

P. Gmel

FILED
CLERK, U.S. DISTRICT COURT

FEB 14 2007

CENTRAL DISTRICT OF CALIFORNIA
BY *[Signature]* DEPUTY

SCANNED

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

METRO-GOLDWYN-MAYER STUDIOS,)
INC., et al.,)
)
) Plaintiffs,)
)
) v.)
)
) GROKSTER, LTD., et al.,)
)
) Defendants.)
)
) _____)
)
) JERRY LEIBER, et al.,)
)
) Plaintiffs,)
)
) v.)
)
) CONSUMER EMPOWERMENT BV, et)
)
) al.,)
)
) Defendants.)
)
) _____)
)
) AND RELATED COUNTERCLAIMS)
)
) _____)

CV 01-8541 SVW (FMOx) ✓
CV 01-9923 SVW (FMOx)

ORDER REQUIRING FURTHER
BRIEFING RE PLAINTIFFS' MOTION
FOR A PERMANENT INJUNCTION [01-
8541: 1215, 1219]

DOCKETED ON CM

FEB 16 2007

BY ing 009

I. INTRODUCTION

On September 27, 2006, this Court granted Plaintiffs' motion for summary judgment as to StreamCast's liability for the inducement of infringement. More than two months later, Plaintiffs filed a motion

1234

SCANNED

1 for a permanent injunction as a result of this liability
2 determination. StreamCast filed an opposition, and also requested
3 that this Court hold an evidentiary hearing prior to the issuance of
4 any permanent injunction.

5 The Court has determined, as will be explained in a complete
6 Order at a later date, that: (1) Plaintiffs have met their burden as
7 to the four-factor test for a permanent injunction; (2) StreamCast's
8 defenses of unclean hands, waiver, estoppel, and implied license are
9 without merit; and (3) an evidentiary hearing is not required for any
10 material issue related to (1) and (2) above.¹ Thus, the Court intends
11 to issue a permanent injunction against StreamCast.

12 Yet, this is not the end of the inquiry. The Court must
13 carefully tailor the language of the permanent injunction to ensure
14 that it gives StreamCast notice of what would constitute a violation.
15 The Court must also consider whether the proposed permanent injunction
16 would proscribe lawful conduct in an impermissible manner. Thus, the
17 Court is primarily concerned with the permanent injunction's: (1)
18 scope, and (2) specificity. The parties are ORDERED to provide
19 further briefing in the manner described below. In light of these
20 supplemental briefs, the Court will evaluate whether an evidentiary
21 hearing is needed. The parties' submissions should be supported by
22 evidence to the extent possible. In these further submissions, the
23 parties should err on the side of submitting too much evidence rather
24 than too little. If absolutely necessary, the parties should submit
25 evidence for an in camera review - but this should not be abused.

26 _____
27 ¹ Therefore, the parties should not reargue the legal merits
28 related to the four-factor test and StreamCast's other defenses,
and instead focus solely on the issues raised by the Court
herein.

1
2 **II. DISCUSSION**

3 It appears to this Court that the central provisions of the
4 proposed permanent injunction are Paragraphs 1(b), 1(c), and 2. These
5 paragraphs provide that StreamCast, among others,

6 are permanently enjoined and restrained from directly or
7 indirectly operating, assisting in or supporting the operation
8 of, promoting, maintaining, licensing, supporting, or
9 distributing the Morpheus System and Software, any other peer-to-
10 peer or file-trading system and/or software, or other system
11 and/or software providing users with comparable functionality,
12 **unless and until it has demonstrated to the Court's satisfaction**
13 **that it contains a robust and secure means exhaustively to**
14 **prevent users from . . . exploit[ing] any Copyrighted Works; and**
15 (Paragraph 1(b) (emphasis added).)

16
17 shall use all technologically feasible means to prevent or
18 inhibit infringement of the Copyright Works by existing users of
19 all versions of the Morpheus Software, including without
20 limitation by disabling (or, to the extent that is not
21 technically feasible, disrupting) the searching, downloading
22 uploading, file trading and/or file distribution functionality,
23 and/or all functionality, of such software, and by taking
24 **affirmative steps to deter infringement** of the Copyrighted Works
25 by users. (Paragraph 1(c) (emphasis added).)

