

No. \_\_\_\_

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IN THE  
**Supreme Court of the United States**

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METRO-GOLDWYN-MAYER STUDIOS INC., *ET AL.*,  
*Petitioners,*

v.

GROKSTER, LTD., *ET AL.*,  
*Respondents.*

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**Petition for a Writ of Certiorari to the  
United States Court of Appeals  
for the Ninth Circuit**

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**PETITION FOR A WRIT OF CERTIORARI**

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### **QUESTION PRESENTED**

Whether the Ninth Circuit erred in concluding, contrary to long-established principles of secondary liability in copyright law (and in acknowledged conflict with the Seventh Circuit), that the Internet-based “file sharing” services Grokster and StreamCast should be immunized from copyright liability for the millions of daily acts of copyright infringement that occur on their services and that constitute at least 90% of the total use of the services.

**PARTIES TO THE PROCEEDING**

Pursuant to Rule 14.1(b), the following list identifies all of the parties appearing here and before the United States Court of Appeals for the Ninth Circuit.

The petitioners here and appellants below are Metro-Goldwyn-Mayer Studios Inc.; Columbia Pictures Industries, Inc.; Disney Enterprises, Inc.; Warner Bros. Entertainment Inc. (as successor-in-interest to the Filmed Entertainment Division of Time Warner Entertainment Company, L.P.); New Line Cinema Corporation; Paramount Pictures Corporation; Twentieth Century Fox Film Corporation; Universal City Studios LLLP (f/k/a Universal City Studios, Inc.); Arista Records, Inc.; Atlantic Recording Corporation; Rhino Entertainment Company; Bad Boy Records; Capitol Records, Inc.; Elektra Entertainment Group Inc.; Hollywood Records, Inc.; Interscope Records; LaFace Records, Inc.; London-Sire Records Inc.; Motown Record Company, L.P.; The RCA Records Label, a unit of BMG Music d/b/a BMG Entertainment; Sony Music Entertainment Inc.; UMG Recordings, Inc.; Virgin Records America, Inc.; Walt Disney Records; Warner Bros. Records Inc.; WEA International Inc.; Warner Music Latina Inc.; Zomba Recording Corporation; Jerry Leiber, individually and d/b/a Jerry Leiber Music; Mike Stoller, individually and d/b/a Mike Stoller Music; Peer International Corporation; Songs of Peer, Limited; Peermusic, Limited; Criterion Music Corporation; Famous Music Corporation; Bruin Music Company; Ensign Music Corporation; Let's Talk Shop, Inc. d/b/a Beau-Di-O-Do Music.

The appellees below and respondents here are Grokster, Ltd. and StreamCast Networks, Inc.

## **CORPORATE DISCLOSURE STATEMENT**

Pursuant to Rule 29.6, Petitioners state as follows:

The parent company of Petitioner Metro-Goldwyn-Mayer Studios Inc. is Metro-Goldwyn-Mayer Inc., a publicly traded corporation.

The parent company of Petitioner Columbia Pictures Industries, Inc. is Sony Corporation, a publicly traded corporation.

The parent company of Petitioner Disney Enterprises, Inc. is The Walt Disney Company, a publicly traded corporation.

The indirect parent company of Petitioner Paramount Pictures Corporation is Viacom Inc., a publicly traded corporation.

The parent of Petitioner Warner Bros. Entertainment Inc. (as successor-in-interest to the Filmed Entertainment Division of Time Warner Entertainment Company, L.P.) is Time Warner Inc., a publicly traded company.

The parent of Petitioner New Line Cinema Corporation is Time Warner Inc., a publicly traded company.

The parent companies of Petitioner Twentieth Century Fox Film Corporation are Fox Entertainment Group, Inc. and The News Corporation Limited, both of which are publicly traded corporations.

The parent companies of Petitioner Universal Studios LLLP (f/k/a Universal City Studios, Inc.) are General Electric Company and Vivendi Universal S.A., both of which are publicly traded corporations.

The parent companies of Petitioner Arista Records, LLC (f/k/a Arista Records, Inc.) are Sony Corporation, a publicly traded corporation, and Bertelsmann AG, which is not publicly traded.

The parent company of Petitioner Atlantic Recording Corporation is WMG Parent Corp., which is not a publicly traded corporation.

The parent company of Petitioner Rhino Entertainment Company is WMG Parent Corp., which is not a publicly traded corporation.

The parent company of Petitioner Capitol Records, Inc. is EMI Group PLC, which is publicly traded in the U.K.

The parent company of Petitioner Elektra Entertainment Group Inc. is WMG Parent Corp., which is not a publicly traded corporation.

The parent company of Petitioner Hollywood Records is The Walt Disney Company, a publicly traded corporation.

The parent company of Petitioner Interscope Records is Vivendi Universal S.A., a publicly held French company.

The parent companies of Petitioner LaFace Records, LLC (f/k/a LaFace Records, Inc.) are Sony Corporation, a publicly traded corporation, and Bertelsmann AG, which is not publicly traded.

The parent company of Petitioner London-Sire Records Inc. is WMG Parent Corp., which is not a publicly traded corporation.

The parent company of Petitioner Motown Record Company, L.P. is Vivendi Universal S.A., a publicly held French company.

The parent companies of Petitioner The RCA Records Label are Sony Corporation, a publicly traded corporation, and Bertelsmann AG, which is not publicly traded.

The parent companies of Sony BMG Music Entertainment (successor-in-interest to Sony Music Entertainment Inc.) are Sony Corporation, a publicly traded corporation, and Bertelsman AG, which is not publicly traded.

The parent company of Petitioner UMG Recordings, Inc. is Vivendi Universal S.A., a publicly held French company.

The parent company of Petitioner Virgin Records America, Inc. is EMI Group PLC, which is publicly traded in the U.K.

The parent company of Petitioner Walt Disney Records is The Walt Disney Company, a publicly traded corporation.

The parent company of Petitioner Warner Bros. Records Inc. is WMG Parent Corp., which is not a publicly traded corporation.

The parent company of Petitioner WEA International Inc. is WMG Parent Corp., which is not a publicly traded corporation.

The parent company of Petitioner Warner Music Latina Inc. is WMG Parent Corp., which is not a publicly traded corporation.

The parent companies of Petitioner Zomba Recording, LLC (f/k/a Zomba Recording Corporation) are Sony Corporation, a publicly traded corporation, and Bertelsmann AG, which is not publicly traded.

Petitioner Bruin Music Company is a wholly-owned subsidiary of Petitioner Ensign Music Corporation, which is a wholly-owned subsidiary of Petitioner Famous Music Corporation, the indirect parent company of which is Viacom Inc., a publicly traded corporation.



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## **OPINIONS BELOW**

The opinion of the Court of Appeals is reported at 380 F.3d 1154, and is reprinted in the Appendix to the Petition (“Pet. App.”) at 1a-22a. The District Court’s opinion is reported at 259 F. Supp. 2d 1029, and is reprinted at Pet. App. 23a-56a.

