

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.

ECF CASE

06 CV. 5936 (GEL)

DEFENDANTS' REPLY IN FURTHER SUPPORT OF 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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TABLE OF CONTENTS

	<u>Page</u>
TABLE OF AUTHORITIES	ii
INTRODUCTION	1
ARGUMENT AND AUTHORITIES.....	2
I. PLAINTIFFS’ EVIDENCE RELATING TO COMPROMISE NEGOTIATIONS IS INADMISSIBLE.....	2
II. PLAINTIFFS’ EVIDENCE PREDATING AUGUST 4, 2003 OR <i>GROKSTER</i> IS INADMISSIBLE	5
III. DEFENDANTS HAVE NOT WAIVED THEIR OBJECTIONS	7
A. Evidence May Be Admissible for One Purpose and Inadmissible for Another	7
B. Defendants Have Not Waived Their Objections to Plaintiffs’ Exhibits Predating 2003 and the <i>Grokster</i> Decision	8
C. Defendants Have Not Waived Their Objections to Plaintiffs’ Settlement- Related Exhibits	9
CONCLUSION.....	10

TABLE OF AUTHORITIES

<u>Cases</u>	<u>Page</u>
<i>Affiliated Mfrs., Inc. v. Aluminum Co. of Amer.</i> , 56 F.3d 421 (3d Cir.1995).....	4
<i>Hanson v. Alpine Valley Ski Area, Inc.</i> , 718 F.2d 1075 (Fed. Cir. 1983).....	4
<i>Lamm v. Bumbo, Bumbo Ltd.</i> , Nos. C 07-04807 and -05597 MHP, 2008 WL 2095770 (N.D. Cal. May 14, 2008)	7
<i>Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.</i> , 518 F. Supp. 2d 1197 (C.D. Cal. 2007).	n.3
<i>Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.</i> , 380 F.3d 1154 (9th Cir. 2004)	6
<i>Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.</i> , 545 U.S. 913 (2005).....	passim
<i>PharmaStem Therapeutics, Inc. v. Viacell, Inc.</i> , No. C.A. 02-148 GMS, 2003 WL 22387038 (D. Del. Oct. 7, 2003).....	4
<i>Rhoades v. Avon Prods., Inc.</i> , 504 F.3d 1151 (9th Cir. 2007)	8
<i>Sony Corp. of Amer. v. Universal City Studios, Inc.</i> , 464 U.S. 417 (1984).....	n.6
<i>Stone v. Williams</i> , 970 F.2d 1043 (2d Cir. 1992).....	5
<i>United States v. Abel</i> , 469 U.S. 45 (1984).....	8
<i>United States v. Buffalo</i> , 358 F.3d 519 (8th Cir. 2004)	7
<i>United States v. Figueroa</i> , ___ F.3d ___, No. 06-1595-cr, 2008 WL 4911158 (2d Cir. Nov. 18, 2008).....	8
<i>Westfarm Assocs., L.P. v. Washington Suburban Sanitary Comm’n</i> , 66 F.3d 669 (4th Cir. 1995)	8

STATUTES AND RULES

FED. R. EVID. 1057

FED. R. EVID. 408 *passim*

INTRODUCTION

Defendants move to exclude two specific categories of evidence submitted by Plaintiffs in support of their Motion for Partial Summary Judgment: (1) evidence of compromise negotiations precluded under Federal Rule of Evidence 408, and (2) irrelevant and prejudicial evidence of LW's conduct occurring outside the applicable limitations period and before the Supreme Court delivered its opinion in *Grokster*.¹ Plaintiffs offer the evidence in both categories to establish Defendants' liability for secondary copyright infringement.

Plaintiffs first argue that all of Defendants' objections are waived because Defendants have themselves submitted evidence that falls within the two categories. Plaintiffs' argument flies in the face of express provisions of the Federal Rules of Evidence, not to mention a mountain of case law to the contrary. Stated succinctly, evidence may be inadmissible for one purpose but admissible for another purpose. Clearly, Defendants have not offered evidence from either category for the purpose of establishing their own liability. Plaintiffs do not even try to describe the purposes for which Defendants submitted such evidence—it is no surprise that Plaintiffs refuse “to go there.”

