

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ARISTA RECORDS LLC; ATLANTIC RECORDING CORPORATION; BMG MUSIC; CAPITOL RECORDS, INC.; ELEKTRA ENTERTAINMENT GROUP INC.; INTERSCOPE RECORDS; LAFACE RECORDS LLC; MOTOWN RECORD COMPANY, L.P.; PRIORITY RECORDS LLC; SONY BMG MUSIC ENTERTAINMENT; UMG RECORDINGS, INC.; VIRGIN RECORDS AMERICA, INC.; and WARNER BROS. RECORDS INC.,

Plaintiffs/Counterclaim Defendants,

v.

LIME GROUP LLC; LIME WIRE LLC; MARK GORTON; GREG BILDSON, and M.J.G. LIME WIRE FAMILY LIMITED PARTNERSHIP

Defendants.

06 CV. 5936 (GEL)

DEFENDANTS' MEMORANDUM OF LAW IN SUPPORT OF DEFENDANTS' SETTLEMENT RELATED AND PRE-AUGUST 2003 OBJECTIONS TO PLAINTIFFS' EXHIBITS TO THEIR MOTION FOR PARTIAL SUMMARY JUDGMENT AND DEFENDANTS' MOTION TO STRIKE PLAINTIFFS' EXHIBITS

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COME NOW, Defendants Lime Group LLC, Lime Wire LLC, Mark Gorton, and M.J.G. Lime Wire Family Limited Partnership (collectively, “Defendants”) and file this Memorandum of Law in Support of Defendants’ Settlement Related and Pre-August 2003 Objections to Plaintiffs’ Exhibits to Their Motion for Partial Summary Judgment and Defendants’ Motion to Strike Plaintiffs’ Exhibits and respectfully show the Court as follows:

I. DEFENDANTS’ OBJECTIONS TO PLAINTIFFS’ EXHIBITS

Plaintiffs’ Motion for Partial Summary Judgment attempts to rely upon numerous inadmissible exhibits. However, the Court may consider only admissible evidence in support of Plaintiffs’ Motion for Summary Judgment. *Riisna v. Am. Broad. Companies, Inc.*, 219 F. Supp. 2d 568, 571 (S.D.N.Y. 2002). Therefore, Defendants file these objections to Plaintiffs’ exhibits and move to strike them from the summary judgment record.¹ The admissibility of Plaintiffs’ Summary Judgment exhibits is properly before the Court at this stage of the proceedings. “The principles governing admissibility of evidence apply equally on a motion for summary judgment as in trial.” *Bazak Int’l Corp. v. Tarrant Apparel Group*, 378 F. Supp. 2d 377, 391 (S.D.N.Y. 2005).

II. DEFENDANTS’ SETTLEMENT RELATED OBJECTIONS

Plaintiffs have offered several exhibits that contain documents created during the course of settlement and compromise negotiations of Plaintiffs’ claims asserted in this Lawsuit. These exhibits, identified on Exhibit A hereto, are irrelevant and inadmissible pursuant to FED. R. EVID. 408(a)(2) because they address conduct and statements made in compromise negotiations.

¹ Defendants are filing this Motion and others to address varying objections to Plaintiffs’ summary judgment evidence.

A. Rule 408 Renders Evidence of Conduct or Statements Made in Compromise Negotiations Inadmissible

FED. R. EVID. 408(a)(2) excludes evidence of “conduct or statements made in compromise negotiations regarding [a] claim” when the evidence is offered to prove liability for a claim. FED. R. EVID. 408(a)(2). In fact, “Rule 408 bars the admission of most evidence of offers of compromise and settlement.” *Trebor Sportswear Co. v. The Ltd. Stores, Inc.*, 865 F.2d 506, 510 (2d Cir. 1989).

The purpose behind FED. R. EVID. 408(a)(2) is clear; Rule 408 is intended “to encourage full and frank disclosure between the parties in order to promote settlements rather than protracted litigation.” *Olin Corp. v. Ins. Co. of N. Am.*, 603 F. Supp. 445, 449 (S.D.N.Y. 1985); *see also Pierce v. F.R. Tripler & Co.*, 955 F.2d 820, 827-28 (2d Cir. 1992) (stating that admitting settlement negotiations into evidence “could inhibit settlement discussions and interfere with the effective administration of justice”); FED. R. EVID. 408 advisory committee’s note (1972 Proposed Rules) (referring to the “promotion of the public policy favoring the compromise and settlement of disputes”).