## **JURISDICTION**

The Court of Appeals entered its judgment on August 19, 2004. This Court has jurisdiction under 28 U.S.C. § 1254(1).

## **STATUTES INVOLVED**

This case involves provisions of the Copyright Act, 17 U.S.C. § 101, *et seq.* The pertinent provisions are reproduced in the Appendix at Pet. App. 57a-60a.

## **STATEMENT OF THE CASE**

This is one of the most important copyright cases ever to reach this Court. Resolution of the question presented here will largely determine the value, indeed the very significance, of copyright in the digital era.

Respondents Grokster and StreamCast facilitate copyright infringement on a scale the Register of Copyrights has called “mind-boggling.”<sup>1</sup> Like their notorious predecessor Napster, respondents created and maintain Internet-based services that enable millions of people every day to copy and distribute copyrighted sound recordings and motion pictures without permission – and without paying for them. It is undisputed that those who use Grokster and StreamCast in this way are committing copyright infringement, and that this infringement constitutes at least 90% of the activity on the services. It is equally clear that

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<sup>1</sup> Statement of The Honorable Marybeth Peters, Register of Copyrights, Before the Senate Comm. on the Judiciary, 108th Cong. (Sept. 9, 2003), <http://www.copyright.gov/docs/regstat090903.html> (Pet. App. 65a-66a).

Grokster and StreamCast have built their businesses to capitalize on this infringement, that they profit handsomely from it, and that they designed their services to disable mechanisms that would prevent the very infringement that sustains their businesses.

The Ninth Circuit's refusal to hold Grokster and StreamCast accountable under these circumstances is a radical departure from principles of secondary liability recognized "in virtually all areas of the law," including copyright. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984) (*Sony-Betamax*). The Ninth Circuit read *Sony-Betamax* not as endorsing but as rejecting those established principles, and as instead imposing "limitations" and "higher standards" for contributory infringement that foreclose liability here. Pet. App.12a, 13a. But *Sony-Betamax* did not purport to decide how principles of secondary liability apply in circumstances like those present here (indeed, it left such questions open), and it manifestly did not dictate the result the Ninth Circuit reached. Not surprisingly, the Seventh Circuit has reached diametrically opposed conclusions on these same issues in a case involving an Internet-based service that does exactly what Grokster and StreamCast do. *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003) (Posner, J.), *cert. denied*, 124 S. Ct. 1069 (2004).

Review is urgently needed not only to resolve the conflict between the Ninth and Seventh Circuits, but more importantly to clarify the standards for secondary liability applicable to Internet-based services that facilitate copyright infringement. The infringement Grokster and StreamCast foster is inflicting catastrophic, multibillion-dollar harm on petitioners that cannot be redressed through lawsuits against the millions of direct infringers using those services. Left undisturbed, the Ninth Circuit's decision will effectively



insulate Grokster and StreamCast from suit nationwide, leaving these harms unremedied.

Indeed, the Ninth Circuit's decision threatens the very foundations of our copyright system in the digital era. The ease with which copyrighted works in digital form can be unlawfully copied and distributed millions of times over on the Internet makes it especially important that traditional principles of secondary copyright liability apply to enterprises that, like respondents, brazenly encourage and profit from infringement. Unless respondents and those like them can be held accountable, copyright will soon mean nothing on the Internet, and the incentives on which our copyright system rests will be imperiled.

#### **A. Factual Background**

1. Grokster and StreamCast run infringement-driven businesses. Exploiting widely available "peer-to-peer" technology, these companies created, maintain, and profit from Internet-based services that offer users the ability to obtain a vast array of copyrighted sound recordings and motion pictures without permission and *for free*. By connecting to the Grokster or StreamCast services, individuals can search the computer files of all other users connected to the service and, with a few simple clicks, can copy any desired file directly from the available files of other users (hence the name peer-to-peer).<sup>2</sup> Although peer-to-peer

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<sup>2</sup> The software contains a search function that allows users to search for digital files of sound recordings, motion pictures, or other content stored on the computers of any other user logged onto the service. For example, a user seeking recordings by Bruce Springsteen or the motion picture *Spider-Man* simply types the artist's name or the film title in a search window on the user's computer and clicks a search button. Within seconds a list is provided showing copies of the desired works available from other users on the service. With another click, the user downloads a digital copy of the desired work from another user's computer, and within a short time can listen to the song or view the film.

technology can be used lawfully for authorized exchanges of digital files, Grokster and StreamCast use it to profit from copyright infringement. Indeed, there is no dispute that infringement is at least 90% of the activity on the Grokster and StreamCast services and that this infringement occurs millions of times each day. Pet. App. 4a. Grokster and StreamCast have thus created on-line havens for copyright infringement of unprecedented magnitude.

Grokster and StreamCast “depend upon this infringement” to make money. Pet. App. 50a (district court opinion). They do not earn revenue by distributing software, and are thus not “software distributors” in any meaningful sense. Indeed, they do not sell their software at all. They give it away on the Internet, encouraging users to download it onto home and office computers. The software enables Internet users to connect to a vast network of like-minded infringers seeking copyrighted works and offering their own copies of such works to others. It also creates an enduring link between the service and its users whenever they are logged on. Grokster and StreamCast make their money by capitalizing on these ongoing relationships to sell advertising. *That* is their business. Every time a user activates Grokster or StreamCast software, the user’s computer automatically connects to a computer server that pumps advertising to the user’s computer screen. Grokster and StreamCast “derive substantial revenue” – millions of dollars annually – from advertisers seeking to reach the users of these services. *Id.* Grokster and StreamCast, therefore, have every incentive to attract as many users as possible.<sup>3</sup> As they know full well, and as the district court recognized, the infringing content is what lures users by the millions,

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<sup>3</sup> As StreamCast has explained, “the core value of a peer-to-peer network [is] the network itself and not necessarily the technology.” Joint Excerpts of Record 3864. All citations to record evidence are to material in the Joint Excerpts of Record (“JER”) that was before the Ninth Circuit.

allowing these companies to reap hefty advertising revenues. *Id.* (“Individuals are attracted . . . because of the ability to acquire copyrighted material free of charge.”).

By design, the Grokster and StreamCast services function as an unauthorized 24-hour-a-day worldwide distribution system for copyrighted sound recordings and motion pictures, cutting deeply into the legitimate markets for those works. Each time a Grokster or StreamCast user makes an unauthorized copy of a sound recording or motion picture, that copy is available on the user’s computer (as well as the computer of the user from whom the copy was made) to be copied and distributed by other users of the services – resulting in an exponentially multiplying redistribution of perfect digital copies. Indeed, whenever a user is logged on, all the files in the directory created by the Grokster or StreamCast software on the user’s computer are automatically available for copying by other users. Because millions of people use Grokster and StreamCast, virtually all of the most popular sound recordings and motion pictures – including many not yet released to the public – are available for free. Users need never again buy a CD, rent a DVD, or log on to legitimate on-line services such as Apple’s iTunes or Movielink to purchase authorized digital copies of desired works.

