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SEP 27 2006
CENTRAL DISTRICT OF CALIFORNIA
BY *[Signature]* DEPUTY

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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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~~JS-5/JS-6~~ **NO**
JS-2/JS-3 —
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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 01-08541 SVW (PJWx)
CV 01-09923 SVW (PJWx) ✓

ORDER GRANTING PLAINTIFFS'
MOTION FOR SUMMARY JUDGMENT ON
LIABILITY AGAINST DEFENDANT
STREAMCAST NETWORKS, INC.
[1070]; ORDER DENYING DEFENDANT
STREAMCAST NETWORK, INC.'S,
MOTION FOR A CONTINUANCE
PURSUANT TO RULE 56(f) [1123]

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I. INTRODUCTION

In October 2001, Plaintiffs - a group of record companies, movie studios, and music publishers - filed a single-count complaint against Defendants Grokster Ltd. ("Grokster"), Consumer Empowerment BV, and

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1 the corporate predecessors of StreamCast Networks, Inc.
2 ("StreamCast"). ~~The complaint alleged that Defendants' file-sharing~~
3 software contributed to massive infringement of copyrighted works
4 owned by Plaintiffs. On July 12, 2002, Plaintiffs filed the first
5 amended complaint, which dropped Consumer Empowerment BV, replaced
6 StreamCast's corporate predecessors with StreamCast, and also joined a
7 host of Defendants associated with the Kazaa file-sharing network,
8 most notably Sharman Networks ("Sharman").

9 On April 25, 2003, the Court granted summary judgment for
10 Defendants StreamCast and Grokster, and denied Plaintiffs' motions for
11 summary judgment. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster,
12 Ltd., 259 F. Supp. 2d 1029 (C.D. Cal. 2003). Because Plaintiffs
13 sought primarily injunctive relief, the Court considered only the
14 then-current versions of Defendants' software, and did not address
15 Grokster and StreamCast's alleged liability for past versions of their
16 software or services. The Ninth Circuit affirmed the Court's ruling
17 in August 2004. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.,
18 419 F.3d 1005 (9th Cir. 2005). The Supreme Court unanimously reversed
19 the grant of summary judgment for Grokster and StreamCast in a
20 decision issued on June 27, 2005. Metro-Goldwyn-Mayer Studios, Inc.
21 v. Grokster, Ltd., 545 U.S. 913 (2005) (hereinafter "Grokster"). The
22 Supreme Court remanded the case for renewed consideration of
23 Plaintiffs' motions for summary judgment. Id. at 2782.

24 Defendant Grokster settled with Plaintiffs shortly after the
25 Supreme Court decision. On February 14, 2006, Plaintiffs filed
26 motions for summary judgment as to the liability of Defendants
27 StreamCast and Sharman. Defendants filed opposition papers on April
28 7, 2006, along with motions for a Rule 56(f) continuance. Plaintiffs

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1 | replied on May 1, 2006. After the motions were fully briefed,
2 | ~~Defendant Sharman purportedly reached a tentative settlement agreement~~
3 | with Plaintiffs early in August 2006. StreamCast is now the only
4 | remaining Defendant in this action.

5 | For reasons discussed below, the Court GRANTS Plaintiffs' motion
6 | for summary judgment as to StreamCast's liability.

7 |
8 | **II. EVIDENTIARY OBJECTIONS**

9 | "A trial court can only consider admissible evidence in ruling on
10 | a motion for summary judgment." Orr v. Bank of Am., 285 F.3d 764, 773
11 | (9th Cir. 2002). Accordingly, as a threshold matter, the Court needs
12 | to address StreamCast's evidentiary objections. StreamCast has
13 | objected to nearly all of the voluminous documentary evidence offered
14 | by Plaintiffs, which are contained in Exhibits 14 through 17 of
15 | Plaintiffs' moving papers. Exhibits 14 and 15 consist of internal
16 | documents produced by StreamCast in discovery, most of which were
17 | emails sent or received by StreamCast or its employees, and documents
18 | relating to corporate strategy and objectives. Each email shows on
19 | its face the date it was sent and received, as well as the names of
20 | the sender and the receiver. Emails comprise a sizeable majority of
21 | the documents offered into evidence. In addition, the record contains
22 | standalone documents, which were not attached to emails, such as
23 | presentation slides, presentation notes, and marketing plans. Exhibit
24 | 16 consists of documents produced by KVO Communications, a public
25 | relations firm hired by Defendant StreamCast. Exhibit 17 consists of
26 | documents produced by StreamCast's primary investor, Timberline
27 | Venture Partners. StreamCast has objected to each document in these
28 | exhibits on the basis of failure to authenticate and hearsay.

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2 A. Authentication

3 "The requirement of authentication or identification as a
4 condition precedent to admissibility is satisfied by evidence
5 sufficient to support a finding that the matter in question is what
6 its proponent claims." Fed. R. Evid. 901(a). "[T]he rule requires
7 only that the court admit evidence if sufficient proof has been
8 introduced so that a reasonable juror could find in favor of
9 authenticity or identification." United States v. Tank, 200 F.3d 627,
10 630 (9th Cir. 2000) (internal quotation marks and citations omitted).
11 "[U]nauthenticated documents cannot be considered in a motion for
12 summary judgment." Orr, 285 F.3d at 773.

13 Authentication can be accomplished by judicial admission, such as
14 stipulation or production of the items at issue in response to a
15 discovery request. Wright & Gold, 31 Federal Practice & Procedure:
16 Evidence § 7105, at 39. In Maljack Productions., Inc. v. GoodTimes
17 Home Video Corp., 81 F.3d 881, 889 n.12 (9th Cir. 1996), the Ninth
18 Circuit ruled that the authentication requirement was satisfied where
19 the documents at issue, many of which were printed on the plaintiff's
20 letterhead, were produced in discovery by the plaintiff and offered
21 into evidence by the defendant. Similarly, in In re Homestore.com,
22 Inc. Securities Litigation, 347 F. Supp. 2d 769, 781 (C.D. Cal. 2004),
23 the court held that the authentication requirement was met because the
24 documents in question were produced during discovery and were offered
25 by the party opponent. See also Snyder v. Whitaker Corp., 839 F.2d
26 1085, 1089 (5th Cir. 1988) (holding notes were authenticated when the
27 party resisting admissibility produced them in discovery and admitted
28 that the author was its employee.) In the present case, all of the

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1 documents included in Exhibit 14 and 15 were produced by StreamCast in
2 discovery. ~~This constitutes sufficient circumstantial evidence for a~~
3 reasonable jury to find the documents authentic.

4 StreamCast argues that the judicial admission rule does not
5 apply to a document produced in discovery when the party that produced
6 the document contests its authenticity. For this proposition,
7 StreamCast relies solely on language in Maljack indicating that the
8 plaintiff there "did not contest" the authenticity of the challenged
9 documents. 81 F.3d at 889 n.12. However, the plaintiff in Maljack
10 did dispute authenticity in the sense that it mounted an evidentiary
11 objection on the ground of failure to authenticate. What the Ninth
12 Circuit meant was that the plaintiff did not specifically deny the
13 authenticity of the documents, in addition to alleging that the party
14 offering the evidence failed to properly authenticate. StreamCast is
15 in the same position. StreamCast has only alleged that Plaintiffs
16 have not properly authenticated the documents in Exhibits 14 and 15.
17 StreamCast has not contended that the documents are not what
18 Plaintiffs purport them to be. That would be a hard argument to make,
19 of course, because StreamCast produced them. The result here should
20 be no different from that in Maljack.

21 Exhibits 16 and 17, on the other hand, were not produced by
22 StreamCast in discovery but by its public relations firm, KVO
23 Communications, and its primary venture capital investor, Timberline
24 Venture Partners. In Homestore.com, the court ruled that documents
25 produced by the defendant corporation's auditor were deemed
26 authenticated by virtue of production in discovery when offered
27 against the corporation's CEO. 347 F. Supp. 2d at 781. It could be
28 argued that Homestore.com is distinguishable because the auditor was a

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1 co-defendant there, whereas in the instant case neither KVO nor
2 ~~Timberline are co-defendants with StreamCast. However, the question~~
3 ultimately remains whether production in discovery is sufficient for a
4 reasonable jury to find the document authentic. Since KVO and
5 Timberline were StreamCast's business partners and their interests are
6 not adverse to StreamCast's, there is no reason to doubt the
7 authenticity of documents they produced. Thus, a reasonable jury can
8 find Exhibits 16 and 17 to be authentic.

9
10 B. Hearsay

11 StreamCast also objects to Exhibits 14 through 17 on hearsay
12 grounds. Hearsay is an out-of-court statement "offered in evidence to
13 prove the truth of the matter asserted." Fed. R. Evid. 801(c).
14 Hearsay is generally not admissible unless it meets the definition of
15 non-hearsay set forth in Rule 801(d), or falls under an hearsay
16 exception set forth in Rule 803 or 804. See Fed. R. Evid. 801(d), 803
17 & 804. For convenience, most of the documents comprising Exhibits 14
18 through 17 can be divided into three categories: (1) emails, including
19 attachments, sent by StreamCast or individual StreamCast agents; (2)
20 emails, including attachments, sent to StreamCast or its agents by
21 third parties, including users and business associates; (3) documents,
22 not attached to emails, that contain business or marketing plans and
23 meeting notes.

24 First, under Rule 801(d)(2)(D), "a statement made by the party's
25 agent or servant concerning a matter within the scope of the agency or
26 employment, made during the existence of the relationship," is non-
27 hearsay. Fed. R. Evid. 801(d)(2)(D). Plaintiffs contend that emails
28 sent by StreamCast agents are admissible as vicarious admissions by a

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1 party's agents under Rule 801(d)(2)(D). The rule "requires the
2 proffering party to lay a foundation to show that an otherwise
3 excludable statement relates to a matter within the scope of the
4 agent's employment." Brenemen v. Kennecott Corp., 799 F.2d 470, 473
5 (9th Cir. 1986). "When a court is evaluating whether such a
6 foundation has been established, '[t]he contents of the statement
7 shall be considered but are not alone sufficient to establish . . .
8 the agency or employment relationship and scope thereof.'" Sea-Land
9 Service, Inc. v. Lozen Int'l, LLC, 285 F.3d 808, 821 (9th Cir. 2002)
10 (quoting Fed. R. Evid. 801(d)(2)). If content created by individuals
11 other than the creator of an email is incorporated into the email, the
12 incorporated content is also admissible non-hearsay under Rule
13 801(d)(2)(B). Sea-Land, 285 F.3d at 821; see also Fed. R. Evid.
14 801(d)(2)(B) ("a statement of which the party has manifested an
15 adoption" is not hearsay.)