26
27 Unless and until the Stream[C]ast Defendants are able to
28 exhaustively prevent infringement of the Copyrighted Works by

1 existing users of all versions of the Morpheus Software, the
2 StreamCast Defendants shall immediately **cease and desist from**
3 **displaying, or permitting to be displayed, any advertising in,**
4 through or by means of any existing version of the Morpheus
5 Software. (Paragraph 2 (emphasis added).)

6 In light of these provisions, the Court has the following questions
7 and thoughts to be answered by the parties:

8 (1) **FILTERS** - Throughout the course of this litigation,
9 Plaintiffs have represented that there is effective filtering
10 technology available in the marketplace, which if utilized, would
11 sufficiently protect Plaintiffs' copyrighted works. At the hearing
12 earlier this week, Plaintiffs noted that it would be satisfied if
13 StreamCast obtained a license from SNOCAP, Inc. or Audible Magic.
14 Plaintiffs did not want to specify a particular option, however, that
15 it favored. Therefore,

16 (a) **PROPOSED FILTERS** - The Court **ORDERS** Plaintiffs to submit
17 a list of all commercially available and acceptable filtering
18 proposals, of which it is aware, that would be effective for purposes
19 of a permanent injunction. In addition, if StreamCast persists in
20 implementing a "homemade" filter, the Court wants a detailed statement
21 from Plaintiffs as to what steps StreamCast would have to take in
22 order to make it effective. In turn, StreamCast is **ORDERED** to respond
23 to each and every proposal submitted by Plaintiffs in detail and
24 explain its ability to comply.²

27 ² More detailed and comprehensive proposals will facilitate this
28 Court's determination whether StreamCast's objections (assuming
such exist) are made in good faith or not.

1 (b) **TECHNOLOGICAL SHORTCOMINGS** - From this Court's reading
2 of the terms of Paragraph 1(b) of the proposed permanent injunction,
3 it seems that StreamCast could be found in contempt of Court even if
4 it employs a filter licensed by SNOCAP, Inc. or Audible Magic. For
5 example, if there is a shortcoming in these companies' filtering
6 technology, and direct infringement by end-users ensues, StreamCast
7 could be held liable under the proposed permanent injunction because
8 the third-party filtering system did not "exhaustively" stop the
9 infringement of "any" copyrighted works - in effect, it was not a
10 "perfect" filter. Thus, the Court ORDERS Plaintiffs to explain
11 whether they would agree to an injunctive remedy that held StreamCast
12 harmless for another's direct infringement resulting from an
13 "effective" third-party filter's technological shortcomings - assuming
14 of course that StreamCast has not engaged in any obstruction or
15 otherwise caused the filtering tool to fail. And if StreamCast
16 implements a homemade filter matching Plaintiffs' proposed
17 specifications, it appears that StreamCast should be similarly free
18 from liability if the technology is not "perfect." If Plaintiffs do
19 not agree to such a term, then StreamCast will have the discretion to
20 offer a rebuttal in its supplemental brief.

21 (c) **DATABASE SHORTCOMINGS** - This leads the Court to the
22 issue of notice and the Ninth Circuit's decision in A&M Records, Inc.
23 v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001). In this Court's
24 view, if StreamCast accepts a proposed filter that Plaintiffs
25 recommend (e.g., SNOCAP, Inc., Audible Magic), then it would follow
26 that StreamCast could not be held liable if SNOCAP or Audible Magic
27 fail to include a complete index of copyrighted material as part of
28 their filter. An incomplete index could allow end-users to infringe

SCANNED

1 despite the presence of a filter on other copyrighted works.
2 Plaintiffs are ORDERED to comment on this Court's impression of the
3 matter. StreamCast need only reply if Plaintiffs disagree with this
4 view.

5 However, the Court is not certain how to proceed if StreamCast
6 insists on maintaining its homemade filter, and must affirmatively
7 ensure that its database is complete. Plaintiffs likely believe that
8 their artist-title pairs and hash values are commercially valuable,
9 and that they should not be forced to provide such information for
10 free. The Court tends to agree. Additionally, this Court does not
11 necessarily believe that StreamCast must be given an opportunity to
12 employ a homemade filter, which lacks a complete database, if other
13 feasible alternatives exist. Plaintiffs are ORDERED to brief the
14 issue and also detail how Plaintiffs could independently obtain a list
15 of all copyrighted works to be protected (and thus, "notice") in order
16 to "exhaustively" prevent infringement. StreamCast shall respond as
17 well.