2. It is no accident that the Grokster and StreamCast business models depend on copyright infringement. These companies built directly upon the experience of Napster, the first infringement-driven service that used peer-to-peer technology. Soon after Napster began operations, record companies, songwriters, and music publishers sued to stop the massive infringement occurring on Napster’s service, and they obtained a preliminary injunction compelling Napster to block infringing material. *See A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001). The millions of

Napster users then fled in search of other services that could provide what Napster no longer could.

Seizing the moment, Grokster and StreamCast launched alternative peer-to-peer services “so that when Napster pulls the plug on their free service (or if the Court orders them shut down prior to that), we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative.” JER 3537. Grokster even inserted the word “Napster” into the “metatags” for its website, so that Internet users looking for “Napster” on Google or other search engines would be directed to Grokster. JER 6234. From a user’s perspective, Grokster and StreamCast differ from Napster only in the greater variety of their offerings, which include motion pictures, video games, and other digital copyrighted works, as well as the sound recordings that fueled Napster.

3. Although Grokster and StreamCast offer the same service Napster did, they differ from Napster in one technological detail, which is immaterial to their business model but which the Ninth Circuit found dispositive as a matter of copyright law. Napster maintained multiple central servers (*i.e.*, computers operated by Napster itself) with indices of the files available on its users’ computers. Napster users searched those indices to find the recordings they wanted – although the files themselves were distributed directly from one user to another (as on Grokster or StreamCast). In imposing liability, the *Napster* court relied in part on the fact that Napster contributed to infringement by providing these indices. Responding to that ruling, and seeking to evade responsibility for infringement while still encouraging and profiting from it, Grokster and StreamCast decentralized the search function on their services. They did so by commandeering the computers of some users as surrogate servers to store the indices of available material. When a Grokster or StreamCast user searches for desired

content, the search is conducted on indices maintained on these user computers (called “supernodes” by Grokster and “ultrapeers” by StreamCast).

4. Just as Grokster and StreamCast engineered the search function to make it more difficult for them to block infringing files, they dismantled other aspects of their services that could have been used to control infringement. When this lawsuit began, for example, a user activating Grokster or StreamCast logged on to the service through a central server requiring a unique user name and a password, and both companies reserved the right to deny access to infringers. After petitioners sued, respondents eliminated the log-in feature. Pet. App. 43a n.7.

At the same time, Grokster and StreamCast refused to implement available filtering technologies that would block the infringing materials on their services. As StreamCast’s former Chief Technology Officer has explained, “there are no technical limitations to the ability to filter” (and thereby block) infringing content on the Grokster and StreamCast services, and “the question is not whether file-sharing companies can filter, but whether they will.”<sup>4</sup> In stark contrast, to promote their business interests, Grokster and StreamCast have implemented filters to eliminate

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<sup>4</sup> Darrell Smith, *The File-Sharing Dilemma*, C-Net News (Feb. 3, 2004), at [http://news.com.com/The+file-sharing+dilemma/2010-1027\\_3-5152265.html](http://news.com.com/The+file-sharing+dilemma/2010-1027_3-5152265.html). Respondents disputed their ability to block infringing files, and Grokster in particular claimed that it lacked the power because it was a mere licensee without access to the underlying “source code” for the peer-to-peer software that is the backbone of its system. However, petitioners’ evidence showed that “there are methods presently available to prevent unauthorized recordings from being distributed on peer-to-peer systems like those operated by defendants,” Ikezoye Decl. ¶ 1, JER 760; Breslin Decl. ¶ 5, JER 722; Kleinrock Decl. ¶ 82, JER 816-17, that blocking could be accomplished “without any significant degradation in the [peer-to-peer] system,” Breslin Decl. ¶ 21, JER 727-28; and that blocking was feasible for services such as Grokster’s even without access to the “source code,” Kleinrock Dep. at 152-59, 184-85; JER 1872-81.

pornographic files, files with “viruses,” and “bogus” files (*i.e.*, files that appear to be, but are not, actual media files).

5. Respondents’ services (and others like them) inflict massive and irreparable harm. More than 2.6 billion infringing music files are downloaded each month, *see* Lev Grossman, *It’s All Free*, Time, May 5, 2003, and between 400,000 and 600,000 copies of motion pictures are unlawfully downloaded each day.<sup>5</sup> Record sales over the past three years are down 31%, and sales of the top 10 selling albums have dropped nearly 50%.<sup>6</sup> Conservative estimates of lost sales of music alone range from \$700 million to several billion dollars annually. *See, e.g.*, Simon Dyson, Informa Media Group Report, *Music on the Internet* 25 (4th ed. 2003). Moreover, petitioners stand to lose billions more as computers become faster, as user “bandwidth” grows, and as more consumers become aware of, or emboldened to use, the infringing services Grokster and StreamCast maintain.

### **B. Proceedings Below**

Petitioners – the major motion picture studios and record companies in this country, as well as a certified class of 27,000 music publishers and songwriters – sued seeking an injunction against continuing infringement on the Grokster and StreamCast services. The district court denied relief and granted summary judgment for respondents. Pet. App. 24a-25a.

On appeal, the Ninth Circuit recognized that the Grokster and StreamCast software “enables the user to participate in

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<sup>5</sup> *See* Press Release, MPAA, *MPAA Launches New Phase of Aggressive Education Campaign Against Movie Piracy* (June 15, 2004), at <http://mpaa.org/MPAAPress/>.

<sup>6</sup> *Privacy & Piracy: The Paradox of Illegal File Sharing on Peer-to-Peer Networks and the Impact of Technology on the Entertainment Industry: Hearing Before the Senate Comm. on Governmental Affairs, 108th Cong.* (Sept. 30, 2003) (statement by Mitch Bainwol, CEO, RIAA).

the respective peer-to-peer file-sharing networks,” Pet. App. 7a; that “the vast majority of the files are exchanged illegally in violation of the copyright law,” *id.* at 8a; that Grokster and StreamCast know their systems are being used for infringement; and that they profit handsomely from, and in direct proportion to, the level of infringement. Despite these undisputed facts, the court concluded that Grokster and StreamCast could not be held liable under either a contributory infringement or vicarious liability theory.

The court believed that *Sony-Betamax* (as the Ninth Circuit had previously interpreted it in *Napster*) imposed “limitations” on well-established principles of contributory infringement, and required a “higher standard” when a defendant’s contribution to infringement involves a product or service that has noninfringing uses. Pet. App. 12a, 13a. For those purported “limitations” to apply, the court held, “a product need only be *capable* of substantial noninfringing uses.” *Id.* at 11a (emphasis in original).

