

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,

06 Civ. 5936 (GEL)
ECF CASE

v.

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

Defendants.

**PLAINTIFFS' MEMORANDUM OF LAW IN OPPOSITION TO 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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Entertainment; UMG Recordings, Inc.; Virgin
Records America, Inc.; and Warner Bros.
Records Inc.*

November 7, 2008

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Plaintiffs 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. (collectively, “plaintiffs”) submit this Memorandum of Law in Opposition to 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. For the reasons that follow, defendants’ objections should be overruled and their motion denied.

Preliminary Statement

In addition to their *two* memoranda of law in opposition to plaintiffs’ *single* motion for partial summary judgment, defendants have submitted *three* separate “evidentiary” motions.¹ These motions challenge the admissibility of dozens of documents defendants themselves produced, pages of testimony of their own witnesses and the two reports of plaintiffs’ expert witnesses.² All three motions are meritless.

¹ Defendant’s other two motions are Defendants’ Motion to Exclude Plaintiffs’ Proffered Expert Summary Judgment Evidence from the Depositions and Reports of Ellis Horowitz, Ph.D and Richard P. Waterman, Ph.D., and Defendants’ Objections to Plaintiffs’ Exhibits and Deposition Excerpts to Their Motion for Partial Summary Judgment and Defendants’ Motion to Strike Plaintiffs’ Exhibits and Deposition Excerpts.

² Plaintiffs’ 56.1 Statement was supported by Volumes I to VII to the Declaration of Katherine B. Forrest, dated July 18, 2008 (“Forrest 7/18/08 Decl.”). Plaintiffs’ oppositions to defendants’ two 56.1 Statements, as well as the additional facts thereto, were supported by Volumes VIII to X to the Declaration of Katherine B. Forrest, dated September 26, 2008 (“Forrest 9/26/08 Decl.”). Plaintiffs hereby incorporate here their 56.1 statement, their oppositions to defendants two 56.1s and their additional facts included thereto; the supporting exhibits; both Forrest declarations; and their memorandum of law in support of their motion and in opposition to defendants to motions. Documents (or excerpts) cited herein (“Ex. __”) are consecutively numbered in

Defendants' objections on *this* motion fall into two categories. *First*, defendants object to 83 of plaintiffs' exhibits on the grounds that they pre-date August 4, 2003, the beginning of the applicable limitations period, and also object to 84 exhibits (all of the exhibits to which defendants object as to pre-August 4, 2003 plus one additional exhibit) because they pre-date the Supreme Court's June 27, 2005 decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) ("Grokster"). These objections are both waived and groundless. Defendants have waived any objections on these grounds because in support of *their* motions for summary judgment and in *their* opposition to plaintiffs' motion, defendants *themselves* cite to and rely on pre-August 4, 2003 and pre-Grokster documents. (*See infra* § I.A.) In some cases, defendants' exhibits are the very exhibits to which they object. Even were they not waived, however, these objections are groundless because (1) neither the statute of limitations, nor the "continuing infringement doctrine" nor the Chevron exception to the principal of retroactivity is a rule of evidence and, thus, do not provide a basis for excluding that evidence (*see infra* § I.B); and (2) the *Grokster* decision has retroactive effect (*see infra* § I.C).

Second, defendants object to certain deposition testimony excerpts and the admission of 33 documents, most of which were produced to plaintiffs over a year ago, and marked as exhibits in depositions without objection by defendants, on the grounds

Volumes I-X referenced above, or XI to XII to the Declaration of Katherine B. Forrest, dated November 7, 2008 ("Forrest 11/7/08 Decl."), submitted herewith. Excerpts from deposition testimony ("____ Tr. ____"), reports of the parties' experts ("____ Report ____") and Declarations ("____ Decl. ____") cited herein are arranged alphabetically by the witness or expert's last name and are contained in Volume XI and Volume XIII of the Exhibits to the Forrest 11/7/08 Declaration.

that they are settlement related. In fact, these documents relate to contemplated business negotiations and transactions with non-parties involving the possible sale of Lime Wire LLC, the conversion into paying subscribers of LimeWire software users engaged in infringement of digital music files, and the implementation of a filtering capability to reduce or prevent the exchange of such unlicensed music files. As explained below, Federal Rule of Evidence 408 (“Rule 408”) does not bar admission of this evidence, as defendants argue, because it does not constitute “conduct or statements made in compromise negotiations”, Fed. R. Evid. 408(a)(2) (*see infra* § II.A); but even if it did, defendants have waived their objections by, *inter alia*, using this evidence affirmatively themselves (*see infra* § II.B).

Argument

I. EVIDENCE THAT PRE-DATES AUGUST 4, 2003 AND *GROKSTER* IS NOT PRECLUDED

Defendants claim that evidence pre-dating August 4, 2003 and the Supreme Court’s decision in *Grokster* should be excluded as beyond the applicable statute of limitations and *Grokster*’s prospective application. *First*, defendants have waived their objections to the evidence they now seek to exclude by affirmatively using that very same evidence in their defense. *Second*, defendants provide no authority applying statutes of limitations or the exception to retroactivity described in *Chevron Oil Co. v. Huson*, 404 U.S. 97 (1971), to evidence. *Third*, defendants do not meet the elements required to invoke *Chevron*’s exception to retroactivity.

A. Defendants’ Waived Their Objections by Using the Evidence They Now Seek to Exclude.

Defendants object to 84 of plaintiffs’ exhibits, listed on Exhibit B to defendants’ memorandum (“Exhibit B”), a copy of which is attached hereto, both on the

grounds that they are dated before August 4, 2003 and before the June 27, 2005 *Grokster* decision. But defendants' *own* exhibits both in opposition to plaintiffs' motion for partial summary judgment³ and in support of their own motions for summary judgment⁴ also pre-date August 4, 2003 and the *Grokster* decision. Indeed, 18 of defendants' exhibits are the exact *same* exhibits to which they now object with these motions.⁵ Thus, defendants' objection to these exhibits on *both* grounds are waived since a party cannot object to the admission of evidence that it invokes on its own behalf. *See, e.g.*, *Capobianco v. City of New York*, 422 F.3d 47, 55 (2d Cir. 2005) ("defendants waived any objections to the admissibility of the reports by offering them themselves"); *see also* *Watson v. Long Island R.R. Co.*, 500 F. Supp. 2d 266, 269 n.5 (S.D.N.Y. 2007). Even if their objections were not waived, as shown below, defendants' objections are meritless.

