack network -
14 currently occurs essentially independently of Defendant Grokster.⁷

15
16 ⁵ It is unclear whether or to what extent entities other
17 than Grokster can control this process or other aspects of the
18 FastTrack network, but there is no evidence - and Plaintiffs do
19 not argue - that Defendants have any such role.

20 ⁶ While it appears that the primary root supernodes on
21 the FastTrack network have been and are operated by Kazaa
22 BV/Sharman, it is not alleged that Grokster operates these
23 supernodes.

24 ⁷ The initial version of FastTrack licensed to Grokster
25 did obligate Grokster to operate a registration server. (Id. at
26 ¶ 7.) A new user was required to register a unique username and
27 e-mail address, and each subsequent use of the Grokster software
28 verified this information against the Grokster registration
server. (Id.) If during a subsequent use the username was
blocked or removed, the user would be unable to use certain
functions (such as instant messaging), though the file-sharing
functions remained operative. (Id.; see also Kleinrock Dep.
211:2-12, Page Decl. Ex. M.) Accordingly, operation of the
registration server did not provide a means for controlling
either access to the network or file-sharing. Furthermore, the
FastTrack software has been modified such that it no longer
requires a registration database, thereby denying Grokster this

1 Once a user is connected to the network, his/her search queries
2 and results are relayed among supernodes, maximizing the breadth of
3 the search pool and minimizing redundancy in search traffic. This
4 also reflects a critical distinction from Napster. Napster utilized,
5 in effect, a single "supernode" owned and operated by Napster. The
6 company's central servers indexed files from, and passed search
7 queries and results among, all Napster users. All Napster search
8 traffic went through, and relied upon, Napster.

9 When users search for and initiate transfers of files using the
10 Grokster client, they do so without any information being transmitted
11 to or through any computers owned or controlled by Grokster. (Id. at
12 ¶ 6.)

13 **b. StreamCast**

14 Certain versions of StreamCast's Morpheus product prior to March
15 2002 were, like Grokster today, based on the FastTrack technology.
16 However, the current iteration of StreamCast's Morpheus is distinct
17 in important respects from Grokster's software. First, Morpheus is
18 now a proprietary program owned and controlled exclusively by
19 StreamCast. In other words, StreamCast, unlike Grokster, has access
20 to the source code for its software, and can modify the software at
21 will. Second, Morpheus is based on the open-source Gnutella peer-to-
22 peer platform and does not employ a proprietary protocol such as
23 FastTrack.

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26 role in controlling access to the FastTrack network. (Id. at ¶
27 8.) Although Grokster continues to operate a voluntary
28 registration server, the server is not integral to a user's
network access - it can essentially be bypassed merely by
registering a new username and password.