16 In the instant case, a large part of the evidence consists of
17 emails by StreamCast CEO Michael Weiss, chairman Steven Griffin, chief
18 technology officer Darrell Smith, director Bill Kallman, vice
19 president for marketing Trey Bowles, network operations manager Derek
20 Anderson, and software engineer Paul Panetti. StreamCast admits that
21 these individuals served as its corporate officers or employees during
22 the relevant time period. Another StreamCast employee, Jody Pace, was
23 identified by Griffin's deposition testimony. (Fabrizio Decl. Ex. 1
24 at 74.) Thus, emails sent by these individuals are all admissible
25 non-hearsay under Rule 801(d)(2)(D). To the extent other content is
26 incorporated into these emails, and to the extent the StreamCast agent
27 expresses approval thereof, the incorporated content is admissible as
28 vicarious adoptions. See Fed. R. Evid. 801(d)(2)(B). The record also

1 contains a number of emails from Margaux Schaffer, a graphic design
2 professional. ~~StreamCast admits that Schaffer performed work for~~
3 StreamCast during the relevant period, but argues that Schaffer's
4 emails do not fall within the ambit of Rule 801(d)(2)(D) because she
5 was an independent contractor rather than an employee. However, a
6 statement is admissible under Rule 801(d)(2)(D) so long as it is made
7 by an agent within the scope of agency, regardless of the precise
8 contractual relationship between the agent and the party against whom
9 the evidence is offered. Fed. R. Evid. 801(d)(2)(D). The record
10 clearly indicates that Schaffer was an agent of StreamCast. Weiss
11 included Schaffer in an email he sent to the StreamCast "Team" on the
12 company's business progress; the four other recipients were core
13 employees such as Smith and Griffin. (Fabrizio Decl. Ex. 14 at 679.)
14 In another email, Weiss directed Schaffer to work on graphic icons for
15 StreamCast software. (Fabrizio Decl. Ex. 14 at 683.) Schaffer, in
16 turn, sent several emails to Smith and Weiss with proposed designs and
17 art work for StreamCast. (See, e.g., Fabrizio Decl. Ex. 14 at 610,
18 612, 614, 660.) Regardless of her precise contractual status,
19 Schaffer's responsibilities were comparable to that of an in-house
20 graphic designer. In fact, a PowerPoint presentation sent by Schaffer
21 to Smith described her as StreamCast's art director. (Fabrizio Decl.
22 Ex. 14 at 620.) Accordingly, the Court finds that Schaffer to be a
23 StreamCast agent for purposes of Rule 801(d)(2)(D), and that all of
24 her statements are admissible non-hearsay.

25 Lastly, StreamCast admits that info@musiccity.com is one of its
26 corporate email addresses. All emails sent from that address are thus
27 admissible non-hearsay as admission by the party opponent under Rule
28 801(d)(2).

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1 The second category of documentary evidence consists of emails
2 received by StreamCast or its agents. Plaintiffs have proffered
3 several emails sent to info@musiccity.com by users that discussed
4 their use of StreamCast's Morpheus software to infringe Plaintiffs'
5 copyrights, and sought technical assistance to play back music files
6 downloaded through Morpheus. StreamCast seeks to exclude these emails
7 as hearsay. Plaintiffs rejoin that the emails are not hearsay because
8 they are not offered for the truth of the matter stated, such as
9 whether StreamCast was a great service as some users claimed or
10 whether the users experienced technical problems. Rather, they are
11 offered to establish StreamCast's knowledge and state of mind as to
12 the activities of Morpheus users. The Court agrees, and finds these
13 emails to be non-hearsay. Likewise, emails received by StreamCast
14 agents - Weiss, Smith, Griffin, Panetti, Schaffer, Bowles, and
15 Anderson - are all admissible to show knowledge and state of mind,
16 even if the emails were not created by StreamCast agents and thus do
17 not qualify as vicarious admissions under Rule 801(d)(2)(D).

18 Third, Plaintiffs have proffered numerous documents, produced by
19 StreamCast, that appear to be business plans and PowerPoint
20 presentations. These documents are not attached to emails.
21 StreamCast objects to them on hearsay grounds. Documents that bear
22 StreamCast's trade names, logos, and trademarks are statements by
23 StreamCast itself, and are admissible as admissions by a party-
24 opponent under Rule 801(d)(2), or alternatively as non-hearsay to show
25 StreamCast's state of mind. These include, but are not limited to,
26 PowerPoint presentations (See, e.g., Fabrizio Decl. Ex. 14 at 717-39,
27 745-827; Ex. 15 at 1057-72) and business plans (See, e.g., Fabrizio
28 Decl. Ex. 14 at 937-50; Ex. 15 at 1045-56, 1073-1132). Other

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1 documents not bearing StreamCast but were created by StreamCast
2 ~~employees are admissible as vicarious admissions under Rule~~
3 801(d)(2)(D). For example, Griffin has in deposition recognized one
4 of the documents as the text of a speech Weiss gave. (Fabrizio Decl.
5 Ex. 14 at 742-43; Baker Decl. Ex. 5 at 1296-98). Since Weiss was
6 StreamCast's CEO, any statement he made is admissible under Rule
7 801(d)(2)(D).

8 These documents, which are admissible for the reasons discussed
9 above, form the factual basis for the discussion to follow.

10

11 **III. FACTUAL BACKGROUND**

12 In mid-2000, StreamCast - then known as MusicCity - was a
13 company on the ropes.¹ A fledgling Internet startup, it had yet to
14 find a viable business model. With no revenue stream, StreamCast was
15 on track to exhaust its funds in early 2001. (Weiss Decl. at 7;
16 Fabrizio Decl. Ex. 1 ("Griffin Depo.") at 100-01.) The company
17 initially hoped to create personalized online radio stations, and
18 approached the major music labels to discuss possible licensing deals,
19 but no agreements resulted. Unable to launch the radio business that
20 was its original raison d'etre, StreamCast had to either find a new
21 business plan or shut down. Darrell Smith, StreamCast's chief
22 technology officer, proposed developing a software product that would
23 help Internet users multitask. A typical Internet user kept several
24 specialized software programs open simultaneously in order to access
25 different functions such as chat, email, online news, and music and

26

27 ¹ For consistency and simplicity, the Court will use
28 "StreamCast" to refer to the company for all relevant time
periods.

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1 video playback. Smith's proposed product, which he called "Morpheus
2 Toolbar," would combine these disparate functions in a single
3 graphical user interface. Users would no longer have to turn to
4 different software programs when switching from chat to email, for
5 instance; the application will "morph" automatically to suit the
6 user's needs. Revenue would be generated from advertising displayed
7 in the Morpheus Toolbar interface. The company would also collect
8 fees for third party services, such as internet telephony, provided
9 through the application. In October 2000, Smith presented the
10 Morpheus Toolbar proposal to StreamCast's board of directors. The
11 board authorized the project to go forward, but stipulated that
12 management must secure project funding from new investors. Potential
13 new investors approached by StreamCast expressed concern about
14 StreamCast's ability to distribute and promote Morpheus Toolbar.

15 To solve the distribution problem, Smith suggested launching a
16 file-sharing network to build up StreamCast's MusicCity brand and
17 create a potential user base for Morpheus Toolbar. The network would
18 be compatible with the Napster file-sharing network, then among the
19 largest in the world, and be positioned to attract Napster users.
20 Napster had attracted considerable notoriety as a service that enabled
21 computer users to obtain copyrighted material for free through direct
22 peer-to-peer file-sharing. See A&M Records, Inc. v. Napster, Inc.,
23 239 F.3d 1004 (9th Cir. 2001). Building the network would not entail
24 significant new expenditures. StreamCast had already purchased server
25 computers for its stillborn online radio operation. The servers would
26 be deployed with OpenNap, an open-source, free, and Napster-compatible
27 server application designed to facilitate peer-to-peer file-sharing.
28 StreamCast's OpenNap network functioned in nearly the exact same way

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1 as Napster's. Each user maintained on her client computer a directory
2 of files to be shared. The OpenNap server extracted the names of
3 those files and compiled them into a search index. A user could
4 search for a particular file name - perhaps a sound recording - by
5 sending a request to the server-side index. If the index identified
6 matching files, the server would communicate the Internet address of
7 the file host to the requesting user, who could then download the
8 desired file directly from the host. (Fabrizio Ex. 2 ("Smith Dep.")
9 at 132-37.) Importantly, users could use their existing Napster or
10 other Napster-compatible client software to connect to the MusicCity
11 servers. StreamCast did not have to develop new client software
12 programs, and the users did not have to install them. Because
13 Napster's file-sharing network was large, Napster users constituted an
14 attractive audience for the Morpheus Toolbar. This was particularly
15 so in light of Napster's legal troubles. On July 26, 2000, a federal
16 district court entered a preliminary injunction against Napster for
17 contributory copyright infringement; although the injunction was
18 temporarily stayed pending appeal, the legal uncertainty surrounding
19 Napster meant that its users were ripe for the picking by alternative
20 file-sharing networks. See A&M Records, 239 F.3d at 1011.

21 StreamCast's file-sharing network was launched on January 3,
22 2001, under the MusicCity brand and using OpenNap technology. To
23 attract users to its servers, StreamCast agents went into online
24 chatrooms to spread the word that a new set of OpenNap servers were
25 available.² (Smith Depo. Ex. 2 at 237-38.) StreamCast was also listed

27 ² StreamCast's two primary witnesses, current CEO Michael
28 Weiss and board member William Kallman, have testified that they
were not aware of any such promotional efforts in online
chatrooms. However, there is no evidence that specifically

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1 on Napigator, a third-party online directory of OpenNap-compatible
2 servers. ~~Soon StreamCast was successful beyond its imagination.~~ CEO
3 Michael Weiss detailed the company's rapid progress in an upbeat email
4 on January 5, 2001:

5 We went online on Wednesday morning (1/3/01) with 4
6 servers that could be accessed through the napigator.com
7 website. By noon we had 315 simultaneous [sic] users sharing
8 55,000 MP3 files within the network. By 2:00 pm the
9 following day (Thursday), we added a 5th server and our
10 traffic jumped to 639 simultaneous users sharing 175,000 MP3
11 files. We then brought 5 more servers on line and had 1501
12 simultaneous users sharing 316,000 MP3 files by Thursday
13 evening. This would have represented approximately 12,000
14 unique users for Thursday.

15 . . .

16 We have put this network in place so that when Napster
17 pulls the plug on their free service (or if the Court orders
18 them to shut down prior to that), we will be positioned to
19 capture the flood of their 32 million users that will be
20 actively looking for an alternative. Napster might easily
21 loose [sic] over half of their user base and we could be in
22 a position to pick up a majority of them. It is not
23 inconceivable that our user numbers could jump 1000%+...and
24 this could very easily happen within the next six days.

25 _____
26 contradicts Smith's testimony regarding promotion in chatrooms.
27 Defendant also claims that Smith's testimony is refuted by
28 Griffin's denial that StreamCast deployed a chatroom promotion
strategy for the launch of Morpheus/Fastrack in April 2001.
(Baker Decl. Ex. 5 at 1285-86.) Defendant appears to have
confused Morpheus/Fastrack with OpenNap.

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1 It was always our intent to use our alternative Napster
2 Network (which we are operating under the MusicCity.com
3 brand) to be able to capture email addresses of our initial
4 target market so we could promote our StreamCast Morpheus
5 interface to them and quickly capture a significant user
6 base way ahead of our projections and without counting on
7 third party companies.

8 Since we have experienced this dramatic growth within
9 just a few days, I have directed our staff to quickly deploy
10 a new MusicCity.com website that focuses on our OpenNap
11 Alternative Network. . . . Once the site is up, we have a
12 plan to give us some quick notoriety in the media (and at
13 the expense of Napster Inc.)

14 (Fabrizio Decl. Ex. 14 at 677-78.) On January 18, 2001, Weiss further
15 announced by email:

16 We just hit a new all time high with our 10 servers:
17 72,283 users sharing 15,006,322 files.
18 The chat rooms went wild once we crossed the 70,000 user plateau.
19 We have commandeered nearly 35% of all the alternative Napster
20 users.

21 (Fabrizio Decl. Ex. 14 at 681.)