B. Neither the Statute of Limitations, Nor the "Continuing-Infringement Doctrine", Nor the Chevron Exception to the Principal of Retroactivity Are Rules of Evidence and Thus Have No Bearing on Admissibility of Evidence.

With respect to documents dated prior to August 4, 2003, defendants argue that because the applicable limitations period is three years, all evidence dated

³ See Baker 9/26/08 Defs. Exs. 1, 2, 3-5, 7, 9-14, 15, 16, 18, 19, 20, 21, 23-25, 29-31, 33, 34-36, 47, 59-62, 64 (all of which pre-date August 4, 2003 and *Grokster*); *Id.* Exs. 3-7, 9-14, 16-18, 21-31, 32, 34-42, 50-56, 58-62, 64, 67, 73, 75, 78-79 (which pre-date *Grokster*). Although it is not obvious from the face of Defs.' Exs. 1, 2, 15, 19, 20, 32 and 47 that they are pre-2003 and pre-*Grokster*, they plainly are. (*See* Forrest 11/7/08 Decl. ¶¶ 15-21.)

⁴ See Baker 7/18/08 Defs. Exs. 1, 27, 29, 30-31 (all of which pre-date August 4, 2003 and *Grokster*); *Id.* Exs. 1-4, 8-10, 16, 18-23, 25, 27-32 (which pre-date *Grokster*).

⁵ Compare Baker 9/26/08 Defs. Exs. 1, 2, 4, 5, 6, 14, 18, 23, 24, 29, 33, 34, 35, 58, 59, 60, 61, 62 with Pls. Exs. 52, 3, 95, 68, 97, 76, 37, 251, 195, 233, 222, 221, 243, 21, 209, 207, 208, 236, respectively.

more than three years before the filing of the lawsuit is “irrelevant”. (*See* Defs.’ Br. at 5-8.) That specious argument fails because statutes of limitations are not evidentiary rules--*i.e.*, they “do[] not operate to bar the use of a document that predates the commencement of the limitations period but that is relevant to events during the period”. *Sir Speedy, Inc. v. L & P Graphics, Inc.*, 957 F.2d 1033, 1038 (2d Cir. 1992); *cf. United States v. Ashdown*, 509 F.2d 793, 798 (5th Cir. 1975) (“[t]he statute of limitations is a defense . . . , not a rule of evidence”; accordingly, it “has no bearing on the admissibility of evidence”)). The “continuing-infringement doctrine” to which make defendants make reference (*see* Defs.’ Br. at 7-8) similarly has no application.⁶

Rather than even attempt to argue to the contrary -- that statutes of limitations or the “continuing infringement doctrine” apply to exclude background evidence -- defendants try to convince the Court that plaintiffs offer exhibits pre-dating August 4, 2003 to establish a claim based upon activity outside of the applicable statute of limitations (*see* Defs.’ Br. at 6-7), which simply is not true. Plaintiffs do not seek to recover for conduct that occurred prior to the applicable limitations period. Rather, plaintiffs offer evidence dated prior to August 4, 2003 to show the evolution of

⁶ Defendants spuriously equate a recovery limitation with an admissibility bar by contending that the Second Circuit’s refusal to apply the “continuing-infringement doctrine” to copyright cases precludes plaintiffs’ use of pre-August 4, 2003 evidence to prove intent. (*See* Defs.’ Br. at 7-8.) The Second Circuit’s rejection of the “continuing-infringement doctrine”, which permits recovery for infringement that begins before the limitations period but continues into it, means that “[r]ecovery is allowed only for those acts occurring within three years of suit”. *Stone v. Williams*, 970 F.2d 1043, 1049 (2d Cir. 1992) (emphasis added); *accord Sadhu Singh Hamdad Trust v. Ajit Newspaper Adver., Mktg. and Commc’ns, Inc.*, 503 F. Supp. 2d 577, 585 (E.D.N.Y. 2007); *see also Kregos v. Associated Press*, 3 F.3d 656, 662 (2d Cir. 1993). Like the statutes of limitation it was intended to expand, neither the doctrine nor its absence relates in any way to the admissibility of evidence.

defendants' business and the basis for and development of defendants' intent, encouragement and knowledge of infringement using the LimeWire software.⁷ Such use is consistent with the Second Circuit's view, which defendants do not dispute (*see* Defs.' Br. at 7 n.2.),⁸ that "although plaintiffs may not recover for conduct that occurred prior to the limitations period, evidence of such conduct may be admissible to shed light on the motives with which acts within the limitations period were performed". *Cooper*, 140 F.3d at 441 (*citing Sir Speedy, Inc.*, 957 F.2d at 1038). Accordingly, because the evidence to which defendants object is provided to establish the evolution of defendants' state of mind and *intent* to induce copyright infringement -- and not to prove infringing acts for which plaintiffs seek to recover, as defendants would have this Court believe -- the three-year limitations period has no application.

Similarly, with respect to documents dated prior to the Supreme Court's decision in *Grokster*, defendants nowhere explain how the general principles of the

⁷ Defendants' only authority discussing the exclusion of evidence is, therefore, inapposite. In *Gero*, plaintiff, an artist, unable to produce evidence that any commercial produced by defendants, a soda company, within the applicable limitations period had infringed his work, sought to introduce affidavits of witnesses who claimed to have viewed a commercial infringing plaintiff's work outside the applicable statute of limitations. *See Gero v. The Seven-Up Co.*, 535 F. Supp. 212, 214-17 (E.D.N.Y. 1982). The *Gero* court refused to consider those affidavits, which plaintiff proffered as support for a claim based on activity outside of the statute of limitations. *Id.* at 217 n.3.