Plaintiffs next try to dismiss the settlement-related evidence as merely evidence of LW's business negotiations. These “negotiations” as Plaintiffs call them, reflect LW's communications with third parties and the RIAA regarding filtering options and plans to convert LW's users, all of which were undeniably made against the backdrop of the threat of litigation with Plaintiffs in the wake of the *Grokster* decision. Indeed, less than two months after *Grokster* came down, Plaintiffs fired off a “cease and desist” letter to Defendants.

¹ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

With respect to pre-*Grokster* evidence and evidence of LW's conduct occurring outside the three-year statute of limitations, Plaintiffs argue that this is merely indicative of the "evolution" of their claims, and that in any event, *Grokster* should apply retroactively. Both of these arguments are meritless.

ARGUMENT AND AUTHORITIES

I. PLAINTIFFS' EVIDENCE RELATING TO COMPROMISE NEGOTIATIONS IS INADMISSIBLE.

To support their summary judgment motion, Plaintiffs offer numerous documents created during the course of LW's efforts to compromise Plaintiffs' claims against it.² These exhibits can be categorized as (1) plans to partner with third parties as part of a settlement; or (2) plans to partner directly with Plaintiffs as part of a settlement. Both categories of exhibits are inadmissible under Rule 408 because they address conduct and statements made in the course of compromise negotiations and are offered by Plaintiffs to prove Defendants' liability for copyright infringement. Ds' Obj. at 1-5.

To overcome the inadmissibility of this evidence, Plaintiffs improperly lump both categories of exhibits together and try to spin this evidence as "business transactions with non-parties unrelated to the settlement of litigation." Ps' Resp. at 11. First, these "business transactions," to the extent they could be characterized as such, were undertaken for the purpose of resolving the claims with which Plaintiffs threatened LW after the *Grokster* opinion issued, and would not have taken place but for Defendants' efforts to placate Plaintiffs. Calling these compromise efforts "business transactions" is merely semantics. Second, the fact that some of these efforts involved nonparties necessary to effectuate a compromise with Plaintiffs is of no consequence. Moreover, many of the exhibits were directed solely to the Plaintiffs and did not

involve any third parties. Finally, Plaintiffs try to limit the application of Rule 408 to evidence of settlement “*of litigation*,” whereas the express language of the rule provides that it extends to compromise negotiations regarding “*a claim*.” FED. R. EVID. 408(a)(2).

All of the settlement-related evidence that Defendants seek to exclude was generated post-*Grokster* and concerned Defendants’ efforts to reach a compromise with Plaintiffs. Ds’ Obj. at 4-5. A critical element of any attempt by Defendants to compromise with Plaintiffs was the implementation of a filtering system to Plaintiffs’ satisfaction.³ See Ps’ Resp. at 11 (arguing that “since *Grokster* came down and defendants became aware, at a minimum, of their obligation to implement an effective filter, defendants still have not implemented such a filter”). Accordingly, LW explored various filtering options with third parties as part of a global settlement with the Plaintiffs, and the documents generated in the course thereof are inadmissible.⁴ Likewise, on the eve of this lawsuit LW presented various plans (Exs. 273, 274 and 276) *to Plaintiffs* for digital market growth in an attempt to appease Plaintiffs and enable LW to effectuate a pre-suit settlement with Plaintiffs. Although LW never reached a compromise with Plaintiffs, this does not diminish the undisputed fact that these actions were undertaken for the sole purpose of settling with Plaintiffs.

The fact that in the Fall of 2005 LW had to look to third parties with respect to filtering options and digital marketing opportunities does not take its communications and negotiations with them outside the protection of Rule 408. Plaintiffs’ argument that “[n]ever was litigation

² Exhibits 43 and 44 were erroneously included in Exhibit A to Defendants’ Objections, as were citations to the deposition testimony of Stephen Cho and Steven Gribble. Consequently, Defendants hereby withdraw their objections to this evidence.

