No. 16-56843

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

VIDANGEL, INC.,

Defendant-Appellant,

v.

DISNEY ENTERPRISES, INC.; LUCASFILM LTD. LLC; TWENTIETH CENTURY FOX FILM CORPORATION; AND WARNER BROS. ENTERTAINMENT, INC.,

Plaintiffs-Appellees.

On Appeal from the United States District Court for the Central District of California Hon. André Birotte Jr. No. 2:16-cv-04109-AB-PLA

EXCERPTS OF RECORD

VOLUME V OF V (Pages 661-848)

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TABLE OF CONTENTS

VOLUME I OF V Pages 1 to 22

Page

ECF Description

			0
144	Order G	ranting Plaintiffs' Motion for Preliminary Injunction	ER001
		VOLUME II OF V Pages 23 to 289	
ECF	Descrip	tion	Page
175	_	mbers] Order Granting Plaintiffs' Ex Parte Application order to Show Cause Why VidAngel Should Not Be Held empt	ER023
172		ircuit Order Denying VidAngel, Inc.'s Emergency Motion by Pending Appeal	ER024
167	Declarat	cion of David Quinto	ER026
166	to Stay I	mbers] Order Denying Defendant's Ex Parte Application Preliminary Injunction Pending Appeal or Alternatively, Decision by the Ninth Circuit on Stay Pending Appeal	ER029
164	VidAngel, Inc.'s Opposition to Plaintiffs' Ex Parte Application for an Order to Show Cause		ER034
	164-1	Declaration of Neal Harmon in Support of VidAngel, Inc.'s Opposition to Plaintiffs' Ex Parte Application for an Order to Show Cause	ER050
	164-2	Declaration of David Quinto in Support of VidAngel, Inc.'s Opposition to Plaintiffs' Ex Parte Application for an Order to Show Cause	ER060
	164-3	Declaration of Jarom McDonald in Support of VidAngel, Inc.'s Opposition to Plaintiffs' Ex Parte Application for an Order to Show Cause	ER070

ECF	Description	Page
163	Plaintiffs' Preliminary Injunction Bond	ER075
158	Declaration of Neal Harmon in Support of VidAngel, Inc.'s Ex Parte Application to Stay Preliminary Injunction Pending Appeal or, Alternatively Pending Decision by the Ninth Circuit on Stay Pending Appeal	ER080
149	VidAngel, Inc.'s Notice of Appeal from Order Granting Motion for Preliminary Injunction; Representation Statement	ER088
145	Court Reporter's Transcript of Proceedings on Monday, November 14, 2016	ER094
123	Order Regarding Hearing Date on Plaintiffs' Motion for Preliminary Injunction	ER218
110	Supplemental Declaration of Neal Harmon in Opposition to Motion for Entry of Preliminary Injunction (with Exhibits)	ER220
109	Declaration of William J. Aho in Support of VidAngel, Inc.'s Opposition to Motion for Entry of Preliminary Injunction	ER283
78	Order Continuing Hearing of Plaintiffs' Motions for Preliminary Injunction and to Dismiss VidAngel's Countercomplaint	ER288

VOLUME III OF V Pages 290 to 567

ECF	Description	Page
77	Amended Answer and First Amended Counterclaims	ER290
69	Declaration of Tim Wildmon in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER350
68	Declaration of Tim Barton in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER354

ECF	Description	Page
67	Declaration of Theodore Baehr in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER358
66	Declaration of Rick Green in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER362
65	Declaration of Rebecca Hagelin in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER366
64	Declaration of Patrick Trueman in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER371
63	Declaration of Matt Kibbe in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER375
62	Declaration of L. Brent Bozell III in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER378
61	Declaration of George E. Roller in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER383
60	Declaration of Gary Marx in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER387
59	Declaration of Gary Bauer in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER391
58	Declaration of David Bozell in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER395
57	Declaration of David Barton in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER399
56	Declaration of Connor Boyack in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER403
55	Declaration of Harry R. Jackson Jr. in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER407
54	Declaration of Timothy F. Winter in Support of VidAngel's Opposition to Motion for Preliminary Injunction	ER411

ECF	Descrip	tion	Page
53		ion of Donna Rice Hughes in Support of VidAngel's on to Motion for Preliminary Injunction	ER419
52		ion of Bryan and Diane Schwartz in Support of el's Opposition to Motion for Preliminary Injunction	ER428
51		ion of Bob Waliszewski in Support of VidAngel's on to Motion for Preliminary Injunction	ER433
50		ion of Andrea Lafferty in Support of VidAngel's on to Motion for Preliminary Injunction	ER436
46	Declaration of David W. Quinto in Support of VidAngel's Memorandum of Points and Authorities in Opposition to Preliminary Injunction Motion		ER441
45	Memora	ion of Jaime W. Marquart in Support of VidAngel's ndum of Points and Authorities in Opposition to ary Injunction Motion	ER451
	45-2	[Redacted] Exhibit B to Declaration of Jaime W. Marquart in Support of VidAngel's Memorandum of Points and Authorities in Opposition to Preliminary Injunction Motion	ER455
	45-4	[Redacted] Exhibit D to Declaration of Jaime W. Marquart in Support of VidAngel's Memorandum of Points and Authorities in Opposition to Preliminary Injunction Motion	ER469
44	VidAnge	ed] Declaration of Sigurd Meldal in Support of el's Memorandum of Points and Authorities in on to Preliminary Injunction Motion	ER470
	44-4	Exhibit D to Declaration of Sigurd Meldal in Support of VidAngel's Memorandum of Points and Authorities In Opposition to Preliminary Injunction Motion	ER514

ECF	Descript	tion	Page
43	VidAnge	ed] Declaration of Neal Harmon in Support of el's Memorandum of Points and Authorities In on to Preliminary Injunction Motion	ER520
	43-1	Exhibit A to Declaration of Neal Harmon in Support of VidAngel's Memorandum of Points and Authorities In Opposition to Preliminary Injunction Motion	ER545
	43-2	Exhibit B to Declaration of Neal Harmon in Support of VidAngel's Memorandum of Points and Authorities In Opposition to Preliminary Injunction Motion	ER547
	43-3	Exhibit C to Declaration of Neal Harmon in Support of VidAngel's Memorandum of Points and Authorities In Opposition to Preliminary Injunction Motion	ER551
28		ion of Tedd Cittadine in Support of Plaintiffs' Motion minary Injunction	ER554

VOLUME IV OF V Pages 568 to 660

ECF	Description	Page
27	[Redacted] Plaintiffs' Notice of Motion and Motion for Preliminary Injunction; Memorandum of Points and Authorities in Support Thereof	ER568
1	Complaint for Copyright Infringement and Violation of Digital Millennium Copyright Act	ER613
	[1/11/2017] Docket Sheet	ER633

VOLUME V OF V

(FILED UNDER SEAL) Pages 661 to 848

]	ECF	Description	Page
8	30-1	Declaration of Neal Harmon in Support of VidAngel's Memorandum of Points and Authorities In Opposition to Preliminary Injunction Motion	ER661
8	30-2	Declaration of Sigurd Meldal in Support of VidAngel's Memorandum of Points and Authorities in Opposition to Preliminary Injunction Motion	ER686
8	30-3	Exhibit B to Declaration of Jaime W. Marquart in Support of VidAngel's Memorandum of Points and Authorities in Opposition to Preliminary Injunction Motion	ER709
8	30-4	Exhibit D to Declaration of Jaime W. Marquart in Support of VidAngel's Memorandum of Points and Authorities in Opposition to Preliminary Injunction Motion	ER723
	33	Plaintiffs' Notice of Motion and Motion for Preliminary Injunction; Memorandum of Points and Authorities in Support Thereof	ER804

ER661

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Ryan G. Baker (Bar No. 214036)

VIDANGEL, INC., Defendant.

POINTS AND AUTHORITIES IN INJUNCTION MOTION

VIDANGEL, INC.,

Counterclaimant,

VS.

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DISNEY ENTERPRISES. INC.: BROS. ENTERTAINMENT, INC.,

Counterclaim Defendants.

I, Neal Harmon, declare:

I am a founder and the Chief Executive Officer of defendant and 1. counterclaimant VidAngel, Inc. ("VidAngel"). I submit this declaration in support of VidAngel's Memorandum of Points and Authorities in Opposition to Plaintiffs' Motion for Preliminary Injunction. I have personal knowledge of the facts set forth herein and, if called as a witness, I could and would testify competently thereto.

Why My Family Wanted to Watch Filtered Content

2. Throughout my life, I have been a consumer of family-friendly movies and television programs. I was raised in rural Idaho. We did not watch movies with sex or nude scenes or with excessive violence and profanity in our home. For much of my childhood, this meant that my family did not have access to many mainstream movies and television shows, as they often included content at odds with my family's beliefs and values. At times, we felt left out of popular American culture, as we were unable to watch the most popular movies and shows. Even entertainment offerings with messages and themes compatible with my family's values and beliefs still included some scenes with content we found objectionable.

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Figure 1 - I was the third of 9 children and our family enjoyed movie experiences together. Here we are with our parents, spouses and young children. We had movie night out on the lawn for our family reunion using VidAngel.

We decided not to watch certain offerings we were interested in, because we could never know when a particular scene in a broad family comedy might include material that made us uncomfortable. For this reason, my family was very excited about the CleanFlicks service that debuted in 2000.

- 3. CleanFlicks was a business that produced edited versions of films to remove content that was inappropriate for children or that other viewers might find offensive. CleanFlicks removed sexual content, profanity and some references to violence from movies, either by muting audio or cutting entire portions of the track. My family and I used the CleanFlicks service to watch the same movies the rest of the country found enjoyable and moving, without compromising our values. To our regret, a group of Hollywood directors engaged in litigation with CleanFlicks for copyright infringement and in 2006 a federal district court found that CleanFlicks' filtered movies infringed their copyrights. CleanFlicks' service was held to infringe because, contrary to the requirements of the Family Movie Act ("FMA"), CleanFlicks did not allow each consumer to decide what to mute or delete. It also created fixed copies of filtered works. When CleanFlicks and similar services were put out of business, my family lost a major source of family-friendly content.
- 4. The FMA was enacted in 2005, in response to a lawsuit against a number of different filtering companies, including ClearPlay. The FMA promised a

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clearly legal way to filter out content from popular films and television shows that families like mine found objectionable.

- 5. In 2012, Google announced the debut of Google Play. Google Play is a digital distribution service operated and developed by Google. Among other things, Google Play serves as a digital media store, offering music, magazines, books, movies and television programs. It is similar to services such as Apple iTunes, VUDU and Amazon Video. Google Play allows users to download media to various digital devices, including phones and Google TV. When Google debuted Google Play, I had already been experimenting with the YouTube JavaScript application programming interface ("API"). It allowed me to write program codes that permitted automatic skipping and muting of movies and television shows purchased through Google Play and watched on a YouTube Player in a Google Chrome web browser.
- 6. Around the time Google Play debuted, I realized that the way users consume movies and other visual narratives was undergoing a profound shift away from traditional physical embodiments like DVDs and Blu-ray discs to digital streaming. The popularity of smart phones and tablets along with the development of internet infrastructure and other technologies offered users the potential to stream movies and television shows to many types of devices whenever a user desired. Remembering my family's struggle to find appropriate film and television content, I realized there was a tremendous opportunity to serve the vast market of households with religious, moral and other objections to the adult content of most mainstream studio offerings in the context of this massive shift to streaming distribution.
- 7. Sometime in 2012, my brothers and I asked ourselves, "Why isn't there a content filtering service for streaming?" Using my coding knowledge, I coded a filtering tool for the movie "Cinderella Man" on the YouTube Player in the Google Chrome browser. (YouTube is owned by Google.) The tool filtered the film for

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swearing and a couple of especially gruesome punches. While it would play only the standard definition ("SD") version of the movie on a computer, the tool succeeded in removing the objectionable content. "Cool," we said, "it seems to work for SD content on the Chrome browser." At the time, though, we realized that high definition ("HD") content would become the industry standard for digital movie distribution. Realizing this, my brothers and I started to look for ways to create a filtering tool that would work on HD content streams.

The Development That Led Us to Found VidAngel

- 8. In 2013, Google announced that it would conduct a private beta test of the Chromecast streaming device. Chromecast is a line of digital media players developed by Google. The players are physically small dongles and play video content on high-definition televisions by streaming it directly to a television set via Wi-Fi from the Internet or a local network. Users select the media to play using mobile and web apps that work with the Google Chromecast technology. The firstgeneration Chromecast was a video-streaming device that was made available for purchase in July 2013. When Chromecast was announced, there was no company providing a content filtering service pursuant to the FMA that worked with HD video streams. My brothers and I saw a market opportunity to provide families with such a tool.
- "The Chromecast is how we get filtered HD content on the television," 9. my brothers and I said to each other. "It's time to build this." To confirm our intuitions concerning the potential market for such a service, we conducted research and found that about half of American parents would use a filtering service. Although we created VidAngel because we wanted it for our own children, we knew many other families would want to use it as well. We then set about creating the technology, business plan and infrastructure necessary for a filtering service. After many months of hard work, we launched a private beta VidAngel filtering service

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capable of filtering HD content through Chromecast. It was and is my
understanding that our beta service fully complied with the provisions of the FMA.
We simply provided users with a tool they could use to filter digital content streams
from Google Play using the Chromecast's technology.

The Studios' First Attempt to Block VidAngel

10. In January 2014, we raised \$600,000 to launch VidAngel.com. After
the private beta launch, we reached out to Google to ask whether we could purchase
Chromecast devices at wholesale and then sell them to families who wanted to use
VidAngel's filtering service. Google responded that it would consider a bulk
purchase agreement only after VidAngel successfully launched a public beta of its
Softward Development Kit (SDK) on February 3, 2014. The day of Google's
Chromecast API launch, even though we were attending a conference in California,
we were so excited to launch that we did not sleep the entire night trying to get the
system to work and be the first out the door on the list of Chromecast applications. It
never worked.

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Figure 2 - I took this photo of my brothers Daniel and Jordan in our Redwood City, CA hotel on Tuesday, Feb 4, 2014 at 8:05am after working through the night trying to understand why our programs no longer worked

- We discovered that Google removed the technology from their SDK 11. that made the filtering service possible on native Chromecast. Google did not notify us or publicly announce the removal of its technology. Based on conversations I later had with a Google representative, I am informed and believe that Google removed this technology at the request of the movie studios, which claimed that Google would be in violation of its agreement with them if it enabled VidAngel's filtering.
- Also, on December 5, 2013, VidAngel received a notification from 12. YouTube that VidAngel's YouTube Player API programming violated the developers' API Terms of Service for YouTube. Attached as Exhibit A is a true and correct copy of that notification. Again based on later conversations with a Google representative, I am informed and believe that YouTube sent this notification because the studios told Google that it would be in violation of its agreement with

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them if it enabled VidAngel's filtering. As explained in more detail in Paragraphs 48-50 below, I later obtained a copy of Google Play's VOD Distribution Agreement with Sony, which confirmed this belief.

13. That the technology enabling filtering had been quietly removed gave me pause about moving forward with the VidAngel service. Even though I understood that our service was legal under the FMA, I was aware of the studios' historical hostility to filtering. In light of that hostility, I was concerned that the studios might again try to shut down our service despite the clear protections of the FMA. VidAngel was a startup company without the deep pockets and litigation budgets of the major studios, and I feared that the studios would wage a legal campaign that would bankrupt VidAngel's business – before VidAngel could prevail in court under the FMA.

<u>VidAngel's Attempt to Partner with Google Play</u> and the Studios' Interference with Those E

- 14. Because we had already raised money, we decided to test different models and ultimately opted for seeing how many customers we could acquire if we gave the filtering away for free -- even if users could watch only on the YouTube Player in the Chrome browser on their computer, and only in SD format.
- 15. While VidAngel was working with counsel to develop a filtering technology compliant with the law, someone from a different division of Google reached out to partner with VidAngel to provide a filtering feature for all of Google Play. VidAngel was thrilled to pursue this option, realizing that with Google's resources and reach in digital markets, VidAngel would finally be able to serve the vast market of Americans desiring an effective digital streaming filtering tool. The partnership did not materialize because Google's distribution contracts required them to seek permission from the studios to develop a filtering tool. I was advised by Google that the studios refused Google's requests to develop such a tool with

VidAngel.

16. After the studios rejected Google's requests to allow the use of a filtering tool, VidAngel realized that a small startup could not possibly negotiate a filtering license with the studios. With the help of legal counsel, VidAngel then decided to pursue the launch of its current filtering system.

VidAngel's Current Streaming Technology

- 17. By mid-2014, it was clear that the VidAngel service, as it was then structured, using the YouTube Player API, could never achieve commercial success. It required users first to create an account on VidAngel and then with Google Play. Users would use their Google Play accounts to rent content viewable on YouTube, but then had to return to the VidAngel site to select the filtering they desired. After those steps, users could watch only an SD version of the content and only on their computer. This multi-step process confused and frustrated customers. In addition, the filters often did not work properly because computer processors struggled with YouTube's API. Further, the service was not then adapted to modern industry standards for digital content streaming users demanded HD content and needed to be able to watch the content on their mobile devices and high-definition set-top boxes. By mid-2014, people simply did not watch SD movies exclusively on their desktops computers and no major distributor of digital content limited their distribution in this way.
- 18. In June 2014, the Supreme Court published its decision in American Broadcasting Companies v. Aereo, 573 U.S. ____, 134 S. Ct. 2498. In that decision, the Court noted: "an entity that transmits a performance to individuals in their capacities as owners or possessors does not perform to 'the public." This language prompted me to seek legal advice concerning ways to provide a lawful filtering service to the owners of movies under the FMA.
 - 19. I am familiar with some of the litigation involving filtering technology

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and the FMA. I know that in 2005, a federal court in Colorado dismissed a copyright infringement claim against ClearPlay based on the FMA. Huntsman v. Soderbergh, No. Civ. A02CV01662RPMMJW, 2005 WL 1993421 (D. Colo. 2005). The Court found that the FMA protected ClearPlay's service from the studios' infringement claims: "the effect of the Family Movie Act is that Congress made a policy decision that those who provide the technology to enable viewers to edit films for their private viewing should not be liable to the copyright owners for infringing their copyright" I am also aware that the FMA protects a technology that filters content "transmitted to [the] household for private home viewing." Today, VidAngel follows the FMA and transmits filtered content to users' homes without making a "fixed copy of the altered version of the motion picture." VidAngel specifically designed its current technology to comply with the FMA and the relevant Court decisions interpreting the FMA and copyright law.

- 20. Under the current service, customers buy an authorized DVD or Bluray disc from VidAngel (which buys it at retail after the studios release it) and then choose various filters provided by VidAngel to apply to the movie. VidAngel then streams the filtered movie to the user's home. VidAngel allows users to sell back their disc to VidAngel if they choose not to own the movie permanently.
- 21. In early 2015, VidAngel began privately testing the new service with customers. Over the course of a few months, the service improved substantially and we were able to expand it to the Google Play app store and Chromecast.

VidAngel Announces Its New Service to the Studios

22. By July of 2015, VidAngel felt confident enough in its service to seek feedback from the major movie studios. To that end, with the help of counsel, VidAngel sent a letter on July 23, 2015, to the major studios and television networks (including all plaintiffs herein) explaining its service and technology. A true and correct copy of that July 23, 2015 letter as sent to Disney is attached as Exhibit B.

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VidAngel's letter explained that VidAngel operates under the FMA's filtering exemption, and works as follows: (1) VidAngel "purchases the DVD or Blu-ray disc for the customer and stores it in a physical vault;" (2) it "streams" the contents of the disc to the customer in a filtered format chosen by the customer; and (3) it then "repurchase[s] the disc at a discount from the sale price. . .based on the length of time the customer has owned the disc." VidAngel explained that it had grown from 43 to 4848 users in just under six months (a 10,000% growth rate) and now wished to buy directly from the studios "to scale its business." The letter invited the studios to access the service and concluded:

If you have any questions concerning VidAngel's technology or business model, please feel free to ask. If you disagree with VidAngel's belief that its technology fully complies with the Copyright Act or otherwise does not adequately protect the rights of copyright owners, please let us know. VidAngel wants to take the concerns of content owners into consideration and address them to the extent it can.