22 StreamCast began to develop promotional materials that explicitly
23 presented MusicCity as an alternative to Napster. Beset by
24 litigation, Napster was apparently developing plans to license music
25 from record labels and charging users accordingly. StreamCast
26 positioned itself as a Napster alternative where users could continue
27 to download copyrighted music for free. In an email dated January 6,
28 2001, art director Margaux Schaffer suggested an advertisement that

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1 | touted MusicCity as "[t]he fastest, most reliable alternative service
2 | to Napster. . . and it's FREE." (Fabrizio Decl. Ex. 14 at 611.) It
3 | then asked: "Napster Inc. has announced that it will soon begin
4 | charging you a fee. That's if the courts don't order it shut down
5 | first. What will you do to get around it?" (Id.) The record does
6 | not indicate whether this particular advertisement was ever publicly
7 | distributed.

8 | It is undisputed that StreamCast did deploy online banner
9 | advertisements, featuring the MusicCity logo, that asked: "When the
10 | lights went off at Napster . . . where did the users go?" (Griffin
11 | Depo. at 105; see also Smith Depo. at 138; Fabrizio Decl. Ex. 14 at
12 | 613.) StreamCast ran the ad on the third party client software that
13 | were used to access the MusicCity OpenNap servers, and timed the ads
14 | to coincide with technical problems at Napster. (Smith Depo. at 239.)
15 | As Smith testified:

16 | A: Because every time you had a disgruntled Napster user, by
17 | running the advertising and the way the advertising was
18 | spoofing and poking jest at Napster, it was basically
19 | telling the users, hey, you're going to get a better
20 | experience if you come to MusicCity.com.

21 | Q: And what was the objective of StreamCast's marketing and
22 | promotional efforts?

23 | A: At the time, it was to increase the number of users by
24 | increasing the amount of file sharing, because the more
25 | files that were physically available, the more users would
26 | come.

27 | (Smith Depo. at 239-40.) Then-chairman Steve Griffin also explained
28 | that StreamCast's objective was to "increase the number of users by

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1 increasing the amount of file sharing, because the more files that
2 were easily available, the more users would come." (Griffin Depo. at
3 239-40.)

4 A draft copy prepared for use on the MusicCity website, which was
5 attached to an email sent by Smith on January 9, 2001, sounded a
6 similar theme. It stated that "[t]he independent servers, those that
7 are not affiliated with Napster Inc. will remain open and free
8 regardless of any corporate decision by Napster Inc. to charge a
9 monthly fee or any court decision that causes Napster Inc. to be shut
10 down." (Fabrizio Decl. Ex. 14 at 850.) The email also stated,
11 "MusicCity.com operates the largest number of these non-Napster, Inc.
12 servers and you can click here to access them." (Fabrizio Decl. Ex.
13 14 at 851.) "You can help increase the number of files for sharing by
14 sending the MusicCity.com OpenNap link to your entire contact list."
15 (Fabrizio Decl. Ex. 14 at 852.) Likewise, StreamCast positioned
16 itself as a Napster alternative in materials developed for potential
17 investors and business partners. In an email dated February 17, 2001,
18 Schaffer sent Smith presentation slides that cast MusicCity as "The
19 #1 Alternative Network to Napster." The presentation boasted that
20 MusicCity had a "bigger selection" of files than Napster: over three
21 million files available at all times, compared with only one and half
22 million at Napster. (Fabrizio Decl. Ex. 14 at 614, 623, 627, 633).

23 StreamCast officials, including Smith and then-chairman Steve
24 Griffin, were well aware that the Napster network was heavily used for
25 downloading copies of copyrighted music recordings, and that OpenNap
26 would be no different. (Griffin Depo. at 102; Smith Depo. at 245-46.)

27 In an email dated January 11, 2002, Smith explained: "The goal is to
28 get in trouble with the law and get sued. It's the best way to get in

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1 the new[s]." (Fabrizio Decl. Ex. 14 at 864.) StreamCast was not in
2 ~~serious legal trouble at this point, but Napster was. StreamCast~~
3 hoped that if Napster was shut down or forced to filter its network to
4 eliminate copyrighted music by court order, frustrated Napster users
5 would turn to StreamCast. (Griffin Depo. at 103-105; Smith Depo. at
6 145.) Although StreamCast's OpenNap servers were initially designed
7 to search only files in the MP3 format, the search function was
8 expanded "to entice Napster users." (Smith Depo. at 244.) At the
9 same time, StreamCast did not have the capacity to meet the expected
10 influx of Napster users because its systems were already strained to
11 the limit. (Smith Depo. at 143.) To meet the expected influx of
12 Napster users, StreamCast raised money from its venture capital
13 backers to purchase additional server hardware.³ (Griffin Depo. at
14 100-01.)

15 Although its user base grew rapidly, StreamCast did not intend to
16 keep users on the OpenNap network for long. StreamCast did not
17 receive any revenue from its OpenNap servers. Users accessed
18 StreamCast's servers using such third party clients as Napster or
19 Napigator. Users were not asked to pay StreamCast for access to its
20 servers. Neither did StreamCast monetize the traffic by selling
21 advertisements, because the servers were accessed through third party
22 client software. StreamCast's objective was to promote the MusicCity

23 _____
24 ³ StreamCast claims that this fact is contradicted by the
25 testimony of director Bill Kallman, who represented the venture
26 capital investors on the board directors. Kallman stated that "I
27 don't recall ever-instructing Mr. Smith to purchase additional
28 servers. . . . In fact, . . . I didn't hire him, the CEO hired
him, and he worked under the supervision of the CEO." (Kallman
Decl. ¶ 33.) Fairly read, Kallman's testimony only reflected his
lack of familiarity with operatinoal details, and does not
contradict Griffin's deposition testimony.

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1 brand and then migrate those users to the its proprietary Morpheus
2 client, which would contain revenue-generating advertising space. As
3 explained in presentation slides Schaffer emailed to Smith on February
4 17, 2001, StreamCast intended to eventually monetize its rapidly
5 growing user base by moving to a revenue structure modeled on the
6 broadcast radio business. (Fabrizio Decl. Ex. 14 at 638-43.) Music
7 would continue to be free to users, but StreamCast would compensate
8 copyright holders through advertising revenue, and implement necessary
9 copyright protection technology. "Appropriate rights holders will be
10 justly compensated." (Id.) StreamCast also intended to eventually
11 move beyond music. "Technology will be marketed and licensed to
12 industries beyond music," including media, communications, financial
13 markets, and healthcare. (Fabrizio Decl. Ex. 14 at 655.) However,
14 nothing in the record indicates that StreamCast ever implemented
15 active measures to compensate copyright holders whose works were
16 infringed using Morpheus technology.

17 StreamCast then abandoned the Morpheus Toolbar application Smith
18 originally envisioned in 2000. (Weiss Decl. at 19.) The new Morpheus
19 would be a peer-to-peer file-sharing application that could be an
20 adequate replacement for OpenNap. In early 2001, Smith contacted
21 Consumer Empowerment, BV, a Dutch firm that held that rights to
22 FastTrack, a peer-to-peer file-sharing software program. FastTrack
23 was the technology behind the popular file-sharing client Kazaa.
24 Unlike Napster or OpenNap, FastTrack's search function did not depend
25 on a centralized server-side index. Instead, a search request simply
26 proceeded from user to user until matching files are found. In other
27 words, the use of FastTrack would render MusicCity's central search
28 index unnecessary; search, storage, and transfer of files would all

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1 take place on users' computers. In addition to FastTrack's pre-
2 existing file-sharing features, Smith wanted Consumer Empowerment to
3 make certain improvements. Smith sought to add a chat function as
4 well as "a product/artist search" feature. As he explained in an
5 email, "[t]he search functionality would allow users to find
6 information about artist and mp3 related products. We currently
7 maintain a database with information on 2 million songs including
8 album cover art." (Fabrizio Decl. Ex. 14 at 601.) In addition, Smith
9 wanted to remove a pre-existing feature that filtered out audio files
10 compressed at bitrates above 128 kilobytes per second.⁴ Consumer
11 Empowerment explained the bitrate limitation was implemented "as a
12 means to negotiate with the . . . record companies." Smith responded,
13 "[i]n the US market the RIAA feels the same about all MP3s, it doesn't
14 matter to them what the bitrate is."⁵ (Fabrizio Decl. Ex. 14 at 605.)

15 Prior to reaching a licensing agreement with Consumer
16 Empowerment, Griffin searched for Garth Brooks songs using FastTrack
17 in order to assess the system's capabilities. (Griffin Depo. at 36-
18 37.) As Morpheus was prepared for launch, StreamCast continued to pay
19 close attention to the availability of music and movies on its
20 network. In an email dated April 21, 2001, Griffin complained to
21 Weiss: "Mike, I downloaded bearshare⁶ to compare, and they are much
22 larger, I typed in garth brooks and got 2700 songs, on Morpheus I got
23 60." (Fabrizio Decl. Ex. 14 at 692.) In an email entitled "beta
24

25
26 ⁴ The higher the bit rate, the higher the audio quality of the digital sound file.

27 ⁵ "RIAA" refers to the Record Industry Association of America.

28 ⁶ BearShare is a competing peer-to-peer network.

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1 testing" and dated April 15, 2001, Schaffer wrote to Smith that "I
2 think our biggest problem is going to be qualifying content . . . a
3 lot of these programs are missing stuff; I am on my third copy of
4 sonic foundry's ACID :-P." (Fabrizio Decl. Ex. 14 at 659.) After
5 discussing several technical problems with Morpheus, Scaheffer again
6 stated "I seem to be having problems finding music content, a lot of
7 non results even on stuff like Elton John, but I guess that our
8 network should make some differance [sic] since we have greater
9 numbers." (Id.)

10 StreamCast's expectation that Morpheus would be used for piracy
11 is further evidenced by screenshots of the Morpheus interface Schaffer
12 emailed on July 9, 2001. The screenshot, which appears to be an image
13 capture of the Morpheus interface during testing, demonstrated a
14 search for music by the artist Sting, with a listing of Sting
15 recordings available for download. (Fabrizio Decl. Ex. 14 at 660,
16 665.) In another email sent approximately five hours later, Schaffer
17 wrote "here is an example of keeping the examples but covering our
18 asses," and attached a screenshot demonstrating a search but with the
19 artist information blurred out. (Fabrizio Decl. Ex. 14 at 672-73.)
20 Additionally, Streamcast tested Morpheus by downloading music by
21 Britney Spears. (Fabrizio Decl. Ex. 14 at 704.)

22 On April 21, 2001, StreamCast shut the OpenNap MusicCity network
23 and began migrating users to Morpheus. (Fabrizio Decl. Ex. 14 at
24 699.) Perhaps not coincidentally, StreamCast had been recently warned
25 by its counsel that the OpenNap service was now "unbelievably risky"
26 in light of recent developments in Napster litigation.⁷ (Fabrizio

27 _____
28 ⁷ The warning was stated in an email from attorney Jeff Bridges
to Mike Weiss and Steve Griffin.

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1 Decl. Ex. 16 at 1138.) StreamCast had also received an infringement
2 notice from the RIAA. (Weiss Decl. at 19.) Shortly after, the
3 revised MusicCity.com website that was launched along with Morpheus
4 advised users that it was illegal to trade copyrighted material
5 without permission from the copyright owner. (Weiss Decl. at 19; see
6 also Weiss Decl. Ex. 25.) StreamCast's Terms of Service agreements
7 with its users also demanded "you must agree that you will not use
8 MusicCity Networks to infringe the intellectual property or other
9 rights of others in any way." (Weiss Decl. Ex. 28.) But aside from
10 admonishments to users, StreamCast did not believe it had any
11 responsibility to prevent the use of its software for infringement.
12 StreamCast's view was that copyright owners were solely responsible
13 for protecting their content. A draft copy for MusicCity.com created
14 on April 24, 2001, contained the following question and answer:

15 Q: How can your service protect copyrights?

16 A: It is incumbent upon content owners to protect their
17 copyrighted works by deploying digital media rights
18 management software prior to releasing their works in a
19 digital format. Once protected, our services does nothing
20 to subvert that protection, in fact we embrace it and
21 encourage it. . . . We fully support the concept of
22 copyright and vow to work with content owners to provide
23 them with a secure way to distribute their digital media
24 through our network."