³ Defendants, however, do not concede that filtering is required of them. To the contrary, on remand, the district court in *Grokster* appointed a Special Master to evaluate possible filtering regimens that would reduce “infringing capacity,” and “preserve its noninfringing functionality as feasible,” and analyze “potential cost concerns.” *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197, 1237 (C.D. Cal. 2007). The Special Master’s evaluation of whether such filtering was possible was aborted by defendant StreamCast’s bankruptcy filing.

anticipated between defendants and any of the non-parties with whom they tried to do a deal,” Ps’ Resp. at 20, reflects a fundamental misapplication of Rule 408. *See, e.g., Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078-79 (Fed. Cir. 1983) (holding offers to license to third parties were inadmissible under Rule 408 because “they were offers in compromise made in contemplation of [patent] infringement litigation”); *PharmaStem Therapeutics, Inc. v. Viacell, Inc.*, No. C.A. 02-148 GMS, 2003 WL 22387038, at *2 (D. Del. Oct. 7, 2003) (stating a license agreement with a third party is properly excluded under Rule 408 where it “(1) was reached under a threat of litigation, (2) arose in a situation where litigation was threatened or probable, or (3) was negotiated against a backdrop of continuing litigation infringement”). Plaintiffs cannot with a straight face dispute that the subject conversations and negotiations Defendants had with third parties regarding filtering options and digital marketing growth alternatives were made in a situation where litigation by Plaintiffs was “threatened or probable.” In fact, *every exhibit* that discusses such a plan specifically states that one of the critical components was a settlement with the RIAA, the admitted copyright enforcement agent for the Plaintiffs. *See* Exs. 266-271.

Additionally, the fact that Plaintiffs had not yet initiated litigation at the time the objectionable documents were generated does not affect the protection afforded these documents by Rule 408. Rule 408 specifically applies to “conduct or statements made in compromise negotiations regarding the *claim*.” FED. R. EVID. 408(a)(2); *see Affiliated Mfrs., Inc. v. Aluminum Co. of Amer.*, 56 F.3d 421, 527 (3d Cir. 1995) (“the Rule 408 exclusion applies where an actual dispute or a difference of opinion exists, rather than when discussions crystallize to the point of threatened litigation”). Plaintiffs threatened “claims” well before they ever filed suit.

⁴ Accordingly, Plaintiffs’ contention that evidence such as Rubinfeld’s letter, Plaintiffs’ Exhibit 285, “relates to filtering, not settlement” is without merit.

Plaintiffs offer this evidence of compromise negotiations to establish Defendants' intent to facilitate infringement and liability therefor. Ds' Mot. at 4-5. Indeed, Plaintiffs confirm this is the very purpose for which they submitted this evidence, arguing strenuously that it "demonstrates conclusively defendants' intent to induce copyright infringement." Ps' Resp. at 15. Under Rule 408, Defendants are entitled to have this evidence excluded.

II. PLAINTIFFS' EVIDENCE PREDATING AUGUST 4, 2003 OR *GROKSTER* IS INADMISSIBLE.

Plaintiffs submit numerous documents predating August 4, 2003 or the June 27, 2005 *Grokster* decision in support of their claim that Defendants are liable for inducement of infringement under *Grokster*. This evidence is irrelevant and inadmissible because it purportedly concerns activity undertaken outside the applicable limitations period or relates to actions for which Defendants could not have been liable at the time they were undertaken.

Plaintiffs do not dispute that a three-year statute of limitations applies to their inducement of infringement claims. Accordingly, LW's actions outside the three-year statute of limitations may not form the basis for the imposition of liability on LW for inducement of infringement. Ds' Obj. at 6-7. Plaintiffs do not dispute this—rather, they attempt to paint this evidence as "background evidence," to show the "evolution of defendants' business and the basis for and development of defendants' intent, encouragement and knowledge of infringement using the LimeWire software." Ps' Resp. at 5-6. There is no practical difference between Plaintiffs' theory of evolution and the continuing infringement doctrine rejected by the Second Circuit. *See, e.g., Stone v. Williams*, 970 F.2d 1043, 1049-50 (2d Cir. 1992); Ds' Obj. at 7-8. This is a distinction without a difference. Plaintiffs are clearly attempting to hold Defendants liable for allegedly inducing conduct that occurred well outside the applicable statute of limitations. Defendants agree that the statute of limitations is not an evidentiary rule, which is a straw man

Plaintiffs invented. Holding a defendant liable for conduct occurring outside the limitations period, however, would nullify the statute of limitations. Plaintiffs' evidence of LW's purported acts of inducement of copyright infringement outside the statute of limitations is irrelevant and should be excluded.