⁸ Although defendants contend that the relevance of pre-limitations period evidence is limited to the context of employment and discrimination claims, there is no rule of logic or law that limits its "relevance" to claims of employment and discrimination. Indeed, courts in the Second Circuit (and elsewhere) adjudicating claims unrelated to employment or discrimination have also treated evidence outside the limitations period as relevant. *See, e.g., Cooper v. Parsky*, 140 F.3d 433, 440-41 (2d Cir. 1998) (breach of fiduciary duty); *Sir Speedy, Inc.*, 957 F.2d at 1038 (breach of contract); *Ashdown*, 509 F.2d at 798 (criminal fraud); *Am. Dream Enter., Inc. v. Trump*, No. 95 Civ. 0625, 1997 WL 3275, at *1-2 (S.D.N.Y. Jan. 3, 1997) (breach of contract); *United States v. Saneaux*, 365 F. Supp. 2d 493, 505 (S.D.N.Y. 2005) (criminal conspiracy).

retroactive application of judicial decisions would impact those of evidentiary considerations. Even if this Court agreed with defendants' view that *Grokster* should not have retroactive application, defendants cite no authority that would enable the Court to provide them with the relief sought -- to exclude as irrelevant all evidence relating to conduct occurring before that decision.

Defendants' failure to provide authority applying statutes of limitations or the *Chevron*'s exception to the principle of retroactivity to evidence renders those arguments moot and plaintiffs' evidence admitted.

C. **Evidence that Pre-dates the *Grokster* Decision is Admissible Because *Grokster* Applies Retroactively and Even If It Does Not, Such Evidence is Relevant to Plaintiffs' Claim for Contributory Infringement.**

On remand, the district court applied the Supreme Court's ruling in *Grokster*, 545 U.S. 913 (2005) and granted summary judgment on the theory of inducement of copyright based upon evidence that, necessarily, *pre-dated* the Supreme Court's decision. *See generally Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* ("*Grokster (Remand)*"), 454 F. Supp. 2d 966 (C.D. Cal. 2006). In doing so, the district court noted that the Supreme Court intended it to apply its June 27, 2005 ruling to the remaining defendants. *Id.* at 992 (observing that the "Supreme Court had hinted that summary judgment should be granted for Plaintiffs"). Despite this clear indication by the Supreme Court that it intended its *Grokster* decision to be applied retroactively, and to the very defendants in that case, defendants here contend that that decision should not be applied to *them*. (*See* Defs.' Br. at 8-10.)

Defendants do not give any reason that they should be treated differently from the *Grokster* defendants. Nor do they dispute the well-established principle that a

federal court's ruling "must be given full retroactive effect in all cases still open on direct review and *as to all events*, regardless of whether such events predate or postdate [the] announcement of the rule". *Margo v. Weiss*, 213 F.3d 55, 60 (2d Cir. 2000) (*quoting Harper v. Virginia Dep't of Taxation*, 509 U.S. 86, 97 (1993)) (emphasis added). Instead, defendants simply ignore the Court's intentions in *Grokster* and argue (contrary to those intentions) that *Grokster* established a new theory of secondary liability precluding its retroactive application under *Chevron Oil Co. v. Huson*, 404 U.S. 97 (1971). (*See* Defs.' Br. at 9-10.) Defendants are wrong. The *Chevron* test only applies where the Supreme Court "reserve[s] the question whether its holding should be applied to the parties before it". *Harper*, 509 U.S. at 97.⁹ That did not happen in *Grokster*. Instead, as described above, the district court on remand believed that the Supreme Court had actually "hinted" as to its preferred result. *Grokster (Remand)*, 454 F. Supp. 2d at 992. Accordingly, *Chevron*'s analysis is inapplicable.

Even were *Chevron* applicable, defendants cannot establish its requirements: (1) that *Grokster* established a new rule of law; (2) that retrospective application of the decision will retard the purpose and effect of the rule established in *Grokster*; and (3) that retroactive application will produce substantial inequity. *Chevron*, 404 U.S. at 106-07.

First, *Grokster* did not create a "new" theory of inducement. As the Supreme Court recognized in *Grokster*, inducement is a principle "recognized in every part of the law". 545 U.S. at 935 (*quoting Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62-

⁹ In light of *Harper*, the continuing validity of *Chevron* is an open question. *See Ditto v. McCurdy*, 510 F.3d 1070, 1077 n.5 (9th Cir. 2007) (stating that *Chevron* was

63 (1911)). Neither is inducement a new basis for secondary infringement liability. In fact, it is an element of contributory infringement, a theory “well established in the law”,¹⁰ which was the basis for plaintiffs’ claims in the most recent secondary copyright infringement case the Supreme Court has decided, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). See *Grokster*, 545 U.S. at 930-34. In *Sony* the court established a rule that “limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product”. *Id.* at 934. The *Grokster* decision established that “where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*’s staple-article rule will not preclude liability”. *Id.* at 935.

Whatever novelty *Grokster* did introduce is far below the high bar set in *Chevron*. A decision becomes a new principle of law “either by overruling clear past precedent on which litigants may have relied . . . or by deciding an issue of first impression whose resolution was not clearly foreshadowed”. *Chevron*, 404 U.S. at 106. The *Grokster* decision neither overruled *Sony*, nor decided an issue of first impression, but, instead, merely clarified that an expansive reading of *Sony* to “foreclose rules of fault-based liability derived from the common law” was inappropriate. *Grokster*, 545 U.S. at 934-35. Moreover, defendants’ argument that *Grokster*’s impact was not

“discredited by” and “effectively overruled in *Harper*”).

