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11
12 UNITED STATES DISTRICT COURT
13 CENTRAL DISTRICT OF CALIFORNIA
14 WESTERN DIVISION

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

16 Plaintiffs,

17 v.

18 GROKSTER, LTD., et al.,

19 Defendants.

Case No. CV 01-08541 SVW (PJWx)

20
21 JERRY LEIBER, et al.,

22 Plaintiffs,

23 v.

24 GROKSTER, LTD., et al.,

25 Defendants.

Case No. 01-09923 SVW (PJWx)

**GROKSTER LTD.'S MEMORANDUM
OF POINTS AND AUTHORITIES IN
OPPOSITION TO PLAINTIFFS'
MOTION FOR SUMMARY JUDGMENT**

Date: December 2, 2002

Time: 1:30 p.m.

Judge: The Honorable Stephen V. Wilson

26 AND RELATED COUNTERCLAIMS
27

REDACTED VERSION

28
GROKSTER LTD.'S **REDACTED** MEMORANDUM OF POINTS AND AUTHORITIES IN OPPOSITION TO
PLAINTIFFS MOTION FOR SUMMARY JUDGMENT
CASE NOS. CV 01-08541 SVW (PJWx) and 01-09923 SVW (PJWx)

1 I. INTRODUCTION

2 “**Defendants** are able to police their systems by excluding unwanted users”

3 “**Defendants** have even blocked content owners and their representatives from
4 locating infringing activity on their systems”

5 “**Defendants** maintain the anonymity of their users and also encrypt many of the
6 communications between users and **Defendants**”

7 “**Defendants** . . . [m]odified and upgraded the user software”

8 “**Defendants** . . . [e]ngaged in regular communication with supernodes (up to
9 every 12 hours) for the purpose of causing supernodes to cease operating as
10 supernodes”

11 “**Defendants** . . . [s]elected and embedded the Internet addresses of multiple
12 supernodes in the user software”

13 “**Defendants** [e]mployed central servers under their control to monitor
14 supernodes”

15 “**Defendants** . . . [m]onitored the performance of their systems and user software
16 centrally”

17 “**Defendants** . . . [a]ffected and/or improved the performance, security and/or
18 functioning of their systems or user software centrally, by modifying variable in
19 programs running on their central servers.”

20 “**Defendants** now communicate a control message to supernodes”¹

21 In Grokster’s own motion for summary judgment, we told this Court that this is at heart a
22 simple case. Despite the carloads of paper filed by Plaintiffs in support of their motion for
23 summary judgment, nothing has changed: particularly as regards Grokster, this is still a simple
24 case. But Plaintiffs have made a deliberate decision to obfuscate the facts in this matter, by
25 submitting to this Court a brief that repeatedly refers to Grokster, Streamcast, and Kazaa
26 generically as “**Defendants**,” and makes factual statements concerning “**Defendants**” that, at
27 least as to Grokster, are simply and uncontrovertibly false, and are supported—if at all—solely
28 by citation to evidence concerning other parties. Each of the statements quoted above, and
dozens of others in Plaintiffs’ pleadings, are false as to Grokster. Moreover, in many instances
they are true—if at all—only as to Kazaa: a party that has failed to answer the operative

¹ Plaintiffs Memorandum of Points and Authorities in Support of Motion for Summary Judgment (“MPA”) at 14, 16, & 22.

1 complaint and has asked that a default be taken against it. These dual tactics—seeking summary
2 judgment against a defaulting and absent party, and then deliberately citing against other
3 defendants evidence relevant only to that party —makes the Court’s task considerably more
4 difficult.

5 As regards Grokster, however, that task is not impossible. Once the Court manages to
6 pick through the evidence actually presented by Plaintiffs, the result is inescapable: Grokster
7 distributes a piece of software it did not write and cannot rewrite, which is capable of—and is in
8 fact widely used for—noninfringing purposes. Therefore, under the controlling authority of
9 Sony Corp. of Amer. v. Universal City Studios (“Sony”), 464 U.S. 417 (1984), Grokster cannot
10 be held liable for contributory infringement. Moreover, Grokster—while actively promoting and
11 encouraging legitimate uses of its product—has responded to each of Plaintiffs’ notifications of
12 alleged infringement by acting promptly to discourage those alleged infringements. Therefore,
13 under the controlling authority of A&M Records v. Napster (“Napster”), 239 F.3d 1004 (9th Cir.
14 2001), Grokster cannot be held liable for vicarious infringement.

15 II. ARGUMENT

16 A. Plaintiffs Improperly Seek Summary Judgment Against Kazaa

17 Throughout their motion Plaintiffs improperly lump Kazaa, Grokster and Streamcast
18 together as “Defendants.” Plaintiffs’ transparent efforts to impute Kazaa’s actions to Grokster
19 (and Streamcast) would be improper in any circumstance. Where Kazaa has affirmatively sought
20 its own default and is not presenting a defense, it is particularly egregious.

21 Kazaa is not even a proper party to this proceeding. Kazaa has not answered the
22 amended complaint. Failure to plead or otherwise respond to a complaint—amended or
23 otherwise—within the proper time renders a party in default. See Fed. R. Civ. P. 15, 55. The
24 Court should thus enter Kazaa’s default, and not entertain Plaintiffs’ summary judgment motion
25 against Kazaa. See Phillips Factors Corp. v. Harbor Lane of Pensacola, Inc., 648 F. Supp. 1580,
26 1582 (M.D.N.C. 1986) (summary judgment an improper procedural vehicle for judgment where
27 defendant fails to appear). The Ninth Circuit recently provided guidance on handling this
28 situation. See In re First T.D. & Investment, Inc., 253 F.3d 520, 532 (9th Cir. 2001). Relying on

1 the Supreme Court’s decision in Frow v. DeLa Vega, 82 U.S. 552, 554 (1872), the Court held
2 that where one codefendant defaults, the district court should enter the default—but not a default
3 judgment—and proceed on the pleadings of the remaining codefendants. See also Hunt v. Inter-
4 Globe Energy, Inc., 770 F.2d 145, 148 (10th Cir. 1985). The defaulting party would thus have
5 no standing, but would be entitled to the effects of a favorable dispositive ruling. First T&D, 235
6 F. 3d at 532. Contrary to this clear authority, Plaintiffs have systematically opposed entering
7 Kazaa’s default in an attempt to gain a tactical advantage over Grokster and Streamcast.