25 (Weiss Decl. Ex. 34 at 209.)

26 As reflected in emails sent to StreamCast from users, StreamCast
27 knew that the new Morpheus software continued to be used for copyright
28

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1 infringement. Many users complimented StreamCast for offering an
2 alternative to Napster. For example, one user wrote:

3 Just wanted to tell you how much I love your site. I used
4 to use Napster all the time, and when they began battling in
5 court I decided to look for a new place to look for all the
6 music I love. I wanted to tell you that I have never had a
7 problem finding any songs I want.

8 (Fabrizio Decl. Ex. 14 at 553.) Other emails reported technical
9 problems. StreamCast sometimes offered technical assistance to ensure
10 that Morpheus users could enjoy the music and movies they downloaded.
11 For example, in July and August 2001, StreamCast received several
12 emails from users reporting inability to playback downloaded videos,
13 including the movies Tomb Raider, The Blair Witch Project, Shrek, and
14 The Mummy's Return. (Fabrizio Decl. Ex. 14 at 564-68.) In each
15 instance, StreamCast advised the user to install the relevant third
16 party playback software plugins. (Id.) Still other emails sought
17 advice on finding or sharing content, and StreamCast's response was
18 telling. On July 12, 2002, a user complained about the paucity of
19 music from artists Elvis, Muddy Waters and the Buddy Guy. StreamCast
20 replied: "We do not control what users put on the site. (policy
21 section). Maybe you should load some up." (Fabrizio Ex. 14 at 556-
22 57) (emphasis added). In an email dated July 19, 2001, a user
23 inquired how he could copy and give to a friend a song by Tupac Shakur
24 from the Morpheus interface; StreamCast replied that he should attach
25 the music file to an email. (Fabrizio Decl. Ex. 14 at 571.)

26 By the end of 2001, StreamCast had been transformed from a
27 floundering startup with no revenue to a growing company with
28 approximately \$1.8 million in annual revenue. (Griffin Depo. at 90.)

1 Nearly all of StreamCast's 2001 revenue came from advertising. (Id.)
2 ~~The company sold advertising space on the Morpheus interface, on the~~
3 MusicCity.com website, as well as on pop-up windows accompanying the
4 Morpheus software. (Fabrizio Ex. 1 (Griffin Dep.) at 90.) Weiss
5 explained in a presentation he wrote in May 2001:

6 A big bulk of our revenue comes from advertising - at a time
7 that advertising is a four letter word to many in the
8 investment community - to us those four letters are CASH.
9 And we can do so where others have failed - even in this
10 highly depressed ad environment - because we are leveraging
11 our proprietary Peer-to-peer technology to achieve an
12 unprecedented low cost of goods.

13 (Weiss Decl. Ex. 11 at 129.) Of course, the flow of advertising
14 revenue depended on StreamCast's ability to attract a large number of
15 users, which in turn depended on the amount of music available in the
16 Morpheus network. According to a PowerPoint presentation produced by
17 StreamCast, among the greatest advantages of StreamCast's business
18 model was that it had "[n]o product costs to acquire music" and an
19 "[a]bility to get all the music." (Fabrizio Decl. Ex. 15 at 1066.)
20 Indeed, in a October 2001 marketing plan to pitch StreamCast's
21 advertising services to a video game company, which StreamCast
22 produced in discovery, the availability of music was identified as a
23 competitive advantage over rival MP3.com:

24 Morpheus contains thousands of music and entertainment files
25 while MP3.com's roster of offerings is limited. For
26 example, a search on Morpheus resulted in pages of Madonna
27 tracks, while the same search on MP3.com resulted in only
28 two Madonna tracks.

1 (Fabrizio Ex. 15 at 1097.)

2 While its users downloaded copyrighted works on a massive scale,
3 StreamCast acted to thwart copyright enforcement efforts. In an email
4 dated March 7, 2001, Smith instructed StreamCast's network operations
5 manager to ban from OpenNaps "hackers for the RIAA and Metallica
6 [sic],"⁸ who were presumably engaged in copyright enforcement efforts.
7 (Fabrizio Decl. Ex. 14 at 867.) In an email dated May 9, 2001, Weiss
8 alerted Smith and Griffin to Media Enforcer LLC, a company that
9 marketed software to help copyright owners track infringement on file-
10 sharing networks. (Fabrizio Decl. Ex. 14 at 693-94.) Media Enforcer
11 was discussed in an executive meeting between StreamCast and Consumer
12 Empowerment at the Loews Hotel in Santa Monica. Smith expressed the
13 view that FastTrack activities were being tracked by Media Enforcer,
14 which could possibly lead to a cease and desist letter. (Griffin
15 Depo. at 108.) Weiss was agitated by the thought that Media Enforcer
16 was tracking Morpheus users and wanted to know what could be done to
17 stop it. (Griffin Depo. at 109.) In June, Smith purchased a copy of
18 the software program Media Enforcer Professional. (Fabrizio Decl. Ex.
19 14 at 706.) He then provided the registration code to Consumer
20 Empowerment engineers so they could figure out how to block Media
21 Enforcer from searching the FastTrack network.⁹ After Consumer
22 Empowerment successfully blocked Media Enforcer, Smith sent a

23
24
25
26 ⁸ Metallica is a well-known heavy metal music act.

27 ⁹ It should be noted that Kazaa engineers cracked Media
28 Enforcer before Smith provided the registration code, so the code
Smith gave turned out to be unnecessary. (Fabrizio Ex. 14 at
706.)

1 congratulatory email stating "Good job" and "that's good, no more
2 MediaEnforcer." (Fabrizio Decl. Ex. 14 at 925.)¹⁰

3 Smith has also testified that he believed it was technologically
4 feasible to institute a filter that would prevent copyrighted content
5 from being traded in the OpenNap and Morpheus/FastTrack networks. He
6 presented his ideas to Kallman and Weiss, but was advised "that's not
7 a good thing to place into the software in case we were told to
8 actually use it." (Smith Depo. at 265.) Kallman and Weiss feared
9 that applying filtering technology would drive users to competing
10 peer-to-peer networks. (Smith Depo. at 266.) Griffin has confirmed
11 this account. (Griffin Depo. at 112.) Kallman denies that he ever
12 heard such a presentation from Smith or gave instructions to not
13 implement copyright filtering technology. (Kallman Decl. at 12-13.)

14 Morpheus/FastTrack contained filters that permitted users to
15 block pornographic files and viruses on the basis of metadata, or
16 textual tags attached to each file. File name and file extension are
17 both examples of metadata. The filters operated by screening out
18 files with "sex" in the file name as likely pornographic content or
19 "exe" in the file extension, which often indicates that the file
20 contains a virus. The filters were implemented by Consumer
21 Empowerment and came packaged with FastTrack. Smith has testified
22 that it was technologically feasible to use such metadata filters to
23 screen out copyrighted files. Smith has testified that by 2003, the

24
25 ¹⁰ StreamCast does not dispute that it purchased a copy of
26 Media Enforcer and forwarded it to Consumer Empowerment. (Weiss
27 Decl. at 26.) However, Weiss asserts that "StreamCast did not
28 participate in any action against any copyright monitoring or
enforcing company." (*Id.*) This conclusory statement is
insufficient to create a genuine dispute as to StreamCast's
cooperation with Consumer Empowerment with regard to Media
Enforcer.

1 code base of Morpheus 3.0 had the capability to filter out copyrighted
2 files on the basis of metadata, although the filter would also block
3 non-copyright-protected files with similar metadata. However, this
4 feature was not implemented in the released software.

5 In addition to metadata filtering, in recent years start-up
6 companies such as Audio Magic and SnoCap have offered new "acoustic
7 fingerprinting" technology, which they claim can filter copyrighted
8 works in peer-to-peer networks not just on the basis of metadata, but
9 also by examining the contents of a file. StreamCast, however,
10 disputes the effectiveness of acoustic fingerprinting.

11 StreamCast's business, particularly its advertising revenues,
12 continued to grow rapidly into 2002. StreamCast recorded \$3,312,664
13 in revenue for 2002, of which \$2,672,517 was attributed to
14 advertising. The remainder came from a new software distribution
15 business. Essentially, StreamCast was compensated by third party
16 software developers for bundling Morpheus with their software, such
17 that a user received a copy of the third party program with each
18 download of Morpheus. Also in 2002, StreamCast abandoned FastTrack
19 and switched its file-sharing platform to Gnutella, an open-source
20 program.

21 In 2003, StreamCast recorded \$2,281,226 in revenue, of which only
22 \$439,706 came from advertising. Also that year, StreamCast left the
23 Gnutella platform and adopted a new file-sharing platform known as
24 NeoNet. In 2004, StreamCast had \$2,788,954 in revenue, of which
25 \$725,339 came from advertising. The bulk of the remainder came from
26 software bundling. In 2004, StreamCast also began selling Morpheus
27 Ultra, a premium version of Morpheus that users had to buy rather than
28 download for free. (Weiss Decl. Ex. 15.) In mid 2005, StreamCast

1 discontinued the software bundling service. Today about half of
2 StreamCast's revenues come from sales of Morpheus Ultra, while most of
3 the remainder comes from advertising.

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4
5 **IV. SUMMARY JUDGMENT STANDARD**

6 Federal Rule of Civil Procedure Rule 56(c) requires summary
7 judgment for the moving party when the evidence, viewed in the light
8 most favorable to the nonmoving party, shows that there is no genuine
9 issue as to any material fact, and that the moving party is entitled
10 to judgment as a matter of law. See Fed. R. Civ. P. 56(c); Tarin v.
11 County of Los Angeles, 123 F.3d 1259, 1263 (9th Cir. 1997).

12 The moving party bears the initial burden of establishing the
13 absence of a genuine issue of material fact. See Celotex Corp. v.
14 Catrett, 477 U.S. 317, 323-24 (1986). That burden may be met by
15 "'showing' - that is, pointing out to the district court - that there
16 is an absence of evidence to support the nonmoving party's case." Id.
17 at 325. Once the moving party has met its initial burden, Rule 56(e)
18 requires the nonmoving party to go beyond the pleadings and identify
19 specific facts that show a genuine issue for trial. See id. at 323-
20 34; Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). "A
21 scintilla of evidence or evidence that is merely colorable or not
22 significantly probative does not present a genuine issue of material
23 fact." Addisu v. Fred Meyer, Inc., 198 F.3d 1130, 1134 (9th Cir.
24 2000). Only genuine disputes - where the evidence is such that a
25 reasonable jury could return a verdict for the nonmoving party - over
26 facts that might affect the outcome of the suit under the governing
27 law will properly preclude the entry of summary judgment. See
28 Anderson, 477 U.S. at 248.

1 When the moving party bears the burden of proof at trial - as is
2 the case here - the moving party must present evidence which, if
3 uncontroverted, would entitle it to prevail. UA Local 343 v. Nor-Cal
4 Plumbing, Inc., 48 F.3d 1465, 1471 (9th Cir. Cir. 1994). Once the
5 moving party has established a prima facie case, the non-moving party
6 must produce evidence to the contrary in order to survive summary
7 judgment. Id.