¹⁰ Accordingly, even if *Grokster* should only have prospective application, which, as shown here, it should not, the exhibits to which defendants object as pre-*Grokster* also support the inducement element of plaintiffs’ claim for contributory infringement (see Pls. 7/18/08 SOF ¶¶ 539-40), which, as shown above, certainly was not created by *Grokster*. Accordingly, the evidence must not be excluded.

foreshadowed is belied by the fact that as early as 2004, they *themselves* -- Lime Wire LLC, Gorton and Bildson -- wrote, in advance of *Grokster*, of the anticipated effect of the Supreme Court's reversal or remand of the Ninth Circuit's decision in that case. (*See infra* at 17-19.)

Second, defendants argue that, because copyright inducement requires intent, retroactive application contravenes the rule's purpose by creating liability for parties who could not have intended to infringe secondarily, thus, effectively eliminating the intent requirement. (*See* Defs.' Br. at 9-10.) However, nothing in *Grokster* impacted the nature of the intent requirement as it existed prior to *Sony*. (*See supra* at 8-9.) Culpable intent under *Grokster* is culpable intent under *Sony*, leaving the rule intact, and precluding evasion of liability for inducing infringement.

In contrast, the failure to apply *Grokster* retroactively would shield defendants from liability under an unintended reading of *Sony*, whereby courts would apply *Sony*'s staple-article rule to limit or preclude liability even where intent to infringe was firmly established. Under such a reading -- a reading defendants urge -- Lime Wire LLC's denial of knowledge of the utilization of LimeWire for copyright infringement and the purported non-infringing uses of LimeWire would immunize it from liability even in the face of massive evidence showing statements and actions promoting and encouraging infringement. (*See* Pls. 9/26/08 (LW) Add'l SOF ¶¶ 1-49; *see also* Pls. 7/18/08 SOF ¶¶ 140-529.)

Third, defendants' argument that retroactive application would be substantially unfair is belied by the facts. Defendants' contention is premised upon the assumption that they would have acted differently had the *Grokster* rule existed earlier.

Yet, since *Grokster* came down and defendants became aware, at a minimum, of their obligation to implement an effective filter (*see Gorton* 9/26/08 Decl. ¶ 36), defendants still have not implemented such a filter or substantially shifted their behavior to in any way comply with *Grokster*.¹¹ Thus, their argument is without merit.

II. RULE 408 DOES NOT RENDER THE PROFFERED EVIDENCE INADMISSIBLE

Defendants claim that Rule 408 renders certain evidence that they produced inadmissible. Rule 408, however, does not bar admission of the 33 exhibits and deposition testimony that defendants seek to exclude, listed in Exhibit A to defendants' memorandum ("Exhibit A"), a copy of which is attached hereto. *First*, Rule 408 does not apply because the evidence defendants seek to exclude either plainly has nothing to do with negotiations of any kind or relates to contemplated business transactions with non-parties unrelated to the settlement of litigation. (*See infra* § II.A.) *Second*, even if Rule 408 somehow applies, it has been waived because defendants have themselves relied on and utilized the same facts. (*See infra* § II.B.)

¹¹ Lime Wire LLC currently does not have, nor has it ever had, an effective copyright filter. (*See Gorton* 9/26/08 Decl. ¶¶ 37-38; *see also* Bildson 9/10/08 Decl. ¶ 15-17.) Gorton acknowledges as much, but conveniently blames plaintiffs' unwillingness to provide a list of copyrighted works to Lime Wire LLC. (*See Gorton* 9/26/08 Decl. ¶¶ 37-38.) Gorton's excuse is misleading. Even if plaintiffs had provided Lime Wire LLC with a list of copyrighted works, a filter relying solely on the hashes derived from that list would not be effective because identical audio files may have an infinite number of hashes. (*See Pls. 7/18/08 SOF* ¶¶ 478-480.) On the other hand, Gorton could have implemented a truly effective filter even without plaintiffs' list of copyrighted songs by engaging one of the third-party filtering companies with whom he negotiated (*see infra* at 19, 21-22), or limited infringement by adopting the strategies he proposed to third parties in the "conversion plans", *i.e.*, "time-bombed code", "auto upgrade" or "forced upgrade". (*See infra* at 15 n.14, 21-22.)

A. Rule 408 Does Not Bar Admission of the Evidence in Exhibit A Because it Does Not Constitute “Conduct or Statements Made in Compromise Negotiations” Pursuant to Fed. R. Evid. 408(a)(2).

Under Rule 408, “conduct or statements made in compromise negotiations regarding [a] claim” are “not admissible . . . when offered to prove liability for, invalidity of, or amount of a claim”. *See* Fed. R. Evid. 408(a)-(a)(2). In determining whether to exclude evidence under the rule, the Court considers the circumstances of the conduct or statements. *See Wechsler v. Hunt Health Sys., Ltd.*, 381 F. Supp. 2d 135, 151 (S.D.N.Y. 2003) (“Both the timing of the offer and the existence of a disputed claim are relevant to the determination.”) (citations omitted).

The party seeking to exclude evidence under Rule 408 must make a “substantial showing” that the evidence was part of an attempt to settle the dispute. *See, e.g., Raybestos Prods. Co. v. Younger*, 54 F.3d 1234, 1241 (7th Cir. 1995); *Rondor Music Int'l v. T.V.T Records LLC*, No. CV 05-2909, 2006 WL 5105272, at *11 (C.D. Cal. Aug. 21, 2006). Defendants have made no such “substantial showing”.¹²

1. Evidence Defendants Seek To Exclude Is Admissible Because It Has Nothing to Do with Negotiations of Any Kind.

Several of the documents and deposition excerpts listed in defendants’ Exhibit A are, on their face, *not* related to settlement negotiations. (*See* Exhibit A at Exhibits 41, 42, 43, 44, 285, 325, and Cho and Gribble testimony.)

