

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

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

Plaintiffs,

v.

GROKSTER, LTD., et al.,

Defendants

JERRY LIEBER, et al.,

Plaintiffs,

v.

**CONSUMER EMPOWERMENT
BV a/k/a FASTRACK, et al.,**

Defendants

Case No. CV 01-08541 SVW (PJW_x)
(Consolidated with CV 01-09923 SVW
(PJW_x))

**NOTICE OF MOTION AND
MOTION FOR LEAVE TO FILE
AS *AMICUS CURIAE* OF THE
CONSUMER ELECTRONICS
ASSOCIATION IN RESPONSE TO
PLAINTIFFS' MOTION FOR
SUMMARY JUDGMENT;
ACCOMPANYING
MEMORANDUM OF POINTS AND
AUTHORITIES**

Date: December 2, 2002 (or such other
time designated by the Court)

Time: 1:30 p.m.

Ctrl: The Hon. Stephen V. Wilson

MOTION OF AMICUS CURIAE CONSUMER ELECTRONICS ASSOCIATION
Case No. CV 01-08541 SVW (PJW_x)

TO: ALL PARTIES AND THEIR COUNSEL OF RECORD HEREIN

PLEASE TAKE NOTICE that , on December 2, 2002, at 1:30 p.m., or at such

other time as the Court may designate beforehand, in the courtroom of the

Honorable Stephen V. Wilson, 312 N. Spring Street, Los Angeles, California 90012,

the above-listed *amicus* will move the Court to accept a memorandum of law of

amicus in response to plaintiffs' motion for summary judgment in case nos. CV 01-

08541 SVW (PJWx) and 01-09923 SVW (PJWx) pursuant to this Court's discretionary powers and F.R.Civ.P. 7, and for the reasons more fully set forth in the attached memorandum of law.

This Motion is based upon:

- this Notice of Motion and Motion;
- the accompanying Memorandum;
- the record of this case as made available to the public;
- such other matters as the Court may elect to consider.

**MEMORANDUM OF *AMICUS CURIAE*
CONSUMER ELECTRONICS ASSOCIATION**

I. INTRODUCTION AND INTEREST OF *AMICUS*

This *amicus curiae* brief is submitted on behalf of the Consumer Electronics Association (“CEA”). CEA is the principal U.S. trade association of the consumer electronics industry. CEA’s members design, manufacture, distribute, and sell a wide variety of consumer electronic equipment, including devices that may be misused for infringing purposes, but nonetheless are capable of substantial non-infringing uses.

As a representative of manufacturers of digital technologies, CEA has consistently advocated protecting the rights of copyright holders in a manner that does not suffocate the introduction of new consumer innovations. This careful

balance was established by the U.S. Supreme Court in Sony Corporation of America v. Universal City Studios, 464 U.S. 417 (1984) (hereinafter referred to as “Betamax”). CEA has long familiarity with the Betamax standard and the potentially devastating impact on consumers, the consumer electronics industry and innovative new technologies if this standard is misapplied or distorted. Since the time the Supreme Court announced its decision in Betamax, CEA’s members and other technology companies have relied on those standards in having the freedom to design and market innovative products in the United States and the ability to use those products in a variety of applications. For this reason, CEA is very concerned that the Court not be guided by the flawed analysis of the Betamax decision offered by Plaintiffs in their Memorandum of Points and Authorities accompanying their Motion for Summary Judgment on Liability (“Motion”) filed before this Court on September 9, 2002. Were the Court to adopt the analysis offered by Plaintiffs, it would establish a damaging precedent that could threaten other technologies that give individuals new control over the information they find, save and transmit over the Internet, discourage development of any new equipment or technology that may be capable of significant non-infringing use, and impose on manufacturers and providers of such technology unsustainable obligations to police the conduct of third parties.

Accordingly, this *amicus curiae* brief addresses the errors in the Motion in describing and analyzing the standards for contributory and vicarious infringement set out in Betamax.

II. THE COURT NEED NOT REACH THE ISSUES INVOLVING THE BETAMAX DECISION IF IT FINDS THAT DEFENDANTS PROVIDE A SERVICE, NOT A PRODUCT.