8
9 **V. SECONDARY LIABILITY**

10 **A. The Inducement Doctrine**

11 Plaintiffs have moved for summary judgment on StreamCast's
12 liability for the infringement committed by its users on the basis of
13 the inducement doctrine set forth by the Supreme Court in Grokster.
14 As the Supreme Court held, "one who distributes a device with the
15 object of promoting its use to infringe copyright, as shown by clear
16 expression or other affirmative steps taken to foster infringement, is
17 liable for the resulting acts of infringement by third parties."
18 Grokster, 125 S. Ct. at 2770. The Supreme Court further explained,

19 [M]ere knowledge of infringing potential or of actual
20 infringing uses would not be enough here to subject a
21 distributor [of the device] to liability. Nor would
22 ordinary acts incident to product distribution, such as
23 offering customers technical support or product updates,
24 support liability in themselves. The inducement rule,
25 instead, premises liability on purposeful, culpable
26 expression and conduct, and thus does nothing to compromise
27 legitimate commerce or discourage innovation having a lawful
28 promise.

1 Id. at 2780. Importantly, liability may attach even if the defendant
2 does not induce specific acts of infringement. Id. at 2782 n.13

3 An unlawful objective to promote infringement can be shown by a
4 variety of means. "The classic instance of inducement is by
5 advertisement or solicitation that broadcasts a message designed to
6 stimulate others to commit violations." Id. at 2780. However,
7 showing that the defendant sent out such a message is "not [the]
8 exclusive way of" demonstrating inducement. Id. With respect to
9 StreamCast, the Supreme Court highlighted three facts from which a
10 reasonable factfinder could infer an intent to foster infringement.
11 First, some internal StreamCast communications and advertising designs
12 expressed an intent to target Napster users, a community well-known
13 for copyright infringement. Although it was not known whether some of
14 the advertising designs were actually communicated to the public,
15 "whether the messages were communicated is not to the point on this
16 record." Id. at 2781. "The function of the message in the theory of
17 inducement is to prove by a defendant's own statements that his
18 unlawful purpose disqualifies him from claiming protection." Id.
19 Second, StreamCast did not attempt to develop filtering tools or other
20 means of diminishing the use of its products for infringement.
21 Although this fact alone would be insufficient to support liability,
22 viewed in conjunction with other evidence it underscored StreamCast's
23 unlawful objective. Id. at 2781 n. 12. Third, StreamCast's business
24 model depended on high-volume use of its software, which was
25 overwhelmingly infringing. Id. at 2781-82. Again, this evidence
26 would not alone justify the imposition of liability, but it supported
27 an inference of unlawful intent when viewed in context with other
28 evidence in the record. Id.

1 StreamCast argues that a defendant could be found liable for
2 secondary infringement only if it: (1) for the purpose of inducing
3 infringement, (2) took actions beyond distributing infringement
4 enabling technology, and (3) which actually resulted in specific
5 instances of infringement. (Opp'n at 15.) In StreamCast's view, even
6 if it distributed peer-to-peer software with the intent for it to be
7 used for infringement, liability does not attach unless it took
8 further actions, such as offering instructions on infringing use, that
9 actually caused specific acts of infringement. Much of StreamCast's
10 brief is devoted to arguing that Plaintiffs failed in proving the
11 second and third elements of its proposed test. However, StreamCast's
12 legal theory is plainly contrary to the Supreme Court's holding in
13 Grokser. As the Supreme Court explained,

14 It is not only that encouraging a particular consumer to
15 infringe a copyright can give rise to secondary liability
16 for the infringement that results. Inducement liability
17 goes beyond that, and the distribution of a product can
18 itself give rise to liability where evidence shows that the
19 distributor intended and encouraged the product to be used
20 to infringe. In such a case, the culpable conduct is not
21 merely the encouragement of infringement but also the
22 distribution of the tool intended for infringing use.

23 125 S. Ct. at 2782 n. 13. Thus, Plaintiffs need not prove that
24 StreamCast undertook specific actions, beyond product distribution,
25 that caused specific acts of infringement. Instead, Plaintiffs need
26 prove only that StreamCast distributed the product with the intent to
27 encourage infringement. Since there is no dispute that StreamCast did
28 distribute an infringement-enabling technology, the inquiry focuses on

1 the defendant's intent, which can be shown by evidence of the
2 defendant's expression or conduct. "If liability for inducing
3 infringement is ultimately found, it will not be on the basis of
4 presuming or imputing fault, but from inferring a patently illegal
5 objective from statements and actions showing what that objective
6 [is]." Id. at 2782.

7 In the record before the Court, evidence of StreamCast's unlawful
8 intent is overwhelming.

9
10 B. StreamCast's Software Was Used Overwhelmingly for
11 Infringement

12 Plaintiffs have presented studies showing that StreamCast
13 products facilitated massive infringement of their copyrighted
14 content.¹¹ (See Olkin Decl.; Hausman Decl.) Plaintiffs' expert
15 witness Dr. Ingram Olkin is a professor of statistics at Stanford
16 University. He devised a random sampling procedure in which words
17 were randomly selected from the American Heritage Electronic
18 Dictionary and then used to search for files using Morpheus software.
19 If a search results in a list of file names, a random number generator
20 was used to choose a file for downloading. The search procedure was
21 implemented in a study supervised by Charles Hausman, an anti-piracy
22 executive at the Motion Picture Association of America. The study
23 showed that 87.33% of the files offered for distribution on the
24 Morpheus network were infringing or highly likely to be infringing.
25 The randomly selected files were downloaded, and then uploaded to

26
27 ¹¹ StreamCast does not dispute Plaintiffs' ownership of the
28 copyrighted works identified in the pleadings and the Rule 26
disclosures.

1 determine the percentage of file download requests from Morpheus users
2 that were aimed at the infringing files. Almost 97% of the files
3 actually requested for downloading were infringing or highly likely to
4 be infringing. While infringing use by third parties is not by itself
5 evidence of StreamCast's intent, the staggering scale of infringement
6 makes it more likely that StreamCast condoned illegal use, and
7 provides the backdrop against which all of StreamCast's actions must
8 be assessed.

9 The only evidence StreamCast offers to rebut Plaintiffs' studies
10 is a declaration from StreamCast counsel Wendy Goodkin, who testified
11 that she was able to locate some public domain content, such as the
12 Declaration of Independence, using the Morpheus software. However,
13 Goodkin did not use a random sampling procedure. Her declaration says
14 nothing about the percentage of files available on the network that
15 are infringing. It follows that Plaintiffs' showing of massive
16 infringement on StreamCast's network is undisputed.

17
18 C. StreamCast's Targeting of Napster Users

19 StreamCast staved off closure at the start of 2001 by launching
20 its OpenNap/MusicCity network to attract Napster users to its servers.
21 As the Supreme Court has noted, StreamCast's courting of the Napster
22 community, which was notorious for copyright infringement, indicated
23 an intent to foster infringement. Grokster, 125 S. Ct. at 2779.
24 StreamCast now insists that it targeted the Napster community because
25 it wanted to find a way to distribute Morpheus Toolbar, and Napster
26 users represented a technology-savvy audience that any software
27 company would want as a customer base. However, uncontroverted
28 evidence shows that StreamCast purposefully targeted Napster users,

1 not merely to market to them, but to convert them into StreamCast
2 users by offering them the same file-sharing service that Napster had
3 itself offered. Michael Weiss, StreamCast's CEO, himself stated in an
4 email from early 2001 that "it was always our intent to use [OpenNap]
5 to be able to capture email addresses of our initial target market so
6 that we could promote our StreamCast Morpheus interface to them."
7 (Fabrizio Ex. 14 at 678.)

8 StreamCast selected the OpenNap precisely because it was a
9 Napster-compatible file-sharing application. Moreover, in the early
10 days of OpenNap, StreamCast measured its progress by comparing itself
11 to Napster and by monitoring the amount of files available for
12 download in the MusicCity network, many if not most of which were
13 copyrighted works. StreamCast also sent its agents into Internet
14 chatrooms to encourage Napster users to migrate to MusicCity, and ran
15 advertisements promoting itself as an alternative to Napster.
16 StreamCast's internal documents demonstrated its intent to exploit
17 Napster's legal problems by enticing users to MusicCity in the event
18 that Napster was forced to shut down or filter out copyrighted files
19 by court order. StreamCast even ran online banner advertisements that
20 stated: "When the lights went off at Napster . . . where did the users
21 go?" StreamCast rejoins that the banner advertisement merely promoted
22 the use of its products, and did not expressly tell users to infringe.
23 But that is besides the point. Clearly, StreamCast sought to offer
24 the same exact service Napster did to the same group of users, even
25 after a federal court had entered a preliminary injunction against
26 Napster for secondary infringement. StreamCast's current position
27 that it merely wanted to market Morpheus Toolbar to a desirable
28 demographic does not controvert the fact that StreamCast chose a means

1 - the establishment and promotion of a Napster-compatible file-sharing
2 service to a community known for infringement - that manifested an
3 intent to encourage copyright infringement. Such intent was also
4 expressed in an email from CEO Weiss; he started a survey finding that
5 70% of Napster users would defect if Napster asked them to pay for
6 music, and that those users were precisely the ones that StreamCast
7 targeted for acquisition. (Fabrizio Decl. Ex. 17 at 1373.)

8 Notwithstanding the fact that it actively marketed
9 OpenNap/MusicCity to Napster users, StreamCast argues that it "fell
10 upon these users by accident," and that Napster users discovered and
11 migrated to MusicCity on their own. It is possible that StreamCast's
12 marketing efforts were wholly ineffective and its user base grew
13 primarily by word of mouth. Even if the Court assumes that to be
14 true, StreamCast's promotional efforts, internal communications,
15 advertising designs, and actual advertisements constitute clear
16 expressions of its unlawful intent.

17
18 D. StreamCast's Assistance to Infringing Users

19 It is undisputed that StreamCast provided users with technical
20 assistance for playback of copyrighted content. The files that users
21 reported having trouble playing back included such popular copyrighted
22 content as Seinfeld, the Matrix, Tomb Raider, and Shrek. StreamCast
23 argues that the evidence is immaterial because the technical
24 assistance concerned the use of third party software such as
25 Microsoft's Windows Media Player, not Morpheus. However, those users
26 sought assistance from StreamCast because the music and movies they
27 wanted to play back were downloaded from OpenNap/MusicCity or
28 Morpheus. StreamCast's incentive to help is obvious: if users could

1 not enjoy the files they downloaded through Morpheus, they would be
2 less likely to use Morpheus in the future. It is not surprising that,
3 in one instance, StreamCast even suggested to a user that he upload
4 copyrighted content for sharing.¹² While knowledge of infringing use
5 per se cannot give rise to secondary liability, by providing technical
6 assistance to help users enjoy copyrighted content they illegally
7 downloaded, StreamCast demonstrated an intent to encourage use of its
8 technology for infringement.

9
10 E. StreamCast Ensured Its Technology Had Infringing
11 Capabilities

12 Infringing use was undisputably on StreamCast's mind when it
13 developed Morpheus; indeed, StreamCast took steps to ensure that the
14 technology it deployed would be capable of infringing use. Before
15 deciding to license FastTrack technology for Morpheus, StreamCast
16 chairman Griffin evaluated FastTrack by searching for Garth Brooks
17 songs on the FastTrack network. While Morpheus was in beta testing,
18 StreamCast employees identified the insufficient quantity of popular
19 copyrighted content on the network as an important problem. Griffin
20 continued to focus on the availability of Garth Brooks songs, while
21 art director Margauz Schaffer reported difficulties finding music from
22 Elton John. (Fabrizio Decl. Ex. 14 at 659, 692.) Software engineer
23 Panetti, for his part, tested the system by downloading tracks by
24 Britney Spears. (Fabrizio Decl. Ex. 14 at 704.) As an example of the
25 Morpheus interface's capabilities, StreamCast also created screenshots

26
27 ¹² The user complained about the paucity of music from Elvis
28 and Muddy Waters. StreamCast replied: "We do not control what
users put on the site. (policy section). Maybe you should load
some up." (Fabrizio Ex. 14 at 556-57.)