8 Moreover, Plaintiffs’ efforts materially prejudice Grokster and Streamcast in opposing
9 Plaintiffs’ motion. By refusing to take Kazaa’s default, Plaintiffs attempt an end-run around
10 their summary judgment burden. Only Kazaa can dispute many of Plaintiffs’ purported factual
11 issues, which they improperly attribute to all “Defendants.” As a result, Plaintiffs hope to sustain
12 their burden as to Grokster and Streamcast based on information that neither one has the ability
13 to dispute. As Plaintiffs themselves point out, the discovery obtained in this case is from
14 Streamcast and Grokster, not Kazaa. See MPA at 6. Plaintiffs cannot establish liability through
15 the silence of a non-appearing party.

16 **B. Plaintiffs Fail to Meet Their Burden of Establishing Direct Infringement**

17 In rushing to convince the Court that Grokster and its codefendants are liable for
18 contributory or vicarious infringement, Plaintiffs skip the first step: In order to establish liability
19 for contributory or vicarious copyright infringement, a plaintiff must first prove that direct
20 infringement has occurred. Sony, 464 U.S. at 434. Plaintiffs have failed to do so: instead, their
21 evidence consists solely of a showing that files for which they hold copyrights are available on
22 the hard drives of some users of Defendants’ software. They do not, however, adduce any
23 evidence that any of those files was itself illegally obtained: there is no conclusive showing that
24 the individuals involved did not copy those files to their computers from their own lawful copies
25 of Plaintiffs’ records, which under the Audio Home Recording Act they are unquestionably
26 allowed to do. 17 U.S.C. 1001 et seq.; see also RIAA v. Diamond Multimedia Sys., Inc., 180
27 F.3d 1072, 1079 (9th Cir. 1999). While unauthorized distribution of copyrighted works violates
28 the Copyright Act, attempted distribution does not.

1 This is an admittedly technical argument: it is reasonable to assume that at least some of
2 the works found by searching the internet with Defendants’ software have been illicitly copied.
3 But on the current record that is nothing more than an assumption, and courts do not issue
4 summary judgments on the basis of assumptions, regardless how reasonable. Indeed, the District
5 Court of the Southern District of New York, based on functionally identical evidence presented
6 by most of the same plaintiffs as here, recently denied summary judgment on precisely this basis.
7 In Arista Records et al. v. MP3Board (“MP3Board”), 00 Civ. 4660 (SHS) (S.D.N.Y.) (August
8 28, 2002)², Plaintiffs moved for summary judgment based on evidence nearly identical to that
9 presented here: evidence of the availability of their works via the defendants’ website, combined
10 with evidence that Plaintiffs had themselves downloaded those works and confirmed their
11 contents. Judge Stein ruled—correctly—that this showing was insufficient for summary
12 judgment:

13 While the structure of MP3Board’s site and the scale of the operation certainly
14 give rise to a strong statistical inference that MP3Board users downloaded files
15 containing copyrighted music in violation of the record companies’ reproduction
rights under Section 106(1), the record companies have failed to eliminate all
genuine issues of material fact.

16 MP3Board freely acknowledges the possibility that infringement is conducted
17 with the aid of its site. . . . One principal admitted that it was “particularly likely”
18 that MP3Board’s users have used links on MP3Board’s Web site to download
19 full-length copies of major record labels’ songs. . . . [A] finder of fact could
20 certainly infer that it is likely that those users subsequently downloaded the songs
they had requested. However, the record companies have not eliminated all issues
of material fact by setting forth any direct evidence of infringement, such as user
logs or other technical data showing the downloading of copyrighted and
unauthorized files.

21 Id. at 6-7.

22 In that case, as here, the Plaintiffs had themselves actually downloaded infringing files,
23 but Judge Stein held that downloading by the copyright holder does not suffice to establish
24 infringement for summary judgment purposes:

25 [T]o show the unlawful “distribution” of a copyrighted work pursuant to 17
26 U.S.C. § 106(3) the record companies must show that an unlawful copy was
disseminated “to the public.” Hotaling v. Church of Jesus Christ of Latter-Day
27 Saints, 118 F.3d 199, 203 (4th Cir. 1997) (internal quotations omitted).

28 ² A copy of that opinion is attached to the Declaration of Michael H. Page in Opposition to
Plaintiffs’ Motion for Summary Judgment (“Page Opp. Decl.”) as Exhibit A.

1 “Infringement of the distribution right requires an actual dissemination of . . .
2 copies.” National Car Rental Sys. v. Computer Assocs. Int’l, Inc., 991 F.2d 426,
3 434 (8th Cir. 1993).

4 Id. at 7. Accordingly, the MP3Board court denied summary judgment. The record here is
5 functionally identical. The result should also be identical: because Plaintiffs have failed to carry
6 their burden of establishing direct infringement, their motion for summary judgment must be
7 denied.

8 **C. Plaintiffs Create “Limitations” on Sony Contrary to Established Caselaw**

9 In an effort to avoid the controlling precedent of Sony, Plaintiffs attempt to read into that
10 opinion a series of “limitations” which, they assert, make the Supreme Court’s holding irrelevant
11 to this case. None of these purported “limitations,” however, finds support in the caselaw.

12 **1. Sony is not Limited to Sellers Who Have No Further Contact With
13 Purchasers**

14 Plaintiffs’ primary argument is that Sony only applies where the seller of the product in
15 question “ceases any contact with or supervision of its customers at the point of sale.” MPA at
16 46. But this limitation wildly overstates the holding of Sony, and would render the Sony
17 doctrine a nullity. Virtually every manufacturer of commercial products maintains an ongoing
18 relationship of some sort with its customers: they offer warranty service, fix defects, provide
19 user manuals, offer telephone and internet support and advice, sell parts and supplies, and the
20 like. In the world of software in particular, ongoing involvement with customers is the norm.
21 The question is not whether a manufacturer has any further interaction with its customers: if that
22 were the test, every single supplier of every piece of equipment used by alleged infringers would
23 be liable, from Microsoft (which provides the operating system) to the ISP (who provide the
24 connectivity) to the hardware manufacturers (who provide the computers and disk drives and
25 modems) to AOL (which provides the media players), ad infinitum.