First, three of the documents on Exhibit A are public articles or blogs that mention Lime Wire LLC. Obviously, such public documents have absolutely nothing to

¹² Notably, defendants do not even try and explain the basis for their objection as to particular exhibits, choosing instead to lump all of them together. (*See, e.g.*, Defs.’ Br. at 1-5 and Exhibit A.) Plaintiffs can only guess as to the basis for defendants’ objection to a particular exhibit.

do with settlement discussions nor any attempt to settle a dispute. (*See* Exhibits 42, 43, 44.)

Second, Exhibit 285 is a draft letter from Jesse Rubenfeld expressing his discomfort with Lime Wire LLC's lack of compliance with the *Grokster* decision. Rubenfeld's testimony is that he wrote this letter with his attorney, but instead of sending it, discussed its contents with Mark Gorton, his boss. (Rubenfeld Tr. 52:2-63:13.) His letter relates to filtering (*see infra* at 19-22), not settlement. Indeed, defendants do not even attempt to argue that it was written for settlement purposes.

Third, Exhibit 325 is an e-mail chain with Mashboxx, a non-party, in which Greg Bildson, on behalf of Lime Wire LLC, tells MashBoxx that Mark Gorton is reluctant to even begin discussions with them -- hardly a negotiation. Moreover, Lime Wire LLC does not include Mashboxx among the parties with whom it alleges it was negotiating and developed a "plan". (Defs.' Br. at 4.) Nothing in Exhibit 325 contains "conduct or statements made in settlement negotiations".

Fourth, Exhibit 41 is an e-mail chain between Mark Gorton and an individual at Time Warner -- a non-party that Lime Wire LLC also did not include among the parties with which it developed a "plan". (Defs.' Br. at 4.) In Exhibit 41, Gorton simply relates his intention to sell Lime Wire LLC and asks for a name of someone at AOL with whom he can speak. Gorton claims that this sale "is going to be a huge opportunity" and that "[i]f we are able to convert a couple percent of our [LimeWire] users to a subscription service, that would be huge. This deal could be worth \$50,000,000 - \$400,000,000 a year in revenue . . ." (*Id.*) This document is a sales pitch, not a settlement negotiation.

Fifth, the deposition testimony of Stephen Cho to which defendants object relates to placing downloads and uploads in the same folder, (Cho Tr. 80:20-81:7), and the testimony of defendants' own expert witness, Steven Gribble, to which defendants also object, relates to LimeWire's SIMPP settings (Gribble Tr. 201:6-22; 203:13-20) and LimeWire updates (*id.* at 299:25-301:7). Neither the Cho nor Gribble testimony relate in any way to settlement.

2. Other Evidence that Defendants Seek to Exclude Is Admissible Because It Relates to Business, not Settlement, Negotiations, or to Efforts to Comply with the Law.

As shown below, Gorton and Lime Wire LLC understood that a decision favorable to the copyright-holder plaintiffs in *Grokster* was a game-changer for Lime Wire LLC. (*See infra* at 15, 17-19.) Consequently, the day the Supreme Court issued its decision in *Grokster*, defendants began negotiating a deal with iMesh, a legitimate licensed music subscription service provider, in which iMesh would subsume Lime Wire LLC. Gorton has sworn that he did *not* believe at that time he or Lime Wire LLC would be sued for copyright infringement. Over time, defendants conversations with iMesh evolved into conversations with other licensed music providers, including Napster, RealNetworks and iTunes. At the same time, Lime Wire LLC began talks with entities offering effective filtering services, including SNOCap, Audible Magic and Magix, that Gorton viewed as necessary to comply with the law as set out in *Grokster*.

The exhibits to which defendants now object were created as part of those business negotiations. They show, among other things, knowledge that LimeWire's

entire userbase was engaged in copyright infringement,¹³ and an understanding as to how to stop the infringement. (*See Exhibit A, Pls. Exs. 56-62, 151, 265-278.*) Now, faced with the evidence on plaintiffs' motion for partial summary judgment that demonstrates conclusively defendants' intent to induce copyright infringement, defendants protest that evidence relating to these business negotiations is inadmissible under Rule 408 because many of the exhibits are dated *after* plaintiffs' "cease and desist" letter, sent several months *after* business negotiations began.¹⁴ (*See* Defs.' Br. at 4.)

However, what is relevant in determining whether a document relates to settlement negotiations is not the point in time during which the document was created, but the motivation for the document's creation. As shown below, it was defendants' belief that and understanding of the change in the legal environment resulting from the *Grokster* decision that led them to the business negotiations at issue -- not plaintiffs'

¹³ Gorton believed that converting even "a couple percent" of LimeWire's infringing users to legitimate music purchasers would mean revenues between \$50 to \$400 million. (*See* Ex. 41.)

¹⁴ Oddly, defendants do not object to most of the deposition testimony surrounding these documents. Instead, they object to small snippets of testimony that simply are not protected by Rule 408 because they do not reveal "conduct or statements made in compromise negotiations". *First*, defendants object to Catillaz testimony in which she simply testifies that no one ever told her that the proposed Conversion Plans with either RealNetworks or Napster were not feasible. (*See* Exhibit A; Catillaz Tr. 259:9-12; 259:21-260:2 (*see* Pls. Ex. Vol. VI)) Similarly, defendants object to Catillaz's testimony that no one ever told her that "forced upgrade" or "auto upgrade" concepts were not feasible. (*Id.* at 285:22-286:3, 288:6-288:22.) *Second*, defendants object to Catillaz's testimony in which she says only that it was Mark Gorton's idea to reeducate LimeWire users (*id.* at 267:22-268:21) and that Gorton coined the term "hardcore pirates" to describe a large segment of LimeWire users. (*Id.* at 323:19-323:21.) These objections have nothing to do with settlement and everything to do with protecting Mark Gorton. *Third*, defendants object to only one portion of Jesse Rubenfeld's testimony (*see* Exhibit A; Rubenfeld Tr. 332:11-333:17 (*see* Pls. Ex. Vol. VII)) in which he testifies that he recalls doing work relating to the "value of a converted LimeWire user for sound recordings". None of this testimony falls under Rule 408.