18 (d) **TECHNOLOGICAL CHANGES** - The Court should retain
19 jurisdiction to amend the permanent injunction depending upon the
20 efficacy of future technological innovations. As filtering technology
21 becomes more effective, it would seem that StreamCast should be
22 required to take reasonable steps to initiate upgrades.

23 (2) **LEGACY SOFTWARE** - Even assuming that StreamCast agrees to one
24 of Plaintiffs' proposed filters, the Court recognizes that the filter
25 would at first only apply to the current versions of the Morpheus
26 Software and System. However, the majority of Morpheus users are
27 still using a non-filtering version of the product, known as a "legacy
28

SCANNED

1 version." StreamCast is still benefitting from this infringement by
2 end-users via advertising revenue.

3 (a) **AFFIRMATIVE STEPS** - Plaintiffs are to provide an
4 exhaustive and specific proposal of all steps that StreamCast should
5 take in order to deter infringement on these legacy versions.³ For
6 example, Plaintiffs referred to the use of "popups" at oral argument.
7 The Court assumes that many other actions could be utilized by
8 StreamCast to deter infringement through legacy software.⁴ The Court
9 is not sympathetic to StreamCast's fears that it will forever lose
10 numerous end-users of the legacy versions if the measures taken are
11 too aggressive - StreamCast should not be able to continue benefitting
12 from its illegal conduct.

13 (b) **ADVERTISING** - As explained at the hearing, Plaintiffs
14 want to realign StreamCast's "incentives" in order to ensure that
15 StreamCast does everything possible to update the non-filtering
16 versions of the Morpheus Software. The Court generally agrees with
17 this concept, but it is unclear whether it should be applied to
18 Morpheus software that contains a filter accepted by Plaintiffs. If
19 the Court ultimately decides that StreamCast lacks the capability and
20 control to involuntarily force all Morpheus users to switch to an
21 appropriate filter, then it would be impossible for StreamCast to
22 comply with an Order requiring all legacy versions be upgraded before
23

24
25 ³ As of now, StreamCast merely sends a screenshot to the users of
26 the legacy versions that encourages them to update their
27 programs.

28 ⁴ One disputed issue appears to be whether StreamCast has the
capability to involuntarily update the legacy versions. This
issue should be briefed by the parties with careful consideration
and evidentiary support.

1 any advertising is allowed as to any Morpheus software. The Court
2 would not be inclined to adopt this provision. If StreamCast is
3 correct regarding its capabilities today,⁵ the Court might instead
4 agree to a provision that would: (1) bar StreamCast from advertising
5 to any user utilizing a non-filtering version only, while (2) allowing
6 it to advertise to those who have updated to an effective filter.

7 **(3) SCOPE OF THE INJUNCTION & PATENT INDUCEMENT**

8 Although the Court is hopeful that this further briefing may lead
9 the parties to a mutually agreeable resolution, it recognizes that no
10 such result may occur. In that case, the Court would be required to
11 craft the language for a permanent injunction that it determines to be
12 equitable.

13 As is well-known, the Supreme Court drew on patent law when
14 fashioning the theory of inducement liability in this case. In
15 reversing this Court's prior grant of summary judgment in favor of
16 StreamCast, the Supreme Court did not address this Court's 2003
17 holding regarding contributory and vicarious infringement - in
18 particular, the ruling that StreamCast's software is capable of
19 substantial noninfringing use. These determinations appear to remain
20 undisturbed as a result.

21 The Court agrees with Plaintiffs that the terms of the permanent
22 injunction can proscribe illegal actions that go beyond the scope of
23 the present case. Thus, a defendant's infringement of a few
24 copyrights could permit an injunction that barred defendant from

25
26 ⁵ In its 2003 Order, this Court held that if StreamCast "closed
27 [its] doors and deactivated all computers within [its] control,
28 users of [its] products could continue sharing files with little
or no interruption." Metro-Goldwyn-Mayer Studios, Inc. v.
Grokster, Ltd., 259 F. Supp. 2d 1029, 1041 (C.D. Cal. 2003).