For FED. R. EVID. 408 to apply, the “claim” at issue does not have to have been included in a lawsuit between the parties; it is sufficient for the parties to be involved in an “actual dispute,” or even for there to be only “an apparent difference of opinion between the parties as to the validity of a claim.” *Alpex Computer Corp. v. Nintendo Co.*, 770 F. Supp. 161, 163 (S.D.N.Y. 1991), *rev’d on other grounds*, No. 86 CIV. 1749(KMW), 1994 WL 139423 (S.D.N.Y. Mar. 18, 1994) (affirming its interpretation of FED. R. EVID. 408), *rev’d on other grounds*, No. 86 Civ. 1749 (KMW), 1994 WL 381659 (S.D.N.Y. July 21, 1994). In fact, a party’s subjective belief that a dispute exists is sufficient to invoke Rule 408. *Id.* at 163-164. Even documents that are only “prepared . . . in an effort to settle” a claim are excluded by FED.

R. EVID. 408. *McPherson v. N.Y. City Health & Hosps. Corp.*, No. 82 Civ. 3793 (JFK), 1987 WL 12083, at *2 (S.D.N.Y. June 4, 1987) (ruling that a report prepared by defendant's employee evaluating the plaintiff's claims pursuant to a preliminary settlement agreement was inadmissible because "[i]t would not have existed but for the settlement negotiations").

Courts across the country follow this reasoning and exclude documents created not only by parties or their employees, but also by third parties. *See, e.g., Ramada Dev. Corp. v. Rauch*, 644 F.2d 1097, 1106-7 (5th Cir. Unit B May 1981) (holding that a construction defect report prepared "as a basis of settlement negotiations" by a non-party hired by plaintiff was properly excluded from evidence); *Blu-J, Inc. v. Kemper C.P.A. Group*, 916 F.2d 637, 641-42 (11th Cir. 1990) (ruling that a non-party accounting firm's "independent evaluation" of certain allegations against defendant was properly excluded because it "was intended to be part of negotiations toward compromise").

Moreover, documents created in "an attempt to work out a settlement and compromise" may be excluded even if they were not directed to, or specifically exchanged with, opposing parties at that time. *See, e.g., Kritikos v. Palmer Johnson, Inc.*, 821 F.2d 418, 421-23 (7th Cir. 1987) (holding that the trial court improperly admitted letters from plaintiff's agent to plaintiff describing settlement discussions with defendant because the letters were written "with the objective of advising the plaintiff of a possible compromise solution before legal action commenced"); *Affiliated Mfrs., Inc. v. Aluminum Co. of Am.*, 56 F.3d 521, 530 (3d Cir. 1995) (agreeing with trial court's decision to exclude defendant's "internal memoranda prepared for use in discussion of settlement"). Thus, FED. R. EVID. 408 excludes documents created pursuant to or because of settlement negotiations, even if those documents were never provided to the opposing party as part of those negotiations.

B. Plaintiffs' Exhibits Listed on Exhibit A are Inadmissible Because They are Offered as Liability Evidence of Conduct and Statements Made in Compromise Negotiations

Plaintiffs' summary judgment exhibits, listed on Exhibit A hereto, relate to Lime Wire's efforts to settle Plaintiffs' demands received after the *Grokster* decision. After being contacted by the both the music industry and iMesh regarding settlement of Lime Wire's dispute with Plaintiffs, Lime Wire set out to develop several different plans with certain non-parties such as Napster LLC, Real Networks, and iMesh in 2005. Gorton Decl. ¶¶ 48, 49, and 54. As part of these settlement efforts, Lime Wire and iMesh developed a plan that took into account the record industry's copyright enforcement concerns and submitted their proposal to the RIAA. *Id.* at ¶ 54. The RIAA rejected the plan. *Id.* at ¶ 54. Lime Wire then attempted to settle with the RIAA and the individual record labels by proposing a filtering system and Lime Wire's "Plan for Digital Market Growth." *Id.* at ¶ 55. The "Plan for Digital Market Growth" and the numerous other conversion plans drafted in the Fall of 2005 through the Summer of 2006 were prepared in an effort to settle the dispute with Plaintiffs. *Id.* at ¶ 54, 55, and 60.