A. The Betamax Defense Against Claims of Contributory Infringement Applies Only to “Staple Articles of Commerce.”

CEA offers no opinion on the specific facts of this case. CEA neither endorses nor condemns the specific conduct of Defendants alleged in this case in making available peer-to-peer networking technologies that may enable persons to make digital reproductions of copyrighted works. Because it does not have familiarity with or specific knowledge of Defendants’ business operations or the nature of their relationships with the persons who utilize the technology Defendants provide, CEA also offers no opinion as to whether such conduct is a “service” or a “product,” as that language is used in Plaintiffs’ Motion. For purposes of this memorandum, CEA will adopt the service-product dichotomy urged by Plaintiffs; in CEA’s view, a “service” may entail a direct, purposeful and on-going relationship with customers that serves to facilitate conduct which may include the alleged infringement, while a “product” is the “sale of an article of commerce,” to use the language of the Betamax decision, 464 U.S. at 440, and may include a relationship with a customer who purchases that product so that the

provider may ensure that the product operates in the manner in which the provider intended.

Thus, to the extent that the Plaintiff's Motion argues that a finding that Defendants' offerings constitute a service obviates the application of Betamax to this case, *amicus* CEA does not disagree within the semantic context outlined above. CEA does not agree, however, that all software which makes possible peer-to-peer networking is by its nature a service and not a product. Moreover, such software may be capable of substantial non-infringing use and thus an application of the Betamax standard to determine contributory liability may be appropriate. As discussed below, Plaintiffs' Motion is broad-sweeping and erroneous in some respects with regard to how the Court should determine whether the software at issue constitutes a service or a product.

B. The Fact That A Provider Of A Product May Maintain An Ongoing Relationship With Its Infringing Customer Does Not Necessarily Vitate a Betamax Defense Against Contributory Liability And Is Not Sufficient To Result In A Finding Of Vicarious Liability.

In the world of on-line technologies and the appliances used to make these technologies available to consumers, the relationship between a product vendor and the purchaser of that product often does not terminate at the point of sale. Some form of relationship to ensure normal maintenance and operations of the product is often put into place. Plaintiffs isolate the language in the Betamax

decision referring to an “ongoing relationship” between the direct infringer and the contributory infringer (Motion at 46, line 16, citing Betamax, 464 U.S. at 437) in order to bootstrap an argument that “ongoing interactions between Defendants and their users – and the technical features of Defendants’ systems (including their design, construction, and operation) that enable or require such interactions” remove a possible defense based on Betamax. Motion at 47, line 4, citing In Re: Aimster Copyright Litigation, slip op. 14265, 2002 WL 31006142, 2002 U.S. Dist. LEXIS 17054, at 27 (N.D Ill. Sept. 4, 2002). This argument is over-broad and incorrect.

Not all on-going relationships between a direct infringer and the provider of a product that in some part makes possible such infringement should result in a finding of contributory infringement by the provider. A manufacturer of a photocopier machine may maintain a “service” [use of this term here is not consistent with the dichotomy discussed above] relationship with the purchaser of that machine to ensure through regular maintenance and repair that the photocopier functions pursuant to the warranty purchased with that machine. That relationship by itself would not make the manufacturer liable if its customer used the photocopier to infringe on another party’s copyright.

Similarly, a provider of software that is used for peer-to-peer networking, a technology capable of non-infringing use through, as one example, the sharing of

non-copyrighted material, could maintain an on-going relationship, including network functionality, with its customer to ensure that the software functions as warranted for such non-infringing use. The presence of such an on-going relationship proves nothing on its own. Plaintiffs remain obliged to prove that Defendants had knowledge of the direct infringement and induced, caused or materially contributed to such infringement. Thus, in the example depicted above, the photocopier technician would have to know that the machine he serviced was used for infringement, and then would have to contribute to that infringement in some material way, in order for contributory liability to obtain. (This example overlooks, for the purposes of argument, issues of imputation of the technician's knowledge and conduct to his employer.) Similarly, in order for the provider of peer-to-peer networking software to be found liable for contributory infringement, that provider must be shown to have actual knowledge of the infringement. A&M Records, Inc., v. Napster, Inc. 239 F. 3d, 1004, 1020-21 (9th Cir. 2001) (“Napster II”), citing Betamax, 464 U.S. at 442. Plaintiffs must then show that the personal conduct of the provider made a non-passive, material contribution to that infringement. Fonovisa, 76 F. 3d at 264. The presence of an “on-going relationship” is merely a backdrop to these requisite showings.