1 of a search for music by Sting. (Fabrizio Decl. Ex. 14 at 660.)
2 StreamCast would not have evaluated Morpheus by its infringing
3 capabilities if it did not intend widespread infringing use.¹³

4 When StreamCast negotiated licensing FastTrack from Consumer
5 Empowerment to replace the OpenNap architecture, Smith told Consumer
6 Empowerment that StreamCast maintained a database of two million songs
7 and wanted to enable users to conduct a "product/artist" search.
8 (Fabrizio Decl. Ex. 14 at 601.) It is not clear whether that proposal
9 was implemented, but it is undisputed that the Morpheus interface also
10 contains a search category for "Top 40" songs. "Top 40" is a term
11 typically used to refer to the best-selling or most frequently
12 broadcast pop music songs at a given time.¹⁴ Such songs are almost
13 invariably copyrighted. StreamCast explains that Morpheus software
14 does not itself identify particular files as Top 40 content. Rather,
15 the Top 40 feature enables a user to search for files that other users
16 have designated as Top 40 content. Even though StreamCast's peer-to-
17 peer architecture gives users responsibility for categorizing content,
18 the fact remains that StreamCast implemented a feature that made it
19 easier for users to share copyrighted content. The inference of
20 intent to promote infringement is particularly forceful when
21 considered alongside the fact that StreamCast tested the system by
22 searching for infringing content.

23 ¹³ Plaintiffs have also offered deposition testimony from Smith
24 stating that StreamCast board member Kallman seeded the OpenNap
25 network with copyrighted content. However, Kallman has flatly
26 denied uploading such content in his own deposition testimony.
The Court, of course, must resolve this dispute fact in favor of
StreamCast at this stage of the proceeding.

27 ¹⁴

28 See "Top 40," Wikipedia, http://en.wikipedia.org/wiki/Top_40
(Last accessed Aug. 12, 2006.)

1 In addition, StreamCast took active steps to protect illegal file
2 trading from the enforcement efforts of copyright holders. In May
3 2001, StreamCast became aware of MediaEnforcer, a software program
4 that enabled copyright owners to track infringement on the Internet.
5 As documented in a series of emails, StreamCast immediately undertook
6 action to block MediaEnforcer from the Morpheus network. (Fabrizio
7 Decl. Ex. 14 at 925-28.) StreamCast also blocked from its network
8 Plaintiffs' law firm Mitchell Silverberg and the anti-piracy firm
9 NetPD, which StreamCast described in an email as "hackers for RIAA and
10 Metallica." (Fabrizio Decl. Ex. 14 at 867). StreamCast also deployed
11 encryption technology so that Plaintiffs could not see what files were
12 being transferred through Morpheus. (Fabrizio Decl. Ex. 2 at 287-89;
13 Ex. 14 at 1405, 409-12.) StreamCast's current protestations that it
14 was merely protecting the privacy of its users - as stated in Weiss's
15 affidavit - is belied by these internal documents and deposition
16 testimony showing its concern about copyright enforcement efforts. As
17 chairman Griffin has explained, "[w]ith the continued litigious nature
18 of the media companies at the time, we were always looking for ways to
19 find a more anonymous solution" for its users. (Fabrizio Decl. Ex. 1
20 at 120-21.)

21
22 F. StreamCast's Business Model Depended on Massive Infringing
23 Use

24 In Grokster, the Supreme Court identified StreamCast's reliance
25 on revenue from infringing use as evidence of unlawful intent. 125 S.
26 Ct. at 2781-82. Until 2004, StreamCast did not sell its Morpheus
27 software, but gave it to away to users without cost. Revenue was
28 generated by displaying advertising on the software's user interface.

1 "[T]he more the software is used, the more ads are sent out and the
2 greater the advertising revenue becomes. Since the extent of the
3 software's use determines the gain to the distributors, the commercial
4 sense of their enterprise turns on high-volume use, which the record
5 shows is infringing." Id. In 2001, nearly all of StreamCast's
6 revenue came from advertising. In 2002, advertising still made up
7 nearly two-thirds of StreamCast's total revenue. In 2003,
8 advertising's share of total revenue sunk to 19%, but it increased
9 back to 26% in 2004. As of early 2006, advertising made up about half
10 of total revenue.

11 StreamCast relies on the drop in advertising's share of total
12 revenue in 2003 and 2004 to argue that a triable issue remains on
13 whether its business model creates an inference of unlawful objective.
14 The argument is unpersuasive. According to StreamCast, in those two
15 years the bulk of non-advertising revenue consisted of software
16 bundling, a practice in which StreamCast was paid by third party
17 software companies to "bundle" their software with Morpheus for
18 distribution. Users would receive the bundled third party software
19 along with each download of Morpheus. For purposes of the inducement
20 doctrine, the business logic of bundling was no different from
21 advertising. The attractiveness of StreamCast's bundling services to
22 third party software companies depend on the high-volume use of
23 Morpheus. The more times Morpheus was downloaded, the more bundling
24 business StreamCast stood to gain. And the evidence is that Morpheus
25 is most often downloaded and used for infringement. It is true that
26 sales of Morpheus now account for a significant part of StreamCast's
27 business. However, even then advertising still constitutes about half
28 of StreamCast's revenue.

1 The record shows that StreamCast knew its business model depended
2 on massive infringing use, and acted to grow its business accordingly.

3 Smith has testified that StreamCast's objective in advertising to
4 Napster users was to "increase the number of users by increasing" the
5 amount of file-sharing, because the more files that were physically
6 available, the more users would come." (Fabrizio Decl. Ex. 2 239-40.)
7 Shortly after launching the OpenNap/Music City network, Weiss measured
8 the company's progress by tracking the number of files that were
9 available, which he told employees had increased from 316,000 to
10 15,006,322 MP3 files in less than two weeks. (Fabrizio Decl. Ex. 14
11 at 768-81.) A month later, art director Schaffer produced
12 presentation slides boasting that OpenNap/MusicCity had more files
13 available for sharing than Napster. (Fabrizio Ex. 14 at 614, 623,
14 627, 633.) The large number of users who were drawn to StreamCast by
15 the files available for download was an asset for StreamCast's
16 advertising business. For example, StreamCast sales executive Trey
17 Bowles touted StreamCast to a prospective advertiser by pointing out
18 that "Morpheus has such a high media content with almost every user
19 interested in music in many capacities." (Fabrizio Ex. 14 at 528.)
20 Of course, it helped StreamCast's profitability that it did not incur
21 any costs to obtain the content that was used to attract users. As a
22 PowerPoint presentation stated, a strength of its model was "that it
23 had "[n]o product costs to acquire music" and an "[a]bility to get all
24 the music." (Fabrizio Ex. 15 at 1006.)

25 StreamCast emphasizes that it intended - as documented by
26 business plans and strategy papers - to pay for licensed content, and
27 also to derive revenue from instant messaging and an internet
28 telephone service. StreamCast also blames Plaintiffs for their

1 difficult licensing terms, which StreamCast believes prevented it from
2 launching a successful, legal business with licensed content.

3 StreamCast has submitted declarations from its executives stating that
4 StreamCast wanted to be a legitimate business, and that infringing
5 users took up its products through no fault of its own. Whatever its
6 subjective intentions were about eventually securing licenses and
7 developing revenue streams that did not depend on infringement, the
8 business that actually materialized was one that thrived only because
9 of the massive infringement enabled by Morpheus and OpenNap/MusicCity.
10 And as recounted above, undisputed objective evidence shows that
11 StreamCast distributed its software with the goal of facilitating and
12 profiting from infringing use.

13
14 G. StreamCast Has Taken No Meaningful Affirmative Steps to
15 Prevent Infringement

16 The Supreme Court held that a defendant's failure to prevent
17 infringing use may indicate an intent to facilitate infringement.
18 Grokster, 125 S. Ct. at 2781. Although secondary liability may not be
19 premised on this factor alone, it may be considered along with other
20 circumstances in determining the defendant's motive. Id. at 2781
21 n.12. By implication, although StreamCast is not required to prevent
22 all the harm that is facilitated by the technology, it must at least
23 make a good faith attempt to mitigate the massive infringement
24 facilitated by its technology.

25 Plaintiffs point out, and StreamCast does not dispute, that
26 StreamCast has never implemented a system to filter out copyrighted
27 content from the Morpheus network. However, the parties vigorously
28 dispute whether filtering is technologically feasible. Generally, two

1 potential methods of filtering exist. The first is based on acoustic
2 fingerprinting technology, which involves the creation of unique
3 digital signatures for each music file and the identification of the
4 files on the basis of that signature through comparison of a database
5 of copyrighted content. The file-sharing client application would
6 then be programmed to block files that match the signatures of known
7 copyrighted content. Plaintiffs have submitted declarations from
8 executives of acoustic fingerprinting technology companies to show
9 that acoustic fingerprinting is a readily available solution for
10 stopping rampant copyright infringement in file-sharing networks.
11 StreamCast rejoins that acoustic finger-printing does not work. A
12 StreamCast witness' affidavit states that he was able to find copy-
13 righted content made available for sharing on the iMesh network, a
14 StreamCast competitor, inspite of iMesh's implementation of acoustic
15 fingerprinting-based filtering. StreamCast has requested further
16 discovery pursuant to Rule 56(f) to evaluate the effectiveness of
17 acoustic fingerprinting technology.

18 The second potential filtering method is based on metadata.
19 Metadata is data that describes the properties of a digital file. A
20 music file typically has such metadata as song title and artist name.
21 Morpheus itself executes file searches on the basis of metadata, such
22 as song names. Conversely, the search function could be programmed to
23 filter out copyrighted files on the basis of metadata. FastTrack-
24 based versions of Morpheus already contain a feature that, if
25 activated by the user, filters out pornographic content on the basis
26 of file name. Plaintiffs argue that the technology behind the
27 pornography filter could easily be reconfigured to filter out
28 copyrighted content. For example, the client software could be

1 configured to filter out all files bearing the names "Jay-Z" or "the
2 Beatles." StreamCast counters that metadata filtering would be
3 burdensome and overbroad, as it would block all files that share
4 common words in metadata, even if the file is not copyrighted. There
5 is less concern with overinclusive filtering for pornography because
6 there are only a few terms commonly associated with pornography; in
7 contrast, a list that contains of all copyrighted music and movies
8 owned by Plaintiffs would contain many generic terms, with
9 correspondingly greater potential for overinclusive filtering.
10 StreamCast also argues that, with regard to FastTrack-based versions
11 of Morpheus, StreamCast did not have the ability to directly modify
12 the FastTrack source code, which the licensor controlled, to
13 implement copyright filtering. StreamCast also emphasizes that former
14 chief technology officer Smith, who is now cooperating with
15 Plaintiffs, has given inconsistent testimony on the feasibility and
16 ease of filtering technology; his current testimony is far more
17 optimistic about the feasibility of metadata filtering than when he
18 was still employed by StreamCast.

19 Based on the foregoing, a jury could reasonably agree with
20 StreamCast that copyright-filtering does not work perfectly, and
21 implementing it would negatively impact usability. However, the
22 ultimate question for this Court's inquiry is to examine StreamCast's
23 intent. Even if filtering technology does not work perfectly and
24 contains negative side effects on usability, the fact that a defendant
25 fails to make some effort to mitigate abusive use of its technology
26 may still support an inference of intent to encourage infringement.