“cease and desist letters”. A change in the legal environment that makes litigation more likely does not make all business decisions made in light of that change “conduct or statements made in compromise negotiations”. *Union Carbide Corp. v. Montell N.V.*, 28 F. Supp. 2d 833, 841 (S.D.N.Y. 1998) (see *Union Carbide Corp. v. Montell N.V.*, 944 F. Supp. 1119, 1130 (S.D.N.Y. 1996) for underlying facts). See also *Deere & Co. v. Int'l Harvester Co.*, 710 F.2d 1551, 1556-57 (Fed. Cir. 1983) (fact that patent license with third party was negotiated while parties were locked in dispute over the patent does not render license inadmissible evidence of settlement negotiations); *Mendelovitz v. Adolph Coors Co.*, 693 F.2d 570, 580 (5th Cir. 1982) (finding a letter between litigating parties not to be part of settlement negotiations, since “on its face, [the letter] does not offer to compromise or settle any claim in this action”). As even defendants concede, an “actual dispute” is required for Rule 408 to apply. (See Defs.’ Br. at 2.) See also *Deere & Co.*, 710 F.2d at 1556 (noting no dispute could be identified at the time of the 1973 offer); accord *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1373 (10th Cir. 1977) (affirming admission of evidence where “discussions had not crystallized to the point of threatened litigation, a clear cut-off point”).

That months after such business negotiations started, Lime Wire LLC received a “cease and desist” letter from the RIAA did not transform documents created as part of business negotiations into documents that were “only created in order to be part of the settlement negotiations”.¹⁵ (Defs.’ Br. at 4.) Defendants cannot claim that

¹⁵ Indeed, the “cease and desist” letter did not demand that defendants sell their business to iMesh or anyone else, but merely that they “immediately cease-and-desist from enabling and inducing the infringement of RIAA member sound recordings”. (Ex. 301, see also Pls. 7/18/08 SOF ¶ 535.) Gorton’s decision to sell was thus one of two

business negotiations prompted by *Grokster* were for settlement purposes and protected by 408 as shown by the following brief chronology.

In October 2001, just a year after the LimeWire software launched, copyright holders began an action for contributory and vicarious copyright infringement in connection with the distribution of the P2P file sharing applications Grokster, Morpheus and Kazaa. *See Grokster (Remand)*, 454 F. Supp. 2d at 970-71. The district court granted summary judgment in favor of the P2Ps, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003), and the Ninth Circuit affirmed. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004). In its 2004 Marketing Plan, Lime Wire LLC discussed the *Grokster* case -- then pending before the Ninth Circuit -- in its "Political and legal environment" section, stating, *inter alia*, "in the event that it is decided that Grokster is liable, LimeWire should look to developing technology that is far from any possible copyright issues or argument of non-neutrality".¹⁶ (Ex. 97 at LW DE 1172924-25.)

things: a business decision (in which case the sale negotiation cannot be considered a settlement negotiation) or a recognition that no viable business existed in the absence of inducing copyright infringement -- *i.e.*, that LimeWire has no substantial noninfringing use. That, of course, is also true.

¹⁶ Lime Wire LLC was also keenly aware of another suit pending at the time against Sharman Networks Ltd. in the Federal Court of Australia for copyright infringement with respect to its distribution of the Kazaa P2P file sharing application. In fact, in its "LimeWire 2004 Marketing Plan", defendants stated that "[t]he significance of this case [the Australia lawsuit against Kazaa] is unclear. As a company with no offices in Australia, LimeWire might be free from copyright fraud prosecution even if Kazaa is found liable, because [the Music Industry Piracy Investigations, an intellectual property rights enforcement organization in Australia] had to physically search Kazaa's computers for electronic evidence. Nonetheless, the outcome of the trial and public support for Kazaa should be monitored, and LimeWire's presence in Australia monitored accordingly." (Ex. 97 at LW DE 1172925-26.) In 2005, the Federal Court of Australia found that "the predominant use of Kazaa was for the sharing of copyright-infringing

The Supreme Court agreed to hear the matter. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 543 U.S. 1032 (2004). On February 21, 2005, before the Supreme Court issued its decision in *Grokster*, Lime Wire LLC's then Chief Technology Officer and Chief Operations Officer, Greg Bildson, wrote that the district court in California, "has upheld the right of software companies to create and sell *our* [LimeWire] software". (Ex. 99 (emphasis added); *see also* Ex. 320.) He also wrote that "[t]he courts have affirmed *our* rights to produce and sell *this* [LimeWire] software. If there is any change . . . it would be a negative ruling by the Supreme Court in the pending *Grokster* case". (Ex. 316) (emphasis added). Bildson added that if there was such a ruling "we [Lime Wire] will have plenty of lead time to make changes to our services to customers . . . there would be value in our trying to transition existing users [to a different product or service]". (*Id.*) Gorton was quoted in the *New York Times* as saying that "[i]f the Supreme Court says it is illegal to produce this [P2P file-sharing] software, LimeWire the company will cease to exist". (Ex. 201.)

On June 27, 2005, the United States Supreme Court unanimously ruled that the companies distributing the P2P file sharing applications could be held liable for distributing a device with the object of promoting its use for copyright infringement (the "inducement doctrine"). *Grokster*, 545 U.S. 913 (2005). In an email written three days after this decision, Gorton stated that the decision had "put the LimeWire business in flux". (Ex. 323.) On the same day, Bildson wrote in an email to *Download.com*, "[w]e

material" and found Sharman Networks Ltd. liable for copyright infringement of plaintiffs' (record companies) sound recordings. *Universal Music Australia Pty. Ltd. v. Sharman License Holdings Ltd.* (2005) 220 A.L.R. 1 (Austl.), 2005 WL 2119310.

are in the process of deciding what to do with the future of the LimeWire product".