26 The relevant standard is not whether Grokster maintains any “ongoing relationship” with
27 its users—of course it does, like any other software provider—but rather whether Grokster “with
28 knowledge of the infringing activity, induces, causes or materially contributes to the infringing
conduct of another” Napster, 239 F.3d at 1019. If a mere ongoing relationship sufficed to

1 establish liability, the Napster court would not have needed to go on to analyze the nature of the
2 ongoing contact. But the Napster court did just that, taking pains to “make a clear distinction
3 between the architecture of the Napster system and Napster’s conduct in relation to the
4 operational capacity of the system.” Id. at 1020. Accordingly, the Napster court held that “[t]o
5 enjoin simply because a computer network allows for infringing use would, in our opinion,
6 violate Sony and potentially restrict activity unrelated to infringing use,” (id. at 1021) and upheld
7 the District Court’s finding of a likelihood of success not because of some amorphous concept of
8 “ongoing contact,” but rather specifically because Napster “could block access to the system by
9 suppliers of the infringing material, and that it failed to remove the material.”

10 The court in MP3Board similarly held that “[m]erely supplying the means to accomplish
11 an infringing activity cannot give rise to the imposition of liability for contributory infringement
12 Participation in the infringement must be substantial. The . . . assistance must bear a direct
13 relationship to the infringing acts, and the contributory infringer must have acted in concert with
14 the direct infringer.” Id. at 9 (internal quotations omitted). Applying that standard, the
15 MP3Board court correctly analyzed the evidence to determine whether the defendant had
16 actively assisted its users in locating and downloading infringing material. Based on evidence of
17 MP3Board personnel actually performing searches for copyrighted works for its customers,
18 posting links on its website to known infringing sites, and refusing to remove those links despite
19 demands from plaintiffs, the court held that there were material issues of fact on this question
20 precluding summary judgment in MP3Board’s favor.³

21 Plaintiffs present no such evidence of Grokster’s “substantial participation” that “bear[s]
22 a direct relationship to the infringing acts.” Instead, Plaintiffs bombard the Court with countless
23 examples of “ongoing relationship” that bear no relation whatsoever to the direct infringements
24 alleged—activities such as a home page that promotes independent artists who have authorized
25 sharing of their works, a newsletter that promotes those same artists, periodic software updates,
26 advertising that is delivered regardless whether the user is sharing authorized or unauthorized

27 _____
28 ³ In the MP3Board case, just as here, both sides moved for summary judgment. The court,
however, never reached this issue in denying the plaintiffs’ motion, instead denying that motion

1 files (or any files at all), and web pages providing basic instruction in the operation of the
2 Grokster software. And then, buried among the reams of “evidence” of acts wholly unrelated to
3 any alleged copyright infringement, and evidence that—despite being labeled as related to
4 “defendants”—has nothing to do with Grokster, Plaintiffs submit two isolated instances in which
5 Grokster’s founder Daniel Rung inadvertently provided stock responses to technical questions
6 that contained in their text the names of works the Plaintiffs claim are being infringed. MPA at
7 27.

8 What Plaintiffs fail to advise the Court, however, is how those responses came about.
9 Grokster, despite having a staff of only two people, has voluntarily undertaken to manually
10 review all communications from users before allowing them to be posted to its website.
11 Grokster’s policy is to delete any posting that encourages or even refers to the copying of
12 anything Grokster recognizes as unauthorized content. Mr. Rung testified that he spends a
13 considerable amount of time at this task, dealing with hundreds of messages daily, and has
14 deleted many hundreds of such postings.⁴ D. Rung Depo., 180:2-185:5; 193:5-195:8.⁵ But in
15 order for one person to handle the volume of communications, his review must be cursory; in
16 most instances, where the subject line of a posting or a quick review of the message reveals the
17 nature of the technical question, he inserts a stock, prewritten technical answer in the reply and
18 moves on. Not surprisingly, once in a while an email with a reference to an apparently
19 infringing work slips through. Plaintiffs have seized upon two such examples from among the
20 thousands of technical questions and other emails received and reviewed by Grokster. Both of
21 the responses cited by Plaintiffs are examples of stock technical advice inadvertently provided to
22 people who included the names of apparently infringing works in their technical questions.⁶ It

23
24 because—just as here—plaintiffs failed to establish direct infringement. See Section IIB, supra.

25 ⁴ Indeed, in instances where Mr. Rung becomes aware of infringing conduct, he often berates the
26 user involved, suggesting that he or she pay for copyrighted content. Ironically, Plaintiffs quote
27 and cite one such instance as evidence of assistance to the user. MPA at 28.

28 ⁵ Copies of all cited deposition testimony are at Page Opp. Decl., Exhs. L through Q.

⁶ Although one of the two is in fact an example of the folly of assuming infringement based
solely on file names: the user complains that, upon downloading a file that appeared to be
“resident evil,” it turned out to be “some old boxing movie.” GR 06581.

1 would be folly, however, to assign liability based upon isolated failures in a not-quite-perfect
2 attempt to discourage infringement. It would also be the worst sort of perverse incentive: after
3 all, Plaintiffs’ complaint is purportedly that “Defendants” do nothing to discourage their users
4 from infringing. But if liability were to attach whenever an attempt to filter users’ postings is
5 anything short of perfect, defendants will take the safer course of declining to review or filter
6 those comments at all.

7 Mr. Rung’s responses, moreover, are wholly irrelevant to this motion. It was Plaintiffs,
8 after all, that insisted—over Defendants’ strenuous objections—that they be permitted to hand
9 pick a small set of “Phase 1” works on which to bring their motion for summary judgment. By
10 doing so, Plaintiffs were able to limit this motion to works they were confident did not have the
11 ownership and “work for hire” issues that plagued them in the Napster case. Having prevailed in
12 that effort, however, Plaintiffs cannot be allowed to selectively re-expand their motion whenever
13 it suits their purposes, alleging contributory infringement of works to which they have not
14 established title and which they have had excluded from this motion. None of the works
15 mentioned in the proffered evidence are at issue in this motion. Compare GR 06581, GR 04524
16 (mentioning *Lord of the Rings*, *Resident Evil*, and *Big Fat Liar*) with First Amended Complaint,
17 Exhibit A (listing Phase 1 works).