Applying that test, the Ninth Circuit held that it could not consider the undisputed fact that at least 90% of the activity on Grokster and StreamCast was copyright infringement. Pet. App. 11a (stating that considering such evidence “misapprehends the *Sony* standard”). Ignoring the empirical evidence documenting massive infringing use, and relying instead on anecdotal evidence that some noninfringing material was distributed on the services, the Ninth Circuit held that respondents satisfied the *Sony-Betamax* test.<sup>7</sup> In so

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<sup>7</sup> The Ninth Circuit stated that it was “undisputed” that respondents’ services were “capable of substantial noninfringing uses.” See Pet. App. 10a (citing Pet App. 33a). In reality, petitioners presented evidence contesting the extent of *actual* noninfringing uses of respondents’ networks; for example, petitioners demonstrated that the public domain works claimed by respondents’ affiants to be available on respondents’ networks were not, in fact, generally available. See, e.g., JER 0747 (Creighton Decl. ¶ 25). Petitioners also produced evidence that “over 90%” of the material on respondents’ services was infringing. Pet. App.

doing, the court stated without analysis or citation that these noninfringing uses have “commercial viability.” *Id.* at 12a. The court never explained how it reached that conclusion or what “commercial viability” even meant. What is clear, however, is that the court did not find or even suggest that there was a “substantial market for a non-infringing use” of respondents’ services, *Sony-Betamax*, 464 U.S. at 446 n.28 – *i.e.*, that Grokster and StreamCast could have sustained their business based on noninfringing uses.

The Ninth Circuit then went on to apply the “higher standard” it thought *Sony-Betamax* dictated. Specifically, the court required a showing that Grokster and StreamCast “had specific knowledge of infringement at a time at which they contribute[d] to the infringement and fail[ed] to act upon that information” – a standard that appears nowhere in *Sony-Betamax* itself or in the law of secondary liability. *See* Pet. App. 13a (quotation marks omitted; alteration in original). Applying that standard, the Ninth Circuit deemed “irrelevant” the notices of hundreds of thousands of specific infringements provided to Grokster and StreamCast. The court believed that Grokster and StreamCast could not have “acted upon this information” when they received the notices because by then they had already completed the actions that facilitated the infringement (*i.e.*, setting up the infringing services). *Id.*

The Ninth Circuit’s conclusion in that regard depended upon the unprecedented assumption that, no matter what the nature of their conduct or the surrounding circumstances, Grokster and StreamCast were under no legal duty either to have designed their services differently in the first place to prevent infringing uses, or to take reasonable steps going forward to do so. The court declared that “the software

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4a. The Ninth Circuit stated that petitioners “contended” that the remaining 10% was noninfringing, *id.* at 12a n.10, but that was wrong – petitioners stated only that 10% could not be categorized with confidence.



design is of great import,” Pet. App. 13a; indeed, it was outcome determinative. For the Ninth Circuit, it was irrelevant that the software design reflected deliberate, affirmative choices on the part of respondents to disable legal and practical mechanisms for controlling infringement by (among other things) disabling log-in and registration features and eliminating user licensing agreements (which purported to prohibit the infringing use of their systems). *Id.* at 13a; 43a n.7. It was likewise irrelevant to the Ninth Circuit that respondents chose not to upgrade their software to filter out infringing files, even though they filter out other undesirable files. *Id.* at 13a, 18a, 47a.

The same analysis led the Ninth Circuit to conclude that Grokster and StreamCast were not liable on the separate vicarious liability theory. Although the court found that “the elements of direct infringement and a direct financial benefit, via advertising revenue are undisputed in this case,” Pet. App. 16a., it absolved Grokster and StreamCast because they allegedly could not control the infringement on their services. As it did in rejecting contributory infringement, the court found irrelevant that Grokster and StreamCast had divested themselves of the ability to control infringement, *id.* at 18a (“given the lack of a registration and log-in process, . . . Grokster has no ability to actually terminate access to filesharing functions”), and that, with the use of software upgrades, they could easily filter out infringing files, *id.* at 70a (“possibilities for upgrading software located on another person’s computer are *irrelevant* to determining whether vicarious liability exists”) (emphasis added).

Thus, the Ninth Circuit has immunized Grokster and StreamCast from copyright liability for the millions of acts of copyright infringement that occur on their services every day, and that could not occur but for the existence of their services.

### REASONS FOR GRANTING THE PETITION

This case presents an exceptionally important question of federal law that has not been but should be settled by this Court, and on which the circuits are in conflict: How do principles of secondary liability apply to the unprecedented phenomenon of Internet services such as Grokster and StreamCast, whose overwhelming use is for the unauthorized distribution of copyrighted works to millions of users for free? The answer to that question is of paramount importance to the future of copyright in the digital age.

The Ninth Circuit concluded that Grokster and StreamCast could not be held responsible for the millions of acts of infringement occurring daily on their services. It did so even though infringement is the *primary* use for their services, their business model depends on this volume of infringing use, and, indeed, their advertising revenues are directly tied to the amount of infringement taking place. Remarkably, despite these facts, the Ninth Circuit found it dispositive *in respondents' favor* that they had tied their own hands by disabling mechanisms for blocking infringement on their services – a fact that should establish liability, not preclude it. Pet. App. 13a.

The Ninth Circuit purported to derive its counterintuitive approach from the Court's *Sony-Betamax* decision. *Sony-Betamax* did not, however, resolve the question presented here, much less mandate the radical surgery the Ninth Circuit performed on traditional principles of secondary liability. Under well-established law (which *Sony-Betamax* endorsed), it is both just and economically rational to impose liability on a defendant who knowingly furthers and profits from copyright infringement, especially when the defendant is in a position "to police carefully the conduct" of the direct infringer and chooses not to do so. 464 U.S. at 438 & n.18 (quotation marks omitted). Yet the Ninth Circuit repudiated those standards and adopted a test that, in the words of the

Register of Copyrights, “departed from long-established precedent” and would “eviscerate the doctrine of contributory infringement.” Pet. App. 65a-66a. Most fundamentally, the Ninth Circuit’s lopsided test ignored *Sony-Betamax*’s core premise that secondary liability rules must “strike a balance” between the copyright owners’ “legitimate demand for effective – and not merely symbolic – protection” and the rights of others to engage in “substantially unrelated areas of commerce.” 464 U.S. at 442.

In view of the Ninth Circuit’s extreme conclusions, it is hardly surprising that the decision below diverges markedly from Seventh Circuit law on the core question this case presents. See *In re Aimster*, 334 F.3d 643 (7th Cir. 2003). In a case involving a peer-to-peer service that was facilitating massive copyright infringement just as Grokster and StreamCast do, the Seventh Circuit read *Sony-Betamax* far differently than did the Ninth Circuit. That court of appeals prescribed a context-specific evaluation of how the defendant’s service operates in the real world to determine how best to accommodate *both* the interests of copyright holders in preventing infringement and the public’s access to the noninfringing uses of the service. In so doing, the Seventh Circuit deemed critical some of the very factors the Ninth Circuit deemed irrelevant: the relative proportions of infringing and noninfringing uses and the defendant’s ability to separate infringing from noninfringing material.