(Ex. 33 at CNET 00039.) And Gorton has stated:

"I have always run Lime Wire LLC to be in full compliance with the law. Despite the fact that the effectiveness of copyright filtering in a P2P client is subject to much debate, when the Supreme Court [in *Grokster*] specifically stated that a P2P company that tried to reduce infringement by implementing a copyright filter could not be liable for copyright infringement, I had Lime Wire LLC build a copyright filter."

(Gorton 9/26/08 Decl. ¶ 36.)

Talmon Marco of iMesh approached Gorton on June 27, 2005 -- the very day of *Grokster* decision -- with a plan to purchase Lime Wire LLC. (See Gorton 1/31/08 Decl. ¶ 3.) Marco testified that when he first approached Gorton, he explained "the idea specifically of converting Lime Wire to a filtered version". (Marco Tr. 226:2-21.) In light of *Grokster*, Lime Wire LLC began negotiations with iMesh. Notably, Mark Gorton has sworn that as of June 30, 2005 -- three days after the *Grokster* decision and Marco's approach to him -- "I did *not* believe that Lime Wire or I would be sued for copyright infringement". (Gorton 7/17/08 Decl. ¶ 7 (emphasis added).) Indeed, Marco testified that iMesh and Lime Wire LLC "had on and off discussions for about a year" up until around "summer of '06" (Marco Tr. 227:4-19), and that during this time, Gorton specifically stated that he did *not* "believe that he [would] get sued" (*id.* at 228:18-229:2).

Gorton's contention that he believed that iMesh was acting as a "proxy" for the RIAA (*see* Gorton 1/31/08 Decl. ¶ 3)¹⁷ is thus irrelevant, because since Gorton did

¹⁷ Marco has testified that neither the record labels nor the RIAA assisted in any way in iMesh's negotiations with Gorton and Lime Wire LLC (Marco Tr. 233:17-234:5), and that, aside from meetings informing the RIAA that negotiations were progressing, neither the RIAA nor the record labels were involved in the negotiations with Lime Wire LLC.

not believe he would be sued, he could not possibly have been negotiating any sort of settlement with the RIAA via iMesh. Even if Gorton's belief that iMesh was an agent acting for the RIAA were correct (*but see supra* at 19 & n.17), defendants do not contend, nor is there a shred of evidence to support, that RealNetworks, Napster and iTunes or any other entity involved in these talks were anything but independent entities negotiating a business deal with Lime Wire LLC.¹⁸

Never was litigation anticipated between defendants and any of the non-parties with whom they tried to do a deal. The evidence of the contemplated transactions cannot therefore be considered "conduct or statements made in compromise negotiations" under Rule 408. Defendants reliance on *Ramada Dev. Co. v. Rauch*, 644 F.2d 1097 (5th Cir. Unit B 1981) and *Blu-J, Inc. v. Kemper C.P.A. Group*, 916 F.2d 637 (11th Cir. 1990), is without merit, as neither case provides such support. (Defs' Br. at 2-3.) The documents excluded in those cases were evaluative reports used by the parties to the dispute as a centerpiece to determine the appropriate settlement. For example, in *Blu-J, Inc.*, an independent accountant was commissioned by both parties to prepare an independent evaluative report designed to facilitate the settlement process. 926 F.2d at 641-42. Similarly, in *Ramada Development Company*, an architect prepared a report

(*Id.*) Marco did testify that at one point there was a meeting at which Lime Wire LLC, iMesh and the RIAA were all present. (*Id.* at 233:9-16.)

¹⁸ Several of the exhibits to which defendants object were, on their face, directed to Time Warner (Ex. 41); Napster (Ex. 265); RealNetworks (Exs. 267, 268, 269); and Mashboxx (Ex. 325). Others are Conversion Proposals, or pieces or summaries of defendants' Conversion Plans (Exs. 56, 57, 58, 59, 60, 151, 265, 266, 274, 277) or versions or pieces of the Digital Sales Growth Plan (Exs. 61, 62, 273, 275, 276, 278), which were sent to various third-parties with whom defendants were negotiating or were thinking of negotiating.

outlining the construction defects in the motel in order to “identify”, for both parties, “arguable defects that could then be discussed in monetary terms in the negotiations”. 644 F.2d at 1106-07.

In contrast, many documents that defendants seek to exclude here (e-mails, term sheets, proposed agreements) are business communications aimed at pursuing partnerships with non-parties. These documents are not independent evaluations agreed upon by both parties to the dispute, nor were they a centerpiece to settlement negotiations between plaintiffs and defendants. Defendants therefore provide no authority supporting the exclusion under Rule 408 of business negotiations with non-parties unrelated to settlement with those non-parties.

The challenged evidence related to filtering (*see* Exhibit A at Exs. 286, 289-292 and Bildson Tr. 152:16-21, 161:16-162:20 (*see* Ex. Vol. VI)) is also admissible. Although filtering provider SNOCap first contacted defendants in September 2004, Lime Wire LLC made no attempts to develop filtering for copyrighted works prior to the Supreme Court’s June 2005 *Grokster* decision. (Ex. 281 (Bildson stating that “LimeWire has considered filtering as an option in the past and rejected it” and that “LimeWire will not support anything that implies or enables filtering of any kind”); *see also* Rohrs Tr. 142:14-143:11 (*see* Ex. Vol. VII); *see* Ex. 286.) As shown above (*see supra* at 18-19), according to Gorton, Lime Wire LLC finally undertook to filter specifically to comply with *Grokster*.¹⁹ (Gorton 9/26/08 Decl. ¶ 36.) Thus, Lime Wire LLC’s post-*Grokster*

¹⁹ The very fact that Gorton believed that Lime Wire LLC had to implement a filter post-*Grokster* demonstrates his understanding that the business depended upon illegal copyright infringement, for it is copyrighted works that the “filters” are meant to catch. A “filtering solution” is meaningless without a copyright infringement problem.

filtering attempts were, according to defendants themselves, not part of settlement talks, but an effort by Lime Wire LLC to comply with the law.