18 **2. Sony is Not Limited to Cases That do Not Involve Alleged Distribution**

19 Plaintiffs next assert that Sony is inapplicable here because it applies only to products
20 that allow the copying of works, not products that allow the distribution of works. In support of
21 this new “limitation,” Plaintiffs rely on an isolated bit of language from Sony, wherein the
22 Supreme Court noted that “[n]o issue concerning the transfer of tapes to other persons . . . was
23 raised.” MPA at 48.

24 This argument fails for several reasons. First, the quoted language is taken not from
25 Sony’s discussion of contributory infringement, but from the discussion of fair use: in that
26 context, whether the recordings at issue were for the purpose of “time shifting” rather than
27 distribution was clearly relevant. The Court did not, however, make reference to this
28 distinction—let alone rely on it—in its holding on contributory infringement.

1 Second, this “limitation” on Sony is flatly inconsistent with controlling authority in this
2 Circuit. If—as Plaintiffs suggest—the mere fact that the Grokster software enables users to
3 distribute files takes it beyond the scope of Sony, then the same would have been true of the
4 Napster software. The Ninth Circuit, however, held precisely the opposite, holding that “[w]e
5 are bound to follow Sony, and will not impute the requisite level of knowledge to Napster simply
6 because peer-to-peer filesharing technology may be used to infringe plaintiffs’ copyrights.”
7 Napster, 239 F.3d at 1020-21. The Ninth Circuit then proceeded to determine that Napster’s
8 actual knowledge of specific infringements, and its ability to block infringing users, disqualified
9 it from asserting the Sony defense. But if Sony said what Plaintiffs urge—that the mere ability
10 to distribute works vitiates the defense—the Ninth Circuit’s analysis could have stopped at that
11 point.

12 Third, the caselaw cited by Plaintiffs in support of this “limitation” on Sony is
13 inapplicable. New York Times Co. v. Tasini, 533 U.S. 483, 504 (2001) involved a claim of
14 infringement by publishers who themselves republished articles via a database without
15 compensating the authors. In a single paragraph, the Supreme Court rejected the publishers’
16 assertion of Sony by noting that the case before it was one for direct infringement, not
17 contributory infringement (which had not even been pled), and thus that Sony was obviously
18 inapplicable. Tasini has no bearing here. The other case cited by Plaintiffs, In Re: Aimster
19 Copyright Litigation, 2002 WL 31006142 (N.D. Ill. Sept. 4, 2002) is on this point contrary to the
20 controlling precedent of Napster. The Aimster court, relying on the same discussion of fair use
21 cited by Plaintiffs, opined without further analysis that the very architecture of the Aimster
22 system disqualified it from the Sony defense because users made infringing files available to
23 other users, rather than merely for their own “private, home use.” But as discussed above, the
24 Napster Court rejected this view of Sony, finding that it was “compelled to make a clear
25 distinction between the architecture of the Napster system and Napster’s conduct in relation to
26 the operational capacity of the system.” Napster at 1020.

27 That distinction, mandated by the Ninth Circuit in Napster, is crucial in understanding the
28 more fundamental distinction between Aimster and Grokster. The principal factual basis for the

1 Aimster decision was Aimster’s conduct in actively encouraging and facilitating copyright
2 infringement. Aimster did not merely provide the tool used by direct infringers: the court found
3 that, among other things, Aimster affirmatively tracked the most popular illegal downloads, and
4 posted links to that content on its “Club Aimster” website. It also affirmatively and knowingly
5 urged users to download infringing titles. Id. at 24. On this basis, the Aimster court
6 distinguished Aimster from other tools that may be used to infringe: “A search engine does not
7 entice its users to infringe others’ copyrights. Instant Messaging programs (like AOL IM) do not
8 index, rank, and comment upon MP3 music for its users to browse and copy. Aimster is
9 different.” Id. at 25. Aimster may be different, but Grokster is not.⁷

10 **3. Sony Contains No “Designed For Infringing Use” Limitation**

11 Plaintiffs’ third argument for the inapplicability of the Sony doctrine is hardly an
12 argument at all; it merits only two sentences in Plaintiffs’ brief. MPA at 48. Plaintiffs argue that
13 Sony “does not apply where a defendant specifically designed a system for infringing use.” But
14 in support of that argument, Plaintiffs rely on A&M Records v. Abdallah, Inc., 948 F. Supp.
15 1449 (C.D. Cal. 1996), a case in which the defendant sold blank “time-loaded” cassettes:
16 cassettes that had been specially loaded with precisely the correct amount of tape to make
17 bootleg copies of commercial albums. Moreover, the defendant was clearly aware of the use to
18 which the tapes would be put, because he was provided with the original recordings, and himself
19 timed them in order to determine the length of the blank tapes. Thus in that case the time-loaded
20 cassettes were not “staple articles,” but instead were specially manufactured for a known
21 infringing purpose. The only other authority cited for this proposition, Aimster, relies in turn on
22 Abdallah, and improperly bases its holding on whether the “primary” use of the product is
23 infringing or noninfringing. In this regard as well, Aimster conflicts with the law of this Circuit:

24 _____
25 ⁷ The Aimster decision also points out another important distinction between Aimster (and
26 Napster) on the one hand and Grokster on the other. The Aimster court rejected Aimster’s
27 contention that the architecture of the Aimster software (in particular its use of encryption)
28 prevented Aimster from identifying infringing content, noting that it was “disingenuous of
Defendants to suggest that they lack the requisite level of knowledge when their putative
ignorance is due entirely to an encryption scheme *that they themselves put in place.*” Id. at 23
(emphasis in original). Here, by contrast, it is undisputed that Grokster had no role in creating
the FastTrack software, has no access to the source code, and has no ability to determine what

1 the Napster court expressly rejected a test based on the current proportion of infringing and
2 noninfringing uses: “The district court improperly confined the use analysis to current uses,
3 ignoring the system’s capabilities.” Instead, as the Supreme Court established in Sony, the
4 product “need merely be capable of substantial noninfringing uses.” Sony at 442. In any event,
5 Plaintiffs’ argument has no application to Grokster, which didn’t “design” the system at all.