The undoubted legal and practical importance of the question presented in this case, and the conflict between the Ninth and Seventh Circuits, provide ample grounds for this Court to grant review. It is, moreover, imperative that review occur now. The Ninth Circuit’s ruling denies petitioners their principal remedy against the staggering harms they are suffering, and it effectively does so on a nationwide basis because, as a practical matter, petitioners are the only ones in

a position to challenge respondents. Thus, if the Ninth Circuit's decision stands, Grokster and StreamCast will be home free, and petitioners will be left with only the "impractical[]" and manifestly inadequate option of suing "a multitude of individual infringers." *Aimster*, 334 F.3d at 645. Even worse, new infringement-driven enterprises can set up shop in the Ninth Circuit, emboldened by the notion that they will evade legal responsibility if they follow the roadmap set forth in the decision below and engineer their systems to disable mechanisms for preventing infringement. The Ninth Circuit's decision will also encourage even more people to use Grokster and StreamCast (and the new services the court's decision will spawn) to infringe copyrights with impunity – further eroding respect for copyright on the Internet.

Holding Grokster and StreamCast responsible for the consequences of their conduct would pose no threat to the development and legitimate deployment of peer-to-peer technology. Petitioners seek only to bring an end to the infringement respondents' businesses have made possible – and petitioners have demonstrated that this can be done while preserving the technology's noninfringing uses. Indeed, the Ninth Circuit's legal rule will actually impede technological progress. As long as infringement-driven services such as Grokster and StreamCast continue to flourish, it will be exceedingly difficult for innovative on-line ventures that legitimately distribute recordings and motion pictures in digital format (such as Apple's iTunes, Movielink and the other new services now being launched) to compete on anything approaching an equal footing.

Sheltering Grokster and StreamCast (and others like them) thus poses a grave threat to the very foundations of the copyright law's incentive system for promoting the progress of science and the arts, and will profoundly reshape our nation's system of copyright in the digital era.

**I. THIS CASE RAISES THE CRITICALLY IMPORTANT QUESTION OF HOW SECONDARY COPYRIGHT LIABILITY APPLIES TO THE NATIONWIDE DISTRIBUTION OF PROTECTED WORKS OVER THE INTERNET.**

There is a pressing need for this Court to clarify the principles of secondary copyright liability applicable to peer-to-peer services that facilitate copyright infringement. By ignoring the fundamental principles of secondary liability, which *Sony-Betamax* reaffirmed, and the crucial differences between that case and this one, the Ninth Circuit converted the Court’s carefully circumscribed decision of twenty years ago into a license for companies to contribute to and profit from infringement with impunity.

**A. Liability For Secondary Copyright Infringement Has Long Been Imposed Under Established Doctrines That *Sony-Betamax* Reaffirmed.**

This case arises against the backdrop of a well-developed body of law governing secondary copyright liability. *See, e.g., Sony-Betamax*, 464 U.S. at 434-39 & n.18; *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911). As the Court explained in *Sony-Betamax*, secondary liability “is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.” 464 U.S. at 435. Specifically, “contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond the actual duplication of a . . . publication to the products or activities that make such duplication possible.” *Id.* at 442. Secondary liability thereby furthers the “basic purposes” of the copyright laws to “stimulate artistic creativity for the general public good.” *Id.* at 432 (quotation marks omitted).

Federal courts have long recognized two general theories for determining when secondary copyright liability is appropriate. The first, “contributory infringement,” applies when “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.” *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (footnote omitted). The second, “vicarious liability,” applies when “the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials [by another].” *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963). Both theories reflect the traditional tort principle of placing liability on “gatekeepers” who can most efficiently stop tortious activity. *See, e.g., In re Aimster*, 334 F.3d at 644-45; *see also* Jane C. Ginsburg, *Putting Cars on the “Information Superhighway,”* 95 Colum. L. Rev. 1466, 1488 (1995) (describing copyright’s historical reliance on gatekeeper liability, rather than enforcement against individual infringers); Tim Wu, *When Code Isn’t Law*, 89 Va. L. Rev. 679, 711, 717 (2003).

*Sony-Betamax* endorsed both types of secondary liability. *See* 464 U.S. at 435 n.17, 437-39. The Court recognized that liability for contributory infringement should sometimes be imposed on defendants whose products or activities make direct infringement possible, *id.* at 442, and rejected as *too narrow* a standard imposing liability only when a defendant “suppl[ies] its products to *identified* individuals *known* by it to be engaging in continuing infringement,” *id.* at 439 n.19 (emphasis added). Similarly, when a defendant profits from infringement and “has the power to police carefully the conduct of” the direct infringer, the Court stated that vicarious liability “is manifestly just” and “plac[es] responsibility where it can and should be effectively exercised.” *Id.* at 438 & n.18 (quoting *Shapiro*, 316 F.2d at 308).

**B. *Sony-Betamax* Adapted Established Secondary Liability Law To The Distinctive Situation Presented By That Case.**

*Sony-Betamax* adapted secondary liability principles to a novel context: the potential liability of a manufacturer of equipment – the Betamax video tape recorder – that was principally used for lawful noninfringing purposes, but that was also used incidentally for infringement. 464 U.S. at 421. The Court recognized that principles of secondary liability have to “strike a balance between a copyright holder’s legitimate demand for effective – not merely symbolic – protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce.” *Id.* at 442. To do so in that context, which involved the mere sale of a product, the Court drew on the “staple article of commerce” doctrine from patent law and held that the predominantly noninfringing uses of the Betamax precluded secondary liability.

One striking feature of *Sony-Betamax* is that the main bone of contention was not the standard for secondary copyright infringement, but whether the primary use of the Betamax machine constituted *direct* infringement. The Betamax was used principally for “time-shifting,” *i.e.*, recording a free telecast for later one-time viewing in the home. *Id.* at 423. The case did not involve the distribution of copyrighted works – the “transfer of tapes to other persons” – nor did it involve the copying of cable or other programs for which copyright owners charged a fee. *Id.* at 425. The Court held that time-shifting is fair use and therefore noninfringing, because it “merely enables a viewer to see . . . a work which he had been invited to witness in its entirety free of charge.” *Id.* at 449. Any harm from time-shifting was “speculative and, at best, minimal.” *Id.* at 454 (quoting trial court finding).

That holding drove the conclusion that Sony was not secondarily liable. *See id.* at 442; *see also id.* at 493 (Blackmun, J., dissenting) (agreeing that if primary use was fair use, then manufacturer would not be contributory infringer). The Court was concerned that if secondary liability were imposed, the plaintiffs would extend their copyright monopolies over a handful of particular works to an unrelated area of commerce – the sale of Betamax machines for noninfringing timeshifting – by obtaining an injunction against distribution of the Betamax or demanding a royalty for all such distribution. *Id.* at 440-41 & n.21. The district court had found that no practical means existed through which the manufacturer of the Betamax could separate infringing from noninfringing uses; hence, an injunction could not be crafted to stop one while allowing the other. *See Universal City Studios, Inc. v. Sony Corp.*, 480 F. Supp. 429, 461-62 (C.D. Cal. 1979); *see also* 464 U.S. at 437-38 (observing that manufacturer had no ongoing relationship after sale). *Sony-Betamax* thus presented an all-or-nothing choice. Under those circumstances, the Court analogized to the “staple article of commerce” doctrine from patent law to bar a copyright holder from obtaining control over copying equipment that had “commercially significant noninfringing uses,” 464 U.S. at 440-442, just as a patent holder may not leverage a monopoly over a patented device to gain a monopoly over an unpatented staple item used in the patented device. *See, e.g., Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931) (owner of patent on refrigeration unit cannot use it to gain monopoly over dry ice), *supplemented*, 283 U.S. 420 (1931).