Unbeknownst to VidAngel at the time, Disney almost immediately accessed its service. Attached as Exhibit C is true and correct copy of a printout from a VidAngel user account showing that, on August 6, 2015, a Disney employee signed up for a VidAngel account using a non-descript Gmail account and provided payment information for a Director of Antipiracy Operations at Disney. Even though they were obviously investigating VidAngel, Plaintiffs did not respond to VidAngel's letter, so it sent a second letter on August 21, 2015. A true and correct copy of the August 21, 2015 letter is attached as Exhibit D. VidAngel had over 750 titles available for the new filtering service when it sent its letters to Disney. Prior to filing suit on June 9, 2016, none of the plaintiffs, nor any of the dozen other entities to which VidAngel wrote, ever expressed to VidAngel that they believed its services infringed their copyrights and none ever sent a cease and desist letter to VidAngel.

23. I understand that two of the plaintiffs confirmed receipt of VidAngel's

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letters and called or emailed VidAngel's counsel. Warner Bros. Entertainment Inc.'s parent, Time Warner, Inc., emailed VidAngel in October. VidAngel promptly returned the email and even scheduled a call to answer his questions. Time Warner later cancelled the call and never rescheduled it. Fox called VidAngel's counsel in September 2015 and left a message, but in my understanding did not return phone calls placed to it in September and October by VidAngel's counsel. Thereafter, VidAngel heard nothing from Plaintiffs, through counsel or otherwise, until this lawsuit was filed.

VidAngel Wanted the Studios' Feedback for Many Reasons

24. The letters were an important part of VidAngel's strategy of developing new technology. Although VidAngel believed its new filtering system complied with the FMA, as a practical matter we understood that any legal challenge from the studios would have significant financial consequences for VidAngel even if its technology were ultimately vindicated by the Courts. It was important to assess the studios' attitude toward VidAngel's new streaming system early on, to provide VidAngel's investors (and potential investors) with accurate information about the studios' position with respect to VidAngel's technology. For that reason, the letters requested feedback from the studios and invited them to examine VidAngel's technology and ask any questions they might have about it. Because the letters invited a response from the studios and clearly described VidAngel's technology, VidAngel assumed that, to the extent the studios had a problem with VidAngel's technology, they would inform VidAngel if any of them disagreed that VidAngel's service complied with the FMA. Further, as VidAngel's model involved purchasing DVDs from the studios and was serving a market of customers that would never watch un-filtered studio content, VidAngel was creating new revenue for the studios. VidAngel believed then (and continues to believe) that there are very good business reasons for the studios to support VidAngel's model. Since VidAngel's

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service contributes to the studios' bottom line, it was another reason to view the studios' silence in response to VidAngel's letters as tacit approval of its service. Had any studio expressed a complaint to VidAngel in response to the letters, VidAngel would have discussed and considered any proposal to resolve it. In particular, VidAngel could have adapted its technology in some way or, to the extent the studios expressed an opinion that VidAngel's technology was infringing, VidAngel could have filed a declaratory relief suit concerning its technology.

- 25. Having received no feedback or objections to our technology from the studios after sending two very direct letters, VidAngel opened its services to the public in August 2015.
- 26. The version of the system that was publicly launched in August 2015 solved the problems of the 2014 design: it simplified the user-interface, required users to register only once with VidAngel, allowed users to watch HD content on their favorite mobile devices and set-top boxes, and improved the filters so that they were more seamless. By bringing VidAngel's technology up to and beyond industry standards and offering the features users expect of any content streaming service, VidAngel found a large market for filtered movie and television content. As a result, its customer base began to shoot up almost immediately.
- 27. In fact, today, VidAngel's apps are rated higher by users than the leading studio distribution platforms. For example, the VidAngel rating on Google Play is 4.8 stars whereas Netflix is 4.4 stars, Hulu is 4.1 stars, and Disney Movies Anywhere is 3.9 stars. For all ratings on the Apple App Store, VidAngel has 5 stars, Netflix has 3.5 stars, Hulu has 2 stars, and Disney Movies Anywhere has 3.5 stars. On Roku, VidAngel has 4.5 stars, Netflix has 3 stars, Hulu has 3.5 stars and Disney Movies Anywhere has 3.5 stars.
- By the end of 2015, VidAngel's monthly disc sales had grown to over 100,000. In January 2016, USA Today published an article about VidAngel's

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services and the ability to stream filtered versions of Star Wars prequels for a net cost (after buy and sellback) of as little as \$1. A true and correct copy of this USA Today article is attached as Exhibit E. On January 12, a Disney employee -- using the secret VidAngel account created with payment information from Disney's Director of Antipiracy Operations -- logged on to VidAngel account and purchased Frozen and a Star Wars prequel. (See Exhibit F hereto.) This same employee purchased and sold back 17 total titles over the next four months.

29. On March 3, 2016, Disney announced that it would release Star Wars: The Force Awakens on DVD on April 5. The film would be available for digital "purchase" (but not a shorter rental period) on April 1. I am aware that Plaintiffs have used Star Wars: The Force Awakens to show that VidAngel purportedly makes titles available before they become available in other digital markets. This is untrue. In fact, the film was available for digital download purchase four days before VidAngel could buy DVDs. Attached as Exhibit F is a true and correct copy of an article regarding Disney's announcement. While the film was not made available for shorter-term rentals when VidAngel began to make the filtered film available, this is irrelevant because VidAngel does not rent titles. In any event, Star Wars: The Force Awakens is the only major title released in this way, and it was clearly done so at a time when the plaintiffs were planning litigation against VidAngel. Despite VidAngel's growing popularity, the imminent release of Star Wars: The Force Awakens, and the fact that Plaintiffs had been discussing VidAngel with one another and outside counsel for over seven months, Plaintiffs did not send VidAngel a cease and desist letter or seek an injunction. Instead, on April 5, Plaintiffs purchased, streamed and sold back the film. (See Exhibit C.)

VidAngel Invested Millions in Reliance Upon the Studios' Silence

30. During the ten and a half months from VidAngel's first letter to the filing of Plaintiffs' suit, VidAngel openly streamed filtered versions of every one of

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Plaintiffs' most popular titles as soon as they were available on DVD. During this time, VidAngel continued to purchase DVDs. In total, VidAngel has spent over \$1.2 million purchasing discs at retail. VidAngel has also spent millions of dollars in funding since it wrote to Plaintiffs in July 2015. Attached as Exhibit G is a true and correct copy of an article from October 2015 announcing that VidAngel had raised \$2.5 million in additional funding. VidAngel invested most of that funding to develop its current model prior to Plaintiffs filing suit. Prior to the filing of this lawsuit, VidAngel also had applications approved on every major mobile application store and set-top box (e.g., Roku, Apple App Store, Apple TV, Amazon Fire TV, Android TV and Kindle Fire). Monumental efforts went into each one of these apps. In fact, VidAngel hired scores of tech, support and content employees. VidAngel also hired scores of contractors to support the employees. Also, VidAngel updated all the streaming technology to play more smoothly and built a multithousand title content library. After several months passed without objection from the studios, VidAngel concluded that the studios did not object to its service. In response to media inquiries about the legality of its service, I cited VidAngel's letters and the studios' lack of objection as a basis for VidAngel believing its service did not infringe. Attached as Exhibit H are news articles containing my quotes about the studios having no objection to VidAngel's service. Today, over 500,000 families have used VidAngel's filtering service.

31. In fact, it was not until VidAngel announced its intention to seek significant financing that Disney finally decided to sue. On May 24, 2016, a couple of weeks before the suit, VidAngel informed its better customers (including Disney, which has purchased 17 titles with its secret VidAngel account) of its intent to raise additional funds through Regulation A+ financing. Then, and only then, did Disney finally decide to sue. I believe this litigation was intentionally timed to cut off VidAngel's access to cash flow at a critical stage in its development and prevent our

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modern filtering service from growing.

VidAngel Is a Filtering Company

- 32. Because VidAngel has catered only to people who want to filter the motion pictures they watch in their homes, we did not immediately recognize that others might try to abuse VidAngel's service or exploit loopholes in our service to watch motion pictures without filtering. At the very early stages of our service, our system allowed one to stream a movie even if no filter was selected. At that time, we trusted that our audience was using our service for filtering.
- 33. In December 2015, we created a #StopJarJar marketing campaign to coincide with Star Wars 7 movie launch, giving away a free \$20 Star Wars movie. We discovered that the campaign was attracting users who were watching Star Wars without filters. We therefore halted the campaign and began requiring filters to watch movies on VidAngel.
- 34. Later on, we discovered that other customers were setting a single global filter (e.g., Jar Jar Binks) and then watching movies on the Roku that didn't have any tags for the selected filter, resulting in a few unfiltered streams. As soon as we discovered potential loophole, we altered the system again so that it ensured that a filter was set on each streamed movie. It has upset a few customers, but it has allowed us to stay focused on our original target market of FMA-compliant filtering.
- 35. When the studios sued us, they complained that the opening and closing credits were another loophole of sorts. Because we had always tried to prevent improper use of VidAngel, we immediately removed the opening and closing credits tags altogether. VidAngel received a few complaints from those who were abusing the system, but it also got complaints from those who used those filters for legitimate purposes. One reason these filters were created was that credits are often more than mere lists of the people who did certain tasks in creating the film. Some movies save the most offensive content for the credits. The titles and

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credits feature allowed users to avoid such content. We are now updating our apps to allow our customers to use the opening and closing credits filters provided that they also pick at least one additional filter.

- 36. All of the above steps to remove potential loopholes and focus VidAngel's viewing experience on filtering have been a part of our evolution, as we become known to a larger audience of people. VidAngel is committed to ensuring that people come to VidAngel to view filtered versions of motion pictures.
- 37. Despite there being a few times where the system has been abused, our data shows that 95.93 percent of VidAngel's purchases came from users who voluntarily chose more than one filter. VidAngel also ran these numbers for July 2016, and found that more recently 96.93 percent of VidAngel's purchases came from users who voluntarily chose more than one filter. This indicates that our users are overwhelmingly using VidAngel for filtering, and that the number of users choosing multiple filters is increasing.
- 38. The studios claim that VidAngel is threatening the "legitimate" streaming market" because VidAngel's sellback model allows a net cost of \$1, but the data prove otherwise. Because almost 96% of VidAngel's purchasers have selected multiple filters over VidAngel's entire history, this means the version of the film or television show VidAngel streams to them is of a different character than the version available through other VOD providers like Google Play, Amazon Video, VUDU and iTunes. VidAngel has had a long history of ensuring that it is reaching its target filtering market.
- VidAngel has additional data showing that most of its users would not have watched the movie they chose to see absent filtering:

SURVEY QUESTION: Would you have watched "[title]" without a filter? Out of 180,227 movies watched, 92,225 users said they would not have watched the movie at all without filters (as of 8/26/2016). These answers come from

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the account holders (usually parents). The numbers do not fully account for hundreds of comments like these:

I would let my 13+ year old children watch without the filter. My younger kids had to wait until Vidangel provided it.

My kids love this movie especially at Halloween but I hate it because it needed to be edited. Thank you for editing it and putting it on your site.

The filter was great with younger kids watching (13 yr old in my case)

The filter was for the kids.

I wouldn't have let me kids watch without the filters.

My husband and I love the movie "Apollo 13" but we have never watched it with our kids (youngest is age 7.) We muted the language that we feel is inappropriate for our own household and were able to watch it with our children. They loved it:)

I would have watched it without a filter with my older kids, but not the youngers.

40. This means that, while over half of all movies would not have been watched by the account holders without filters at all, far more users would not have watched the movie with their family without filters. This filtered-only viewership is entirely additive to the studios' market, and the purchases of those films and shows would not have occurred without VidAngel.

VidAngel's Marketing Is About Filtering

- 41. VidAngel is constantly testing advertising messages and the studios have cherry picked a few that never even got traction. While the studios say VidAngel has an "unfair advantage" using its net cost with sellback and filters as a marketing hook, what they fail to acknowledge is that VidAngel is not a direct competitor to their distribution partners because those partners do not offer filtering.
- 42. VidAngel learned in its early market testing that the market for filtered content was far larger if customers did not have to pay an additional fee for filtering. It seemed that customers felt they should be able to watch the movie however they wanted after they had purchased the movie. As a company strategy, VidAngel

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wanted to reach broadest filtering audience possible and adjusted its marketing messages accordingly.

- 43. Historically, those who would like to enjoy filtered content had to pay a premium price for the ability to do so (even purchase expensive hardware and a subscription in addition to the cost of the movie). VidAngel's messaging helps those who think that filtering is more expensive and more difficult to realize that the opposite is true. An analogy explains why VidAngel's marketing references other VOD services. People may believe that flying in an airplane is dangerous. Airlines may highlight that the chances of dying in a car are higher than the chances of dying in an airplane to dispel that myth and attract people to purchasing plane tickets. Plane tickets do not directly compete with car sales, but the comparison is useful to customers.
- 44. The number of users voluntarily choosing more than one filter (over 96 percent in July) are evidence that the studios have mistakenly concluded that VidAngel's marketing highlighting net cost gives VidAngel an "unfair advantage," when the approach is ultimately attracting a filtering audience rather than competing with all the many distributors who do not offer filtering.

The Studios Are Being Disingenuous Concerning the Lawsuit

- 45. In their Complaint, the studios say they are suing VidAngel because it is allegedly operating an "unlicensed VOD streaming service" even though VidAngel is operating a remote filtering service under the FMA.
- 46. Plaintiffs claim that "The FMA requires that any copy or performance made pursuant to that statute be otherwise 'authorized'— that is, not violating the copyright owner's other exclusive rights." Complaint (Dkt No. 1), ¶ 44. Under this position, the authority to filter content in the home resides with the studios, not with the family. This position would essentially repeal the FMA, which does not require any consent from the studios to filtering (consent they would definitely not give).

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47. The ultimate irony is that the studios will not sell a streaming license that permits filtering to anyone, putting companies like VidAngel in a Catch-22 position. Indeed, 10 years after the studios were compelled by the FMA to dismiss a lawsuit with ClearPlay, the market has yet to see a studio-licensed streaming product that supports filtering.

DVDs and Blu-ray Discs Are the Only "Authorized" Copies of Plaintiff's Movies Available for Filtering

48. Due to the agreement the studios have made with the Directors Guild of America ("DGA"), major studio agreements with their distributors have language similar to the Sony/Google agreement posted on WikiLeaks (which I found doing a Google search for "VOD license agreement"):

CUTTING, EDITING AND INTERRUPTION. Licensee [Google] shall not make, or authorize any others to make, any modifications, deletions, cuts, alterations or additions in or to any Included Program without the prior written consent of Licensor [Sony]. For the avoidance of doubt, no panning and scanning, time compression or similar modifications shall be permitted. Without limiting the forgoing, Licensee shall not delete the copyright notice or credits from the main or end title of any Included Program or from any other materials supplied by Licensor hereunder. No exhibitions of any Included Program hereunder shall be interrupted for intermission, commercials or any other similar commercial announcements of any kind.

- 49. Discovering this language in the studios' actual agreements helped me realize that this was the reason Google was forced to remove technical support for filtering HD content on the Chromecast and was forced to seek permission from the studios to enable filtering on Google Play.
- 50. What's more, when the studios sign a deal for the rights to a specific title, they seem to be required to include the following language in all of their agreements. For example, in Sony's agreement for the movies Fury and American Hustle, the following language binds Sony:

[Sony] shall have the right...to make any and all changes and

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modifications in the Picture; provided, [Sony] shall comply with any contractual right of first opportunity to make such changes granted to

- Given this language and the studio interpretation of the FMA, this language trickles down through all agreements and ultimately hands the authority to make any changes to the movie back to the director of the movie.
- 52. The legislative history of the FMA reflect that the DGA refused to testify or cooperate with Congress in any way when FMA was being debated in Congress. The DGA and the studios would not seek a business deal with filtering companies in 2004. And these are the same organizations who have not filled the market need for filtering for the last decade, leading a few brothers from Idaho to ask themselves, "Why isn't there filtering for streaming?"
- 53. If the court were to interpret the law as argued by the studios, then VidAngel will not be able to operate under the "transmitted" language of the FMA because the studios will not sell VidAngel a license that permits filtering. In fact, they are unable to do so without cooperation from the DGA. And lack of cooperation from the DGA is the reason the FMA was passed by Congress in the first place. VidAngel is the only entity that provides a filtering service under the FMA for those viewing title on modern mobile devices such as smartphones, tablets, and SmartTVs.

VidAngel Would Love to Purchase a Filtered Streaming License

- 54. VidAngel has various business reasons for which it is preferable to purchase a streaming license that allows for filtering. For example:
- Discs will increasingly become less available and may eventually be a) phased out of existence.
- New customers complain about VidAngel's buy/sellback model and b) ask why they can't just rent the movies.
- A streaming license would allow VidAngel to provide both filtered and c) unfiltered versions of movies.

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- d) There is a lot of overhead and waste in managing a vault of physical discs.
- Acquiring physical discs through retailers is time consuming and e) difficult.
- f) When customer demand exceeds our supply, VidAngel has to send customers out-of-stock notices. VidAngel sent out almost 60,000 unique customers over 250,000 out of stock notices last month alone. This means that VidAngel turned away 250,000 requests for streams that it could have received income for if it had a standard VOD distribution agreement that allows for filtering.
- When VidAngel purchases more discs than it is ultimately able to sell, g) it ends up with hundreds or thousands of discs that it will never sell.
- 55. VidAngel assumed that it needed to have significant size before the studios would ever consider a filtered licensing deal. Some contacts in Hollywood told me to wait until we had over 1 million users, preferably over 5 million.
- 56. In fact, VidAngel started talking with a local distributor in Utah about a licensing deal in May of 2016, before the lawsuit. This distributor has agreed to licensing its latest film to VidAngel because it has not signed an agreement with the DGA and can permit filtering of content.
- 57. After Plaintiffs filed their lawsuit, VidAngel inquired of some of the plaintiffs whether they were open to a business solution rather than litigation.
- 58. VidAngel also met with Sony, Lionsgate and Paramount about a licensing deal since those studios had not sued them. VidAngel has reached out to many others. These studios have either said, "this is complicated legally," or "maybe we can solve the problem with the airline cut," or "you have to get the DGA to agree first." Multiple studios said they would get back to me after meeting with their legal teams and never did.
 - Finally, I am aware that my counsel has emailed counsel for Disney 59.

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and offered to make certain changes to VidAngel's model and that Plaintiffs' counsel responded: "my clients absolutely will not engage in any joint licensing discussions." Counsel for VidAngel then offered to abandon its FMA exemption defense (and with it the requirement that consumers must purchase copies of discs) and instead pay a streaming license fee to stream filtered content, noting that this arrangement would resolve Disney's DMCA and infringement claims. Disney has not responded to this offer.

60. It appears that VidAngel is back to 2005 again, with no business solution available to VidAngel.

New Releases on VidAngel Generate Revenue Share Similar to Studio Contracts

Over its history, much of VidAngel's revenue comes from the sale and 61. filtered streaming of popular movies within the first four weeks of their release. Each new release DVD or Blu-ray is purchased by VidAngel and is then sold to its customers (after it is bought back by VidAngel) on average 16 times. The average net revenue for each transaction over VidAngel's history is \$1.20. The average cost for a new release DVD or Blu-ray is \$15.01. This means that VidAngel, on average, contributes \$15.01 in capital for total revenue of \$19.20. In other words, the studios receive approximately 78% of all of the revenue VidAngel receives on a new release title. By comparison, the Google Play and VUDU VOD Distribution Agreements with Sony calls for Sony to receive 70% of the revenue day one, and receive 65% for the four weeks thereafter for all new release rentals.

VidAngel Maintains It Has Robust Records of Every Transaction In Its History Related to Each of Plaintiffs' Titles

62. VidAngel maintains records of every transaction. Those records include the date purchased, date sold back, amounts paid to purchase and sell back, the specific disc purchased and filters used. VidAngel maintains that data for every

title VidAngel users have ever filtered and streamed.

VidAngel Will Suffer Tremendous Hardship If an Injunction Issues

In the event that VidAngel is enjoined on October 24, 2016, the 63. following financial damages (immediate, and future) would be incurred in the estimated 18-month timeframe for the trial to occur:

a.	VidAngel is
	currently operating at a, this includes
	Hosting, Credit Card Fees, and Tagging Costs.
b.	VidAngel expects to have a user base of
	by April 2018 (18 months from the injunction hearing). With a
	, the
	If VidAngel were to be enjoined, the total value of the customers lost would be
c.	In Apr 2018, VidAngel's monthly revenue run rate is projected to
	be at per month, or an annual If VidAngel achieves this goal in the timeframe
	projected, the company would be valued at, or above,
	All of this potential market value would be lost if
	VidAngel is enjoined.
ьd	just three years ago, has only 20 full time ampleyees. To date

VidAngel, formed just three years ago, has only 20 full-time employees. To date, VidAngel has been capitalized with over \$3.6 million and has spent over a third of that capital, \$1.2 million, purchasing discs.