6 **4. Sony Contains No Limitation For Products That Could Have Been Designed**
7 **Differently**

8 Finally, Plaintiffs argue that Sony “does not apply where the infringing activity can be
9 avoided while permitting alleged noninfringing uses to continue.”⁸ The obvious problem with
10 this argument is that the Sony court itself rejected precisely the same argument. In that case, the
11 plaintiffs argued that Sony should be held contributorily liable because it could have designed its
12 VCR’s to include copy protection—the same argument Plaintiffs urge here. That argument,
13 however, garnered only a minority: Justice Blackmun, in dissent, argued that liability should
14 attach because “Sony may be able, for example, to build a VTR that enables broadcasters to
15 scramble the signal of individual programs and ‘jam’ the unauthorized recording of them.” 464
16 U.S. at 494 (Blackmun, J., dissenting). The majority, however, rejected this argument, correctly
17 basing its opinion on the device that was manufactured, regardless whether a different one more
18 to the liking of the plaintiffs could be imagined.

19 **D. Plaintiffs Fail To Establish That Grokster Can Control The Allegedly Infringing**
20 **Activities Of Its Users, And Thus Cannot Prevail On Vicarious Liability**

21 Even were this Court to ignore Sony and hold that the legality of the software at issue
22 here is dependent on what other design decisions its authors might have made—and thus hold
23 that vicarious liability is to be measured not by what control Defendants actually have over their

24 files individual users are exchanging.

25 ⁸ Curiously, Plaintiffs cite RCA v. All-Fast Systems, 594 F. Supp. 335 (1984) in support of this
26 proposition. In that case the court enjoined the activities of a storefront operation that itself
27 illegally copied tapes at its customers’ request, using a tape duplicating machine known as the
28 Rezound. It expressly declined, however, to seize the machine itself, holding that the Sony
doctrine protected the manufacturer of the machine, but not its operator, noting that an injunction
against use of the machine itself “would thus prevent the legitimate and socially beneficent uses
of the Rezound machine.” Id. at 339-40.

1 users, but instead what control Defendants might have had if only they had built a different
2 product—it is undisputed that Grokster had no role in the design of the FastTrack software, has
3 no access to the source code, and has no ability to alter the architecture of that software. Holding
4 Grokster liable for the design decisions of software it merely licenses and distributes would be
5 no different than holding Circuit City liable for the failure of Sony to build copy protection into
6 its VCRs.

7 More fundamentally, however, even as regards the other defendants in this action, there is
8 at a minimum a serious dispute as to the feasibility of the filtering methods Plaintiffs advocate.
9 No online filesharing system has ever successfully implemented such a system. As Plaintiffs
10 own declarants note, both text-based and fingerprinting filtering systems were designed and
11 implemented in the Napster case. Plaintiffs fail to note, however, that the Napster system failed:
12 after months of costly development and testing, the District Court and the Ninth Circuit both
13 rejected the system, and refused to allow Napster to deploy it. Indeed, Plaintiffs themselves are
14 quite candid about the failings of text-based filtering when it suits their purposes. In advocating
15 for their own form of injunction in the Aimster case (which would require the use of digital
16 fingerprinting in a “filter in” system), Plaintiffs told the district court only weeks ago:

17 Napster initially chose to employ “text-based filtering,” which did not block, for
18 example, files containing misspellings in artist names or song titles. This method,
as implemented by Napster, proved porous and wholly ineffective.

19

20 “[T]ext-based filtering,” similar to that used by Napster, cannot effectively filter
21 copyrighted works in an online environment.

22 Page Opp. Decl., Exh. K at 4.

23 Having made this representation to the Aimster court, Plaintiffs cannot now be heard to
24 assert to this Court that text-based filtering is a viable alternative. Apparently recognizing this,
25 Plaintiffs instead tout “digital fingerprinting” technologies as their solution du jour, submitting
26 declarations from three companies they claim establish that “[t]here exist today sound
27 technologies that would allow defendants to identify the content of an audio or video file based
28 on its actual acoustic or visual properties.” MPA at 42. The depositions of those declarants,

1 however, reveal that those “commercial,” “sound” technologies are nothing of the sort: rather,
2 they are nothing but vague proposals for a fingerprinting system they hope might prove viable
3 down the road.

4 **1. Digital Fingerprinting Is Not A Current, Viable Option**

5 Plaintiffs have submitted the declarations of executives from three companies, Audible
6 Magic, Relatable, and Gracenote, each asserting that their products are commercially available,
7 ready for deployment, and suitable for use as a filtering technology for the filesharing
8 applications at issue in this case. Each company is developing its own variant of “digital
9 fingerprinting” technology, wherein the content of an audio file is sampled to derive a unique
10 “fingerprint,” which can then be compared to a central database of fingerprints. Proposed
11 filtering systems using such technology can be one of two types: “filter-in” systems, where a file
12 is allowed to be shared only if it is on a list of approved content, or “filter-out” systems, where a
13 file is allowed to be shared unless it is on a list of disapproved content. Each method, and each
14 of the three companies’ proposed implementations, has its own problems, as discussed below.

15 **a. Audible Magic**

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17 Plaintiffs have submitted the declaration of Audible Magic’s CEO, Vance Ikezoye.⁹

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26 ⁹ Were the major labels genuinely interested in developing this market for themselves, one
27 might expect them to deploy the existing Audible Magic database and technology as a filter-in
28 system in connection with licensed distribution either by the labels themselves or a third party.
Assuming, of course, that the technology actually worked. The fact that the labels have made no
effort to deploy such a system speaks volumes concerning the validity of that assumption.

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b. Relatable

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c. Gracernote

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2. Grokster Has No Ability to Implement Filtering

None of the three “fingerprinting” technologies cited by Plaintiffs is even close to “ready for prime time”; at best, they are vague hopes that might, at some point in the future, form part of a licensed online distribution system. Plaintiffs citation of them certainly comes nowhere near establishing, as a matter of uncontested fact, that any of the Defendants herein had, or today have, the ability to control the allegedly infringing activities of their users. This is true as to all Defendants: Plaintiffs have failed to show that any of the products at issue here could be

1 modified to allow only noninfringing activity.