*Sony-Betamax* determined that the Betamax’s predominant use – noninfringing time-shifting of free, over-the-air broadcast television programs – was “commercially significant.” 464 U.S. at 442. There was a substantial commercial market for the Betamax based solely on its use for time-shifting, not to mention its use for noninfringing



authorized copying. *See id.* at 446 n.28, 456. As that was plainly enough to meet the “commercially significant” standard, the Court declined to opine whether a lesser showing would also suffice. *Id.*

The Court in *Sony-Betamax* did not hold or even suggest that the existence of commercially significant noninfringing uses is an absolute shield from secondary liability no matter what other factors are present. It did not bar liability where, as here, the *predominant*, fully intended use of a product or service is infringing. It also did not rule out liability where, as here, the creator of the service has an ongoing relationship with the infringers, and its profits depend directly on the volume of ongoing infringing activity on its service. Nor did *Sony-Betamax* suggest that an enterprise is immune where, as here, it can exercise control to prevent infringement but chooses not to do so because its business model depends on voluminous infringing use. None of these issues was presented in *Sony-Betamax*, given the district court’s findings, which were made after a full trial: infringement of the two plaintiff’s copyrights was minimal and any resulting harm was speculative at most; there was no way to separate infringing from noninfringing uses; and the manufacturer had not in any way induced infringement. *See id.* at 434, 454, 439 n.19; *supra* 17.

Similarly, *Sony-Betamax* did not suggest that the existence of commercially significant noninfringing uses would shield from vicarious liability a defendant who profits from direct infringement and can prevent it in an ongoing relationship. To the contrary, the Court recognized that secondary liability in those situations would be “manifestly just.” *Id.* at 438. Sony itself, however, could not be subject to vicarious liability because it neither profited from infringement nor had an ongoing relationship with purchasers allowing it to block infringement. *Id.* at 437-38.

**C. Misreading *Sony-Betamax*, The Ninth Circuit’s Decision Turns Secondary Liability Principles On Their Head.**

Ignoring the carefully circumscribed nature of the Court’s analysis in *Sony-Betamax*, the Ninth Circuit misread that decision as virtually dictating that Grokster and StreamCast be shielded from contributory liability. In reality, the factual context here differs from *Sony-Betamax* in critical ways, raising important issues that were either expressly reserved or simply not presented by that case. At the same time, the Ninth Circuit ignored the well-established underlying *principles* of secondary liability, which *Sony-Betamax* reaffirmed, including the need to give meaningful protection to copyrights even while fostering new technologies. By forcing the square peg of this case into the round hole of *Sony-Betamax*, the Ninth Circuit created a completely novel test for secondary liability, unmoored from law or logic, that poses a grave threat to the very existence of intellectual property in the digital era.

First, the Ninth Circuit emptied all meaning from *Sony-Betamax*’s concept of “commercially significant” noninfringing uses. The Ninth Circuit simply pronounced the noninfringing uses “commercially viab[le]” without setting forth any standard for making that determination. Specifically, the court did not attempt to ascertain whether there is “a substantial market for a non-infringing use of” Grokster’s or StreamCast’s services that could commercially support their advertisement-dependent businesses, 464 U.S. at 442, 447 n.28, or whether (as the district court found) their businesses depend on attracting millions of infringing users. Instead, the Ninth Circuit let respondents establish “substantial noninfringing uses” with anecdotes of how their services were or *might be* used without infringing. If this constitutes commercially significant noninfringing use, then every service or product meets that standard. This case thus

presents the issue, expressly left open in *Sony-Betamax*, *id.* at 442, of whether noninfringing uses can be “commercially significant” when the defendant’s business depends on *infringing* uses and is not sustainable without them.

Second, the Ninth Circuit read *Sony-Betamax* – refracted through the circuit’s *Napster* decision – as absolving a defendant of liability for contributory infringement once substantial noninfringing uses are established, except in one narrow circumstance: when the defendant fails to act on specific knowledge of specific infringement using the current features of the service as designed by the defendant. Pet. App. 10a-11a. Not only is that almost exactly the standard rejected as *too narrow* by *Sony-Betamax*, *see* 464 U.S. at 439 n.19 (refusing to import the standard for contributory infringement that governs trademark law), but it renders legally *irrelevant* critical factors that are present here but were absent in *Sony-Betamax*.

For example, the Ninth Circuit found it irrelevant that “the vast majority of the . . . use [of respondents’ services] is for copyright infringement.” Pet. App. 11a. Indeed, the Ninth Circuit believed that even to consider the extent of infringement “misapprehend[ed] the *Sony* standard.” *Id.* Focusing solely on alleged noninfringing uses, the Ninth Circuit’s secondary liability rules ignore the other side of the balance: the “copyright holder’s legitimate demand for effective – not merely symbolic – protection of the statutory monopoly.” 464 U.S. at 442.

The situation in *Sony-Betamax* was the polar opposite. The predominant use of the Betamax machine – one-time later viewing of free programs without any distribution to others – was fair use. The predominant use of the Grokster and StreamCast services is undisputed infringement. Those services are overwhelmingly used to *distribute* free digital copies of petitioners’ works. That use directly supplants existing and future markets for the sale and authorized

distribution of those works, inflicting direct and obvious harm upon the recording, music publishing, and motion picture industries. Not even respondents have tried to justify the massive infringement on Grokster and StreamCast as fair use. Thus, even if the minimal noninfringing uses of Grokster and StreamCast could be deemed “commercially significant” within the meaning of *Sony-Betamax*, this case still presents the important question whether the “staple article of commerce” doctrine should be extended to situations where the overwhelming use is for devastating infringement.

Similarly, under the Ninth Circuit’s test a defendant’s ability to block infringement is rendered irrelevant except in the narrowest circumstances. The entire rationale for importing the “staple article of commerce” doctrine in *Sony-Betamax* was to prevent monopoly leveraging into unrelated areas of commerce. *See* 464 U.S. at 440-42. That concern is not implicated where infringing and noninfringing uses can be separated, so that enforcement of the copyright monopoly to enjoin infringing uses leaves noninfringing uses untouched. Here, Grokster and StreamCast could easily implement technological measures to separate infringing from noninfringing uses but made affirmative choices not to do so and, indeed, disabled aspects of their systems that could be used to that end. The Ninth Circuit, however, held that it must accept as given the way respondents’ systems are currently engineered. Pet. App. 13a (“software design is of great import”).