ER684

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64. VidAngel developed its filter-and-stream technology just as consumer
preferences were beginning to move away from getting physical DVDs/Blu-ray
discs to watch on a home television to having content streamed to them to watch on
all sorts of devices, which now are only infrequently a television set. Consumers
increasingly want to avoid having to obtain discs and want the freedom to watch
content on tablet, laptop, and desktop computers, smart telephones, and other
devices, and want to be able to watch content wherever they may be, in private. As
consumer preferences involving digital technologies always do, the preference for
streamed content is happening rapidly and the bulk of the transition will likely be
complete in less than three years. VidAngel is the only company currently
streaming filtered content to customers. (The only other content filtering service
sells devices that consumers may use at home to filter the content of physical DVD
and Blu-ray discs being watched on a television set.) As the sole competitor
offering to provide filtered streamed content to modern devices, VidAngel
obviously has a significant head start over potential competitors in developing its
technology and increasing its know-how. Further, VidAngel owes a large portion of
its success to the highly capable and competent employees and independent
contractors it has attracted, trained, and retained. Were VidAngel to be enjoined
during the pendency of this action, it would lose all the advantages described above.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on September 12, 2016, at Provo, Utah.

Neal Harmon

ER686

	1	Defendant.
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	3	VIDANGEL, INC.,
	4	Counterclaimant,
	5	vs.
	6	DISNEY ENTERPRISES, INC.;
	7	LUCASFILM LTD. LLC; TWENTIETH CENTURY FOX FILM
	8	CORPORATION; AND WARNER BROS. ENTERTAINMENT, INC.,
	9	Counterclaim Defendants.
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JR 50	12	
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OPPOSITION TO PRELIMINARY INJUNCTION MOTION

ER 687

I, Dr. Sigurd Meldal, declare:

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- I submit this declaration in support of defendant and counterclaimant VidAngel, Inc.'s ("VidAngel's") Memorandum of Points and Authorities in Opposition to Plaintiffs' Motion for Preliminary Injunction. I have personal knowledge of the facts set forth herein and, if called and sworn as a witness, I could and would testify competently hereto.
- 2. I have been retained by VidAngel as an expert in this case. I am a professor of computer engineering, software engineering and computer science at San Jose State University and a computer scientist for Quandary Peak Research and I have served as a consulting Professor in the Electrical Engineering Department at Stanford University.
- 3. I have received several honors and awards over the course of my career, including the Fulbright-Hayes Fellowship, the Carl-Erik Fröberg Award, a Certificate of Recognition from the California State Assembly, and a Certificate of Special Recognition from the U.S. House of Representatives.

Professional Honors and Experience

I have served on many professional committees and organizations. For 4. example, I serve as a Commissioner of the national Engineering Accreditation Commission of the Accreditation Board for Engineering and Technology (ABET.) (The Engineering Accreditation Commission of ABET defines the standards for engineering education and determines whether programs are up to those standards or not.) I am also a member of the Fulbright Association, and a Senior Member of the Institute of Electrical and Electronics Engineers (IEEE) and of the Association for Computing Machinery (ACM).

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- I have more than 30 years of experience working on security and 5. networked systems, starting with contributions to the surveillance systems for the nuclear arms treaties of the '80s and including the creation of degree curricula in security and privacy. I was the founding director of the Silicon Valley Big Data and Cybersecurity Center as well as a member of the Strategic Task Force on Cybersecurity for the State of California. I am also Co-Director of the NSF Science and Technology Center for Research in Ubiquitous Secure Technologies (the "NSF TRUST Center") at the University of California, Berkeley.
- I have previously testified in a number of cases concerning intellectual 6. property that relates to mobile devices, networked systems and services-oriented architectures, including in particular smartphones, wireless communication and telephony, network-based data systems, location-oriented web services and mobile device positioning systems as well as streaming video content across the internet. My Curriculum Vitae is attached as Exhibit A.

Documents and Things Reviewed

- The opinions expressed in this declaration are based on my professional 7. experience as well as my use and review of VidAngel's service and the following documents:
 - (i) VidAngel's Answer and Counter Complaint (Dkt. 11);
 - The deposition testimony of Todd Cittadine and Neal Harmon; (ii)
 - (iii) Deposition exhibit 15 (a description of VidAngel's filtering technology), deposition exhibit 16 (a description of VidAngel's process for preparing discs for streaming), deposition exhibit 17 (VidAngel's instructions for adding new movie and television show titles to its inventory), and deposition exhibit 19 (VidAngel's encoding and segmenting checklist);

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- The Plaintiffs' Motion for a Preliminary Injunction (Unredacted) (Dkt. (vi) 27), declarations of Todd Cittadine (Unredacted) (Dkt. 28) and Robert
- Schumann (Unredacted) (Dkt. 29) in support of Plaintiffs' Motion for Preliminary Injunction;
- (v) The Digital Entertainment Group's DEG Year-End 2006 Home Entertainment Sales Update;
- The standard terms of service for VOD Google Play, Amazon Video, (vi) Vudu, iTunes Store, and Youtube;
- ClearPlay, Inc.'s website available at https://www.clearplay.com. (vii)

DVD and Blu-ray Discs Dominated the Home Entertainment Market in 2005

In the mid to late 1990s, digital versatile discs ("DVDs") began to 8. replace VHS tapes as the primary media onto which motion pictures were recorded for sale in the home entertainment market. By 2005, the home entertainment market was dominated by DVDs. Attached as Exhibit B is a true and correct copy of a Digital Entertainment Group report dated January 8, 2007, stating that in 2005, approximately 94% of digital home entertainment was consumed using discs. By 2006, this percentage increased to well over 99%. But as I will explain later, the home entertainment market is now moving rapidly away from physical discs, to services that stream a title directly to a user's television or other device.

Discs Were Encrypted by the Late 1990s

9. Encryption of DVDs also dates back to the 1990's, and was the subject of an appellate opinion in 2001. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001). In 2005, DVDs and Blu-ray discs bore security features, commonly known as "encryption," that encoded the content in such a way that the disc's contents could not be accessed, copied or modified without a decryption key. A disc cannot be used without first decrypting it. Common forms of encryption included Content Scramble System ("CSS") for DVDs and Advanced Access

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Content System ("AACS") for Blu-ray discs. I have read the Declaration of Robert Schumann in Support of Plaintiffs' Motion for Preliminary Injunction ("Schumann Dec.") and, for the purposes of my opinion expressed in this declaration, agree with his descriptions of how CSS, AACS and BD+ each function (but disagree with his assessment of their effectiveness, as noted below). (Schumann Dec. ¶¶ 20-34.) CSS, AACS, and to a lesser extent BD+, remain the most common forms of encryption for DVDs and Blu-ray discs today. (Schumann Dec. ¶¶ 20, 27.)

By definition, it is impossible to access, view, copy or alter in any way 10. a motion picture contained on an encrypted digital disc without first unlocking the encryption. In 2005, all household DVD players were equipped with digital keys that unlocked the encryption on the digital disc prior to sending the video to the user's television.

The Digital Millennium Copyright Act

- 11. The DMCA addresses, to some extent, the forms of encryption described above and in Mr. Schumann's Declaration. It provides that "a technological measure [i.e., encryption] 'effectively controls access to a work' if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work."
- In the case of the encryption commonly used to access motion pictures 12. on Blu-rays and DVDs, it is undisputed that software capable of removing these measures is ubiquitous and easily accessible, despite the fact that much of that software is no longer readily sold in the United States. In light of the ease with which one may currently decrypt a DVD or Blu-ray disc using readily available software, DVD and Blu-ray encryption does not "effectively control access to a work," because these measures may be easily removed in the ordinary course of their operation to gain access to the work. Accordingly, Robert Schumann's opinion

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expressed throughout Paragraphs 20-34 (under the headings, "CSS Is An Effective Access-Control System for DVDs," and "AACS and BD+ Are Effective Access-Control Systems for Blu-ray Discs") that CSS, AACS and BD+ are effective accesscontrol systems is incorrect.

The 2005 Family Movie Act Authorized Third Parties (Such as VidAngel) to Filter **Motion Pictures in Either of Two Ways**

13. I understand that The Family Home Movie Act of 2005 ("FMA") provides the legal context for the expert opinions expressed herein. The FMA specifically provides that "it is not a violation of copyright" to:

[make] imperceptible, by or at the direction of a member of a private household, of limited portions of audio or video content of a motion picture, during a performance in or transmitted to that household for private home viewing, from an authorized copy of the motion picture, or. . .creat[e] or provi[de]. . .a computer program or other technology that enables such making imperceptible and that is designed and marketed to be used, at the direction of a member of a private household, for such making imperceptible, if no fixed copy of the altered version of the motion picture is created by such computer program or other technology.

17 U.S.C. § 110(11). As used in the FMA, "motion picture" is defined to include television programs. The "making imperceptible . . . limited portions of audio or video content of a motion picture" referenced in the FMA is commonly referred to as "filtering."

The plain language of the FMA quoted above expressly authorizes and exempts from copyright infringement two distinct methods for filtering motion pictures. The first – and today far more important method – is the "transmission" or streaming method. The word "transmission" has broad meaning in the context of the Copyright Act. "To 'transmit' a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent." 17 U.S.C. § 101. In turn, "device," "machine," and "process" are defined to include "one now known or later developed." *Id.* Accordingly, the

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FMA expressly authorized future processes for privately transmitting filtered versions of motion pictures to members of households at their direction. In the transmission method, a third party, at the direction of a member of the household, makes imperceptible limited portions of an authorized copy of a motion picture's audio or video content in a "transmission" to that household. This first method is the more important today because it works across every type of device and mobile platform for viewing content. This is also the method that VidAngel employs, as described in more detail below.

15. The FMA also exempts any computer program or other technology that filters an authorized copy of a motion picture "during a performance in" a private household 17 U.S.C. § 110(11). In 2005, when the FMA was being created, this was the only type of filtering service that existed. It was provided by a company called ClearPlay, which sold specialized hardware to be installed in the user's home. The ClearPlay hardware unlocked encryption through the use of a built-in DVD/Blu-ray disc drive equipped with a CSS "key" that unlocked the DVD's CSS encryption. See https://www.clearplay.com/p-450-clearplay-blu-ray-player-cp1126.aspx, a true and correct copy of which is attached as Exhibit C. All DVD player manufacturers obtained CSS keys through licenses from the DVD Copy Control Association ("DVD CCA") so that every home DVD player could unlock CSS encryption. Once the home DVD player unlocked the CSS encryption, the ClearPlay set top box provided the filtering. Because no fixed copy of the altered work was ever created by the ClearPlay box, its service was expressly authorized by the FMA. The ClearPlay set top box recently retailed for \$249.99 and required an additional \$7.99 per month subscription to ClearPlay for the filters. The ClearPlay method did not allow a user to access filtered content on modern mobile devices. See https://www.clearplay.com/t-streaming support.aspx, a true and correct copy of which is attached as Exhibit D (noting the ClearPlay Streaming Player works only

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on a Mac or PC computer using a Chrome browser, and only when the computer is attached to the TV via HDMI cable or the "tab-cast" feature of the Chromecast in order to work).

- 16. The FMA expressly does not require that the household or the technology provider operating at the direction of the household obtain the consent of the copyright holder prior to filtering a work, provided that no fixed copy of the altered work is created. 17 U.S.C. § 110(11). This lack of a consent requirement for filtering is essential to any functioning market for filtering motion pictures because the major studios that own those works and the directors that create them were vehemently opposed to the enactment of the FMA and to companies that provided filtering technology. In fact, I have reviewed the deposition testimony of Tedd Cittadine, who testified that no studio to his knowledge has ever privately licensed any third party to filter any of its works. Deposition Transcript of Tedd Cittadine attached as Exhibit B to the Declaration of Jaime W. Marquart filed concurrently herewith ("Marquart Dec.") at Tr. 83:21-84:21.
- Digitally encoded motion pictures to be distributed commercially are 17. usually encrypted. The content of the movie is transformed from its viewable format into a representation where the content is no longer distinguishable from random data – encrypted data. Without a subsequent decryption, the content information is not accessible – it cannot be viewed or manipulated in any meaningful way. Thus before the movie content can be displayed to a viewer, the encrypted data has to be decrypted, or unlocked, reversing the encryption process to yield the original information content.
- 18. Since the encrypted representation of the content is indistinguishable from random data, the movie content cannot be analyzed for objectionable content subject to filtering, nor can such filtering be applied without the content first becoming viewable again. It is thus impossible to view or filter for viewing a

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motion picture stored in a digitally encrypted format without first unlocking the encryption. This is true in the case of DVD viewing, where a key contained within a DVD player unlocks the encryption, and it also true in the case of streaming, where a viewing application provided by the streaming service unlocks the encryption. The reason for this is that, by definition, encryption prevents accessing, copying or altering the content of the original files.

- 19. In drafting the FMA, Congress obviously considered known technologies. When Congress enacted the FMA, encrypted physical discs were the dominant technology in the market. To transmit a filtered version of a motion picture stored on any physical disc sold in the home entertainment market, one must first unlock the encryption of the content and make an intermediate version. The reason for this is that a filter has to modify the movie content to be delivered to the viewer, a process that requires the substitution of original content with the filtered (e.g., muted audio or hidden video) content based on information regarding the time points where the filter is to be invoked, and how. Such manipulation of the original content cannot occur without that content being available, i.e., the encrypted data has to be decrypted before any filtering can occur.
- 20. It is inherent in the decryption process that a local version of the unlocked content be created – be it in memory or other storage.
- 21. Having made the movie content ready for a filtered transmission, further transient versions are created. It is common to create different versions of the content adapted to various presentation formats (e.g., for standard and high definition resolutions) and for different transmission bandwidth environments (e. g., slower vs. faster connections between the servers and the consumer). Finally, for broadly distributed content, when a customer requests a particular movie (as filtered by filtering technologies such as VidAngel's), the streaming media is usually moved from the central servers to so-called "edge servers" to place the multimedia data

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repository closer to the consumer to avoid the massive network traffic congestion that would result if all multimedia were transmitted from a single hub. (This is commonly referred to as a "pull cache" technology.)

- 22. The strategy of creating temporary versions of data such as movie content to enable streaming transmissions is referred to as "caching," and is a standard practice in the computer and networking professions generally, and with respect to streaming media content in particular.
- As is common industry practice for delivering of commercial digital 23. content, VidAngel's technology ensures the integrity and the protection of such content against illegal access by encrypting the content prior to its delivery across the Internet to the customer (see below for details).

Technological Measures Implemented by VOD Providers Impede Filtering

Today, physical discs are rapidly being replaced by Video on Demand 24. ("VOD") distribution. None of the VOD services described in Plaintiffs' Complaint – Netflix, Hulu, iTunes, Google Play, Amazon Video and VUDU – existed in April 2005, when the FMA was enacted. To deliver VOD content to a consumer, standard VOD files are transmitted from the VOD provider's server to a user's television, computer or mobile device in an encrypted format. The most popular VOD providers all use a combination of legal and technological means to prevent filtering. First, all the most popular VOD providers provide their own studioapproved form of encryption for the motion picture files they stream to their users. See, e.g., Marquart Dec. Ex A at Tr. 80:13 – 81:16. Second, their VOD distribution systems are "closed systems." In closed systems, the files are encrypted prior to transmission to the user's device and then may be opened and viewed only by using a proprietary software application loaded on the user's device. The use of a closed system is intended to prevent any third party (or the user) from accessing or altering

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any VOD file transmitted to it. In closed systems, access to the VOD provider's proprietary software is necessary to alter the file, and no user or third party may access, alter or add to that software. Id.

- 25. I have read the declaration and deposition transcript of Plaintiffs' witness, Tedd Cittadine, who testified that the market for VOD titles is divided into two general types of transactions, rental (usually for a small period of time, such as 24-48 hours) and what the VOD providers characterize as "sell-through." This comports with my understanding of the market for VOD titles. In general, "sellthrough" is meant to mimic in some, but not other, respects the purchase of a physical disc, and VOD providers generally refer to a sell-through transaction as a "Purchase." The price for a purchase of a VOD title is commensurate with the price for purchasing a physical disc at retail, though it is usually reduced by a small amount (as much as \$5.00 for a new release), which reflects costs saved by not having to manufacture, package, store, distribute and ship discs. A "sell-through" transaction differs from a traditional purchase of a physical disc, however, in that it is merely a license to view the VOD title within the VOD provider's viewing software subject to a long list of restrictions contained in terms of service agreements that must be accepted to complete the "purchase." The same is true of "renting" a VOD title, with the additional term that a customer's window to watch the title expires within a short time.
- Third, their terms of service agreements prohibit filtering. I have 26. reviewed the standard terms of use for the four VOD providers mentioned in Plaintiffs' Complaint as marketing major motion pictures on a rental and "sellthrough" basis: Vudu, Google Play, iTunes, and Amazon Instant Video. Two other services mentioned in Plaintiffs' Complaint – Netflix and Hulu – provide VOD titles on a subscription basis. However, I understand that Plaintiffs in this case have compared VidAngel's service to the non-subscription-based VOD providers. True

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and correct copies of the terms of service agreements for the four non-subscriptionbased services are attached collectively as Exhibit E. Each of them provides that the user may not modify any digital content purchased through the provider's system. Because these terms of service expressly prohibit modification of audiovisual content in the ways necessary to filter (through automatic skipping and muting), a user may not filter VOD content without violating the VOD provider's terms of service.

27. Fourth, in addition to VOD terms of service, which prohibit filtering, several technological issues make it impractical to apply filters accurately to a VOD title after it is opened within the VOD provider's proprietary software on a user's device. Due to varying transfer rates and other technical functionalities unique to each VOD provider's viewing application software, as well as operational differences unique to each user's device, it has not been possible for a third party to create software compatible across multiple devices and applications to filter titles after they have been opened in a particular VOD provider's viewing application. More importantly, such software cannot be written for even a simple application. Closed systems contain security features that prevent the creation of filtering software compatible with that system absent assistance from the VOD provider. To develop filtering software that functions within a VOD provider's closed system, a developer typically must have the consent and participation of the VOD provider to access its software for the purpose of developing software compatible with it. I have been informed, and have confirmed in part through my review of Mr. Cittadine's deposition transcript, that no VOD provider and no Plaintiff has ever consented to allow a third party to create software compatible with a VOD provider's closed system to allow users to apply customized filters to titles viewed within the provider's closed system.

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Google's Purported YouTube Player "Exception" Demonstrates That Plaintiffs Have Made It Infeasible to Provide Filtered VOD Content to Consumers

One exception to the closed VOD delivery systems architecture and 28. terms of service described above is the YouTube Embeddable Player and its application programing interface ("API"). The YouTube Embeddable Player API also did not exist in April 2005, when the FMA was enacted. An API is a set of function and interface definitions, the protocols for their use, and associated programming tools that affords software developers controlled access to the API owner's software. An API permits the development of other software programs that can interact with the API owner's software. The additional software is often referred to as a "plug-in" to the API owner's software. In theory, the YouTube Embeddable Player API allows a software developer to create a plug-in for the YouTube Embeddable Player capable of allowing automatic skipping and muting of undesired content in an encrypted motion picture file after the file is opened for viewing by the YouTube Embeddable Player in a user's Google Chrome browser. To my knowledge, no other VOD provider's player contains an API that would allow for the creation of a plug-in capable of allowing automatic skipping and muting of undesired content in an encrypted motion picture file after the file is opened for viewing by the VOD provider's player.

29. Paragraph 47 of Plaintiffs' Complaint alleges that the YouTube API allows a third party – such as VidAngel – to filter VOD titles purchased from Google. This is inaccurate in a number of ways. To begin, YouTube's terms of service – attached as Exhibit F – expressly prohibit a user (or anyone directed by the user) from "alter[ing] or modify[ing] any part of" a motion picture viewed on the YouTube Embeddable Player. The user also "agree[s] not to access Content through any technology or means other than the video playback pages of the Service itself, the Embeddable Player, or other explicitly authorized means YouTube may designate." The YouTube Paid Service Terms of Service – a true and correct copy

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of which is attached as Exhibit G – further prohibits copying the Paid Services or the sublicensing them to any third party. These terms of service also do not allow a user to "circumvent, reverse-engineer, modify, disable, or otherwise tamper with any security technology that YouTube uses to protect the Paid Service or encourage or help anyone else to do so." All these restrictions expressly make it a violation of YouTube's Terms of Service to engage in any of the activities necessary to filter a motion picture through YouTube's Embeddable Player.