2 But it is particularly true of Grokster. Unlike Kazaa—which at least presumably has
3 access to the source code for FastTrack—and Streamcast, which has access at least to the source
4 code for its newer products, it is undisputed that Grokster has no access at all to the source code
5 for the Grokster application, has been rebuffed in efforts to obtain it from Kazaa, and does not
6 even know where it is located. D. Rung Decl., ¶ 3; D. Rung Depo., 123:9-25. Streamcast
7 similarly failed in concerted efforts to obtain that source code. Griffin Depo., 227:13-228:14.
8 Even if the Court were to find—contrary to the evidence—that the other Defendants could
9 implement an effective filtering system by redesigning their products, it is impossible for
10 Grokster to do so.¹⁰ Plaintiffs adduce no evidence that Grokster has any ability to control the
11 core operation of the software: indeed, they affirmatively and correctly argue the opposite,
12 stating that both Grokster and Streamcast “admitted” that “Kazaa had ultimate control of the
13 network.” MPA at 9.

14 Instead, Plaintiffs deluge the Court with countless examples of Grokster’s alleged
15 “control” of functions wholly unrelated to the underlying claims of copyright infringement, some
16 of which are true of Grokster, some of which are false, and none of which are relevant to the
17 question before the Court: whether Grokster has the “right and ability to supervise the infringing
18 activity.” Napster, 239 F.3d at 1022 On that question, Plaintiffs utterly fail to meet their burden,
19 and thus summary judgment of vicarious infringement must be denied.

20 **E. Plaintiffs’ Ongoing Copyright Misuse Precludes Summary Judgment¹¹**

21 This court should also deny summary judgment to Plaintiffs because copyright owners
22 may not prosecute an action for infringement of copyrights they are currently misusing. Practice
23 Mgmt. Info. Corp. v. Am. Med. Ass’n., 121 F.3d 516, 520 (9th Cir. 1997). The defense of

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25 ¹⁰ Indeed, Plaintiffs’ own expert, Professor Kleinrock, admitted that he could not even determine
26 whether it was possible for Grokster to implement a filtering system without access to the
27 FastTrack source code. Kleinrock Depo., 211:13-212:17.

28 ¹¹ Copyright misuse is more typically an equitable defense to the issuance of an injunction, and
may therefore be more appropriately raised in response to any application for injunctive relief.
But Grokster has raised the issue in opposition to Plaintiffs’ motion for summary judgment in
order to preserve its right to litigate the defense of copyright misuse.

1 copyright misuse protects the public interests underlying the copyright laws, ensuring that
2 copyright holders do not exert more power than they have been granted, and that the creative
3 output of artists is increased, not restricted, by the copyright regime. Lasercomb Am., Inc. v.
4 Reynolds, 911 F.2d 970, 978 (4th Cir. 1990); Practice Mgmt. Info., 121 F.3d at 520-21. A
5 copyright owner who (a) violates the antitrust laws; (b) seeks to illegally extend its monopoly
6 beyond the scope of its copyright; or (c) violates the public policies underlying the copyright laws
7 is barred from maintaining an action for infringement. Lasercomb, 911 F.2d at 978; 1 Herbert
8 Hovenkamp et al., IP and Antitrust §3.4 (2002 edition, Page Opp. Decl., Exh. B).

9 Plaintiffs repeatedly compare this case to A&M Records v. Napster, arguing that the facts
10 of the two cases are virtually indistinguishable. We have refuted that claim elsewhere;
11 Grokster’s distribution of FastTrack software simply isn’t the same as the Napster service. But
12 in one respect the cases are alike: they share many of the same plaintiffs. The record industry
13 plaintiffs have arguably engaged in a variety of practices – entering into anticompetitive joint
14 ventures, horizontal price fixing, exclusive dealing, and concerted refusals to deal – that violate
15 the antitrust laws and therefore also constitute copyright misuse.

16 In Napster, like here, many of the same plaintiffs participating in this action sought
17 summary judgment on theories of contributory and vicarious copyright infringement. The
18 district court denied the plaintiffs’ motion for summary judgment because it found that the
19 factual issues surrounding Napster’s copyright misuse defense needed further development. In
20 re Napster, Inc. Copyright Litig., 191 F. Supp. 2d 1087, 1105 (N.D. Cal. 2002). In so ruling, the
21 court made it clear that the plaintiffs may well have committed misuse. Id. at 1109 (“Even on
22 the undeveloped record before the court, these joint ventures look bad, sound bad and smell
23 bad.”). The same facts should impel this court to the same conclusion: there are factual
24 questions concerning the legality of plaintiffs’ conduct that preclude summary judgment at this
25 time.¹²

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28 ¹² In Napster, the plaintiffs argued that Napster’s unclean hands should bar it from asserting
copyright misuse. The court flatly rejected that argument. In re Napster, Inc. Copyright Litig.,
191 F. Supp. 2d 1087, 1105 (N.D. Cal. 2002). The court reasoned that the plaintiffs had opened

1 Napster's showing of copyright misuses was predicated in large part on a painstaking
2 review of publicly available materials by Dr. Roger Noll. Page Opp. Decl. Exh. C ("Noll
3 Decl.").¹³ Dr. Noll has concluded that MusicNet (whose parents include AOL Time Warner,
4 Bertelsmann and EMI) and pressplay (comprised of Sony and Universal) – the joint ventures
5 created by plaintiffs' distribution companies to engage in wholesale and retail digital distribution
6 of recorded music – "constitute horizontal price-fixing agreements." Noll Decl., ¶ 8. In addition,
7 "these five companies apparently have engaged in vertical foreclosure by refusing to enter into
8 agreements on reasonable terms with other entities for digital distribution of their library of
9 recordings and by imposing unnecessarily burdensome licensing requirements on both retail
10 competitors and their customers." *Id.* Finally, Dr. Noll catalogues the substantial evidence in the
11 public record that plaintiffs' distribution companies have "engaged in anticompetitive activities
12 that have led to several adverse antitrust rulings by competition policy agencies in the United
13 States and abroad." *Id.*