27 However, the technological issue is beside the point, considering
28 StreamCast's expressed attitude toward filtering. In the record,

1 there is no hint that StreamCast was at all troubled by the fact that
2 its products were used to commit copyright infringement on a massive
3 scale. While StreamCast executives were quick to express concern and
4 devise technological solutions to prevent Plaintiffs from enforcing
5 their copyrights, they were positively resistant to the possibility of
6 copyright filtering. That is not surprising, because StreamCast's
7 business depended on attracting users by providing them with the
8 ability to pirate copyrighted content. As Weiss stated, "[w]e did not
9 care what was on those files [traded by the users], we only cared that
10 we were able to compare ourselves favorably with the much larger and
11 firmly entrenched Napster." (Weiss Decl. at 52.)

12 According to Smith's undisputed testimony, he had discussed the
13 possibility of metadata-based copyright filtering on OpenNap/MusicCity
14 and FastTrack/Morpheus, but Kallman and Weiss both rejected the idea.

15 Q: What was [Weiss's] reaction to your copyright filtering
16 schemes?

17 A: He thought it was a great idea in the context of using it
18 for cross-promotional advertising based upon what users were
19 searching for, not for blocking the file from being - but
20 not for the purpose of blocking the file so the person
21 couldn't access it.

22 Q: So it was a good idea for the purpose of knowing what they
23 were trading but not for the purpose of stopping trading
24 them from trading copyrighted works?

25 A: That's correct.

26 . . .

27 A: It was a phone conversation where we were basically talking
28 about being able to do things like, let's say someone was

1 searching for a Christina Aguilera song, and at the same
2 time there was additional information that would pop up next
3 to that search result coming from Amazon or from another
4 location. Because at the time Kazaa, they were doing that,
5 and that was a feature that we weren't taking advantage of.
6 And during our conversations of talking about being able to
7 filter, they didn't like the idea of that being implemented
8 in the software, because if we were told to turn that on,
9 there was basically fear it could . . . shut down the number
10 of users.

11 (Fabrizio Decl. Ex. 2 at 265-66.) In fact, StreamCast saw its
12 resistance to filtering as a competitive advantage. In another
13 conversation, Griffin and Weiss discussed the possibility that Napster
14 might be judicially ordered to implement copyright filters. As
15 Griffin recalled in deposition:

16 Q: And if Napster was forced to filter its files to eliminate
17 copyrighted popular music, do you remember Mr. Weiss saying
18 what the likely impact on the Napster users would be?

19 A: I don't remember his exact words, but I recall the tenor of
20 the conversation was that we will take all their users.

21 (Fabrizio Decl. Ex. 1 at 103.)

22 Not surprisingly, StreamCast was unreceptive when it was
23 approached in 2002 by GraceNote, a company that had worked with
24 Napster on a way to use acoustic fingerprinting technology to identify
25 copyrighted music and pay copyright holders. Jody Pace, the
26 StreamCast employee responsible for responding to GraceNote's offer
27 emailed Trey Bowles for instructions: "I know this is something we DO
28 NOT want to do, but I am not sure how I need to word that." (Fabrizio

1 Ex. 14 at 957.) Indeed, Smith, who as chief technology officer would
2 be involved in any major technical decision, testified in 2002 that he
3 has never conducted major research into the viability of new acoustic
4 fingerprinting technology. Nor had he ever been asked to investigate
5 the availability of databases that might be used for filtering.
6 (Baker Decl. Ex. 15 at 3497-3503.)

7 This Court recognizes that StreamCast blocked certain users from
8 its network when asked to do so by copyright holders. However, its
9 effort was half-hearted at best. As described above, StreamCast used
10 encryption technology to defeat Plaintiffs' monitoring efforts.
11 Moreover, blocking users was not very effective because a user could
12 simply create a new username to re-enter the network under a different
13 identity. StreamCast had the capability of automatically blocking
14 these users on a rolling basis, but expressly decided not to do so.
15 (See, e.g., Smith Depo. at 153-54, 157-58, 176-77.)

16
17 H. StreamCast Cannot Reasonably Claim Ignorance of Infringement

18 StreamCast contends that it was unaware of the copyrights at
19 issue until November 2001, when it was served in the instant action.
20 StreamCast further argues that any evidence of its intent prior to
21 November 2001 - such as internal documents surrounding the launch of
22 OpenNap/MusicCity in January 2001 - cannot be used to prove its intent
23 to induce infringement, simply because it could not logically intend
24 to infringe copyrights of which it was not aware.

25 This argument is implausible. StreamCast cannot seriously argue
26 that it did not know that the popular music and movies traded on its
27 network were copyrighted, particularly in light of the publicity
28 surrounding the Napster litigation and StreamCast's clear plans to

1 exploit Napster's legal troubles. StreamCast relies on a series of
2 patent cases - see, e.g., L.A. Gear, Inc. v. E.S. Originals, Inc., 859
3 F. Supp. 1294, 1300 (C.D. Cal. 1994) - for the proposition that a
4 defendant cannot be found to have intended and encouraged patent
5 infringement unless it was actually aware of the infringed patent.
6 However, while whether a particular technical process is patented may
7 not be immediately obvious, it is common knowledge that most popular
8 music and movies are copyrighted.

9
10 I. Summary of Inducement Liability

11 In sum, evidence of StreamCast's objective of promoting
12 infringement is overwhelming. Indeed, in Groskter the Supreme Court
13 had hinted that summary judgment should be granted for Plaintiffs
14 after reviewing much of the same evidence. 125 S. Ct. at 2782. After
15 carefully and independently considering the evidence presented by the
16 parties, the this Court finds that no reasonable factfinder can
17 conclude that StreamCast provided OpenNap services and distributed
18 Morpheus without the intent to induce infringement. The only
19 remaining question is whether StreamCast can show that a continuance
20 of this summary judgment motion is warranted.

21
22 VI. The Rule 56(f) Motion

23 A. Legal Standard

24 Federal Rule of Civil Procedure 56(f) allows the Court to refuse
25 an application for summary judgment or order a continuance if the
26 party opposing the motion cannot present "facts essential to justify
27
28

1 the party's position."¹⁵ "To prevail under this Rule, parties opposing
2 a motion for summary judgment must make '(a) a timely application
3 which (b) specifically identifies (c) relevant information, (d) where
4 there is some basis for believing that the information sought actually
5 exists.'" Employers Teamsters Local No. 175 v. Clorox Co., 353 F.3d
6 1125, 1129 (9th Cir. 2004) (internal citation omitted). "'The burden
7 is on the party seeking additional discovery to proffer sufficient
8 facts to show that the evidence sought exists, and that it would
9 prevent summary judgment.'" Id. at 1129-30 (quoting Chance v. Pac-Tel
10 Teletrac, Inc., 242 F.3d 1151, 1161 n.6 (9th Cir. 2001)). "'The
11 district court does not abuse its discretion by denying further
12 discovery if the movant has failed diligently to pursue discovery in
13 the past, or if the movant fails to show how the information sought
14 would preclude summary judgment.'" Id. at 1130 (quoting Cal. Union
15 Ins. Co. v. Am. Diversified Sav. Bank, 914 F.2d 1271, 1278 (9th Cir.
16 1990) (internal citations omitted)).

17 StreamCast has requested further discovery on four issues: (1)
18 the feasibility of acoustic fingerprinting technology; (2) the
19 reliability of statistical methods devised by Plaintiffs' expert Dr.
20 Olkin; (3) the credibility of witness Smith, its former chief
21 technology officer who is now cooperating with Plaintiffs; and (4) the
22 issue of the copyright misuse defense.

23 ¹⁵ Rule 56(f) provides:
24 Should it appear from the affidavits of a party
25 opposing the motion that the party cannot for reasons
26 stated present by affidavit facts essential to justify
27 the party's opposition, the court may refuse the
28 application for judgment or may order a continuance to
permit affidavits to be obtained or depositions to be
taken or discovery to be had or may make such other
order as is just.
Fed. R. Civ. P. 56(f).

1
2 B. The Deposition Requests

3 StreamCast wants to depose Plaintiffs' witnesses who submitted
4 affidavits on the effectiveness of acoustic fingerprinting technology.
5 StreamCast intends to demonstrate that acoustic fingerprinting
6 technology cannot be effectively deployed in a peer-to-peer file-
7 sharing network. However, the ultimate issue centers on StreamCast's
8 intent. Technical feasibility is immaterial in light of clear
9 evidence that StreamCast was resistant to the idea of copyright
10 filtering for fear that it would drive away infringing use, on whom
11 StreamCast' business depended.

12 StreamCast's desire to depose Dr. Olkin, who designed the
13 statistical study on the amount of infringing material on the Moprheus
14 network, is likewise unavailing. Dr. Olkin has explained his
15 methodology in detail in his affidavit. StreamCast has offered no
16 specific objection to his methodology, but merely alleges a general
17 belief that his methods are biased. "Neither a desire to cross-
18 examine affiant nor an unspecified hope of undermining his or her
19 credibility suffices to avert summary judgment, unless other evidence
20 about an affiant's credibility raises a genuine issue of material
21 fact." Frederick S. Wyle, P.C. v. Texaco, Inc., 764 F.2d 604, 608
22 (9th Cir. 1985).

23 StreamCast questions Smith's credibility on the ground that he is
24 cooperating with Plaintiffs to avoid personal liability, and seeks an
25 opportunity to further depose him. StreamCast has already deposed him
26 several times in the past, including twice after he left StreamCast.
27 StreamCast contends that it was not aware of Smith's cooperation with
28 Plaintiffs when it last deposed him. It is true that Smith's latest

1 deposition testimony on the technical feasibility of metadata
2 filtering is arguably inconsistent with the deposition testimony he
3 gave earlier while he was still in StreamCast's employment.¹⁶ However,
4 that is the only issue on which any arguable inconsistency exists, and
5 one that is not critical to the Court's decision. The parts of
6 Smith's deposition testimony that have been relied on by the Court -
7 such as his recollection of statements by Weiss - are generally
8 corroborated by other independent evidence. Moreover, since the case
9 focuses on StreamCast's motive and intent, most of the relevant facts
10 are squarely within StreamCast's control, and nothing stops StreamCast
11 from producing evidence to contradict Smith's testimony.

12 Thus, StreamCast's request for further depositions is denied.

13
14 C. Copyright Misuse

15 Finally, StreamCast contends that a ruling on summary judgment
16 should be deferred so it can conduct discovery on its copyright misuse
17 affirmative defense. At the outset, the Court notes that StreamCast
18 has offered no reasonable excuse for its failure to propound discovery
19 on affirmative defenses before the discovery cutoff of March 7, 2005.
20 StreamCast had pleaded its affirmative defenses in the answer it filed
21 in December 2001.¹⁷ Although the Court granted summary judgment for
22

23 ¹⁶ Smith's answers while he was employed by StreamCast were
24 generally more vague, so the Court has found no direct
25 contradictions on any point between his various deposition
26 testimonies. But StreamCast is right that the general tenor of
the testimony has been inconsistent over time, and is now much
less favorable to StreamCast.

27 ¹⁷ StreamCast's answer did not specifically plead copyright
28 misuse, but it did plead unclean hands, which StreamCast now
claims preserved the misuse defense. (StreamCast Brief 7/26/2006
at 16.)

1 StreamCast in April 2003 for the then-current version of StreamCast's
2 software, StreamCast remained potentially liable for past versions of
3 its services, including the OpenNap service that was modeled on
4 Napster.