- 30. In addition, the YouTube API Services Terms of Service for developers writing software plug-ins that interact with the API – a true and correct copy of which is attached as Exhibit H – also prohibit any technology capable of filtering motion pictures viewed through the YouTube Player API. They provide that developers may not "separate, isolate, or modify the audio or video components of any YouTube audiovisual content made available through the YouTube API." Thus, any third party that attempts to provide a filtering plug-in for a YouTube Embeddable Player does so in violation of YouTube's terms of use. I have also read Exhibit A to the Declaration of Neal Harmon, which is a notification from YouTube informing VidAngel that its filtering plug-in for the YouTube Embeddable Player violates the YouTube API Services Terms of Service.
- 31. There are also several technological limits to creating a plug-in compatible with the YouTube Embeddable Player API capable of accurately and seamlessly filtering motion pictures purchased lawfully for viewing on the YouTube Embeddable Player. To begin with, the Embeddable Player plug-in works only with standard-definition content, not with the popular high-definition format typical of DVDs or Blu-ray discs. More importantly, because the plug-in is not officially supported by Google, changes to YouTube can cause the filters to fail. When that happens, filtering is ineffective and users will see content that they did not want to see until the plug-in is updated. Finally, slower computers cannot process both the

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video and the filter at the same time, resulting in missed filters. The end result is that – without Google's technical support and cooperation – no method of using a YouTube Embeddable Player plug-in provides a consistent filtering experience for the majority of users and no method would provide a high-definition filtering experience for any user. In addition, this method does not work on modern mobile devices.1

32. Furthermore, these approaches to enabling a filtering functionality for the customer suffer from reductions in the quality of the viewer experience such as lower resolution, delays or stops, stuttering, and other impediments to smooth viewing. Consequently, the commercial quality a viewer would expect when enjoying the filtered content would be significantly jeopardized and diminished.

VidAngel Transmits Filtered Versions of Plaintiffs' Motion Pictures to Owners of Authorized Copies of the Motion Pictures Pursuant to the FMA

VidAngel is an online video filtering service that operates under the 33. "transmission" filtering method authorized by the FMA. Its service allows customers to stream filtered feature films and television shows via the Internet to a wide range of devices, including desktop computers, laptops, iPads, smart phones, and televisions (through devices like Roku, Google Chromecast, or Apple TV).

¹ I am also aware of certain "digital rights locker services," such as UltraViolet and Disney Movies Anywhere and disc-to-digital services such as VUDU and Flixter, that claim to allow consumers to convert previously purchased DVDs or Blu-ray discs into high quality digital files. See 37 CFR Part 201 (Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies). These services merely provide the same digital right to a user that he or she would obtain if purchasing a "sell-through" license from a VOD provider for the disc the customer owns. The user then must follow the same terms of service attendant to that VOD license, which prevent any third-party filtering in the same way that other VOD services prevent filtering. Marquart Dec. Ex. B at Tr. 96:11-102:4.

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VidAngel users can select from more than 80 unique filters when viewing a film or television show. The filters have the effect of skipping audiovisual content or muting audio content in categories created by VidAngel and selected by the user. Example categories include sexual activity, nudity, drug use, obscenity, vulgarity, the "F" word, blasphemy and violence. All users must select at least one filter, and each user has the option to select as many other filters as apply to that content, thus permitting users in most instances to select many thousands of different combinations of filters, thus making a customer's viewing experience individualized and unique.

VidAngel's Filtering Technology

- VidAngel follows the first, "transmission," method contemplated by 34. the FMA, requiring the purchase of an authorized copy of a physical disc, a filtered version of which is then streamed to the user without making a fixed copy of the filtered work. VidAngel delivers filtered content to users by streaming it over the Internet using a video content delivery protocol called HTTP Live Streaming² ("HLS"). HLS divides the audiovisual content into short segments that are frequently less than 4 seconds and never more than 10 seconds that are delivered separately to a user's device when viewed. The user's device downloads each segment individually. At the beginning of an HLS streaming session, the user's device downloads an index file which provides the device with a list of segment files that the device can then request and play to display the content.³
- VidAngel's filtering technology divides each feature film or television 35. show into hundreds or sometimes thousands of small segments (ranging from 2

² R. Pantos, W. May, "HTTP Live Streaming," Internet Engineering Task Force, Apr. 4, 2016 (retrieved from https://tools.ietf.org/html/draft-pantos-http-livestreaming-19, Sept. 3, 2016) 3 Id.

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tenths of a second to 10 seconds in length), for which each segment is identified and "tagged" as associating with one or more available categories of filterable content. When a user selects a filter category and streams a feature film or television show, all segments that are tagged for that filter are omitted from the stream.

- 36. If the filter concerns audiovisual content, the user's device will not download the segments that have been tagged for that filter. If the filter affects only the audio, the user's device downloads a version of the segment with the voice soundtrack muted while other soundtracks continue to play, but leaves the video portion unchanged.
- 37. Based on my review of the documents that VidAngel has provided to me, it is my understanding that VidAngel's system is designed and operates as follows:
 - (i) VidAngel lawfully purchases DVDs and Blu-ray discs;
- VidAngel places a DVD or Blu-ray disc into the optical drive of a (ii) computer. VidAngel then uses a commercially available software program such as AnyDVD HD to automatically allow read-access for the purpose of mounting the DVD or Blu-ray files for uploading onto a computer, in the process necessarily removing restrictions on DVD or Blu-ray content access;
- VidAngel uses a software program to extract the subtitle/caption data (iii) files and then creates temporary ("locally cached") Matroska files (erroneously referred to by Plaintiffs' expert, Robert Schumann, as "Mastroska" files) of the feature films. Matroska files are multimedia files that can hold an unlimited number of video, audio, picture, or subtitle tracks in one file;
- VidAngel uploads the subtitle/caption data files and Matroska files (collectively known as the "pre-filter files" or "PF" files) onto a secure folder on a third-party Internet service provider's cloud storage service ("PCSS") and uploads the subtitle/caption into a separate PCSS folder ("PCSS cache" of these intermediate

files);

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- VidAngel destroys the locally cached Matroska file; (v)
- VidAngel boots an encoding and segmenting server ("ESS") to run two scripts, including an encoding script and a segmenting script, as follows:
- The encoding script temporarily copies the PF files from the PCSS a. cache to the ESS, uses ffmpeg to prepare the PF files for tagging and filtering, creates a single mp4 file (640 kilobytes per second bitrate) for tagging (when that is not performed beforehand on YouTube or when corrections need to be made to the tags), copies the mp4 file from the ESS to a secure PCSS location, creates four Transport Stream files ("TS files") at 640, 1200, 2040 and 4080 bitrates for filtering, copies the TS files to a secure location on the PCSS, and deletes all copies and files on the ESS. This script is run once for each title's Matroska file.
- The segmenting script temporarily copies the TS files from the PCSS to b. the ESS, segments the TS files for adaptive bitrate streaming (as per the HLS specification) based on both 9-10 second intervals and the locations of each tag for the title (which could be as short as 2 tenths of a second), creates thumbnail files for player scrubbing preview for each non-filterable segment, saves a comma-separated values (CSV) file containing the results of the segmenting process for each segment, uploads the CSV file for use by the filtering system, encrypts the segments of each bitrate with a new and unique encryption key, copies the unencrypted segments from the ESS to a secure location on the PCSS, copies the encrypted segments from the ESS onto a publicly accessible location on the PCSS (the "TS cache"), copies the encryption keys from the ESS to a secure location on the PCSS, deletes older revision files on the PCSS, and deletes all copies and files on the ESS;
 - VidAngel lawfully purchases additional DVDs and Blu-ray discs;
- (viii) VidAngel enters the information concerning the additional discs into an inventory system;

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- (ix) VidAngel applies bar codes to the disc packages;
- VidAngel sells specific discs to specific customers; (x)
- VidAngel requires each customer to select one or more filters; and (xi)
- VidAngel streams encrypted content from the discs to each purchaser while applying the filters chosen by that customer.
- (xiii) At the customer's device VidAngel software assembles the segments in sequence, and for each segment decrypts the content, displays it and then discards the segment.

VidAngel's Technology Prevents File Sharing and Does Not Create Any Watchable Copy of Plaintiffs'

- Based on my understanding of VidAngel's system, at no point during 38. this process does VidAngel create a fixed copy of the altered (filtered) movie or television show viewed by any user. In fact, VidAngel's service does not even make a "copy" of the original motion picture in any traditional sense. Rather, the feature film or television show is altered (filtered) as it is divided into hundreds or thousands of small segments and streamed to the user's device using the HLS protocol. A user can view the contents of each segment only after it has been streamed in sequence, decrypted with the correct keys (keys which, themselves, are protected and accessible only by a user who has legally purchased a disc from VidAngel), and rendered with a VidAngel media player. After each unencrypted segment is viewed, it is removed from the device's memory by the player and, for all intents and purposes, is gone.
- I have read the description of VidAngel's service in the Declaration of 39. Robert Schumann (Paragraphs 7 to 19 and 35 to 42), and the service, as he describes it, also creates no fixed copy of the altered movie or television show.

The Purported Legal Violations Plaintiffs Complain of Are Necessary to Provide any Filtering/Streaming Service Authorized by the FMA

- 40. The FMA provides that it is not a violation of copyright to "transmit" a filtered motion picture to a consumer who lawfully purchased a copy of the unfiltered work. To *transmit* a filtered version of a movie or television show from a DVD or Blu-ray disc to a household, VidAngel must first unlock the encryption on the DVD or Blu-ray disc. Only after the encryption is unlocked can VidAngel tag audiovisual and audio segments of the movie or television show for filtering. This process of unlocking the encryption contained on the disc is the functional equivalent of what occurs every time a person places the disc in a player to view the contents of the disc.
- 41. As is common practice for Internet content delivery services (and multimedia services in particular), VidAngel employs multiple delivery servers for caching purposes to ensure that its users receive a seamless stream and avoid creating network traffic congestion. VidAngel streams filtered content to users from one of eight or more servers located in different parts of the United States. The content is streamed to the user from whichever server is closest. The closer the user is to the server, the faster the content reaches the user's device, reducing the need for buffering. Without the use of distributed servers, a viewer would see and hear a motion picture briefly before it froze while the next segment of the motion picture loaded, thereby diminishing the presentation quality of the media content. Rather than see continuous motion, the viewer would experience a maddening start, stop, start, stop viewing of the motion picture.
- 42. Each VidAngel user experiences an individualized stream based on the filters he or she selects. A user can choose from many thousands of different combinations of filters for any movie or television show, creating a private viewing experience. For two people to watch all of the exact same segments of a filtered

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motion picture streamed through VidAngel's process, they would have to choose the same combination of filter settings and receive each of the segments from the same server.

- 43. Decrypting and streaming a filtered version of a motion picture contained on a DVD or Blu-ray disc that the user has lawfully purchased is the only method a third party such as VidAngel can employ to transmit a filtered version of a motion picture to a household absent an express VOD license from the copyright owner. It is my understanding that the studios refuse to license VOD rights to VidAngel (or any other service that filters content). Moreover, the closed systems of the VOD providers prevent the creation of technology that could permit filtering without their consent and participation. Thus, VidAngel's method is the only known method a third party could use to transmit filtered content to a household without first obtaining the copyright holder's consent.
- 44. Importantly, VidAngel's methodology ensures that any decrypted file can be accessed *only by* the legal purchaser of the disc containing the file, and that no filtered version could ever be conveyed to a member of the public by any means. VidAngel's decryption technology thus does not and cannot harm the market for the work, nor does VidAngel's decryption process result in injury to copyright owners.
- 45. Tedd Cittadine declares that the following four harms he claims will befall Plaintiffs if VidAngel's service is not enjoined: (1) the service harms the studios' "basic right to control how, when and through which channels our content is disseminated for viewing by consumers"; (2) the service causes "harm to the online distribution of our content and to our relationships with authorized distributors"; (3) the service causes "harm to our ability to secure and protect content in an online environment"; and (4) the service causes "harm to the overall development of the on-demand streaming market by the provision of user-viewing experiences without our rigorous quality controls." To begin with, I have reviewed

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Mr. Cittadine's declaration and his deposition transcript and have found no direct
evidence that VidAngel has actually caused any of these injuries; rather, Mr.
Cittadine has merely testified that VidAngel "threatens" serious harm to the studios.
More importantly, any service that transmits a filtered version of Plaintiffs' motion
pictures pursuant to the FMA would "harm" the studios in each of these ways. By
definition, filtering does not allow Plaintiffs to control the manner in which a user
filters their works, and the FMA states that filtering shall occur without the studios'
consent. This necessarily means that viewing experiences will occur outside of the
studios' control.
I declare under penalty of perjury under the laws of the United States of
America that the foregoing is true and correct.
Executed on September 11, 2016, at Wilmington, Delaware.
1 Milli

Dr. Sigurd Meldal

ER|708

FILED UNDER SEAL PURSUANT TO ORDER OF THE COURT DATED SEPTEMBER 14, 2016 (Dkt. 75)

EXHIBIT B

Page 1 UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA WESTERN DIVISION DISNEY ENTERPRISES, INC.; LUCASFILM LTD. LLC; TWENTIETH CENTURY FOX FILM CORPORATION; AND WARNER BROS. ENTERTAINMENT, INC., Plaintiffs,) Case No. CV16-04109 vs. VIDANGEL, INC., Defendant. AND RELATED CROSS-ACTION. (COMPLETE CAPTION ON THE FOLLOWING PAGE.) CONFIDENTIAL (PURSUANT TO PROTECTIVE ORDER, THE FOLLOWING TRANSCRIPT HAS BEEN DESIGNATED "HIGHLY CONFIDENTIAL") Pursuant to Rule 30(b)(6) VIDEOTAPED DEPOSITION OF TEDD CITTADINE Tuesday, August 9, 2016 at 9:19 a.m.

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Page 83 Α. Uh-huh. 1 MR. KLAUS: And just -- and so just --2 just for my purposes, Mr. Marquart, when you're 3 using "filtering" in this depos- -- deposition, 4 unless you say otherwise, that's going to mean 5 "making imperceptible limited portions of audio or 6 video content of a motion picture"? 7 8 MR. MAROUART: Yes. And I specifically mean to include the 9 examples that the witness gave, which would be 10 bleeping -- he mentioned to filter out or make 11 imperceptible audio -- and removing and cutting, 12 which would be to skip the video. 13 MR. KLAUS: Removing, cutting, skipping 14 15 video? MR. MARQUART: Yes. 16 17 MR. KLAUS: Okay. MR. MARQUART: Those were examples of 18 filtering that I also mean to include. 19 20 BY MR. MARQUART: Q. Have you -- has Fox ever authorized one 21 of its clients to provide filtering of authorized 22 copies of VOD titles? 23 MR. KLAUS: So the -- and just to be 24 clear, is it a -- speaking at a general level 25

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Page 84

- 1 without going into any specific agreement, but I
- 2 think the question is: Are you aware of an
- 3 agreement that specifically authorizes filtering as
- 4 Mr. Marquart has described it?
- 5 THE DEPONENT: Let me think about that.
- 6 Theoretically, it's possible if we agreed
- 7 with a client about it.
- 8 I can't think of a specific agreement
- 9 offhand. I don't have the agreements with me.
- That comes to mind is something where the
- 11 client and -- and Fox have mutually decided to
- 12 authorize it.
- 13 BY MR. MARQUART:
- Q. Okay. So you can't -- you can't, sitting
- 15 here today, remember any instance in which it has
- 16 been done?
- 17 A. Has been agreed upon. I can't -- I can't
- 18 think of a specific example. Again, I don't know
- 19 all of the -- I don't have the agreements in front
- 20 of me, but I can't think of a specific
- 21 circumstance.
- Q. Okay. And said, "Theoretically, it's
- 23 possible." Just clarify that for me.
- 24 What do you mean?
- 25 A. So if -- if Fox and the client were to

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Page 96 -- more specifically. 1 Α. Let's talk about those. Ο. 2 Α. Okay. Ο. What's digital sell-through? 5 Α. Digital sell-through is a right that we grant our clients to offer consumers the ability to 6 access content for a very long period of time, 7 whether it's by download or whether it's by stream, 8 to a number of authorized devices. 9 Okay. And the second category you 10 Q. mentioned -- I believe you called -- what was your 11 12 word? Video-on-demand, or --13 Q. Yes. 14 Α. -- you can refer to it as "digital 15 rental" --16 Q. Okay. 17 -- in more of a generic sense. 18 Okay. What does that entail? Q, 19 It's a -- a -- a limited time frame where 20 21 a consumer can download and watch a piece of content, whether that's television or -- or film. 22 Q. Okay. 23 More prevalent in the -- the film 24 business than in the television business. 25

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Page 97 Does your business have anything to do Ο. 1 with physical disc sales? MR. KLAUS: "Your business" meaning --3 MR. MARQUART: Sorry. MR. KLAUS: -- what he's involved in or --BY MR. MARQUART: Q. Does the business that you're involved in 8 have anything to do with physical disc sales? 9 A very -- very minor aspect of it does. Α. 10 Are you where familiar with the Ο. 11 technology called "ultraviolet"? 12 13 Α. I am. Q. What is that technology? 14 Ultraviolet is a -- is a consortium of 15 companies -- technology companies, content 16 providers, as well as retailers or our -- our 17 clients, that are working together to create better 18 19 utility for digital content. It involves the interoperability of 20 rights from one retailer to another, meaning you 21 buy a piece of content at Apple, and if you're an 22 Amazon user, that piece of content would be 23 available in your Amazon ecosystem as well as your 24 Apple ecosystem, so it makes the content more 25

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Page 98

- 1 usable, as well as a standard set of -- of rights
- 2 and utility that a customer can get.
- 3 So whether they buy from Apple or Amazon
- 4 or another party, you know, they're guaranteed a --
- 5 a certain amount -- or baseline of utility with
- 6 that movie.
- Q. Okay. And how does that -- how does that
- 8 technology relate to the actual purchase -- the
- 9 retail purchase of physical discs?
- 10 MR. KLAUS: Object to the form of the
- 11 question.
- 12 THE DEPONENT: I would say that it
- 13 doesn't specifically relate to the purchase of
- 14 physical discs.
- A number of studios, including Fox, have
- 16 attached what we call an eCopy or eCopy rights to a
- 17 physical disc --
- 18 BY MR. MARQUART:
- 19 Q. Yeah.
- 20 A. -- where we have voluntarily granted with
- 21 some our digital retailers the right for the
- 22 consumer that buys a physical disc to get a digital
- 23 or electronic copy of that movie.
- 24 And there -- they would be able to watch
- 25 that copy at a retailer of their choice, and that

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Page 99 would be a retailer that Fox has authorized to 1 offer that. Q. And -- and when that's offered, that's offered for free? MR. KLAUS: Object to the form of the 5 question. 6 THE DEPONENT: That is currently offered 7 for no additional cost --8 BY MR. MARQUART: 9 Q. Okay. 10 Α. -- to the DVD --11 No additional cost --Ο. 12 -- or the Blu-ray. Α. 13 -- other than the cost of the DVD or Q. 14 Blu-ray? 15 That's correct. 16 Α. Okay. And are -- does that cover all of 17 Fox's new-release titles for major theatrical 18 motion pictures? 19 I believe that -- that covers most --20 most, if not all. 21 22 Q. Okay. A very large percent. 23 Α. And what about Fox's television 24 Ο. programs? 25

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Page 100

- A. A much more limited selection of tel- --
- 2 television programs would be available for an
- 3 electronic copy. And a much smaller percentage of
- 4 that -- very, very small number would be
- 5 ultraviolet enabled.
- 6 Q. Okay. So -- and is ultraviolet becoming
- 7 more or less popular, in your estimation?
- 8 A. That's a good question.
- 9 I am not an -- an expert on ultraviolet.
- 10 I can only tell you that, in my opinion,
- 11 ultraviolet has not changed, you know, noticeably
- in the last, I would say, two years.
- 13 We have the same number of retailers that
- 14 have participated in ultraviolet. And our -- our
- 15 strategy -- as well from like our -- as well as
- 16 what I can tell from our competitors -- has not
- 17 materially changed of putting eCopies on discs,
- 18 some of which are ultraviolet enabled.
- 19 Q. Okay. Does -- does Fox allow a member of
- 20 the public who has purchased a digital copy, to
- 21 filter content of that copy to themselves for
- 22 private home viewing?
- MR. KLAUS: Object to the form of the
- 24 question.
- THE DEPONENT: Who has purchased the --

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Page 101

- 1 how was the purchase made in this case?
- 2 BY MR. MARQUART:
- Q. Let us use the example of an ultraviolet
- 4 purchase.
- 5 A. Okay.
- 6 Q. An individual has bought a disc at an
- 7 authorized retailer.
- 8 A. Okay.
- 9 Q. That purchase allows them, for free, to
- 10 access a digital copy.
- 11 A. Yes.
- 12 Q. Does Fox allow that user to view their
- 13 digital copy in a filtered format to their
- 14 specifications?
- MR. KLAUS: Object to the form of the
- 16 question.
- 17 If you know, you can answer the question.
- 18 THE DEPONENT: Yes.
- To my knowledge, it does not allow them
- 20 to -- to filter the -- the movie that they've
- 21 purchased physically and then redeem the digital
- 22 copy of that.
- 23 BY MR. MARQUART:
- Q. Does -- to your knowledge, does any other
- 25 Plaintiff allow that?