B. The Defendants Have Waived Any Rule 408 Objection By Invoking and Continuing to Invoke the Same Facts In Support of Their Own Claims.

A party cannot object to the admission of evidence that it invokes on its own behalf. *See, e.g., Capobianco*, 422 F.3d at 55 (“defendants waived any objections to the admissibility of the reports by offering them themselves”); *see also Watson*, 500 F. Supp. 2d at 269 n.5. That basic principle of fair adjudication applies to Rule 408: when a party proffers evidence that would fall within the rule’s exclusion of “conduct and statements made in compromise negotiations”, they waive any objection to its admission by the other side. *See, e.g., Eisenberg v. Univ. of New Mexico*, 936 F.2d 1131, 1134 (10th Cir. 1991) (“Ms. Torres waived any claim to Rule 408 protection by her own submission of the affidavit to the court.”)²⁰

Throughout this litigation, defendants have invoked the very evidence they now seek to exclude -- on their own behalf.²¹ In their January 2008 brief on copyright

²⁰ *See also S. R'y. Co. v. H.W. Vaughn*, 359 F.2d 424, 424-25 (5th Cir. 1966) (waiving common law predecessor to Rule 408); *Allen-Myland, Inc. v. Int'l Bus. Mach. Corp.*, 693 F. Supp. 262, 284 n.51 (E.D. Pa. 1988), vacated on other grounds, 33 F.3d 194 (3d Cir. 1994); *In re Groggel*, 333 B.R. 261, 297 (Bankr. W.D. Pa. 2005).

²¹ Defendants write their motion as if the documents on Exhibit A somehow just found their way into plaintiffs’ possession, but the fact is that *defendants gave most of them* to plaintiffs. The majority of the documents were produced over a year ago, although some were produced even earlier. (*See* Forrest 11/7/08 Decl. ¶ 24.) Notably, defendants never exercised their right to recall those documents under the protective order agreed to by the parties and entered by the Court on March 8, 2007, despite that on multiple occasions, defendants exercised that right and recalled other documents. (*Id.* ¶ 25.) Even when plaintiffs marked these documents as exhibits at numerous depositions over and over again, defendants never objected. (*Id.* ¶ 26.)

misuse, defendants laid out *in detail* evidence of Lime Wire LLC's negotiations with iMesh and its attempts to enter into transactions with third parties such as RealNetworks and iMesh, the latter of which defendants attempted to cast as having an "incestuous relationship" with plaintiffs. (See January 31, 2008 Letter Brief from Charles Baker, Porter & Hedges LLP, to the Court at 11, 14-18 ("Copyright Misuse Letter Brief"); Gorton 1/31/08 Decl. at ¶¶ 3-14.) In his January 31, 2008 declaration, Gorton attached to his declaration a January 17, 2006 letter that iMesh sent to the RIAA laying out a settlement proposal that includes plans related to filtering and "converting" LimeWire users. (See Gorton 1/31/08 Decl., Ex. F.)

Now, on summary judgment, defendants rely on the same facts -- in detail -- to demonstrate that they lacked the intent to induce infringement and, in order to comply with *Grokster*, developed copyright filtering techniques and plans to convert their copyright-infringing user base to paying customers. (See LW 9/26/08 Mem. at 3, 5, 13, 30-32.) In his latest declaration, Gorton continues to use the evidence defendants seek to exclude. (See Gorton 9/26/08 Decl. ¶¶ 38-42, 45-61.) For example, in his section titled, "Lime Wire's Attempts to Reach out and Engage the Recording Industry", Gorton referenced several exhibits to which defendants object, including Ex. 276 (*id.* at ¶ 55) and Ex. 60 (*id.* at ¶ 57), and described his negotiations with iMesh (*id.* at ¶¶ 46-54), the "Conversion Plans" (*id.* at ¶¶ 45, 54, 58), his Digital Sales Growth plan (*id.* at ¶¶ 55, 56, 58-60), and his plans for the "gradual conversion" of LimeWire users through an

“educational campaign” (*id.* at ¶¶ 45, 55, 56, 59) and “graduated filtering” (*id.* at ¶¶ 45, 55, 58, 59, 60).²² This is the same evidence defendants seek to exclude.

Defendants cannot on the one hand submit evidence to support their position that they are not liable and on the other, prevent plaintiffs from using that same evidence. (*See also infra* § I.A.) Defendants have waived any protection that Rule 408 might have provided.

²² That defendants rely for the most part upon Mark Gorton’s self-serving, rambling declaration about defendants’ filtering and conversion plans -- rather than on the specific exhibits and deposition testimony proffered by plaintiffs -- does not negate the waiver of Rule 408. A contrary rule would permit the party with personal knowledge of settlement negotiations to rely upon settlement-related facts while denying the other party the opportunity to do the same, nullifying the bilateral nature of the waiver. *See Fed. R. Evid.* 408 advisory committee’s note (2006) (“the protections of Rule 408 cannot be waived unilaterally”). Using declarations of facts of settlement negotiations implicates the policy concerns underlying Rule 408 just as much as using documents and testimony to demonstrate those facts. *See Am. Soc’y of Composers, Authors & Publishers v. Showtime/The Movie Channel, Inc.*, 912 F.2d 563, 581 (2d Cir. 1990) (“Rule 408 is based upon the policy of aiding the compromise and settlement of disputes.”) (quoting 2 Jack B. Weinstein and Margaret A. Berger, *Weinstein’s Federal Evidence* § 408.02 at 408-4 (2d ed. 1986)); *see also* Fed. R. Evid. 408 advisory committee’s note (1972) (“A more consistently impressive ground [for exclusion] is promotion of the public policy favoring the compromise and settlement of disputes.”).

Conclusion

For the foregoing reasons, defendants' objections should be overruled and their motion to strike denied.

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Respectfully submitted,

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