14 Dr. Noll's report is sufficient, by itself, to raise a genuine issue of fact concerning
15 whether plaintiffs have violated the antitrust laws or otherwise misused their copyrights. But it is
16 also bolstered by the antitrust charges that have been filed against the record industry plaintiffs
17 by both state and federal antitrust enforcement agencies. See In the Matter of Sony Music
18 Entertainment, Inc.; In the Matter of Time Warner, Inc.; In the Matter of BMG Music; In the
19 Matter of Universal Music & Video Distribution Corp; and In the Matter of Capitol Records, Inc.
20 ("CD-MAP cases," available at www.ftc.gov/os); Analysis to Aid Public Comment, Page Opp.
21 Decl. Exh. D at 4. Finding "a propensity for interdependent behavior" among the five major
22 record company plaintiffs (the "Majors"), antitrust agencies at both the federal and state levels

23 the door to a misuse defense by seeking equitable relief in court, and therefore that it could
24 consider misuse regardless of defendant's bad behavior. Further, and more important, the court
25 noted that ignoring claims for misuse would harm the public as well as the integrity of the court.
26 *Id.*

26 ¹³ In Napster, an additional claim of copyright misuse was raised, based upon the record labels'
27 apparent policy of falsely registering copyrights as "works for hire" in order to extend the
28 copyright term. The same claim applies here. However, for purposes of these motions only and
in order to defer extensive ownership discovery, the parties (other than the Leiber plaintiffs) have
stipulated to the ownership and valid registration of the selected Phase I works, reserving
challenges to ownership and validity until later. Accordingly, the issue is not discussed herein.

1 recently charged the Majors with illegally maintaining high prices for CDs through the guise of
2 an advertising support program that forced retailers to charge the high prices desired by the
3 labels. Id. at 2; see also State of Florida v. BMG Music, (D. Me. 2001) (pending). In a separate
4 action, the FTC challenged a direct agreement between two of the Majors to maintain high prices
5 for certain particular CDs. See In the Matter of Warner Communications Inc. (File 001-0231)
6 and In the Matter of PolyGram Holding, Inc., Docket No. 9298 (July 31, 2001) (“3 Tenors
7 cases,” www.ftc.gov/os). Like the Napster court, these agencies have found at least a prima facie
8 case that the record industry plaintiffs are violating the antitrust laws. More recently, and closer
9 to home, the Justice Department has also launched an antitrust investigation concerning the
10 Majors’ own online music distribution services, MusicNet and pressplay. Page Opp. Decl.,
11 Exhs. E & F.

12 The plaintiffs’ anticompetitive conduct is straightforward. The emergence of a
13 competitive market for online distribution of music poses a serious threat to the Plaintiffs, who
14 collectively are the major wholesale distributors of prerecorded music. The Majors collectively
15 control about 85% of music sales, Page Opp. Decl. Exh. G at 2, and currently enjoy what a
16 senior Federal Trade Commission official has called “a tight oligopoly with a history of price
17 coordination.” Id., Exh. H at 19. This oligopoly is protected by “high barriers which limit the
18 likelihood of effective new entry,” id., Exh.D, at 2, including the high cost of traditional
19 distribution methods. Online distribution of music threatens to erode these entry barriers by
20 reducing the cost and improving the quality of distribution. Noll Decl. ¶¶ 12, 54-58. Online
21 distribution would permit independent artists and labels to compete far more effectively against
22 the Majors, undermining the Majors’ high market shares and profit margins. Id., ¶¶ 40, 55. These
23 developments would enhance overall music sales and lead to the creation of more music. Id., ¶¶
24 40, 126.

25 The record industry plaintiffs have responded to this competitive threat by pooling their
26 copyright powers to restrain the development of a competitive market for online distribution. Id.,
27 ¶¶ 125, 126. Their collusive conduct includes the formation of two joint ventures, MusicNet and
28 pressplay, as the exclusive outlets for the distribution of online music. Reducing the number of

1 independent sources for online distribution of popular prerecorded music from five (the number
2 of major record companies) to two would itself dramatically curtail competition to distribute
3 music online, even if MusicNet and pressplay competed against one another vigorously. But the
4 problem is far worse. There are a large number of competitive outlets that distribute CDs, and
5 the record industry plaintiffs sell to all of them. Online, however, the Plaintiffs hope to eliminate
6 this competition at the distribution level by making their joint ventures the exclusive outlets for
7 digital music. These ventures have adopted pricing mechanisms which Dr. Noll, based on public
8 reports, describes as “anticompetitive horizontal price fixing.” *Id.*, ¶¶ 69-83, 126. Cross
9 licensing between the two joint ventures would also entail collective pricing decisions by all five
10 of the major recording industry plaintiffs, an act which appears improper on its face. *Id.*, ¶ 110.

11 The movie industry plaintiffs are engaged in almost identical conduct. Rather than
12 continue their offline practice of selling videos to multiple distributors, the seven major movie
13 studios joined together in late 2001 to create two exclusive online video distribution services,
14 Movielink and Movies.com. Both Movielink and Movies.com raise concerns about collusive
15 pricing, though only Movies.com takes an exclusive license from its participants, and so only
16 Movies.com also raises exclusive dealing concerns. The Department of Justice launched an
17 ongoing antitrust investigation of both joint ventures in December 2001, and Fox withdrew from
18 the Movies.com joint venture because of antitrust concerns. Page Opp. Decl., Exh.I. Private
19 antitrust litigation concerning those joint ventures has also been brought. *Id.*

20 These joint movie distribution arrangements, entered into by the seven largest movie
21 studios with an overwhelming collective market share, raise antitrust and misuse concerns for the
22 same reasons the parallel joint ventures in the music industry do. Plaintiffs’ joint activities
23 include agreements on price and terms of sale, and collective refusals to deal, among direct
24 competitors – activities that are often found to be per se violations of the antitrust laws.¹⁴ Similar