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Page 102 MR. KLAUS: If you know. 1 2 THE DEPONENT: Not -- not to my knowledge, but -- but I don't know for -- for 3 sure. 4 BY MR. MARQUART: 5 Ο. And I know the answer to this. But, to your knowledge, does Fox allow 7 any third party to assist that user in filtering 8 out content from their streamed copy? 9 10 MR. KLAUS: Object to the form of the question, outside the scope, calls for a legal 11 conclusion. 12 If you know of any third-party agreements 13 that specifically authorize that, you can say "Yes" 14 or "No." 15 16 THE DEPONENT: No. BY MR. MARQUART: 17 Okay. Based on your counsel's 18 clarification, I have another question. 19 Does -- do you believe that Fox has to 20 21 authorize the filtering of that digital copy before it may legally be filtered by the user? 22 MR. KLAUS: Object to the form of the 23 question, calls for a legal conclusion. 24 outside the scope of the deposition topics. 25

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Page 227 If it were illegal, I would object to --1 2 to that behavior, yes. 3 BY MR. MARQUART: The -- the second example you mentioned Q. 4 on Harm Number 2 --5 Α. Uh-huh. 6 -- control of revenue and license 7 agreements was -- the second specific example you 8 gave, was that existing VOD users might complain to 9 10 you. Do you recall that? 11 Existing VOD users being existing VOD 12 Α. 13 clients? Yeah. Sorry. 14 Ο. 15 Α. Yeah. Let me specify that. 16 Q. Α. Yeah. 17 So your existing VOD clients might come 18 Q. to you and complain about the unauthorized 19 distributors' activities and say that it's harming 20 their business? 21 Yes, they do complain. Α. 22 Do you have any evidence of actual 23 24 complaints to you or to anyone at Fox about VidAngel? 25

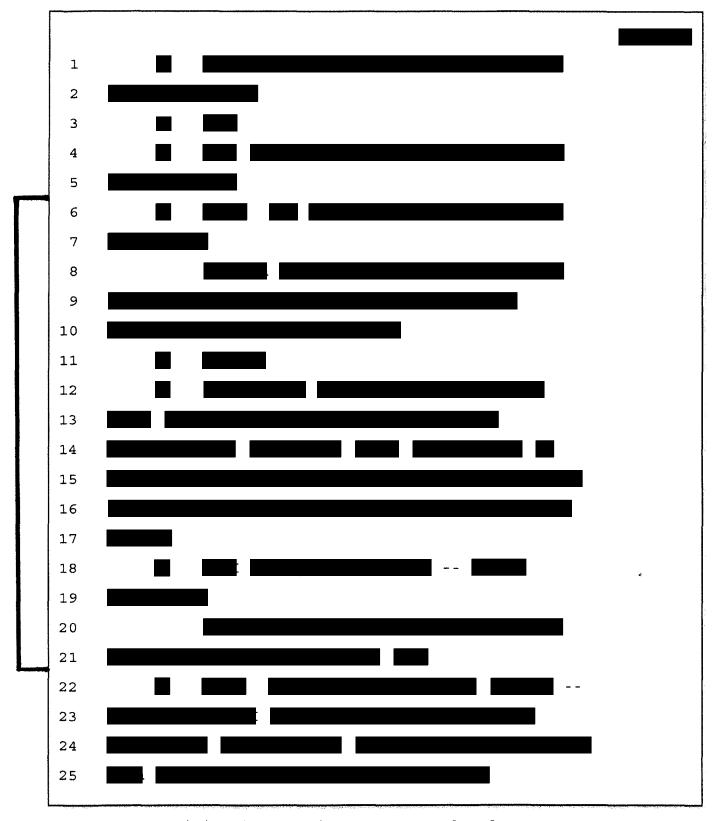
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Page 228

- 1 A. Again, I have not received specific
- 2 complaints about VidAngel, or rarely receive
- 3 specific complaints about individual pirate or
- 4 illegal or unauthorized service from clients. Very
- 5 rarely.
- 6 But very frequently, we receive
- 7 push-back. Whether we're trying to negotiate
- 8 economic terms or counter-protection terms or
- 9 consumer-use cases that unauthorized or pirate
- 10 services don't have to play by the same rules, or
- 11 the rules do not apply to them.
- I get frequent push-back about that from
- 13 a -- from a generic sense about unauthorized
- 14 services, not specific to a single or -- or
- 15 multiple authorized services.
- 16 Q. Okay. But so no one -- no one
- 17 specifically mentioned VidAngel in that context in
- 18 any of your negotiations; correct?
- 19 A. That's correct.
- Q. And you don't normally receive specific
- 21 complaints? They're normally generic?
- 22 A. Regarding specific unauthorized services,
- 23 that's --
- 24 Q. If you --
- 25 A. -- that's correct.

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Highly Confidential -Pursuant to Protective Order
 of Tedd Cittadine-Rule (30)(b)(6)



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EXHIBIT D

PRIVILEGE LOG - CASE NO. CV16-04109 VIDANGEL, INC., vs. DISNEY ENTERPRISES, INC.

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7/27/2016	ER758			J	35 of 80

Priv ID	Custodian	Date	From	To	CC
7/27/2016	759			1	36 of 80

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7/27/2016	ER763				40 of 80

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7/27/2016	R764				41 of 80

Priv ID	Custodian	Date	From	To	CC

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7/27/2016	ER766				43 of 80

Priv ID	Custodian	Date	From	To	CC
7/27/2016	//b/				44 of 80

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7/27/2016	772				49 of 80

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Priv ID	Custodian	Date	From	То	CC
7/27/2016	ER777				54 of 8

Priv ID	Custodian	Date	From	То	CC
7/27/2016	ER778				55 of 80

Priv ID	Custodian	Date	From	To	CC
7/27/2016	ER779				56 of 80

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1 2 3 4 5 6 7 8	GLENN D. POMERANTZ (SBN 11250) glenn.pomerantz@mto.com KELLY M. KLAUS (SBN 161091) kelly.klaus@mto.com ROSE LEDA EHLER (SBN 296523) rose.ehler@mto.com ALLYSON R. BENNETT (SBN 302090) allyson.bennett@mto.com MUNGER, TOLLES & OLSON LLP 355 South Grand Avenue, Thirty-Fifth F. Los Angeles, California 90071-1560 Telephone: (213) 683-9100 Facsimile: (213) 687-3702 Attorneys for Plaintiffs	
9	UNITED STATES	DISTRICT COURT
10	CENTRAL DISTRI	CT OF CALIFORNIA
11	WESTER	N DIVISION
12	DISNEY ENTERPRISES, INC.; LUCASFILM LTD. LLC;	Case No. 16-cv-04109-AB (PLAx)
13 14	TWENTIETH CENTURY FOX FILM CORPORATION and WARNER BROS. ENTERTAINMENT INC.,	UNREDACTED VERSION OF DOCUMENT PROPOSED TO BE FILED UNDER SEAL
15 16 17 18 19 20 21 22 23 24 25 26	Plaintiffs and Counterclaim Defendants, vs. VIDANGEL, INC., Defendant and Counter-Claimant.	PLAINTIFFS' NOTICE OF MOTION AND MOTION FOR PRELIMINARY INJUNCTION; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF Judge: Hon. André Birotte Jr. Date: October 24, 2016 Time: 10:00 a.m. Crtrm.: 4 Filed concurrently herewith: (1) Declaration of Tedd Cittadine (2) Declaration of Rose Leda Ehler (3) Declaration of Kelly M. Klaus (4) Declaration of Robert Schumann (5) [Proposed] Order (6) Application to File Under Seal Trial Date: None Set
26 27		
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TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on October 24, 2016, at 10:00 a.m., before the Honorable André Birotte Jr., in Courtroom 4 of the United States District Court for the Central District of California, located at 312 North Spring Street, Los Angeles, California 90012, Plaintiffs Disney Enterprises, Inc., Lucasfilm Ltd. LLC, Twentieth Century Fox Film Corporation, and Warner Bros. Entertainment Inc. (collectively, "Plaintiffs") will and hereby do move for a Preliminary Injunction restraining Defendant VidAngel, Inc. ("VidAngel") and all of its officers, agents, servants, employees, and attorneys, and those persons in active concert or participation or privity with any of them, from: [1] violating Plaintiffs' rights pursuant to § 1201(a) of the Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. § 1201(a), by circumventing technological measures that effectively control access to Plaintiffs' copyrighted works on DVDs and Blu-ray discs; and [2] infringing by any means, directly or indirectly, Plaintiffs' exclusive rights under § 106 of the Copyright Act, *id.* § 106, including by reproducing or publicly performing Plaintiffs' copyrighted works.

This Motion is made on the following grounds as explained in the accompanying Memorandum of Points and Authorities and supporting papers:

1. Plaintiffs are likely to succeed on the merits because the record evidence clearly shows that VidAngel: (a) uses "ripping" software to circumvent technological protection measures on DVDs and Blu-ray discs that effectively control access to Plaintiffs' copyrighted motion pictures and television shows on those discs, thereby violating § 1201(a); (b) copies the resulting unprotected digital files containing Plaintiffs' works to a computer system, thereby infringing Plaintiffs' exclusive rights to reproduce their works under § 106(1); and (c) transmits performances from the unauthorized copies that VidAngel makes to the public, thereby infringing Plaintiffs' exclusive rights to perform their works publicly under § 106(4).

1	2. VidAngel's defenses to violating Plaintiffs' rights are meritless.
2	3. Absent a preliminary injunction, Plaintiffs will suffer irreparable harm,
3	including with respect to their ability to exercise their exclusive rights, their
4	relationships and goodwill with authorized licensees, and the development of the
5	market for on-demand streaming. The balance of equities tips decidedly in
6	Plaintiffs' favor, and an injunction is in the public interest.
7	This Motion is based upon this Notice of Motion and Motion; the attached
8	Memorandum of Points and Authorities; the Declarations of Tedd Cittadine
9	("Cittadine Decl."), Rose Leda Ehler ("Ehler Decl."), Kelly M. Klaus ("Klaus
10	Decl.") and Robert Schumann ("Schumann Decl.") and Exhibits thereto; all
11	documents on file in this action; and such further or additional evidence or
12	argument as may be presented before or at the time of the hearing on this Motion.
13	
14	DATED: August 22, 2016 MUNGER, TOLLES & OLSON LLP
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16	
17	By: /s/ Kelly M. Klaus
18	KELLY M. KLAUS
19	Attorney for Plaintiffs
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24	
25	
26	
27	
28	

TABLE OF CONTENTS

2	Page
3	INTRODUCTION1
4	FACTUAL BACKGROUND4
5	A. Plaintiffs And Their Copyrighted Works4
6	B. VidAngel Builds Its Business By Exploiting Plaintiffs' Rights5
7	1. VidAngel's Decision To Create An Unlicensed Service
8 9	2. How VidAngel Works
10	3. VidAngel's Escalating Marketing And Recent Growth9
11	C. VidAngel's Letters To Plaintiffs And Other Studios, And This Lawsuit
12	ARGUMENT11
13	I. PLAINTIFFS ARE LIKELY TO SUCCEED ON THE MERITS OF THEIR CLAIMS
14	A. Plaintiffs Will Succeed On Their DMCA Claim11
15 16	1. VidAngel Circumvents The Technological Protection Measures That Control Access To Plaintiffs' Works On Discs
17	2. VidAngel Has No Defense To Its Violation Of § 1201(a)13
18 19	a. The DMCA Makes No Exception For Businesses That Want To Circumvent To Provide Filters13
20	b. The FMA Does Not Authorize Circumvention14
21	c. There Is No Fair Use Exemption To § 1201(a) Liability
22	B. Plaintiffs Will Succeed On Their Copyright Infringement Claims 16
23 24	Plaintiffs Own Or Control Valid Copyrights In The Works That VidAngel Exploits
25 26	2. VidAngel Violates Plaintiffs' Exclusive Rights To Reproduce And Publicly Perform Their Copyrighted Works
27 28	a. VidAngel Violates Plaintiffs' Exclusive Right To Reproduce Their Works By Making Copies

PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION 16-CV-04109-AB (PLAX)

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1					Т.	ABLE OF CONTENTS	
2					.	(continued)	Page
3				b.	VidA Publi	ngel Violates Plaintiffs' Exclusive Right To cly Perform Their Copyrighted Works	
4 5					i.	VidAngel Publicly Performs Plaintiffs' Works	
6					ii.	VidAngel's "Buy-Sellback" Scheme Does Not Transform VidAngel's Public Performances Into Private Ones	
8			3.	None	of Vic	dAngel's Defenses Excuse Its Infringement	
9			3.	a.	The F	FMA Does Not Excuse VidAngel's	
10				b.	VidA	ngel's Affirmative Defense Of Fair Use Does	
11						Excuse Its Infringement	
12 13					i.	VidAngel's Wholesale Copying And Publicly Performing Plaintiffs' Works Are Commercial And Non-Transformative	23
14					ii.	Plaintiffs' Copyrighted Works Are Highly Creative	24
15 16					iii.	VidAngel Copies The Entirety Of Plaintiffs' Works And Publicly Performs Substantially The Entirety Of Them	24
17 18					iv.	VidAngel's Service Undermines Existing And Potential Markets For Plaintiffs' Works	25
19				c.	The F VidA	First Sale Doctrine Does Not Authorize ngel's Copying or Streaming	26
20 21	II.	PLAI INJU	NTIF	FS WII ON	LL SU	FFER IRREPARABLE HARM ABSENT AN	27
22		A.	Vid <i>A</i> Irrep	angel's	Unaut Harms	horized Service Causes Immediate And	27
23 24		B.	Plain "Dela	tiffs' M av'' Do	Iotion Not N	Is Timely, And VidAngel's Assertions of legate Irreparable Harm	30
25	III.	THE PLA1	BALA	NCE (OF HA	ARDSHIPS TIPS DECISIVELY FOR	
26	IV.					JNCTION IS IN THE PUBLIC INTEREST	
27	V.					SHOULD BE REQUIRED	
28						-ii-	

PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION 16-CV-04109-AB (PLAX)

TABLE OF CONTENTS (continued)

2	(continued) Page
3	CONCLUSION
4	CONCLUSION
5	
6 7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
	-iii-

TABLE OF AUTHORITIES

2	Page(s)
3	FEDERAL CASES
4 5	321 Studios v. Metro Goldwyn Mayer Studios, Inc., 307 F. Supp. 2d 1085 (N.D. Cal. 2004)
6 7	A & M Records, Inc. v. A.L.W., Ltd., 855 F.2d 368 (7th Cir. 1988)20
8	A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001)16
10	American Broadcasting Companies, Inc. v. Aereo, Inc., 134 S. Ct. 2498 (2014)
11 12	Apple Inc. v. Psystar Corp., 673 F. Supp. 2d 943 (N.D. Cal. 2009)
13 14	Arc of Cal. v. Douglas, 757 F.3d 975 (9th Cir. 2014)30, 31
15 16	Arista Records LLC v. Myxer, Inc., No. CV 08-03935 GAF, 2011 WL 11660773 (C.D. Cal. 2011)25
17 18	Authors Guild. v. Google, Inc., 804 F.3d 202 (2d Cir. 2015)24
19 20	Cadence Design Sys., Inc. v. Avant! Corp., 125 F.3d 824 (9th Cir. 1997)
21	Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994)
2223	Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640 (S.D.N.Y. 2013)
2425	Central Point Software, Inc. v. Global Software & Accessories, Inc., 880 F. Supp. 957 (E.D.N.Y. 1995)
2627	Clean Flicks of Colo. v. LLC v. Soderbergh, 433 F. Supp. 2d 1236 (D. Colo. 2006)
28	-iv- PLAINTIEES' MOTION FOR PRELIMINARY INHINCTION

AINTIFFS' MOTION FOR PRELIMINARY INJUNCTION 16-CV-04109-AB (PLAX)

E**R1**10

TABLE OF AUTHORITIES (continued)

2	(continued) Page(s)
3	Columbia Pictures Industries, Inc. v. Redd Horne, Inc., 749 F.2d 154 (3d Cir. 1984)
5	Dish Network, L.L.C. v. Vicxon Corp., No. 12-CV-9-L WVG, 2013 WL 3894905 (S.D. Cal. July 26, 2013)
7	Dr. Seuss Enters., L.P. v. Penguin Books, USA, Inc., 109 F.3d 1394 (9th Cir. 1997)
8 9	Eldred v. Ashcroft, 537 U.S. 186 (2002)
10 11	Elvis Presley Enters., Inc. v. Passport Video, 349 F.3d 622 (9th Cir. 2003)23, 24, 25
12 13	Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539 (1985)
14 15	Hooks v. Kitsap Tenant Support Servs., Inc., 816 F.3d 550 (9th Cir. 2016)14
16 17	Kelly v. Primco Mgmt., Inc., No. CV-14-07263 BRO, 2015 WL 10990368 (C.D. Cal. Jan. 12, 2015)
18 19	L.A. News Serv. v. Tullo, 973 F.2d 791 (9th Cir. 1992)25
20 21	Leadsinger, Inc. v. BMG Music Publ'g, 512 F.3d 522 (9th Cir. 2008)23, 25
22 23	Lotus Dev. Corp. v. Paperback Software Int'l, 740 F. Supp. 37 (D. Mass. 1990)30
24 25	Lydo Enters., Inc. v. City of Las Vegas, 745 F.2d 1211 (9th Cir. 1984)
26	MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993)
27 28	MDY Indus., LLC v. Blizzard Entm't, Inc., 629 F.3d 928 (9th Cir. 2010)2, 12, 14

PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION 16-CV-04109-AB (PLAX)

TABLE OF AUTHORITIES (continued)

2	(continued) Page(s)
3	Monge v. Maya Magazines, Inc., 688 F.3d 1164 (9th Cir. 2012)23,24
5	On Command Video Corporation v. Columbia Pictures Industries, 777 F. Supp. 787 (N.D. Cal. 1991)
7	Peker v. Masters Collection, 96 F. Supp. 2d 216 (E.D.N.Y. 2000)
8 9	Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146 (9th Cir. 2007)
10 11	Petrella v. Metro-Goldwyn-Mayer, Inc., 134 S. Ct. 1962 (2014)
12 13	Realnetworks, Inc. v. DVD Copy Control Ass'n, 641 F. Supp. 2d 913 (N.D. Cal. 2009)
14 15	Red Baron-Franklin Park, Inc. v. Taito Corp., 883 F.2d 275 (4th Cir. 1989)26
16 17	Salinger v. Colting, 607 F.3d 68 (2d Cir. 2010)27
18 19	Ticketmaster L.L.C. v. RMG Techs., Inc., 507 F. Supp. 2d 1096 (C.D. Cal. 2007)
20	Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330 (9th Cir. 1995)31
21 22	TRW Inc. v. Andrews, 534 U.S. 19 (2001)
23 24	UMG Recordings, Inc. v. Escape Media Grp., Inc., No. 11 CIV. 8407, 2014 WL 5089743 (S.D.N.Y. Sept. 29, 2014)
25 26	United Fabrics Int'l, Inc. v. C&J Wear, Inc., 630 F.3d 1255, 1257 (9th Cir. 2011)
27 28	United States v. Crippen, No. CR 09-703 PSG, 2010 WL 7198205 (C.D. Cal. Nov. 23, 2010)

-Vİ-PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION 16-CV-04109-AB (PLAX)

TABLE OF AUTHORITIES (continued)

2	(continueu)	Page(s)
3	Universal City Studios, Inc. v. Reimerdes, 111 F. Supp. 2d 294 (S.D.N.Y. 2000)	12, 16
5	Warner Bros. Entertainment Inc. v. WTV Systems, Inc., 824 F. Supp. 2d 1003 (C.D. Cal. 2011)	18, 19, 27, 29, 33
7	Winter v. Natural Res. Def. Council, Inc., 555 U.S. 7 (2008)	11
8 9	Worldwide Church of God v. Philadelphia Church of God, Inc., 227 F.3d 1110 (9th Cir. 2000)	24
10 11	WPIX, Inc. v. ivi, Inc., 691 F.3d 275 (2d Cir. 2012)	28
12	FEDERAL STATUTES	
13	17 U.S.C. § 101	3, 17, 22
14 15	17 U.S.C. § 106	14, passim
16	17 U.S.C. § 106(1)	1, 17
17	17 U.S.C. § 106(3)	26
18	17 U.S.C. § 106(4)	1, 3, 17
19	17 U.S.C. § 107	15, 22
20	17 U.S.C. § 109(a)	26
21 22	17 U.S.C. § 110	14, 15, 21
$\begin{bmatrix} 22 \\ 23 \end{bmatrix}$	17 U.S.C. § 110(11)	2, passim
24	17 U.S.C. § 117(c)	31
25	17 U.S.C. § 410(c)	16
26	17 U.S.C. § 1201	14, 15
27 28	17 U.S.C. § 1201(a)	1, passim
_	-vii-	

PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION 16-CV-04109-AB (PLAX)

TABLE OF AUTHORITIES

2	(continued) Page(s)
3	17 U.S.C. § 1201(c)
4	17 U.S.C. § 1201(d)-(j)
5	FEDERAL REGULATIONS
6	37 CFR pt. 201.4013
7 8	LEGISLATIVE MATERIALS
9	151 Cong. Rec. S501-S502 (daily ed. Jan. 25, 2005)
10	H.R. 4586, Serial No. 94 (June 17, 2004)
11	
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	-viii-

MEMORANDUM OF POINTS AND AUTHORITIES INTRODUCTION

Defendant VidAngel operates an online on-demand video streaming service that blatantly violates Plaintiffs' rights under the DMCA and the Copyright Act:

- VidAngel starts by circumventing the technological protection measures on DVDs and Blu-ray discs (collectively, "Discs") that control access to the digital media files of Plaintiffs' copyrighted movies and television shows—or, as VidAngel's employees say, they "rip[]" the movies—a violation of § 1201(a) of the DMCA. Schumann Decl. ¶¶ 7, 35-38, 43, Ex. C at 23; Dkt. 11(Counter-Complaint) ¶ 61.
- VidAngel then copies to computer servers the copyrighted works that VidAngel has ripped—a violation of Plaintiffs' exclusive rights to reproduce their works under § 106(1) of the Copyright Act. Schumann Decl. ¶¶ 37, 40-42, Ex. C at 23-25; Ehler Decl. Ex. EE at Tr. 58:1-4.
- VidAngel then streams performances of those copyrighted works over and over again to numerous VidAngel customers, i.e., "to the public"—a violation of Plaintiffs' exclusive rights to publicly perform their works under § 106(4). Schumann Decl. ¶¶ 7-8, Ex. C at 23-25; Ehler Decl. Ex. EE at Tr. 90:18-22.