Moreover, the inducement of infringement theory of liability announced in *Grokster* is an entirely new theory of secondary copyright infringement liability⁵ Although Plaintiffs deny this reality, even they argue that "a decision favorable to the copyright-holder in *Grokster* was a game-changer for Lime Wire LLC." Ps' Resp. at 14. This is because unlike claims for contributory infringement and vicarious infringement, the Court's newly-minted inducement of infringement theory of liability is not entitled to the protection of the *Sony*⁶ safe harbor. And although Plaintiffs argue that the *Grokster* decision should be given retroactive effect to "all cases still open on direct review," this case was not filed until more than a year after the *Grokster* decision was issued.

Plaintiffs further argue that *Grokster* did not decide an issue of first impression. This is not true and is belied by Plaintiffs' own actions. Despite their overly aggressive efforts to shut down P2P companies, Plaintiffs nevertheless waited to issue "cease and desist" letters to LW and others until *after* the *Grokster* Court issued its opinion in favor of the copyright holders. This is because the Ninth Circuit's *Grokster* opinion, affirming summary judgment in favor of the P2P companies based on its application of the *Sony* safe harbor to the plaintiffs' claims, meant that any such cease and desist efforts would have been futile. *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004).

⁵ As they tried to do in their Response to the Defendants' summary judgment motions, Plaintiffs attempt to confuse this new theory with an element of contributory infringement. *See* Defendants' Reply Memorandum of Law in Further Support of Their Motions for Summary Judgment at 10-11.

⁶ *Sony Corp. of Amer. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

Additionally, as Defendants pointed out, it would be fundamentally unfair and highly prejudicial to impose liability on Defendants for purported activities that were not a basis for the imposition of secondary copyright infringement liability prior to *Grokster*. Ds' Obj. at 10. Plaintiffs' contention that this is not so because Defendants have not instituted filtering post-*Grokster* bears no relation to the nature of the evidence Defendants seek to exclude listed on Exhibit B, including Gnutella forums, promotional e-mails, and Yahoo! Groups.

In sum, Plaintiffs' exhibits that predate the commencement of the limitations period on Plaintiffs' claims and the *Grokster* decision are irrelevant and should be excluded.

III. DEFENDANTS HAVE NOT WAIVED THEIR OBJECTIONS.

Plaintiffs argue Defendants have waived their objections to Plaintiffs' settlement-related and pre-2003 exhibits on two different grounds: (1) some of Defendants' own exhibits pre-date 2003 or the *Grokster* decision; and (2) Defendants have invoked some of the objectionable exhibits on their own behalf. Ps' Resp. at 3-4, 22-24. Both of these arguments are contrary to the provisions of the Federal Rules of Evidence and existing precedent, and are wrong.

A. Evidence May Be Admissible for One Purpose and Inadmissible for Another.

It is boilerplate law that “[t]estimony oftentimes serves more than one purpose, and while it may be inadmissible for one purpose, it may be admissible for another.” *United States v. Buffalo*, 358 F.3d 519, 522 (8th Cir. 2004). Federal Rule of Evidence 105, entitled “Limited Admissibility,” specifically contemplates as much:

When evidence which is admissible as to one party or for one purpose but not admissible as to another party or for another purpose is admitted, the court, upon request, shall restrict the evidence to its proper scope and instruct the jury accordingly.

FED. R. EVID. 105. *See, e.g., Lamm v. Bumbo, Bumbo Ltd.*, Nos. C 07-04807 and -05597 MHP, 2008 WL 2095770, at *9 (N.D. Cal. May 14, 2008) (evidence of affirmative steps to change

content and placement of warning label, although inadmissible to prove “underlying tort liability,” were admissible to “show intent and purpose to respond to customer complaints and to maintain the marketability of its product”); *Westfarm Assocs., L.P. v. Washington Suburban Sanitary Comm’n*, 66 F.3d 669, 685, n.12 (4th Cir. 1995) (noting that under Rule 105, defendant might have been entitled to a jury instruction that evidence was admissible to determine foreseeability but not public duty); *see also United States v. Figueroa*, ___ F.3d ___, No. 06-1595-cr, 2008 WL 4911158, at *6 n.9 (2d Cir. Nov. 18, 2008) (“[T]here is no rule of evidence which provides that testimony admissible for one purpose and inadmissible for another purpose is thereby rendered inadmissible; quite the contrary is the case.” (citing *United States v. Abel*, 469 U.S. 45, 52 (1984))).