Plaintiffs have offered various documents and testimony relating to these settlement efforts including: (1) internal Lime Wire communications; (2) external communications between Lime Wire and non-parties discussing the proposed plans; and (3) the plans themselves. These "plans," and the communications discussing them, were only created in order to be part of the settlement negotiations with Plaintiffs. *Id.* at ¶ 54, 55, and 60. Plaintiffs had already threatened to sue, and had demanded that Lime Wire take action that satisfied Plaintiffs.

Plaintiffs have offered these exhibits as evidence of Lime Wire's "intent to facilitate infringement." *See* Plaintiffs' Motion for Partial Summary Judgment at pp. 19-24 (discussing Lime Wire's digital conversion plans). That is, they have offered this evidence *to prove an*

element of Lime Wire's liability, which is specifically prohibited by FED. R. EVID. 408. FED. R. EVID. 408(a). Plaintiffs have also offered these documents as evidence that Lime Wire intended to monetize its user base by converting LimeWire users into paying customers (Plaintiffs' Statement of Facts ¶¶ 435-455), and as evidence that Lime Wire could have done more to prevent infringement (Plaintiffs' Statement of Facts ¶¶ 502-516). Lime Wire created these documents as a basis for settlement discussions with Plaintiffs; the documents only exist due to Plaintiffs' insistence on Lime Wire's liability for their claim. *Id.* at ¶ 54, 55, and 60. These exhibits, which would not exist but for Lime Wire's attempts to compromise with Plaintiffs, are inadmissible to show Lime Wire's liability on precisely identical issues on which it was attempting to compromise with Plaintiffs.

III. DEFENDANTS' OBJECTIONS TO EXHIBITS PRE-DATING AUGUST 4, 2003

A three year statute of limitations applies to Plaintiffs' copyright infringement claims. *See* 17 U.S.C. § 507(b) (three year statute of limitations for actions under the federal copyright statute) and N.Y.Civ. Prac. L & R § 214 (three year statute of limitations period for actions under state common law infringement claims).

To succeed on their claim of inducement of copyright infringement, Plaintiffs must prove that Lime Wire distributed "a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement" to demonstrate that Lime Wire is liable for "the resulting acts of infringement by third parties." *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936-37 (2005) ("*Grokster*"). Evidence of activity related to inducement occurring more than three years prior to the date this Lawsuit was filed is irrelevant; therefore, it is barred by FED. R. EVID. 402 because any allegedly actionable inducement would have occurred outside the limitations period.

Saddled with this difficult standard and a lack of evidence, Plaintiffs have offered numerous documents that ante-date August 4, 2003 (many of the exhibits are from the 1999-2001 time frame) in support of their Motion for Partial Summary Judgment. These exhibits, each of which is identified on Exhibit B hereto, are irrelevant because they relate to activity outside the appropriate statute of limitations and/or because they relate to activity that was not subject to liability at the time it occurred. Because they are irrelevant, they are inadmissible. FED. R. EVID. 402 (“Evidence which is not relevant is not admissible.”).

A. The Pre-August 4, 2003 Evidence is Irrelevant Because it Precedes the Statute of Limitations for a Copyright Infringement Claim

Plaintiffs’ proposed pre-August 4, 2003 exhibits reflect or relate to activity which occurred more than three years before the August 4, 2006 filing date of this Lawsuit. Exhibits that relate to acts of alleged copyright infringement prior to the three year statute of limitation period “are of necessity time-barred.” *Gero v. Seven-Up Co.*, 535 F. Supp. 212, 217, n.3 (E.D.N.Y. 1982), *aff’d*, 714 F.2d 113 (2d Cir. 1982). The statute of limitations bars recovery on copyright infringement claims for actions that occurred before the three-year statute of limitations period. *Kregos v. Associated Press*, 3 F.3d 656, 662 (2d Cir. 1993); *see* 3 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright* § 12.05[B][1][b] (2008) (“the statute of limitations bars recovery on any damage claim that accrued over three years prior to filing of suit”) (hereinafter, “*Nimmer on Copyright*”); *see also Hoey v. Dixel Systems Corp.*, 716 F. Supp. 222, 223 (E.D.Va. 1989) (stating that § 507(b) does not “provide for any reach back if an act of infringement occurs within the statutory period” to include acts of infringement occurring prior to the statute of limitations period). Plaintiffs’ pre-August 4, 2003 exhibits are being offered as proof of allegedly infringing activity by the Defendants that occurred prior to the statute of limitations period and are irrelevant to Plaintiffs’ claims of inducement of infringement within