Legitimate on-demand streaming services—e.g., iTunes, Amazon and Google Play—run their businesses without illegally circumventing and with authorization to copy and stream Plaintiffs' works. These legitimate services negotiate and pay for the rights they use. VidAngel does not, and it thereby acquires an unjust competitive advantage that VidAngel touts in its advertising. *Id.* Ex. A (examples).

¹ All transcript references are to the 30(b)(6) deposition of VidAngel's CEO, Neal Harmon on August 11, 2016, excerpts at Ehler Decl., Ex. EE. The "Tr." references are to the page and line of the original deposition transcript rather than the page as consecutively numbered in the Exhibits.

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VidAngel's illegal conduct threatens imminent, irreparable harm by depriving Plaintiffs of their rights to control their content, interfering with relationships with licensees, and undercutting the growth of the legitimate on-demand streaming market. Even VidAngel's followers recognize VidAngel causes harm. *Id.* Ex. C ("I could watch Star Wars 7 on VidAngel (only filtering one small thing) for \$1 before any other video streaming service had it available. If you guys are allowed to rip, stream, and resell DVDs, the other streaming services will want to do it too – it's only fair.").

VidAngel tries to defend its service with three meritless arguments.

First, VidAngel argues that Congress sanctioned all of its unlawful conduct under the Family Movie Act of 2005 ("FMA"), 17 U.S.C. § 110(11), because VidAngel allows its users to select content "filters" that skip or mute content from streamed movies. The claims at issue have nothing to do with the filtering aspects of VidAngel's service, and the FMA provides VidAngel no shelter on this motion. The FMA says that one does not infringe copyright by making motion picture content "imperceptible" (or providing software that does the same) in the context of private home viewing. *Id.* The FMA does not say that a business that filters thereby has a total exemption from the DMCA or from having to license the right to copy and publicly stream movies. On the contrary, the FMA makes clear that the relevant filtering must be done from an "authorized copy," which VidAngel does not make and from which it does not stream. *Id.*; see 151 Cong. Rec. S501-S502 (daily ed. Jan. 25, 2005) (Sen. Hatch) ("[A]n infringing transmission of a performance to a household, [is] not rendered non-infringing by section 110(11) by virtue of the fact that limited portions [of the performance] are made imperceptible."). Filtering does not make an underlying unlicensed service legal. And the FMA provides no defense to circumventing, which is "distinct from infring[ing]." MDY Indus., LLC v. Blizzard Entm't, Inc., 629 F.3d 928, 946, 950 (9th Cir. 2010).

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Second, VidAngel claims it does not violate the public performance right because it makes only "private" performances to users who "purchase" Discs from VidAngel. That is wrong. When it streams movies over the Internet, VidAngel is "transmitting" performances to users. Transmissions infringe § 106(4) where, as here, the defendant makes them "to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times." 17 U.S.C. § 101 (defining "[t]o perform . . . a work 'publicly'"). A long line of precedent construing this provision (the "Transmit Clause")—including in the Supreme Court's recent decision in American Broadcasting Companies, Inc. v. Aereo, Inc., 134 S. Ct. 2498 (2014)—makes it clear that VidAngel's online, ondemand transmissions are public performances. They do not become "private" performances just because VidAngel purports to "sell" its users the Discs (which VidAngel then immediately offers to buy back for a net access price of \$1 a day). VidAngel's "buy-sellback" scheme is an artifice—what its CEO called a "creative way" to compete while trying to be "buttoned up legally." Ehler Decl. Ex. DD at 366. This sleight of hand does not cure VidAngel's infringement. What matters is whether VidAngel is transmitting performances to the public, not the label that VidAngel uses to describe its transactions. Aereo, 134 S. Ct. at 2509 ("[W]hen Aereo streams the same television program to multiple subscribers, it 'transmit[s] ... a performance' to all of them"). VidAngel publicly performs without a license.

Third, VidAngel argues that Plaintiffs forfeited the right to a preliminary injunction because they did not immediately sue VidAngel when its outside litigator (and recently appointed General Counsel) sent letters describing parts of the service to Plaintiffs and other motion picture studios in July 2015. Dkt. 11, Ex. A. At that point, as noted in those letters, VidAngel had fewer than 5,000 users and described its service as being in a "limited beta." Id. The letters did not say when VidAngel would launch publicly, and Plaintiffs could not have known whether the service

1	would survive, let alone thrive. As the Supreme Court has recognized, "[e]ven if an
2	infringement is harmful, the harm may be too small to justify the cost of litigation."
3	Petrella v. Metro-Goldwyn-Mayer, Inc., 134 S. Ct. 1962, 1976 (2014). Copyright
4	owners do not have to immediately sue anyone who infringes, or forever lose the
5	right to seek a preliminary injunction; such a requirement would lead to unnecessary
6	litigation and burdens on the courts. VidAngel started to advertise more
7	aggressively earlier this year and gained traction in the press and online blogs; it
8	now has more than [100,000] active monthly users (and more than [400,000] total)
9	and continues to grow. Ehler Decl. Ex. D; id. Ex. AA at 317. Plaintiffs were
10	justified in suing when they did, and they satisfy all the requirements for injunctive
11	relief.

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FACTUAL BACKGROUND

Plaintiffs And Their Copyrighted Works A.

Plaintiffs, directly or through affiliates, invest substantial resources and effort to produce and distribute some of the most popular and critically acclaimed movies and television programs in the world. Their works include, among many others, Frozen (2013) (Disney), Star Wars: The Force Awakens (2015) (Lucasfilm), Avatar (2009) (Fox), and Harry Potter and the Sorcerer's Stone (2001) (Warner Bros.).

Copyright protection is critical to Plaintiffs' ability to obtain a return on their substantial investments in these and other works and to underwrite the production of new creative content, often at great financial risk. Cittadine Decl. ¶ 8. A studio will spend tens or even hundreds of millions of dollars producing, distributing and marketing a major motion picture. *Id.* \P 7. Third parties that wish to exercise Plaintiffs' rights to exploit their works must negotiate to obtain those rights. Id. ¶ 14.

Plaintiffs employ different strategies to make their content available to meet consumer demand, but each Plaintiff tries to tailor the value and price for each offering—or "distribution channel"—to the willingness of customers (and licensees)

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to pay for those offerings. Id. \P 9. Plaintiffs distribute and license their content for
home entertainment across a number of channels. These include, among others:
(1) physical Discs; (2) digital download through services like iTunes, VUDU or
Amazon Video; (3) on-demand streaming for short-term viewing on a per-
transaction fee (e.g., iTunes Store or Google Play Store); or (4) subscription on-
demand streaming (e.g., Netflix or Hulu). <i>Id</i> .

Plaintiffs' strategic process of releasing their content across different distribution channels and to different licensees over time is called "windowing." Id. ¶ 15. A Plaintiff may decide to release specific titles only through certain channels for a prescribed period, e.g., releasing titles for purchase on Discs or digital download before releasing them to on-demand streaming. Id. ¶¶ 15, 33. Plaintiffs often negotiate higher licensing fees in exchange for granting a licensee the exclusive right to perform a movie or television show during a particular time period. Id. ¶ 15. The online and digital channels have become increasingly important revenue sources. *Id.* ¶ 10.

Especially in this digital age, to exercise their exclusive rights under copyright, Plaintiffs must protect their content from piracy and unauthorized use. Technological protection measures that control access (here, "access controls") are one way in which Plaintiffs ensure that copies of their content stored on Discs cannot be easily copied and disseminated digitally. Schumann Decl. ¶¶ 20, 27. The access controls that encrypt the digital files on Discs can lawfully be unencrypted for playback or copying only by authorized devices. *Id.* ¶¶ 20-34.

VidAngel Builds Its Business By Exploiting Plaintiffs' Rights В.

VidAngel's Decision To Create An Unlicensed Service 1.

In the fall of 2013, VidAngel first launched a standalone filtering service through a web browser plug-in. Ehler Decl. Ex. EE at Tr. 135:12-136:7. This technology permitted a user to apply filters to content streamed from YouTube (and if a full-length movie, obtained legitimately through Google Play). Id.

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14 15 16 17 18 19	streaming forgiveness investor: Hollywood platform (sales."] Id
14 15 16 17 18 19	streaming forgiveness investor: Hollywood platform (sales."] Id
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14 15 16 17 18	streaming forgivenes investor: Hollywood platform (sales."] Id

In the fall of 2014, VidAngel decided to "pivot" its business to its current service, which does not simply provide filtering but offers unauthorized streaming for a daily fee. *Id.* Ex. V at 217; *Id.* Ex. EE at Tr. 136:8-12. VidAngel knew from surveying users who stopped using its prior service that [47% of them "didn't want to pay for rentals on YouTube/Google Play."] *Id.* Ex. V at 227. It also had information that only 1% of Americans would actually pay to watch filtered versions of movies if you charged them to use a filter. *Id.* Ex. E at 61. VidAngel decided that, rather than provide filters to run on streams from licensed services, it would rip and copy Discs and charge users for streaming. When investors questioned whether the company was getting into a [declining business (movies on Discs)], Mr. Harmon, the CEO, assured them that ["VidAngel is NOT a disc service. VidAngel is a *streaming* service."] *Id.* Ex. W at 234 (emphasis added).²

From the outset of its "pivot," VidAngel knew it would need licenses to run a streaming business. VidAngel, however, decided on a strategy of asking for forgiveness, not permission. As Mr. Harmon put it in a fall 2014 email to an investor: ["[i]n the future we plan to negotiate licenses for content directly from Hollywood (as Netflix) did. . . . We need disc[s] right[] [now] on the streaming platform (which is growing at over 20 percent annually), not an upward trend in disc sales."] *Id.*; *see also id.* Ex. DD at 366 (Feb. 2015: Mr. Harmon saying VidAngel would "have to be a lot bigger" to "get licensing from Hollywood. . . . Until then, we sell DVDs and Blu-Rays to you, vault them in our warehouse, and stream you a filtered movie. The buyback system was the most creative way we could come up with in order to offer you the value of a Redbox while staying buttoned up legally."); *id.* Ex. X at 257 (Sept. 2015: Mr. Harmon saying VidAngel

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² At deposition, Mr. Harmon claimed this email was discussing a model for users to "trade or share" their own Discs. Ehler Decl. Ex. EE at Tr. 146:8-148:6. But the statement that VidAngel would be a ["streaming service," "NOT a disc service,"] was true regardless of the source of Discs. *Id.* Ex. W at 234.

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2. How VidAngel Works

For every movie or TV show it streams, VidAngel first rips a digital copy of the content from a single Disc. *Id.* Ex. EE at Tr. 127:6-131:7; Schumann Decl. ¶¶ 37-39, 42, Exs. C at 23, D. Using RedFox AnyDVD HD software—popularly known as a "ripping" tool—VidAngel circumvents the technological protections—CSS, AACS, BD+—that Plaintiffs use to control access to their content. Ehler Decl. Ex. S. VidAngel previously used the same software sold by the same developers and staff of SlySoft, a ripping software company whose owner was found guilty of distributing illegal circumvention tools. *Id.* Exs. F, EE at Tr. 68:9-69:16.

After circumventing the access controls, VidAngel copies the underlying digital files (i.e., the movie or television show) onto its computers and then saves additional copies on leased third-party servers. Schumann Decl. ¶ 40-42. VidAngel uses the ripped digital copies stored on those servers to stream content. *Id.*; Ehler Decl. Ex. EE at Tr. 90:18-22.

VidAngel charges customers for its on-demand streaming through a sham "buy-sellback" scheme. VidAngel adopted this scheme as part of the "pivot," believing that it provided a loophole from public performance liability in light of dicta in the *Aereo* decision. *Id.* Ex. V at 217. As discussed at pp. 18-21, *infra*, VidAngel's reliance on "buy-sellback" does not change its liability. The facts showing "buy-sellback" to be a fiction, however, speak volumes about VidAngel's credibility in defending its service.

"Buy-sellback" works like this: Users pay an upfront fee of \$20, purportedly to "purchase" a physical Disc. *Id.* Ex. P at 181, 198 ("like a 'security deposit""). VidAngel then associates the user with an individual Disc that VidAngel has barcoded and stored at its facility (the so-called "vault copy"). *Id.* Ex. EE at Tr. 51:5-20; 184:22-185:9. The user does not control or possess the vault copy; VidAngel

https://www.youtube.com/watch?v=wvcF4x1d0xo (last visited Aug. 21, 2016).

"How \$1 Movies Work on VidAngel Sellback" is available at

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1	(4) an email reminder about the sellback option after 24 hours; and (5) until this
2	lawsuit, an "auto-sellback" default setting, whereby users would automatically set
3	their devices to sellback, and thus be assured the equivalent of a rental transaction.
4	<i>Id.</i> Ex. BB at 336-37.
5	3. VidAngel's Escalating Marketing And Recent Growth
6	VidAngel's strategy has involved rapidly growing its user base. In July 2015,
7	VidAngel had fewer than 4,848 users, but ambitious growth plans. Dkt. 11, Ex. A at
8	3. A November 2015 investor presentation projected that for 2016, VidAngel would
9	reach customers and in revenue; for 2017,
10	customers and in revenue; and for 2018, customers and
11	in revenue—with projected profit margins of . Ehler
12	Decl. Ex. Y at 283.
13	To achieve these ends, VidAngel this year embarked on an aggressive
14	marketing campaign, explicitly contrasting its \$1-a-day (or \$2 for HD) price
15	(because it foregoes license fees) with the more typical \$4.99 or \$5.99 daily fee
16	charged by licensed services; VidAngel also boasts of its ability to offer movies not
17	available on other services. Ehler Decl. Exs. A, B. VidAngel's users have
18	responded to VidAngel's marketing cues:
19	One more thing I love about VidAngel is that I can easily download NEW movies cheaper than anywhere else! I
20	probably won't edit this one for our family, but I'm so happy I can still just rent it for \$2 a night!
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22	Id. Ex. I at 98; see also id. at 101 ("We bought Star Wars and sold it back for a total
23	of \$1 when it was like \$5 to rent on Amazon. So even if you don't need content
24	cleaned, it's a great video service.").
25	This spring, VidAngel began adding more of Plaintiffs' works to its service,
26	with a particular focus on marketing movies as soon as they were released on Disc.
27	On April 5, 2016, VidAngel offered Star Wars: The Force Awakens. Id. Ex. J.
28	April 5 was the same day that <i>The Force Awakens</i> was released for purchase on

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Disc and digital download, but was not yet available to the on-demand streaming market. Cittadine Decl. ¶ 16. VidAngel also released Disney's *Zootopia*, Warner Bros.'s *Batman v. Superman: Dawn of Justice* and *Keanu*, and Fox's *DeadPool* and *The Revenant*, among others, within a week of their release on Disc and, for some of these titles, before they were released on any other on-demand streaming service. Ehler Decl. Ex. N.

By June 2016, when Plaintiffs filed suit, VidAngel had grown to nearly [500,000] monthly transactions across well over [100,000] monthly active users. *Id.* Ex. AA at 315, 317. VidAngel had also streamed over [1.5 million] movies in the first half of 2016. *Id.* Ex. EE at Tr. 189:21-190:8. VidAngel continues to aggressively market its service using Plaintiffs' copyrighted content.

C. VidAngel's Letters To Plaintiffs And Other Studios, And This Lawsuit

Late last summer, VidAngel's then-outside counsel, David Quinto, sent letters to Plaintiffs or their corporate parents, ostensibly expressing interest in purchasing more Discs directly from each company. Dkt. 11, Ex. A. Mr. Quinto sent the letters to General Counsels, not to people in business development. He purported to describe VidAngel's nascent service, which he said was in "limited beta" testing. *Id.* at 3. Mr. Quinto said nothing about VidAngel circumventing the access-control measures on Discs. He said nothing about VidAngel marketing its service for \$1-aday on-demand streaming through its "buy-sellback" scheme or offering Plaintiffs' content before that content was available to authorized licensees.

Plaintiffs started investigating their potential legal claims against VidAngel almost immediately after receiving Mr. Quinto's letter. Cittadine Decl. ¶ 35. Starting earlier this year, VidAngel launched a much broader advertising offensive and started to gain traction in the press and on blogs, and its service started to grow to significant user numbers. On June 9, 2016, Plaintiffs filed this suit.

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In response, VidAngel modified certain aspects of its service. Before being sued, VidAngel allowed users to filter for either the opening or closing credits as the single required filter, meaning users could stream essentially the entire movie without filters (users could even set this as the default filter).⁵ Ehler Decl. Ex. EE at Tr. 247:24-248:21. To the chagrin of its users, VidAngel suspended this option in response to this litigation, although users still must only select one filter to use the service.⁶ *Id.* at 246:10-247:22.

ARGUMENT

Plaintiffs satisfy all the requirements for a preliminary injunction: They likely will succeed on the merits and suffer irreparable harm absent preliminary relief; the balance of equities tip in their favor, and an injunction is in the public interest. *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008).

I. PLAINTIFFS ARE LIKELY TO SUCCEED ON THE MERITS OF THEIR CLAIMS

A. Plaintiffs Will Succeed On Their DMCA Claim

To prevail on their circumvention claim, Plaintiffs must prove that VidAngel "circumvent[s] a technological measure that effectively controls access to a work protected" by copyright. 17 U.S.C. § 1201(a)(1)(A). A violation of the DMCA is "independent of traditional copyright infringement," and no "nexus" to copyright

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This was a popular option particularly for Disney works. When VidAngel offered this option, customers watched [23.61%] of streams of *Up*, [22.36%] of streams of *Finding Nemo*, [20.91%] of streams of *Monsters, Inc.*, [20.46%] of streams of *Wall-E* and [20.36%] of streams of *Big Hero* 6 essentially unfiltered by selecting only the credits filter. Ehler Decl. Ex. CC. For Warner Bros.'s *An Innocent Man*, customers viewed [44.90%] of streams using only this filter. *Id*.

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⁶ Users were upset that they would have to filter actual movie content (rather than the credits) to cheaply stream movies: "@VidAngel and you took away censoring the end credits which was an easy choice if I didn't really want to censor anything." Ehler Decl. Ex. FF; *id* Ex. K (examples); *see also id*. Ex. O.