Likewise, the presence of an “on-going relationship” between the provider of a product and a customer engaged in direct infringement through the use of that

product is not sufficient to demonstrate vicarious infringement. Instead, Plaintiffs must show that Defendants will derive a financial benefit from the availability of the infringing material and the right and the ability to supervise the infringing activity. Id. at 1022.

The most recent leading case in this circuit addressing vicarious liability from access to counterfeit recordings is Fonavisa, Inc. v. Cherry Auction, Inc., 76 F. 3d 259 (9th Cir. 1996). That case cited as the landmark case on vicarious liability for sales of counterfeit recordings Shapiro, Bernstein and Co. v. H. L. Green Co., 316 F. 2d 304 (2^d Cir. 1963). Shapiro distinguished between two lines of cases, the so-called “landlord-tenant” cases and the so-called “dance hall” cases. While finding that the defendant department store’s relationship with its phonograph records concessionaire, who directly infringed on the plaintiff’s copyright through the sale of “bootleg” records, more closely resembled the relationships described in the “dance hall” cases, the Shapiro court described the holdings of the “landlord-tenant cases” as follows:

If the landlord lets his premises without knowledge of the impending infringement by his tenant, exercises no supervision over him, charges a fixed rental and receives no other benefit from the infringement, and contributes in no way to it, it has been held that the landlord is not liable for his tenant’s wrongdoing.

316 F.2d at 307 (citations omitted). Similarly, a manufacturer or vendor of a product utilized for infringement may maintain an on-going relationship without

knowledge of the customers infringing activities, with no supervision over that customer, with charges that are not related to the infringement, and with no contribution to the infringement (per the Betamax analysis). An on-going relationship between a direct infringer and the supplier of the technology that helps make the infringement possible may be necessary to show the vicarious liability of the latter, but it is not sufficient.

III. PLAINTIFFS' MOTION HAS DISTORTED THE BETAMAX HOLDING AS IT APPLIES TO CLAIMS OF CONTRIBUTORY INFRINGEMENT DIRECTED AGAINST MANUFACTURERS.

A. The Motion Attempts To Substitute A "Primary Use" Test In Place Of The Betamax Standard Of "Substantial Non-Infringing Use."

Plaintiffs suggest a new "primary purpose" formulation of the Betamax doctrine that is nowhere present in the Supreme Court's opinion and was rejected in the case that the Supreme Court decided. In so doing, they are inviting this Court to rule that merely through the connection of devices to networks, the Betamax standard, as it applies to the use of devices, is revised and vitiated. In the networked world of consumer electronics, such an innovation would effectively overturn the Betamax standard itself. There is absolutely no basis in the record of this case for this Court to do so. The Court may or may not have sufficient evidence as to the operation of the Defendants' offerings in question to grant summary judgment. It clearly does not have sufficient evidence as to the operation of devices, in conjunction with these networks, for it to add a gloss to the Supreme

Court's considered formulation in the Betamax case.

The Supreme Court held in Betamax that:

[T]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial non-infringing uses. . . . The question is thus whether the Betamax is capable of commercially significant non-infringing uses.

Betamax, 464 U.S. at 442 (emphasis added). The Court also made clear that uses to be considered included not only actual, current uses, but also “the different potential uses.” Id. Thus, assessment of the applicability of the staple of article of commerce doctrine to a product requires assessment of the uses of which the product is “capable” or “adapted,” including those that may be only future or “potential” uses. A finding of applicability is mandated where those uses include commercially significant non-infringing uses.

The volume of non-infringing use of the product at the time of the case does not determine the applicability of the Betamax defense. Under Betamax, it is enough, in a contributory infringement context, that an accused technology have a potential, substantial non-infringing use. Betamax, 464 U.S. at 442. See, e.g., Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255, 266-67 (5th Cir. 1988) (technology that permitted copying of software was not contributorily infringing where it could be used to make archival copies, without regard to the relative magnitude of the lawful use); RCA/Ariola Int’l, Inc. v. Thomas & Grayston Co.,

845 F.2d 773, 776-77 (8th Cir. 1988) (evidence of non-infringing use was that the machine concerned was advertised as suitable for duplicating spoken word recordings).