the statute of limitations period. Accordingly, they are not proper summary judgment evidence and are not admissible.

B. The Continuing-Infringement Doctrine Does Not Apply to Copyright Infringement in the Second Circuit

Plaintiffs will likely urge this Court to find that the pre-August 4, 2003 exhibits are indicative of intent or of a continuing wrong that occurred during the limitations period. *See, e.g., Woods Hole Oceanographic Inst. v. Goldman*, 228 U.S.P.Q. (BNA) 874 (S.D.N.Y. July 23, 1985); *Taylor v. Meirick*, 712 F.2d 1112 (7th Cir. 1983). However, the continuing-infringement doctrine is both “inapplicable on these facts” and “unavailable” in the Second Circuit. *Kregos*, 3 F.3d at 662 (stating that *Woods* and *Taylor* are distinguishable because those cases involved a “single infringing work, not easily separable, that occurred both before and after the statute of limitations period had expired”); *see Stone v. Williams*, 970 F.2d 1043, 1049-50 (2d Cir. 1992) (concluding that recovery is only allowed for infringing acts occurring within three years of suit and noting that the “continuous wrong doctrine generally has been rejected in the infringement context”) and *Gaste v. Kaiserman*, 669 F. Supp. 583, 584 (S.D.N.Y. 1987) (noting that “the overwhelming authority in the Second Circuit” is that a plaintiff is not entitled to recover damages for any infringement that occurred more than three years prior to the filing of the lawsuit).²

Even if Plaintiffs attempt to argue that the pre-August 4, 2003 exhibits offered in support of their Motion for Partial Summary Judgment are indicative of the “first steps” of a pattern of

² Admittedly, in discrimination and employment contexts, the Second Circuit has accepted pre-limitations “background evidence” within the limitations period. *See e.g., Curto v. Edmundson*, 392 F.3d 502, 504 (2d Cir. 2004) (acknowledging that evidence of discrimination prior to the limitations period may be relevant as “background evidence”); *Yourman v. Giuliani*, 229 F.3d 124, 132 (2d Cir. 2000) (allowing review of evidence outside the limitations period as relevant to the existence of an actual practice of improper pay deductions within the limitations period); and *Peck v. Hudson City School Dist., Hudson, N.Y.*, 100 F. Supp. 2d 118, 121 (N.D.N.Y. 2000) (admitting evidence of discrimination outside the limitations period). However, this theory has not been applied to copyright infringement claims in the Second Circuit.

related conduct, the exhibits are still irrelevant to their claims. Plaintiffs may only maintain a cause of action for actual inducement that occurred within the three years prior to the filing of this Lawsuit, August 4, 2006. *See* 17 U.S.C. § 507(b); *Kregos*, 3 F.3d at 662; and *Gaste*, 669 F. Supp. at 584. Evidence allegedly relating to inducement outside the limitations period is of necessity time-barred and irrelevant. *See Gero*, 535 F. Supp. at 217, n.3 and FED. R. EVID. 402.

IV. EVIDENCE OF LIME WIRE'S ACTIVITY PRIOR TO THE *GROKSTER* DECISION (DECIDED JUNE 27, 2005) IS IRRELEVANT BECAUSE IT RELATES TO CONDUCT FOR WHICH LIME WIRE COULD NOT HAVE BEEN LIABLE WHEN CONDUCTED