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infringement is required. *See MDY Indus.*, 629 F.3d at 946, 949, 952 (expressly declining to adopt a "infringement nexus requirement") (emphasis added).

1. VidAngel Circumvents The Technological Protection Measures That Control Access To Plaintiffs' Works On Discs

A technological measure effectively controls access to a copyrighted work if, "in the ordinary course of its operation, [it] requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work." 17 U.S.C. § 1201(a). Plaintiffs use CSS, AACS and BD+ to prevent unauthorized access to their content on Discs. Schumann Decl. ¶¶ 20, 27. All three qualify as DMCA access controls. *See id.* ¶¶ 20-34; *Realnetworks, Inc. v. DVD Copy Control Ass'n*, 641 F. Supp. 2d 913, 932 (N.D. Cal. 2009) ("CSS . . . effectively controls access to . . . copyrighted DVD content"); *321 Studios v. Metro Goldwyn Mayer Studios, Inc.*, 307 F. Supp. 2d 1085, 1095 (N.D. Cal. 2004); *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 317-18 (S.D.N.Y. 2000).

VidAngel circumvents these access controls. To circumvent is "to descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner." 17 U.S.C. § 1201(a)(3)(A). VidAngel *admits* that it "uses a commercially available software program to automatically allow read-access for the purpose of mounting the DVD [and Blu-ray] files for uploading onto a computer, *in the process removing restrictions on DVD [and Blu-ray] encryption.*" Dkt. 11 ¶ 50(ii) (emphasis added); *see* Ehler Decl. Ex. S (invoice for AnyDvd HD); Schumann Decl. ¶¶ 35-39. In short, VidAngel circumvents technological measures that control access, and is liable under § 1201(a).

2.	VidAngel Has No De	efense To Its Viola	ation Of § 1201(a)
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a. The DMCA Makes No Exception For Businesses That Want To Circumvent To Provide Filters

VidAngel argues that its circumvention is lawful because "the making of a decrypted copy [is] the necessary first step in making a lawfully purchased DVD capable of being filtered." *See* Dkt. 11 (Counter-Complaint) ¶¶ 61-62. That is not true as a factual matter and is irrelevant as a legal matter. As VidAngel admits, other services provide software that allows consumers to apply filters to Discs they have purchased. *See id.* ¶ 34 (describing ClearPlay's DVD-filtering service). What VidAngel means is that circumventing is a "necessary first step" for the type of business VidAngel wants to run—one that provides unauthorized on-demand access to content streamed from copies ripped from Discs. Circumvention makes it easier and cheaper for VidAngel to run its business, but that does not make the circumvention lawful.

VidAngel's circumvention does not fit into any enumerated exception to the anti-circumvention right or any additional exception promulgated by the Librarian of Congress. To U.S.C. § 1201(d)-(j). Where, as here, "Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent." *TRW Inc. v. Andrews*, 534 U.S. 19, 28 (2001) (quotations omitted).

⁷ The DMCA calls for the Librarian of Congress to engage in triennial rulemaking to determine if certain noninfringing uses of a copyrighted work are entitled to an exception. 17 U.S.C. § 1201(a)(1)(B)-(C). The exceptions the Librarian has promulgated are at 37 CFR Part 201.40, and none applies to VidAngel. Indeed, the Librarian has never even been asked to consider such an exception for filtering.

b. The FMA Does Not Authorize Circumvention

VidAngel argues that the FMA shows Congress's intent to exempt VidAngel from § 1201(a) liability. The FMA's text and legislative history show the opposite is true.

The FMA addresses a narrowly specified type of activity (the making imperceptible of certain audio and video), which, if it falls within the FMA is "not an infringement[] of copyright." 17 U.S.C. § 110(11). Section 1201, however, provides a separate cause of action that is not a claim of infringement. As the Ninth Circuit explained—in the course of declining to adopt the requirement of a "nexus" between a DMCA violation and infringement—the DMCA "create[d] a new anticircumvention right in § 1201(a) distinct from infringement." See MDY Indus., 629 F.3d at 950 (emphasis added). "Infringement" is the violation of one of copyright's exclusive rights, which are found in § 106. It is not the same as circumvention. The FMA further states that nothing in that exception to infringement (§ 110(11)) "shall be construed to imply further rights under section 106 of this title, or to have any effect on defenses or limitations on rights granted under any other section of this title or under any other paragraph of this section." 17 U.S.C. § 110 (final sentence) (emphasis added). Section 1201(a) embodies rights and defenses relating to circumvention and not infringement. The FMA by its plain language provides VidAngel no defense.

Because "the statutory language is unambiguous and the statutory scheme is coherent and consistent," there is no need to examine legislative history. *Hooks v. Kitsap Tenant Support Servs., Inc.*, 816 F.3d 550, 562 (9th Cir. 2016). But the legislative history *confirms* that the FMA does not excuse circumvention. The section-by-section analysis by the FMA's Senate sponsor states that the FMA "does *not* provide any exemption from the anti-circumvention provisions of section 1201," and that it:

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would not be a defense to a claim of violation of section 1201 that the circumvention is for the purpose of engaging in the conduct covered by this new exemption in section 110(11) [the FMA], just as it is not a defense under section 1201 that the circumvention is for the purpose of engaging in any other non-infringing conduct.

151 Cong. Rec. S502 (daily ed. Jan. 25, 2005); *see id.* ("Any suggestion that support for the exercise of viewer choice . . . requires violation of either the copyright in the work or of the copy protection schemes that provide protection for such work should be rejected."). The FMA provides VidAngel no defense to its § 1201(a) violations.

c. There Is No Fair Use Exemption To § 1201(a) Liability

The fair use defense under § 107 does not apply to § 1201(a) violations. *See*, e.g., *Dish Network*, *L.L.C.* v. *Vicxon Corp.*, No. 12-CV-9-L WVG, 2013 WL 3894905, at *6 (S.D. Cal. July 26, 2013) ("[P]otential lawful or fair use is not a defense to § 1201(a) when its requirements are established."); *United States* v. *Crippen*, No. CR 09-703 PSG, 2010 WL 7198205, at *2 (C.D. Cal. Nov. 23, 2010) ("A reading of § 1201(c) that adds the fair use arrow to a defendant's § 1201(a) quiver contradicts the plain meaning of the statute and must be rejected.").

When Congress first considered the FMA, in 2004, Representative Goodlatte pressed concern that it might interfere with copyright owners' rights under 201. Hearing on H.R. 4586, Serial No. 94 (June 17, 2004) at 84. He asked about eluding an explicit provision to make clear that the FMA has no effect on § 1201. In a letter, the Register of Copyrights stated that such an explicit provision was necessary because "[t]he anticircumvention provisions of section 1201 apply even cases where circumvention is carried out in order to engage in an act that is not an of infringement under the copyright statute." Id. at 89. The Register advised ainst including a specific statement confirming the inapplicability of the FMA to § 1201 claims, noting such a provision could create needless confusion regarding the other exemptions from infringement in § 110 (where the FMA is codified) and elsewhere in the Copyright Act: "To include in this new exemption a reference to section 1201 when none of the other exemptions in section 110 or elsewhere in the Copyright Act make such reference will imply that those existing exemptions also apply to liability under the anticircumvention provisions, when it should be clear that they do not." Id.

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adding fair use to the circumvention equation") (citation omitted).B. Plaintiffs Will Succeed On Their Copyright Infringement Claims

"[T]he decision not to make fair use a defense to a claim under Section

well aware "that technological controls on access to copyrighted works might erode

"struck a balance among the competing interests." *Id.* (citing Commerce Com. Rep.

25-26). Reading a fair use defense into § 1201(a) would upset that balance and be

"rebalancing of interests that attempts to deal with special problems created by the

so-called digital revolution"; "[t]hat balancing [is] done by the DMCA, not by

1201(a) was quite deliberate." Reimerdes, 111 F. Supp. 2d at 322. Congress was

fair uses by preventing access even for uses that would be deemed 'fair,'" and

contrary to the statute. *Crippen*, 2010 WL 7198205, at *5 (§ 1201(a) is a

Plaintiffs easily establish prima facie infringement claims because they (1) "show ownership" and (2) demonstrate a violation of "at least one exclusive right" (sections 1 and 2, *infra*). *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001). VidAngel's claimed defenses are meritless (section 3, *infra*).

1. Plaintiffs Own Or Control Valid Copyrights In The Works That VidAngel Exploits

Certificates of registration issued by the Copyright Office for the copyrighted works identified in the Complaint are included with this filing. Klaus Decl. Exs. A-RR. The certificates create a presumption of copyright validity and ownership. 17 U.S.C. § 410(c); *United Fabrics Int'l, Inc. v. C&J Wear, Inc.*, 630 F.3d 1255, 1257 (9th Cir. 2011). It is undisputed that VidAngel currently offers all the works listed in Exhibit A to the complaint and, unless enjoined, will continue to offer these works and other future releases. Ehler Decl. Ex. EE at Tr. 27:19-29:14; 30:3-20; 31:6-37:4.

2. VidAngel Violates Plaintiffs' Exclusive Rights To Reproduce And Publicly Perform Their Copyrighted Works

VidAngel infringes at least two distinct § 106 rights, each of which is

1	sufficient to render	VidAngel liable
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a. VidAngel Violates Plaintiffs' Exclusive Right To Reproduce Their Works By Making Copies

Plaintiffs have the exclusive right "to reproduce" their works "in copies." 17 U.S.C. § 106(1). VidAngel admits to making copies of Plaintiffs' works onto computer system and third-party servers, thereby violating the reproduction right. Ehler Decl. Ex. EE at Tr. 58:1-4. This is infringement. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993) (transferring digital work "from a permanent storage device to a computer's RAM [or storage]" infringes the reproduction right); *see UMG Recordings, Inc. v. Escape Media Grp., Inc.*, No. 11 CIV. 8407, 2014 WL 5089743, at *20 (S.D.N.Y. Sept. 29, 2014) ("uploaded copies" of works violate reproduction right).

b. VidAngel Violates Plaintiffs' Exclusive Right To Publicly Perform Their Copyrighted Works

i. VidAngel Publicly Performs Plaintiffs' Works

Plaintiffs have the exclusive right "to perform the copyrighted work publicly." 17 U.S.C. § 106(4). VidAngel violates that right under the Transmit Clause. VidAngel "transmits" "performances" "of the work[s]." 17 U.S.C. § 101 (definition of public performance and "to transmit"); *Aereo*, 134 S. Ct. at 2508 (Internet streams trigger the Transmit Clause). And VidAngel streams "to the public," i.e., VidAngel's thousands of users. Under the Transmit Clause, the fact that VidAngel's users receive those performances "in separate places" and "at different times" does not change the fact that VidAngel is performing "to the public." 17 U.S.C. § 101; *Aereo*, 134 S. Ct. at 2510.

VidAngel's public performance liability follows from Transmit Clause precedent. *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984), held that a remote video rental service—wherein patrons selected videos from a store, which transmitted performances from the videos to private in-store

booths—violated the public performance right. The court held that the store
"show[ed] each copy [of a movie] repeatedly to different members of the public,"
and that the service was "essentially the same as a movie theatre, with the additional
feature of privacy." <i>Id.</i> at 159.

On Command Video Corporation v. Columbia Pictures Industries, 777 F. Supp. 787 (N.D. Cal. 1991), held that a hotel's "electronic rental" system—in which the hotel rented movies to guests and transmitted performances from the main office to individual hotel rooms—infringed the public performance right. The court held that the "relationship between the transmitter of the performance, On Command, and the audience, hotel guests," was "a commercial, 'public' one regardless of where the viewing takes place." *Id.* at 788.

Warner Bros. Entertainment Inc. v. WTV Systems, Inc., 824 F. Supp. 2d 1003 (C.D. Cal. 2011) ("Zediva"), held that the Zediva service—which streamed performances from DVDs and DVD players purportedly assigned to specific users—violated the public performance right. *Id.* at 1006-07, 1010.

And *Aereo* held that Internet streaming of content captured from over-the-air broadcast signals by thousands of separate antennae—each of which, Aereo claimed, was assigned separately to individual subscribers—infringed. The Court squarely rejected Aereo's claim that its technical design (using an individual antenna to make a separate transmission path to each user) made the performances private. *Aereo*, 134 S. Ct. at 2508-09 (noting subscribers would not "care much" about the service's technical design).

Like its predecessors, VidAngel "transmits" (by streaming) performances "to the public" (its users). VidAngel's liability is clear.

ii. VidAngel's "Buy-Sellback" Scheme Does Not Transform VidAngel's Public Performances Into Private Ones

VidAngel argues that it makes private, not public, performances because it transmits streams of movies that users purportedly "buy" from VidAngel. VidAngel

claims support for this argument in dicta from *Aereo*, stating that a different analysis might apply where users "receive performances in their capacities as owners or possessors of the underlying works." *Aereo*, 134 S. Ct. at 2510. This argument fails.

First, the Court's description of the ownership/possessory relationship that might be relevant is plainly inapplicable to VidAngel. The Court said that the difference between a valet returning cars to their owners and a dealership selling new cars provided a potential analogy to the private/public distinction: "we would not say that the [valet] provides cars 'to the public' . . . [w]e would say that a car dealership . . . provide[s] cars to the public, for it sells cars to individuals who lack a pre-existing relationship to the cars." *Id*. The Court said Aereo was more like a car dealership because it "transmits to large numbers of paying subscribers who lack any prior relationship to the works." *Id*. The same is true of VidAngel, whose users have no "prior relationship" with the works they watch, but instead receive access by paying VidAngel a fee.

Second, as *Aereo* and the other cases discussed above make clear, courts must look at the reality of what the defendant is doing rather than the stratagem it employs to characterize its performances as private. The Court rejected Aereo's claim that associating each user with an antenna made its streams private performances. The Court explained that this gimmickry did not "render Aereo's commercial objective any different from that of cable companies," and did not "significantly alter the viewing experience." *Id.* at 2508. It is unfathomable that the courts in *Redd Horne*, *On Command*, and *Zediva* would have deemed the performances private if the defendants had said they were "selling" videos to customers and "buying them back" after each performance.

The courts' focus on substance rather than labels is fatal to VidAngel's "private performance" argument. VidAngel streams the same copyrighted works to multiple users ("the public") in a manner that is fundamentally the same as other on-

1	demand services. VidAngel's own internal documents make it clear that
2	["VidAngel is NOT a disc service. VidAngel is a streaming service."] Ehler Decl.
3	Ex. W at 234 (emphasis added). VidAngel's labeling the transaction a "sale" does
4	not affect the user's viewing experience. Given that only [eight] users have ever
5	requested a copy of the Disc they purportedly "bought"—out of [millions] of
6	purported "sales"—it is obvious that VidAngel's users do not treat the service as
7	selling them Discs. Id. Ex. EE at Tr. 189:21-190:8, 229:2-12; see also id. Ex. I at
8	120 ("VidAngel – An Honest Review"). VidAngel's business model depends on
9	consumers treating the "buy-sellback" option just like an on-demand streaming
10	rental service, and it encourages this behavior at every turn by repeatedly reminding
11	users to "sellback," sending email reminders, and even offering "auto-sellback." <i>Id.</i>
12	at Ex. BB at 336-37. VidAngel's labeling of the transaction cannot disguise what is
13	really taking place. ¹⁰
14	Third, even if VidAngel were right (which it is not) that the Court should look
15	at how VidAngel characterizes its service (at least in its legal papers as opposed to
16	its marketing materials), that would not help VidAngel. VidAngel streams
17	performances to paying subscribers from a master copy stored on a server (not a
18	Disc temporarily assigned to the user) in the same way licensed services do—except
19	VidAngel's master copy is unauthorized and VidAngel has no license to stream.
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22	⁹ "VidAngel – An Honest Review" is available on YouTube at
23	https://www.youtube.com/watch?v=KG7xgmDHF40 (last visited Aug. 21, 2016).
24	In analogous contexts, courts have recognized "rentals" couched as "sales" through a sell-buyback structure as gimmicks and held that it is the substance that
25	matters. A & M Records, Inc. v. A.L.W., Ltd., 855 F.2d 368, 370 (7th Cir. 1988)
26	(rejecting buyback scheme under Record Rental Amendment of 1984); Central Point Software, Inc. v. Global Software & Accessories, Inc., 880 F. Supp. 957, 964
27	(E.D.N.Y. 1995) (rejecting buyback scheme under Computer Software Rental
28	Amendments Act of 1990).

Schumann Decl. ¶¶ 7, 42. In sum, VidAngel's attempt to characterize its performances as private fails.

3. None of VidAngel's Defenses Excuse Its Infringement

a. The FMA Does Not Excuse VidAngel's Infringement

The statutory text and Congress's clear intent establish that the FMA is narrow and does not exempt VidAngel's infringement of Plaintiffs' rights.

First, as a textual matter, the FMA exempts only (1) "the making imperceptible" and (2) "the creation or provision of a computer program or other technology that enables such making imperceptible." 17 U.S.C. § 110(11). Every other word in the FMA narrows the circumstances in which these two exemptions to § 106 apply. The savings clause, moreover, clarifies the FMA shall not be "construed to imply further rights under" § 106. *Id.* § 110 (final sentence).

VidAngel argues that a business that offers filtering software has statutory authorization to publicly perform Plaintiffs' works because the FMA permits filtering "during a performance . . . transmitted to that household for private home viewing." Dkt. 11 (Counter-Complaint) ¶ 65 (quoting 17 U.S.C. § 110(11) (omissions in original)). The plain text of the FMA defies this reading. VidAngel's reading ignores the requirement that the performance be from an "authorized copy." 17 U.S.C. § 110(11). If Congress wanted to grant filtering businesses a total exemption from copyright infringement—a radical notion with no historical support—it would have said that directly. The fact that the transmission must come from an "authorized copy" of the copyrighted work makes clear that Congress did not provide a blanket exemption to the reproduction or public performance right. *Id.* VidAngel's answer to this is that it purchases authorized copies of Plaintiffs' movies on Discs. But VidAngel does not stream from those Discs (and even if it did, it would still be publicly performing them without the necessary license, as discussed above). VidAngel does not stream from an "authorized copy;" it streams from a

1	ripped digital copy that it obtained by violating § 1201(a) and then by violating
2	Plaintiffs' reproduction right. Schumann Decl. ¶¶ 35-42.
3	The FMA was "targeted narrowly and specifically" at the act of filtering and
4	did not impact other rights and obligations under the Copyright Act. The statute
5	was not intended to be a blanket license for every business that engaged in
6	filtering. ¹²
7	b. VidAngel's Affirmative Defense Of Fair Use Does Not
8	Excuse Its Infringement
9	VidAngel must show it likely will succeed on its defense that copying and
10	publicly performing Plaintiffs' works are fair uses. Perfect 10, Inc. v. Amazon.com,
11	Inc., 508 F.3d 1146, 1158 (9th Cir. 2007). VidAngel cannot meet its burden. All
12	four factors that § 107 directs the Court to consider weigh against VidAngel.
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14	11 Even if VidAngel's reading were correct—which it is not—VidAngel could not
15	rely on the statute because it
16	Schumann Decl. Ex. C at 25; Ehler Decl. Ex. EE at Tr. 95:22-96:14. The FMA only applies "if no fixed copy of the altered version of the
17	motion picture is created by such computer program or other technology." 17
18	U.S.C. § 110(11). VidAngel's documents make clear that it
19	Schumann Decl. Ex. C at 25. A copy is fixed if it is "sufficiently permanent or
20	stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." <i>MAI Sys. Corp.</i> , 991 F.2d at 518 (citing 17)
21	U.S.C. § 101). VidAngel's server copy segments are fixed because they are stored
22	for more than a transitory duration. <i>Id.</i> (software loaded to a computer's RAM is fixed, even if for the sole purpose of viewing the system and running an error log).
23	Senator Hatch, a sponsor of the bill, explained that the FMA "would not exempt
24	from liability an otherwise infringing performance, or a transmission of a performance, during which limited portions of audio or video content of the motion
25	picture are made imperceptible" and infringing performances "are not rendered non-
26	infringing by section 110(11) by virtue of the fact that limited portions of audio or video content of the motion picture being performed are made imperceptible during
27	such performance or transmission." 151 Cong. Rec. S501 (daily ed. Jan. 25, 2005)
28	(Sen. Hatch) (emphasis added).

 The first factor asks whether VidAngel's use is commercial and transformative. *Leadsinger, Inc. v. BMG Music Publ'g*, 512 F.3d 522, 530 (9th Cir. 2008).