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26 ¹⁴ If licensees would otherwise be required to negotiate with very large numbers of individual
27 copyright owners, blanket licenses can have the beneficial effect of reducing transaction costs.
28 See Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc., 441 U.S. 1, 19-21 (1979). In this
case, however, the transaction cost saving of negotiating with two joint ventures, rather than five
Labels, are trivial. Historically, brick and mortar retailers and the five Labels have negotiated
individual agreements with no difficulty. And in any event the Supreme Court in Broadcast

1 copyright pooling arrangements have been condemned as violations of the Sherman Act. See,
2 e.g., United States v. ASCAP, 1940-43 Trade Cas. (CCH) ¶ 56,104 (S.D.N.Y. 1941) and United
3 States v. BMI, 1940-43 Trade Cas. (CCH) ¶ 56,096 (E.D. Wis. 1941) (recording and live
4 performances of music); United States v. Columbia Pictures, Inc., 507 F. Supp. 412, 425- 32
5 (S.D.N.Y. 1980) aff'd, 7 Media L. Rep. 1342 (2d Cir. 1981) (distribution of movies through pay
6 television). See also Primetime 24 Joint Venture v. NBC, 219 F.3d 92, 102-03 (2d Cir. 2000)
7 (allegations regarding distribution of cable programming to Direct Broadcast Satellite services).
8 They have no apparent efficiency-enhancing or legitimate business purpose, Noll Decl. ¶¶ 69,
9 126, and thus violate the antitrust laws even under a “rule of reason” analysis. Columbia
10 Pictures, 507 F. Supp. at 425-29.

11 Plaintiffs’ concerted action to restrict competition has extended well beyond their
12 anticompetitive joint ventures. For example, the Plaintiffs appear to be working together through
13 a number of joint organizations and informal collaborative arrangements to develop unified
14 approaches to anti-piracy protection that protect their interests through the pooling of their rights.
15 Digital watermarking and other security technology being developed under the auspices of the
16 RIAA, the MPAA, and the Plaintiffs prevent consumers from copying their own CDs for their
17 personal use. Collaborative efforts by the Plaintiffs to impede consumers’ ability to copy
18 material legitimately purchased from the rights holder, where those restrictions significantly
19 restrict consumers’ legitimate fair use rights, could improperly extend the rights of the
20 copyholders and constitute misuse. See Practice Management, supra (misuse need not constitute
21 an antitrust violation); Alcatel v. DGI, 166 F.3d 772 (5th Cir. 1999) (misuse occurs not only
22 where plaintiffs violate the antitrust laws, but also where they extend copyrights beyond their
23 proper scope in contravention of copyright policy); Hovenkamp et al., supra, §§3.4b1, 3.4b2. In
24 addition, collusive decisions to adopt these technologies could significantly restrain competition
25 to consumers’ detriment, and anticompetitive effects achieved through the pooling of copyright
26 powers would constitute misuse on an antitrust-based theory. See Noll Decl. ¶¶ 87-93.

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28 Music did not hold that such arrangements were immune from antitrust scrutiny, but only that
they were subject to the rule of reason rather than the per se rule.

1 Misuse is a complete defense to liability for infringement, even if the misuse does not
2 adversely affect the defendant or relate to its otherwise-infringing conduct. Lasercomb, 911 F.2d
3 at 979. Even with the limited discovery that has occurred thus far in the case, the record contains
4 substantial evidence – far more than enough to raise a genuine issue of material fact – of the
5 movie and record industry plaintiffs’ ongoing misuse of the very copyright interests at issue in
6 this case. They should therefore be precluded from enforcing their copyrights until they have
7 ceased misuse of those copyrights and the effects of the misuse have been fully purged. See,
8 e.g., B.B. Chemical Co. v. Ellis, 314 U.S. 495, 498 (1942) (“It will be appropriate to consider
9 petitioner’s right to relief when it is able to show that it has fully abandoned its present method
10 of restraining competition . . . and that the consequences of that practice have been fully
11 dissipated”; patent misuse case).

12 Grokster’s claims of misuse apply only to the movie and record industry plaintiffs, and
13 not to the Leiber plaintiffs. In an ordinary case in which the plaintiffs claimed direct copyright
14 infringement, those plaintiffs who were not guilty of misuse would be free to pursue injunctive
15 relief on their own; the barrier of misuse would apply only to the plaintiffs guilty of misuse. But
16 Grokster is not accused of direct copyright infringement. It is accused of indirect infringement
17 based on its selling of software. Liability for indirect infringement by sale of a device is
18 premised on the idea that all or at least most of the uses of that software are illegal. See Sony,
19 supra, at 446-47 (noting that the plaintiffs in that case represented only 10% of copyright owners,
20 and could not establish a legal rule that would control what would be done with the other 90% of
21 content on television). So long as the movie and recording industry plaintiffs continue to commit
22 misuse, it is not illegal for Grokster’s users to copy their works. See Lasercomb, supra, at 978
23 (permitting admitted counterfeiter to continue to sell copies of the plaintiff’s work because of
24 anticompetitive provisions in plaintiff’s licensing arrangements). Even if all of Plaintiffs’ claims
25 about customers’ use of software sold by Grokster to copy Plaintiffs’ works are true, Grokster’s
26 customers are legally permitted to make those copies so long as the Plaintiffs continue to misuse
27 their copyrights. Thus, Grokster cannot be held liable for selling software that permits those
28 customers to make those copies, because the copies themselves are not illegal at the present time.

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III. CONCLUSION

Grokster distributes a piece of software—a tool—that that can be used for both infringing and noninfringing purposes. Grokster did not create that tool. It does not have the power to change that tool in any way that effects the sorts of uses to which its customers put that tool. It does not encourage its users to misuse that tool: instead, it actively promotes legitimate uses of that tool, and actively discourages alleged illegal uses.

Plaintiffs would have this Court find Grokster liable for infringement, based on nothing more than the vague hope—expressed by companies with a direct financial interest in the experiment Plaintiffs suggest—that someday, technology will be ready to distinguish between legitimate and illegitimate content. But that vague hope is not the stuff of liability, and it is certainly not the stuff of summary adjudication. Plaintiffs fall far short of establishing that anyone—let alone Grokster—has the ability to control the conduct of millions of users. Therefore, this Court should deny Plaintiffs’ motion for summary judgment.

Dated: October 21, 2002

KEKER & VAN NEST, LLP

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