With that unprecedented leap, the Ninth Circuit has encouraged infringement-driven services to shield themselves from liability by designing their services to *disable* their ability to block infringement. *See* Jane C. Ginsburg, *Copyright Use and Excuse on the Internet*, 24 Colum.-VLA J.L. & Arts 1, 37 (2000) (criticizing “rule that one who deliberately builds an online system in a way that

confounds the distinction [between infringing and noninfringing uses] should escape liability”). The Ninth Circuit’s rule thus fosters a peculiar kind of “innovation” – it incents enterprises to “innovate” by disabling a system’s capacity to prevent infringing uses, irrespective of whether such innovation otherwise makes sense from a business or technical perspective. *Sony-Betamax* cannot possibly have intended that result, and copyright law cannot withstand it.

The Ninth Circuit imported the same misconception into its analysis of vicarious liability. Although the court acknowledged that the issue of vicarious liability was not presented in *Sony-Betamax* and therefore “held that *Sony-Betamax* has no application . . . to vicarious copyright infringement,” Pet. App. 16a (quotation marks omitted), it created the same gaping exception to that well-established basis for liability whenever a defendant has engineered its service to disable mechanisms for preventing infringement. Thus, even though Grokster and StreamCast concededly profit directly from infringement and are gatekeepers that could implement measures to block infringing uses or users, they are not liable under the Ninth Circuit’s standard precisely because they have chosen not to implement those measures. That turns the law of vicarious liability on its head. Far from “placing responsibility where it can and should be effectively exercised” in order to encourage gatekeepers who profit from the infringement of others “to police carefully,” *Sony-Betamax*, 464 U.S. at 437 n.18 (quoting *Shapiro*, 316 F.2d at 308), the Ninth Circuit’s new defense to vicarious liability gives gatekeepers a perverse incentive to *avoid* technological measures for controlling infringement by their users.

Finally, the Ninth Circuit’s test enables those who (like Grokster and StreamCast) set out deliberately to induce or aid infringement on an unprecedented scale while willfully blinding themselves to specific acts of infringement to escape

liability. The only state of mind that matters in the Ninth Circuit is specific knowledge of specific infringement at the precise time the infringement can be stopped using the service as defendants designed it. Nothing in *Sony-Betamax* dictates, or even remotely supports, such a result.

The Court has often granted certiorari to resolve such issues involving the fundamental direction of copyright law – even absent a circuit conflict (which is present here, *see* Point II *infra*). Indeed, the Court did so in *Sony-Betamax* itself. *See also Teleprompter Corp. v. Columbia Broad. Sys., Inc.*, 415 U.S. 394, 399 (1974); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 393 (1968). The need for immediate review is more pressing in this case than it was in *Sony-Betamax*. The Ninth Circuit’s secondary liability rules shield every enterprise that intentionally sets out to make money by facilitating copyright infringement on the Internet. That ruling threatens not only petitioners’ businesses, but also the very foundations of our copyright system in the digital era. Immediate review is manifestly appropriate.

## **II. THE DECISION BELOW CREATES A DIRECT AND ACKNOWLEDGED CONFLICT WITH THE SEVENTH CIRCUIT’S DECISION IN *AIMSTER*.**

The Ninth Circuit’s decision creates a direct and acknowledged conflict with the Seventh Circuit’s *Aimster* decision, in which Judge Posner affirmed a district court’s conclusion that *Aimster*, a peer-to-peer file-sharing service that operated like the services at issue here, was likely to be found liable as a contributory infringer. Under *Aimster*, a court must assess a system’s actual and probable potential infringing and noninfringing uses, and then must balance the costs and benefits to accommodate the interests of copyright holders in preventing infringement while protecting the right of the public to use products for noninfringing uses. The Ninth Circuit expressly rejected that approach, examining only whether the system is theoretically *capable* of

noninfringing uses, no matter how improbable, and then permitting liability only when the alleged contributory infringer has specific knowledge of actual infringement and has engineered its system to allow for the prevention of the infringement when the defendant learns it is occurring. This conflict demonstrates that *Sony-Betamax* did not dictate the Ninth Circuit's tortured approach, and it reinforces the need for this Court's review.

**A. There Is A Conflict Regarding What Is Necessary To Show Commercially Significant Noninfringing Uses.**

The Ninth Circuit and the Seventh Circuit are in direct conflict over what a defendant must show under *Sony-Betamax* to establish that defendant's system is capable of commercially significant noninfringing uses.

The Ninth Circuit requires only a showing that substantial noninfringing uses are possible. *See* Pet. App. 11a (holding that "in order for limitations imposed by *Sony-Betamax* to apply, a product need only be *capable* of substantial noninfringing uses.") (emphasis in original). A service thus may have substantial noninfringing uses even if the current uses are overwhelmingly infringing, and even if the current noninfringing uses would not support the product as a stand-alone business. The Seventh Circuit, in contrast, evaluates not just whether noninfringing uses are possible, *see* 334 F.3d at 651 (holding that it is insufficient merely to show that Aimster's "system *could* be used in noninfringing ways") (emphasis in original), but also "how probable [such uses] are," *id.* at 653, and how important those uses are relative to the infringing uses, *see id.* at 649 (holding that "some estimate of the respective magnitudes of these uses is necessary").

The Ninth Circuit acknowledged that "the Seventh Circuit has read *Sony-Betamax*'s substantial noninfringing use standard differently." Pet. App. 11a n.9. In the Ninth

Circuit's view, the Seventh Circuit's conclusion that "an important additional factor is how 'probable' the infringing uses of a product are," was "premised specifically on a fundamental disagreement with *Napster I*'s reading of *Sony-Betamax*." *Id.* The Ninth Circuit concluded that it simply "d[id] not read *Sony-Betamax*'s holding as narrowly as does the Seventh Circuit." *Id.*

To be sure, the Ninth Circuit suggests weakly that *Aimster* would not help petitioners here because "implicit in the *Aimster* analysis is that a finding of substantial noninfringing use, including potential use, would be fatal to a contributory infringement claim." Pet. App. 11a-12a n.9. But Judge Posner *rejected* that position, holding that "[e]ven when there are noninfringing uses of an Internet file-sharing service . . . 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." 334 F.3d at 653.

The Ninth Circuit also suggests that somehow the split is not implicated because, "[i]n *Aimster*, no evidence was tendered of any noninfringing product use." Pet. App. 11a-12a n.9. But that just highlights the conflict. Under the Ninth Circuit's approach, no evidence of actual noninfringing use is necessary; the product need only be "capable" of such use. For the Seventh Circuit, "[i]t is not enough . . . that a product or service be physically capable . . . of noninfringing uses." 334 F.3d at 653. Instead, a court must assess "how probable [those uses] are," and whether the service "is *actually* used for any of the stated noninfringing purposes." *Id.* (emphasis in original); *see also id.* at 652-53 (holding that *Aimster* did not satisfy the *Sony-Betamax* standard even though it was capable of at least five identified noninfringing



uses). *Cf.* Pet. App. 11a (deeming irrelevant that “the vast majority of the software use is for copyright infringement”).<sup>8</sup>

**B. There Is A Conflict On The Consequences Of A Showing Of Substantial Noninfringing Uses.**

The Ninth Circuit’s decision also conflicts with *Aimster* regarding when liability for contributory infringement may be imposed on a defendant that has demonstrated that its service has “substantial noninfringing uses.” In the Ninth Circuit, liability may now be imposed only when the defendant has actual knowledge of specific infringing uses and has already included mechanisms in its system to block such uses. The Seventh Circuit, in contrast, adopted a balancing test: a peer-to-peer service that is capable of substantial noninfringing uses is nonetheless liable if the service facilitates substantial infringing uses and it is not disproportionately costly to take technological steps to curtail the infringing uses.