VidAngel's use of Plaintiffs' works obviously is commercial: VidAngel copies and publicly performs Plaintiffs' works to profit in its business. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985). VidAngel's commercial use weighs against fair use because VidAngel "stands to profit from exploitation of the copyrighted material without paying the customary price." *Leadsinger*, 512 F.3d at 530 (quotations omitted).

VidAngel's commercial use is not transformative. A transformative use adds "something new, with a further purpose or different character, altering the first [work] with new expression, meaning or message." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994). VidAngel's wholesale copying of Plaintiffs' works "in their entirety" to its computer system adds nothing new to those works and is not transformative. *Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d 1110, 1117 (9th Cir. 2000).

VidAngel's public performance of those works—in which VidAngel makes the entire copied work available to users and allows them to selectively filter out small portions of Plaintiffs' works— also is not transformative. Removing portions of the works obviously does not add anything new to them. VidAngel instead is "simply rebroadcast[ing] for entertainment purposes [works] that Plaintiffs rightfully own"—which is not transformative. *Elvis Presley Enters., Inc. v. Passport Video*, 349 F.3d 622, 628-29 (9th Cir. 2003), *overruled on other grounds as recognized in Seltzer v. Green Day, Inc.*, 725 F.3d 1170 (9th Cir. 2013); *see Monge v. Maya Magazines, Inc.*, 688 F.3d 1164, 1174 (9th Cir. 2012) ("neither minor cropping nor the inclusion of headlines or captions transformed the

1	copyrighted [photographs]"); Worldwide Church of God, 227 F.3d at 1117 ("where
2	the use is for the same intrinsic purpose as the copyright holder's, such use seriously
3	weakens a claimed fair use") (alterations and internal quotation marks omitted); cf.
4	Authors Guild. v. Google, Inc., 804 F.3d 202, 225 (2d Cir. 2015) (while Google
5	Books' display of "snippets" of text was held to be transformative, court expressly
6	stated that "[i]f Plaintiffs' claim were based on Google's converting their books into
7	a digitized form and making that digitized version accessible to the public, their
8	claim would be strong").
9	The court in Clean Flicks of Colo. v. LLC v. Soderbergh, 433 F. Supp. 2d
10	1236 (D. Colo. 2006), considered and rejected the same fair use defense that
11	VidAngel makes. The defendants there mechanically edited movies to remove
12	content and therefore had no FMA defense. The court held that the defendants also
13	had no fair use defense. The court emphasized that the defendants (1) added
14	nothing to the movies, (2) only removed small amounts of content, and (3) did so for
15	commercial gain. <i>Id.</i> at 1241. All of those findings apply to VidAngel.
16	ii. Plaintiffs' Copyrighted Works Are Highly Creative
17	Plaintiffs' works are highly creative, and "the nature of the copyrighted work'
18	favors Plaintiffs. Campbell, 510 U.S. at 586; Elvis Presley Enters., 349 F.3d at 629
19	(motion pictures "are creative in nature and thus fit squarely within the core of
20	copyright protection").
21	iii. VidAngel Copies The Entirety Of Plaintiffs' Works And Publicly Performs Substantially The Entirety
22	Of Them
23	VidAngel copies Plaintiffs' works in their entirety. Ehler Decl. Ex. EE at Tr.
24	112:19-113:2. This weighs strongly against fair use. See Monge, 688 F.3d at 1180
25	(no fair use where defendant copied photographs in their entirety). VidAngel's
26	public performances omit some portions of each work. See Ehler Decl. Ex. Q
27	(removing "nudity/graphic violence/f-bomb took out 14min" from <i>Deadpool</i>).

But VidAngel always performs the "heart" of the works, and this factor weighs

against VidAngel. See Campbell, 510 U.S. at 586; Elvis Presley Enters., 349 F.3d at 630; L.A. News Serv. v. Tullo, 973 F.2d 791, 798 (9th Cir. 1992).

iv. VidAngel's Service Undermines Existing And Potential Markets For Plaintiffs' Works

The fourth factor considers current market harm and "whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market' for the original." *Campbell*, 510 U.S. at 590 (citations omitted). Where, as here, the defendant uses the works "for commercial gain, the likelihood of market harm may be presumed." *Leadsinger*, 512 F.3d at 531-32 (quotations omitted); *see Campbell*, 510 U.S. at 591 (presumption of market harm "makes common sense" in cases involving "copying of the original in its entirety for commercial purposes") (quotation marks and alterations omitted). To rebut this presumption, VidAngel must "bring forward favorable evidence about relevant markets." *Arista Records LLC v. Myxer, Inc.*, No. CV 08-03935 GAF, 2011 WL 11660773, at *43 (C.D. Cal. 2011) (quoting *Dr. Seuss Enters., L.P. v. Penguin Books, USA, Inc.*, 109 F.3d 1394, 1403 (9th Cir. 1997)). This VidAngel cannot do.

VidAngel plainly undermines existing and developing markets for Plaintiffs' works. VidAngel's own marketing materials and strategy compare it to legitimate on-demand streaming services such as iTunes, Google Play, Amazon Video, and Netflix. Ehler Decl. Exs. A, B. Further, as explained by the Senior Vice President, Digital Distribution at Fox, VidAngel undercuts the market for Plaintiffs' works in a number of ways. Cittadine Decl. ¶¶ 16-22; 26-34. For example when VidAngel released *Star Wars: The Force Awakens* on the same day it was released to Disc and for digital download, VidAngel was "competing directly with these other exclusive viewing options and preempting legitimate on-demand streaming services" which did not yet have rights to stream that title. *Id.* ¶ 16. Likewise, "[b]y offering consumers on-demand streaming at a lower price —which VidAngel can offer only

1	because it misappropriates Fox's content—VidAngel threatens the business of all of
2	[Fox's licensees] who have negotiated legal, authorized licenses [with Fox and other
3	Plaintiffs] for those rights." <i>Id.</i> ¶ 20. Many VidAngel customers are using the
4	service because of its price as compared to authorized services—a differential that
5	exists only because VidAngel does not pay for the rights it exploits. Ehler Decl. Ex.
6	I (examples).
7	In sum, fair use is not a defense to VidAngel's blatant infringement.
8	c. The First Sale Doctrine Does Not Authorize VidAngel's Copying or Streaming
9	Copying of Streaming
10	VidAngel claims that Plaintiffs' attempt to enforce their reproduction and
11	public performance rights violates the first sale doctrine, see 17 U.S.C. § 109(a), ¹³

because VidAngel buys Discs and resells them via its "buy-sellback" model. Dkt. 11 (Counter-Complaint) ¶¶ 53-59. Even if VidAngel were actually selling Discs (which it is not), the argument would be a red herring. The first sale doctrine applies only to Plaintiffs' right of distribution, which is not at issue here. See Red Baron-Franklin Park, Inc. v. Taito Corp., 883 F.2d 275, 280-81 (4th Cir. 1989) ("the first sale doctrine has no application to the rights of the owner of a copyright guaranteed by § 106, except the right of distribution"); Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640, 655 (S.D.N.Y. 2013) ("[T]he first sale defense does not apply to ReDigi's infringement of those [reproduction] rights."); Peker v. Masters Collection, 96 F. Supp. 2d 216,221 (E.D.N.Y. 2000) ("no defense that [defendant] used a lawfully acquired object to achieve its unlawful goal of copying").

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¹³ "Notwithstanding the provisions of section 106(3), the owner of a particular copy ... lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy " 17 U.S.C. § 109(a) (emphasis added).

II. PLAINTIFFS WILL SUFFER IRREPARABLE HARM ABSENT AN INJUNCTION

A court may find that a copyright owner's harm is likely "irreparable" for many reasons, including that a particular loss is "difficult to replace," "difficult to measure," or of a kind "that one should not be expected to suffer." *Salinger v. Colting*, 607 F.3d 68, 81 (2d Cir. 2010). VidAngel's illegal conduct puts Plaintiffs at risk of suffering imminent, irreparable harms; VidAngel's "delay" defense does

A. VidAngel's Unauthorized Service Causes Immediate And Irreparable Harms

First, VidAngel interferes with Plaintiffs' basic right to control how, when and through which channels consumers can view their copyrighted works. "As the copyright holders, Plaintiffs have the exclusive right to decide when, where, to whom, and for how much they will authorize transmission of their Copyrighted Works to the public." *Zediva*, 824 F. Supp. 2d at 1012 (citation omitted). Where defendants operate an "infringing service without the normal licensing restrictions imposed by Plaintiffs, [it] interfere[s] with Plaintiffs' ability to control the use and transmission of their Copyrighted works, thereby, causing irreparable injury." *Id.* at 1012 (citation omitted). Plaintiffs' exclusive rights under copyright are critical to providing Plaintiffs the opportunity to earn a return on their substantial investments—often tens of millions of dollars for a major motion picture—in creating content. Cittadine Decl. ¶¶ 7-8. This harm is ongoing and worsening as VidAngel continues to add Plaintiffs' works and grow its user base. *Id.* ¶ 34.

Plaintiffs exercise their rights through agreements with authorized distributors. Some licenses grant the licensee an exclusive time window for performing a title. *Id.* ¶ 15. The price for such a license is based, in part, on the promise and scope of exclusivity. *Id.* VidAngel operates without any license and performs Plaintiffs' works during negotiated exclusivity periods. As of this filing,

not change this fact.

1	VidAngel offers (at least) two of Plaintiffs' works—The Martian and Brooklyn—
2	during periods these works are exclusive to an authorized licensee, HBO. <i>Id.</i> ¶ 30.
3	As noted, VidAngel offered Star Wars: The Force Awakens when no service had
4	rights to distribute it for on-demand streaming. <i>Id.</i> ¶ 16; Ehler Decl. Ex. J.
5	VidAngel flaunts its interference with exclusive windows as a competitive
6	advantage over authorized services by expressly promoting titles that are available
7	on VidAngel but "NOT on Netflix." Ehler Decl. Ex. A at 13-15, 23-38. VidAngel
8	thus interferes with Plaintiffs' exercise of their exclusive rights and frustrates
9	Plaintiffs' ability to negotiate for similar rights in the future. Cittadine Decl. ¶¶ 17,
10	36.
11	Second, VidAngel threatens harm to Plaintiffs' relationships and goodwill
12	with authorized distributors by undermining their ability to provide licensed
13	offerings. See Ticketmaster L.L.C. v. RMG Techs., Inc., 507 F. Supp. 2d 1096, 1115
14	(C.D. Cal. 2007) (irreparable harm includes "damage to goodwill"). VidAngel
15	poses a threat to the businesses of Plaintiffs' legitimate licensees and, in turn, to
16	Plaintiffs' relationships with them and the goodwill Plaintiffs have worked to create
17	Cittadine Decl. ¶¶ 18-22. VidAngel's users often compare the service to Plaintiffs'
18	licensees, commenting that they prefer VidAngel because it provides inexpensive
19	access to Plaintiffs' copyrighted works. See Ehler Decl. Ex. I (examples).
20	Licensees complain to Plaintiffs that their business suffers from competition with
21	unlicensed services that offer low-cost or free content because they do not obtain
22	licenses. Cittadine Decl. ¶ 19. VidAngel's unrestrained conduct thus threatens the
23	legitimate online distribution market. <i>Id.</i> ¶¶ 19, 22; <i>see WPIX, Inc. v. ivi, Inc.</i> , 691
24	F.3d 275, 286 (2d Cir. 2012) (holding that unrestrained unauthorized Internet
25	retransmissions of broadcast programming "would encourage" other services to
26	follow suit, diminish plaintiffs' negotiating position, adversely affect "quantity and
27	quality of efforts put into creating" new works, and "drastically change the industry
28	to plaintiffs' detriment").

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Third, VidAngel threatens harm to Plaintiffs' ability to secure and protect their content in the online environment. Online distribution carries with it a heightened risk of piracy because the Internet facilitates the ability to exploit copyrighted content on a mass scale. Cittadine Decl. ¶ 24. Plaintiffs require licensees to employ specified security measures to prevent piracy. *Id.*¶ 25. Because VidAngel streams Plaintiffs' works without negotiating a license, Plaintiffs are deprived of their right to impose those terms on VidAngel. *Id.* VidAngel jeopardizes Plaintiffs' content and harms Plaintiffs' relationships with licensees who are required to abide by security requirements to which VidAngel is not bound. *Id.*

Fourth, VidAngel threatens harm to the overall development of the ondemand streaming market by the provision of inferior user-viewing experiences. *See Zediva*, 842 F. Supp. 2d at 1014 (Zediva "threatens the development of a successful and lawful video on demand market by offering a sub-optimal customer experience and, thus, tarnishing customers' perception of video on demand as an attractive option for viewing Plaintiffs' Copyrighted Works."). Plaintiffs require their licensees to have quality controls, which maintain predictable standards and allow customers to view Plaintiffs' movies under consistently positive conditions. Cittadine Decl. ¶ 27. VidAngel threatens these efforts and provides an inferior userviewing experience that tarnishes Plaintiffs' brands because it is not bound to comply with Plaintiffs' quality controls. *Id.* This possibility is not merely theoretical: VidAngel's social media pages contain customer complaints about the service's poor streaming quality. Ehler Decl. L (attaching numerous examples).

VidAngel also threatens the lawful market by confusing consumers that VidAngel is engaged in lawful conduct. *See Zediva*, 824 F. Supp. 2d at 1013 (finding that the Zediva service threatened "to create incorrect but lasting impressions with consumers about what constitute[d] lawful video on demand exploitation" of copyrighted works). VidAngel publicly justifies its unlicensed

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activities as "legal" under the FMA. Ehler Decl. Ex. M. But VidAngel's service is not legal, and it creates incorrect expectations about the value of Plaintiffs' content.

Plaintiffs' Motion Is Timely, And VidAngel's Assertions of "Delay" Do Not Negate Irreparable Harm В.

VidAngel has asserted that Plaintiffs face no irreparable harm because they did not sue as soon as they learned of VidAngel when they received Mr. Quinto's letters in July 2015. Plaintiffs are not required to act immediately to sue, or to seek to enjoin, every potential infringer. See Petrella, 134 S. Ct. at 1976 ("Even if an infringement is harmful, the harm may be too small to justify the cost of litigation."). A rule that required a copyright holder to pursue every possible threat—no matter how nascent—would generate a rash of litigation and motion practice, which would not serve the Courts, the parties, or the public interest. See Lotus Dev. Corp. v. Paperback Software Int'l, 740 F. Supp. 37, 82 (D. Mass. 1990) ("Prudent business judgment, Rule 11, and basic common sense required [the plaintiff first to ascertain that the threat to its intellectual property interest was serious, and that its legal position was sound, before filing suit.") (internal quotations omitted). Courts are "loath to withhold relief" solely on the ground that a party delayed seeking an injunction. Arc of Cal. v. Douglas, 757 F.3d 975, 990 (9th Cir. 2014) (citing Lydo Enters., Inc. v. City of Las Vegas, 745 F.2d 1211, 1214 (9th Cir. 1984)).

Plaintiffs filed this suit when VidAngel's conduct was sufficiently egregious to require litigation and when it was apparent VidAngel would continue operating. See Arc of Cal., 757 F.3d at 991 ("The significance of such a prudent delay in determining irreparable harm may become so small as to disappear."). To require Plaintiffs to "sue soon, or forever hold [their] peace" would force Plaintiffs to mount a federal case to stop services that might never get off the ground—which is often the case. *Petrella*, 134 S. Ct. at 1976 (describing "seemingly innocuous infringements"). Plaintiffs filed suit after they had conducted their investigation and

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analysis, and when it was clear that litigation was necessary to stop VidAngel's illegal conduct.

Moreover, each new title that VidAngel offers gives rise to a new infringement claim and inflicts new immediate, irreparable harm. ¹⁴ *Id.* at 1969 ("[e]ach wrong gives rise to a discrete 'claim' that 'accrue[s]' at the time the wrong occurs"). VidAngel has added more and more of Plaintiffs' titles in recent months and promises to continue to do so, especially with Plaintiffs' most popular releases. Ehler Decl. Exs. N (examples of titles recently added); EE at Tr. 32:9-37:4, R (VidAngel offers new movies that reach more than [\$10 million] in domestic sales).

The harm that VidAngel causes is not over and done with, but continuing and growing. The time a party takes initially in seeking judicial protection "is not particularly probative in the context of ongoing, worsening injuries." Arc of Cal., 757 F.3d at 990-91 (citations omitted). VidAngel's growth, increased marketing and more brazen conduct have increased the immediacy and magnitude of the harm to Plaintiffs, further justifying injunctive relief. See id.

III. THE BALANCE OF HARDSHIPS TIPS DECISIVELY FOR **PLAINTIFFS**

The threat of harm to Plaintiffs, as demonstrated above, is substantial. In contrast, VidAngel "cannot complain of the harm that will befall it when properly forced to desist from its infringing activities." Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330, 1338 (9th Cir. 1995), superseded on other grounds by 17 U.S.C. § 117(c); see Cadence Design Sys., Inc. v. Avant! Corp., 125 F.3d 824, 830 (9th Cir. 1997) ("Where the only hardship that the defendant will suffer is lost profits from an

¹⁴ For example, on July 20, 2016, VidAngel made Batman v. Superman: Dawn of Justice (Ultimate Edition) available, when that title was not yet available to legitimate on-demand streaming services. See Ehler Decl. Ex. N at 155. On August 4, VidAngel offered Keanu, when that title was not yet available to legitimate ondemand services. See id. at 157.

activity which has been shown likely to be infringing, such an argument in defense merits little equitable consideration") (quotations and citations omitted); *Apple Inc. v. Psystar Corp.*, 673 F. Supp. 2d 943, 950 (N.D. Cal. 2009) ("Since [small start-up defendant] does not (and cannot) claim any *legitimate* hardships as a result of being enjoined from committing unlawful activities, and Apple would suffer irreparable and immeasurable harms if an injunction were not issued, this factor weighs strongly in favor of Apple's motion.").

VidAngel does not suffer a legitimate hardship if it is enjoined because the very core of its business involves circumvention and infringement. The fact that VidAngel's litigation counsel sent letters to a number of general counsel makes clear that VidAngel knew from the outset it was on thin ice. Nonetheless, VidAngel proceeded at its peril.

IV. A PRELIMINARY INJUNCTION IS IN THE PUBLIC INTEREST

Upholding copyright protection is in the public interest. *See Eldred v. Ashcroft*, 537 U.S. 186, 212 n.18 (2002) ("[t]he economic philosophy behind the [Copyright] [C]lause . . . is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors") (citation omitted); *Kelly v. Primco Mgmt., Inc.*, No. CV-14-07263 BRO, 2015 WL 10990368 at *16 (C.D. Cal. Jan. 12, 2015) ("[I]t is virtually axiomatic that the public interest can only be served by upholding copyright protections"); *Realnetworks, Inc.*, 641 F. Supp. 2d at 943 ("By making it a DMCA violation to distribute products that enable consumers to override copyright owner preferences against unauthorized copying, Congress determined that the public interest is best served by outlawing such products.").

VidAngel's circumvention violations and infringements undermine Congress's purposes in the DMCA and Copyright Act. Congress believed that content owners must have exclusive rights, as set forth in § 106, and also the ability to safeguard access to their works, in order to be able to earn returns on their (often

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1	substantial) investments. VidAngel's violation of Plaintiffs' rights flouts Congress's
2	goals and harms Plaintiffs. An injunction serves the public interest in upholding the
3	law.
4	V. MINIMAL SECURITY SHOULD BE REQUIRED
5	The required security need not be substantial. See Zediva, 824 F. Supp. 2d at
6	1015 (requiring \$50,000 bond). Any hardship VidAngel faces results from its
7	voluntary decision to build a business around violating Plaintiffs' rights. Plaintiffs
8	respectfully submit that security in the amount of \$50,000 is appropriate.
9	CONCLUSION
10	The Court should grant Plaintiffs' motion for a preliminary injunction.
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12	DATED: August 22, 2016 MUNGER, TOLLES & OLSON LLP
13	DATED: August 22, 2016 MUNGER, TOLLES & OLSON LLP
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15	By: /s/ Kelly M. Klaus
16	KELLY M. KLAUS
17	Attorneys for Plaintiffs
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1	<u>CERTIFICATE OF SERVICE</u>
2	I hereby certify that on August 22, 2016, I authorized the electronic filing of
3	the foregoing with the Clerk of the Court using the CM/ECF system, which will
4	send e-mail notification of such filing to all registered parties. I certify under
5	penalty of perjury under the laws of the United States of America that the foregoing
6	is true and correct.
7	
8	DATED: August 22, 2016 MUNGER, TOLLES & OLSON LLP
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10	By: /s/ Kelly M. Klaus
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