A. Inducement of Copyright Infringement is a New Substantive Theory of Liability

On June 27, 2005, the Supreme Court adopted the inducement rule for copyright infringement, creating a new cause of action for secondary infringement liability. *See Grokster*, 545 U.S. at 936-37. The *Grokster* holding has been widely regarded by commentators as a new theory of secondary liability, granting plaintiffs the substantive right to a new cause of action. *See e.g., Nimmer on Copyright* § 12.04[A][3][b][ii] (the Supreme Court's "decision vacated the Ninth Circuit's *Grokster* ruling, not on the basis of vicarious liability or contributory infringement, but rather by enunciating a new theory of attempting to induce infringement"); Tim Wu, *The Copyright Paradox*, 2005 SUP. CT. REV. 229, 248; Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 BERKELEY TECH. L.J. 1363, 1411 (2006); Alvin Chan, *The Chronicles of Grokster: Who is the Biggest Threat in the P2P Battle?*, 15 UCLA ENT. L. REV. 291, 294 (2008); and 5 PATRY ON COPYRIGHT § 21:79 (2d ed. 2008). Federal courts have also recognized that inducement of copyright infringement is not a mere expansion of contributory infringement, but rather a new theory of liability. *See Monotype Imaging, Inc. v. Bitstream, Inc.*,

376 F. Supp. 2d 877, 888 (N.D. Ill. 2005) (discussing *Grokster*, the court notes that the Supreme Court adopted the theory of “intentional inducement of infringement”).

B. The *Chevron* Test Determines That The New Substantive Theory of Liability for Inducement of Infringement Does Not Apply Retrospectively to Conduct Prior to the *Grokster* Holding

“It is, of course, the general rule that a court must apply the law as it exists at the time it renders its decision.” *Walsche v. First Investors Corp.*, 981 F.2d 649, 653 (2d Cir. 1992). The Supreme Court has implemented a three-part inquiry to determine when an exception to this principle exists and when a decision will only be applied prospectively. *Chevron Oil Co. v. Huson*, 404 U.S. 97, 106-07 (1971). “First, the decision to be applied nonretroactively must establish a new principle of law.” *Id.* Second, the court must “weigh the merits and demerits in each case by looking to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation.” *Id.* Finally, if retroactive application could produce substantial inequitable results, such injustice or hardship should be avoided. *Id.*

Clearly, *Grokster* established a new principle of law “by deciding an issue of first impression whose resolution was not clearly foreshadowed.” *See Chevron Oil*, 404 U.S. at 106. This inducement theory did not previously exist. *See Nimmer on Copyright* § 12.04[A][3][b][ii] and *Monotype Imaging*, 376 F. Supp. 2d at 888.

Additionally, retroactive application of this new cause of action will retard its proper operation, since retroactive application would ignore one of its elements. The Supreme Court held that this new theory of liability is inherently an intent-based cause of action. *See Grokster*, 545 U.S. at 936-37 (holding that one who distributes “with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster

infringement is liable for the resulting acts of infringement by third parties”). Intent requires scienter—“the fact of an act’s having been done knowingly.” BLACK’S LAW DICTIONARY 1373 (8th ed. 2004). Applying a new theory of liability retroactively to entities that could not have known that their past behavior was secondarily infringing essentially eviscerates the intent requirement.

Finally, it would simply be unfair to enforce an intent-based cause of action against entities that had no knowledge that the conduct in question could potentially lead to liability. Since it established a new principle of law, the new theory of secondary liability for inducement of copyright infringement established by *Grokster* should only be applied prospectively. *See Chevron Oil*, 404 U.S. at 106. Accordingly, any *conduct* evidenced by the pre-August 4, 2003 exhibits occurred prior to the creation of the inducement theory and must be excluded.

V. CONCLUSION

Plaintiffs’ Motion for Partial Summary Judgment relies upon exhibits that contain inadmissible settlement negotiations and irrelevant pre-August 4, 2003 material. The exhibits listed in Exhibits A and B hereto are inadmissible and must be excluded. Defendants request that the Court sustain Defendants’ objections, grant Defendants’ Motion to Strike Plaintiffs’ Exhibits, and exclude Plaintiffs’ Exhibits objected to herein.

Dated: September 26, 2008.

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CERTIFICATE OF SERVICE

This is to certify that the foregoing pleading was filed by means of the Court's ECF system on the 26th day of September, 2008. Accordingly, it is assumed that all counsel of record received notice of this filing from the ECF system. Lead counsel, listed below, will also receive a courtesy copy via email.

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