Moreover, Federal Rule of Evidence 408, entitled “Compromise and Offers to Compromise,” expressly provides that the rule does not require the exclusion of evidence relating to compromising a claim “if the evidence is offered for purposes not prohibited by subdivision (a).” FED. R. EVID. 408(b). *See, e.g., Rhoades v. Avon Prods., Inc.*, 504 F.3d 1151, 1161 (9th Cir. 2007) (holding evidence of conduct during compromise negotiations was admissible where it was offered to satisfy jurisdictional requirements and not validity of trademark, and noting Rule 408 is “one of limited applicability”).

B. Defendants Have Not Waived Their Objections to Plaintiffs’ Exhibits Predating 2003 and the *Grokster* Decision.

Plaintiffs argue that by submitting exhibits that predate 2003 and the *Grokster* decision with their summary judgment briefing, Defendants waived any objections to Plaintiffs’ exhibits dated prior to 2003 or the *Grokster* decision. This is not the law.

Naturally, Plaintiffs fail to acknowledge the differing purposes for which the parties offer these documents. Plaintiffs offer this evidence in an attempt to prove Defendants’ liability for

inducement of infringement. *See, e.g.*, Ps’ Memorandum of Law in Support of Their Motion for Partial Summary Judgment at 11-16. As explained in Defendants’ Objections at 5-10 and Section II, *supra*, this evidence is inadmissible because (1) evidence of activity purportedly relating to inducement that occurred more than three years prior to the date this lawsuit was filed is irrelevant; (2) the evidence is inadmissible to show “continuing infringement” or “evolution of infringement,” and (3) the evidence is highly prejudicial and relates to purported conduct that was not actionable prior to the Supreme Court’s announcement of the inducement of infringement theory of liability in *Grokster*, which may not be applied retroactively.⁷

Defendants, on the other hand, offer various exhibits predating 2003 and the *Grokster* decision to show aspects of LW’s business operations such as the date LimeWire was released, the officers and directors of LW, the release of updates to LimeWire, and other background information. *See* Ps’ Resp. at n.3 and exhibits cited therein. There is nothing controversial—or more importantly—inadmissible about Defendants’ use of these exhibits for these purposes. Although Plaintiffs’ pre-2003 and pre-*Grokster* evidence is inadmissible to establish tort liability, the pre-2003 and pre-*Grokster* evidence Defendants offer is admissible to establish basic facts about LW and the LimeWire software.

C. Defendants Have Not Waived Their Objections to Plaintiffs’ Settlement-Related Exhibits.

Similarly, Defendants’ introduction of settlement-related documents does not operate as a blanket waiver of their objections to Plaintiffs’ use of this evidence to establish liability. Plaintiffs’ argument that Defendants submitted settlement-related documents for the unrelated purpose of supporting Defendants’ copyright misuse defense is unavailing given that these

⁷ Defendants maintain that this conduct would not have been actionable post-*Grokster* as well.

claims are no longer before the Court. *See* Ps' Resp. at 22-23. Unlike Plaintiffs, Defendants have not offered this evidence for any of the "prohibited uses" set forth in Rule 408(a).

Moreover, as Defendants previously explained, "Plaintiffs have improperly attempted to use as evidence LW's efforts to settle their dispute. If the Court does allow this evidence to be submitted, then Defendants should be allowed to submit the entire record on settlement efforts with the Plaintiffs." LW's Resp. to Ps' Motion for Summary Judgment at n.18. If the Court allows Plaintiffs' evidence in over Defendants' objections, then Defendants are entitled to offer controverting evidence.

In short, Plaintiffs' waiver arguments are ill-founded and contrary to the Federal Rules of Evidence and overwhelming case authority.

CONCLUSION

Plaintiffs' Motion for Partial Summary Judgment relies heavily upon numerous inadmissible exhibits to establish Defendants' liability. Defendants respectfully request that the Court enter an order excluding the exhibits listed on Exhibits A and B of Defendants' Objections from the summary judgment record.

Dated: November 25, 2008.