1 | infringing all of plaintiff's copyrighted works. However, the Court
2 | has concerns as to whether it can permit an injunction that could have
3 | the effect of proscribing underlying technology that has been held to
4 | be lawful. The Ninth Circuit has delineated a district court's power
5 | to enjoin lawful conduct:

6 | [A]lthough federal courts have the equitable power to enjoin
7 | otherwise lawful activity if they have jurisdiction over the
8 | general subject matter and if the injunction is necessary and
9 | appropriate in the public interest to correct or dissipate the
10 | evil effects of past unlawful conduct, this power is not often
11 | necessary or appropriate, and is therefore infrequently
12 | exercised. Courts commonly have exercised this extraordinary
13 | power only in antitrust cases, although we see no reason why it
14 | would not be available when necessary and appropriate in cases
15 | involving other areas of substantive law. Even in the antitrust
16 | area, however, a necessary and appropriate injunction against
17 | otherwise lawful conduct must be carefully limited in time and
18 | scope to avoid an unreasonably punitive or nonremedial effect.

19 | United States v. Holtzman, 762 F.2d 720, 726 (9th Cir. 1985)

20 | (citations omitted). The Plaintiffs have not pointed to any example
21 | in which lawful conduct has been proscribed in response to a violation
22 | of the Copyright Act.

23 | Of course, the Court recognizes that there is a dispute as to
24 | what extent StreamCast's distribution of Morpheus (even if the
25 | technology is technically legal) can be termed lawful. Although the
26 | Supreme Court made clear that distribution alone was insufficient for
27 | an inference of inducement, there was other evidence in this case
28 |

SCANNED

1 demonstrating an intent to foster infringement through Morpheus'
2 distribution - in effect, "intentionally infringing distribution."

3 In order to help explore the limits of the Court's power to
4 impose an injunction for inducement liability, the parties are ORDERED
5 to brief the appropriate scope of injunctive relief in this case (and
6 whether it touches lawful conduct) in light of the history of patent
7 inducement. The inducement doctrine is codified at 35 U.S.C. §
8 271(b), which provides that "[w]hoever actively induces infringement
9 of a patent shall be liable as an infringer."

10 One leading patent treatise has explained the following in this
11 respect: "the patent owner's remedies under Section 271(b) for active
12 inducement cannot be expanded so as to establish exclusive control
13 over the staple commodity." 5 Donald J. Chisum, *Chisum on Patents*, §
14 17.04[3]. The Fifth Circuit has noted that where a defendant is
15 liable for active inducement under 35 U.S.C. § 271(b), "[t]he
16 patentee's relief, however, would not be an injunction forbidding the
17 defendants' [s]ale of staples, since mere sale is not wrongful under
18 either (b) or (c). Appropriate relief might extend to an injunction
19 against continuing to 'actively induce' infringement, conduct
20 forbidden by (b)." Rohm & Haas Co. v. Dawson Chem. Co., 599 F.2d 685,
21 704 n.24 (5th Cir. 1979) (emphasis added).

22 This authority is admittedly scant, but these statements
23 preliminarily suggest that the injunctive remedy for inducement should
24 not be allowed to extend to lawful conduct - only against "continuing
25 inducement."⁶

26
27 ⁶ Of course, what actions constitute "continuing inducement" will
28 probably be the subject of substantial dispute between the
parties.

SCANNED

1 Regardless, the parties are ORDERED to address exhaustively the
2 history and scope of permanent injunctive remedies in response to a
3 defendant's liability for patent inducement.

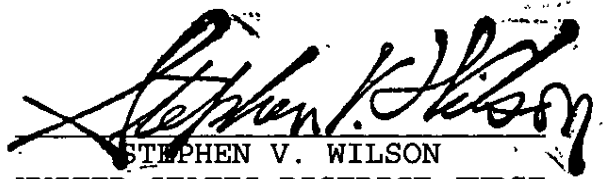
4
5 **III. CONCLUSION**

6 Plaintiffs are ORDERED to file a supplemental brief by February
7 26, 2007. StreamCast is ORDERED to file a responsive brief not later
8 than March 9, 2007. Plaintiffs may then, in their discretion, file a
9 reply brief by March 15, 2007. A further hearing will be held on
10 March 26, 2007, at 1:30 p.m.

11 In light of this Court's observations, the parties may choose to
12 consider whether they could mutually negotiate an agreement as to the
13 terms of a permanent injunction.

14
15 IT IS SO ORDERED.

16
17
18 DATED: FEB 14 2007


STEPHEN V. WILSON
UNITED STATES DISTRICT JUDGE