The two articulated approaches are irreconcilable with respect to the legal significance of evidence that a defendant could have taken reasonable steps to prevent infringement while preserving noninfringing uses. In the Ninth Circuit, such evidence is irrelevant as a matter of law – the existing technological and business structure is taken as a given. The Ninth Circuit thus deemed irrelevant evidence that Grokster and StreamCast could filter out infringing materials, as they filter out files containing pornography and viruses, as well as evidence that they could have employed (and at one time did

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<sup>8</sup> Nor can the Ninth Circuit avoid the conflict by its blithe suggestion that there are “a minimum of hundreds of thousands of legitimate file exchanges.” Pet. App. 12a n.10. The Seventh Circuit demands a comparison of the “respective magnitudes” of the system’s infringing and noninfringing uses. 334 F.3d at 649. The Ninth Circuit’s hotly disputed (*see supra* 9 & n.7) conjecture that there might be “hundreds of thousands” of legitimate exchanges pales in comparison to the millions and millions of illegitimate exchanges.

employ) other solutions – such as a registration and login system that made possible the termination of infringing users – to combat infringement without compromising the network’s ability to permit legitimate file exchanges. *See* Pet. App. 76a, 82a, 88a, 107a-115a. The Ninth Circuit’s approach creates the perverse incentive for a defendant literally to engineer its way out of copyright liability, while still facilitating infringement.<sup>9</sup>

The Seventh Circuit, in contrast, held that the existing software design does not determine copyright liability. The Aimster system, for example, encrypted the file sharing information, limiting Aimster’s ability to detect and prevent infringement. The Seventh Circuit held that Aimster failed to justify the need for the encryption capability, 334 F.3d at 653, and the court refused to allow Aimster to engineer willful “blind[ness]” in the “hope that that by so doing it might come within the rule of the *Sony* decision.” *Id.*

Compounding the conflict, the Ninth Circuit imposes temporal and knowledge restrictions that are wholly absent from the Seventh Circuit’s analysis. In the Ninth Circuit, a defendant must have knowledge of specific acts of infringement, and the knowledge must come at a time when the defendant is in a position to stop *that particular infringement*. The Seventh Circuit imposes no comparable requirements. A defendant with knowledge that the primary use of its service is for infringement is liable if it would not have been disproportionately costly to eliminate or reduce

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<sup>9</sup> The Ninth Circuit’s approach thus diverges from well-established tort principles that inquire into the risks and benefits of a particular design, including whether there is a feasible alternative design that would make the product less harmful. *Restatement (Third) of Torts: Products Liability* § 2 (1998) (“A product . . . is defective in design when the foreseeable risks of harm posed by the product could have been reduced or avoided by the adoption of reasonable alternative designs”); W. Page Keeton, *et al.*, *Prosser & Keeton on the Law of Torts*, § 99 at 699 (5th ed. 1984).

substantially the infringing uses, regardless of whether the defendant knew of specific infringement or had disabled mechanisms that would have prevented that infringement.

In short, as the Ninth Circuit stated, there is “fundamental disagreement” between the Seventh Circuit and the Ninth Circuit.<sup>10</sup> That each court purported to anchor its decision in *Sony-Betamax* yet adopted such sharply divergent legal standards confirms the need for this Court’s intervention.

### **III. IMMEDIATE REVIEW IS URGENTLY NEEDED.**

This Court’s review is urgently needed. For petitioners, everything is on the line. Petitioners own the copyrights in most of the material infringed on Grokster and StreamCast, and they are the only copyright owners with sufficient resources and incentives to litigate effectively against respondents. As a practical matter, therefore, a denial of review insulates Grokster and StreamCast – two of the most popular peer-to-peer services in the country – from further legal challenge nationwide and ensures that the massive infringements they facilitate will continue unabated.

Further delay also multiplies the irreparable harm that the Ninth Circuit’s decision legitimizes. More than 40 million people use peer-to-peer networks, and more than 5 million are on Grokster and StreamCast at any given moment. Frank Ahrens, *States Warn File-Sharing Networks*, Wash. Post, Aug. 5, 2004, at E2. Conservative independent estimates of lost music sales alone range from \$700 million to several billion dollars annually, *see supra* 8; adding lost sales for motion pictures raises the aggregate harm to staggering levels.

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<sup>10</sup> *See also* Jesse M. Feder, *Is Betamax Obsolete?: Sony Corp. of America v. Universal City Studios, Inc. in the Age of Napster*, 37 Creighton L. Rev. 859, 860 (2004) (noting that *Napster*, *Grokster*, and *Aimster* have “produc[ed] outcomes that are, at least at first blush, startling in their inconsistency”).

Nor is the harm limited to established businesses. The blueprint for avoiding liability set forth in the Ninth Circuit's decision threatens legitimate Internet media downloading services – such as Apple's iTunes, RealNetworks' Rhapsody, and CinemaNow – that are just now getting off the ground, thus stifling innovation in the legitimate use of technology to distribute movies, music, and other copyrighted digital works over the Internet.

Finally, leaving the Ninth Circuit's decision intact also sends exactly the wrong message to Internet users because it appears to approve the direct infringement that everyone agrees is unlawful. It is perhaps unsurprising that Grokster and StreamCast have capitalized on the Ninth Circuit's ruling by now touting their services as completely "legal."<sup>11</sup> Denying review thus erodes not only public perception of the value of sound recordings, musical compositions, and motion pictures, but respect for the foundations of copyright law that our Framers believed critical to "motivate the creative activity" of authors and artists, *Sony-Betamax*, 464 U.S. at 429, and to "induce release to the public of the product of their creative genius," *id.* (internal quotation marks omitted).

### CONCLUSION

The petition for a writ of certiorari should be granted.

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<sup>11</sup> *E.g., Morpheus*<sup>TM</sup> *Legitimacy Confirmed! Appellate Court Rules in Favor of Peer-To-Peer Giant StreamCast Networks, Inc.*<sup>TM</sup>, at [http://www.streamcastnetworks.com/08\\_19\\_04\\_9th\\_CircuitFinal.html](http://www.streamcastnetworks.com/08_19_04_9th_CircuitFinal.html), Pet. App. 75a-79a; *Grokster Wins!*, at <http://www.grokster.com/> (visited Sept. 13, 2004), Pet. App. 80a-82a; *Latest News: US courts affirm Kazaa 100% legal!*, at <http://www.kazaa.com/us/index.htm> (visited Sept. 13, 2004), Pet. App. 83a-85a.

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