Plaintiffs' Motion states that the Betamax Court "hinged its analysis on the finding that the 'primary use' of the Betamax – private noncommercial time-shifting in the home – was fair use." (Motion at 44, line 24.) The language cited, however, is drawn simply from a recitation of the results of surveys of users of the Betamax recording device during a sample period; there is no indication that the Court "hinged" its decision on this particular fact, nor any discussion in the Court's legal analysis much later in the decision that points to this particular fact. Plaintiff's motion simply ignores the Betamax decision's central holding that a provider's defense against contributory infringement is that the product supplying the means for reproducing the copyrighted work need merely be capable of commercially significant non-infringing uses.

The Ninth Circuit's decision in the recent Napster case is also clear on this issue. First, the Court of Appeals ruled that the lower court "improperly confined the use analysis to current uses, ignoring the system's capabilities." 239 F. 2d at 1021. Second, the court held that the lower court "placed undue weight on the proportion of current infringing use as compared to current and future non-infringing use." Id. Decisions which imply that, for the Betamax defense to apply,

the primary use of technology must not be for infringing uses are simply incorrect.
Cf. Aimster Copyright Litigation, slip op. 14265 at 27.

B. Manufacturers Are Not Responsible For Predicting Possible Infringing Uses Of Their Products And Altering The Design Of Their Products To Prevent Such Possible Infringement.

Plaintiffs argue at length in their Motion that Defendant's could have designed their technology differently, so as to avoid the possibility of infringing uses. Motion at 40-43. In effect, the Plaintiffs urge that the Court impose a rule that, if a technology supplier might design or modify its technology in any way to avoid the possibility of infringement, it must do so in order to avoid copyright liability. The Supreme Court in Betamax rejected such an obligation. It did not require VCR sellers, on pain of suffering copyright infringement liability, to redesign their products so that they would not copy copyrighted programming of proprietors who did not give their permission. The Supreme Court recognized the necessity 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." Betamax, 464 U.S. at 442. *See also Universal City Studios, Inc. v. Sony Corporation of America*, 480 F. Supp. 429, 462 (C.D. Cal. 1979) ("power to supervise" for vicarious liability purposes does not include the ability to terminate the business).

In Betamax, the Supreme Court reiterated that the copyright privileges Congress conferred to copyright holders were “neither unlimited nor primary designed to provide a special private benefit.” Betamax, 417 U.S. at 429. The primary objective in conferring a copyright is the general benefits derived from the work of the authors and innovators. See Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156. Copyrights are a limited grant in the form of a special reward necessary to encourage the creative and innovative activities of authors and inventors. See Betamax, 417 U.S. at 429.

Plaintiffs seek to protect their copyrights. However, their arguments are over-broad in that, if adopted, they would restrict the development of new and innovative technologies because of the potential of infringing Plaintiffs’ copyrights. Plaintiffs’ position directly contradicts Congress’ intent to encourage creation and innovation in the arts and sciences. Manufacturers extend financial and human resources in developing new and innovative technologies. To determine whether a technology that may be used or is currently used in an infringing manner should be held contributory liable, the Court must follow the rationale of the Betamax decision. The Betamax test ensures that technological innovation is not stalled by copyright holders in fear of infringement.

IV. CONCLUSION

Amicus Consumer Electronics Association respectfully requests that the Court in its decision on Plaintiffs Motion for Summary Judgment on Liability address the legal issues relating to Sony Corporation of America v. Universal City Studios and the other issues discussed above in a manner consistent with the approach urged by *amicus*.

Respectfully submitted,

John R. Walton
CSB #
Thomas & Walton LLP
550 South Hope Street
Suite 1000
Los Angeles, CA 90071-2644
(213) 488-1600

Of counsel:

Gary S. Klein
Vice President,
Government and Legal Affairs
Consumer Electronics Association
2500 Wilson Boulevard
Arlington, Virginia 22201
(703) 907-7600

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