5 Considering that the Ninth Circuit had already upheld a
6 preliminary injunction against Napster at that time, A & M Records,
7 239 F.3d at 1029, StreamCast should have diligently pursued discovery
8 on its affirmative defenses even as this case proceeded through
9 appeal. The only explanation StreamCast has offered is that it had
10 been focused on the liability issue - a non-explanation. Moreover,
11 contrary to StreamCast's contention, the Court's stay of discovery on
12 Defendant Sharman's antitrust counterclaims, imposed in February 2004,
13 did not prevent StreamCast from taking discovery on its affirmative
14 defenses. The instant case commenced nearly five years ago.

15 StreamCast's failure to diligently pursue discovery is sufficient
16 ground to deny its request for a continuance. Clorox, 353 F.3d at
17 1130. Nonetheless, as a separate ground for denying a continuance,
18 the Court will address StreamCast's substantive misuse allegations.

19 Generally, the misuse defense prevents a copyright holder that
20 has misused its copyright from enforcing the copyright in a court of
21 equity. See Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 978 (4th
22 Cir. 1990). The misuse doctrine, which is derived from the well-
23 established defense of patent misuse, is a relatively recent
24 development in copyright law. Id. at 975-77. Indeed, "[t]he
25 legitimacy of copyright misuse as a valid defense to an infringement
26 action was in question for some time." In re Napster, Inc. Copyright
27 Litigation, 191 F. Supp. 2d 1087, 1102 (N.D. Cal. 2002). Lasercomb
28 was the first court of appeals decision to embrace the defense. 911

1 F.2d at 978. The Ninth Circuit adopted LaserComb's reasoning and
2 expressly recognized the defense in Practice Mgmt. Info. Corp. v.
3 American Med. Assoc., 121 F.3d 516 (9th Cir. 1997). "Copyright misuse
4 does not invalidate a copyright, but precludes its enforcement during
5 the period of misuse." Id. at 520 n.9; see also Lasercomb, 911 F.2d
6 at 979 (reversing trial court's injunction and award of damages
7 because "[the plaintiff] should have been barred by the defense of
8 copyright misuse from suing for infringement of its copyright.") The
9 bar against enforcement is effective only during the period of misuse.
10 The plaintiff is free to bring suit to enforce its rights against
11 infringers once the misuse ceases. Lasercomb, 911 F.2d at 979 n.22.
12 "The doctrine does not prevent plaintiffs from ultimately recovering
13 for acts of infringement that occur during the period of misuse." In
14 re Napster, 191 F. Supp. 2d at 1108; see also Arista Records, Inc. v.
15 Flea World, Inc., 356 F. Supp. 2d 411, (D.N.J. 2005) ("[O]nce the
16 purported misuse ceases, no impediment to enforcement of the 'misused'
17 copyright remains.").

18 The threshold question is what conduct by the copyright holder
19 suffices to trigger the misuse defense. StreamCast contends that any
20 use of copyright in violation of public policy is sufficient. That
21 position is both contrary to established precedents and the logic of
22 the misuse defense. As Lasercomb explained, the misuse inquiry
23 focuses on "whether the copyright is being used in a manner violative
24 of the public policy embodied in the grant of a copyright." 911 F.2d
25 at 978 (emphasis added). "Misuse often exists where the patent or
26 copyright holder has engaged in some form of anti-competitive
27 behavior." Video Pipeline, Inc. v. Buena Vista Home Entertainment,
28 Inc., 342 F.3d 191, 204 (3d Cir. 2003); see also Practice Management,

1 121 F.3d at 520 ("[D]efense of copyright misuse 'forbids the use of
2 the copyright to secure an exclusive right or limited monopoly not
3 granted by the Copyright Office.'") (quoting Lasercomb, 911 F.2d at
4 977). "More on point, however, is the underlying policy rationale for
5 the misuse doctrine set out in the Constitution's Copyright and Patent
6 Clause: 'to promote the Progress of Science and useful Arts.'" Video
7 Pipeline, 342 F.3d at 204 (quoting U.S. Const. art. I, § 8, cl. 8).
8 Thus, the misuse defense applies only if a copyright is leveraged to
9 undermine the Constitution's goal of promoting invention and creative
10 expression. There has to be a sufficient nexus between the alleged
11 anti-competitive leveraging and the policy of the copyright laws. See
12 In re Napster, 191 F. Supp. 2d at 1108 (a party asserting misuse on
13 the basis of an antitrust violation must establish a "nexus between .
14 . . [the] alleged anti-competitive actions and [the plaintiff's] power
15 over the copyrighted material.") (internal citations and quotation
16 marks omitted).

17 Lasercomb, and the three other court of appeals decisions that
18 followed its reasoning, all involved restraints on inventive or
19 creative activity. In Lasercomb, the plaintiff, the vendor of an
20 industrial die-making software program called Interact, sued for
21 copyright infringement after a licensee copied and sold copies of
22 Interact without authorization. The plaintiff's standard licensing
23 agreement forbade licensees and their employees from writing,
24 developing, or selling computer-assisted die-making software for
25 ninety-nine years. Lasercomb, 911 F.2d at 972-73. The Fourth Circuit
26 held that restrictive license constituted misuse of copyright, and
27 barred the plaintiff from prevailing on its copyright infringement
28 claims. The court explained:

1 The language employed in the Lasercomb agreement is
2 extremely broad. Each time Lasercomb sells its Interact
3 program to a company and obtains that company's agreement
4 the noncompete language, the company is required to forego
5 utilization of the creative abilities of all of its
6 officers, directors and employees in the area of CAD/CAM
7 die-making software. Of yet greater concern, these creative
8 abilities are withdrawn from the public.

9 Id. at 978. Accordingly, "[t]he misuse arises from Lasercomb's
10 attempt to use its copyright in a particular expression, the Interact
11 software, to control competition in an area outside the copyright,
12 i.e., the idea of computer-assisted die manufacture, regardless of
13 whether such conduct amounts to an antitrust violation." Id. at 979
14 (second emphasis added).

15 In DSC Communications Corp. v. DGI Technologies, Inc., 81 F.3d
16 597, 600-01 (5th Cir. 1996), the Fifth Circuit agreed with Lasercomb
17 that the misuse defense applies when a copyright holder attempts to
18 leverage its legal monopoly over a particular expression into patent-
19 like powers over a general idea. See also Mazer v. Stein, 347 U.S.
20 201, 217 (1954) ("Unlike a patent, a copyright gives no exclusive
21 right to the art disclosed; protection is given only to the expression
22 of the idea - not an idea itself."), superseded by statute, Falonica,
23 Inc. v. El Dorado Corp., 697 F.2d 890 (9th Cir. 1983) DSC involved
24 telephone switching systems that included component microprocessor
25 cards. 81 F.3d at 600-01. The entire system was controlled by
26 copyrighted software, and a microprocessor card could function in the
27 system only if a copy of the software is downloaded to the card. The
28 plaintiff manufactured both the switches and the software; the

1 software was licensed to customers on the condition that they run the
2 software only on switches made by the plaintiff. In upholding the
3 denial of the plaintiff's request for a preliminary injunction against
4 a manufacturer of microprocessor cards, the Fifth Circuit noted the
5 restrictive license's effect on competition in ideas:

6 [The defendant] may well prevail on the defense of copyright
7 misuse, because DSC seems to be attempting to use its
8 copyright to obtain a patent-like monopoly over unpatented
9 microprocessor cards. Any competing microprocessor card
10 developed for use on DSC phone switches must be compatible
11 with DSC's copyrighted operating system software. In order
12 to ensure that its card is compatible, a competitor such as
13 [the defendant] must test the card on a DSC phone switch.
14 Such a test necessarily involves making a copy of DSC's
15 copyright system, which is downloaded into the card's memory
16 when the card is booted up. If DSC is allowed to prevent
17 such copying, then it can prevent anyone from developing a
18 competing microprocessor card, even though it has not
19 patented the card. . . . Therefore, [the defendant's]
20 asserting the misuse defense could cast substantial doubt on
21 the predictability of success by DSC.

22 Id. at 601.

23 A restrictive licensing provision was also the basis for the
24 Ninth Circuit's application of the misuse defense in Practice
25 Management. The case involved a medical coding system that was
26 licensed on the condition that the licensee refrain from using any
27 other competing coding system. The Ninth Circuit held that the
28 licensing terms violated the public policy embodied in the grant of a

1 copyright, because the terms "gave the [defendant] a substantial and
2 unfair advantage over its competitors." Practice Mgmt., 121 F.3d at
3 521.

4 Lastly, in Video Pipeline, the Third Circuit concurred that
5 creativity-restricting licensing agreements may violate the public
6 policy behind the copyright laws. 342 F.3d at 204-05. "Anti-
7 competitive licensing agreements may conflict with the purpose behind
8 a copyright's protection by depriving the public of the would-be
9 competitor's creativity." Id. at 205. Nonetheless, the court
10 declined to apply the misuse defense to the licensing agreement it
11 confronted. The expressions at issue were Disney movie trailers
12 licensed for display on Internet sites, on the condition that the
13 sites on which the trailers appear do not criticize Disney or the
14 entertainment industry. Id. at 206. The court ruled that the
15 restriction did not "interfere with creative expression to such a
16 degree that they affect in any significant way the policy interest in
17 increasing the store of creative activity," because nothing prevented
18 licensees or the public in general from criticizing Disney else where,
19 including web sites that do not display Disney movie trailers. Id.

20 In sum, the existing case law teaches that the misuse defense
21 applies when a copyright holder leverages its copyright to restrain
22 creative activity. In the instant case, StreamCast advances a litany
23 of vague allegations of anticompetitive conduct on the part of
24 Plaintiffs. None of the alleged misconduct has sufficient nexus with
25 the public policy embodied in the grant of a copyright to implicate
26 the misuse defense.

27 StreamCast primarily alleges that Plaintiffs have restrained
28 competition in the market for digital distribution of music and movies

1 by collectively refusing to deal with StreamCast and other file-
2 sharing services. Rather than granting distribution license to
3 StreamCast on reasonable terms, StreamCast alleges, Plaintiffs have
4 colluded to license only to certain selected distributors, such as
5 Apple Computer, which has not been accused of facilitating massive
6 copyright infringement. StreamCast relies heavily on In re Napster,
7 which granted the defendant Napster's Rule 56(f) motion to permit
8 further discovery on the copyright misuse defense. The case involved
9 copyright infringement claims brought by many of the same plaintiffs
10 as those now before this Court. There, Napster alleged a number of
11 anti-competitive practices by the major music companies to restrain
12 competition in the market for online digital music distribution,
13 including concerted refusal to deal, vertical foreclosure of the
14 digital distribution market through concerted price squeezes on
15 retailers, and joint ventures like MusicNet that facilitate price
16 coordination. In re Napster, 191 F. Supp. 2d at 1108-09. The court
17 ruled that further discovery was warranted because "[t]hese joint
18 ventures bear the indicia of entities designed to allow plaintiffs to
19 use their copyrights and extensive market-power to dominate the market
20 for digital music distribution." Id. at 1109.

21 StreamCast's argument is unpersuasive. Concerted boycotts may
22 violate the antitrust laws, but the existence of an antitrust
23 violation is a separate question from the applicability of the
24 copyright misuse defense. Even if Plaintiffs did act in concert to
25 refuse licenses to StreamCast and restrict competition in the market
26 for digital media distribution, that would not have extended
27 Plaintiffs' copyrights into ideas or expressions over which they have
28 no legal monopoly. Reproduction and distribution of copyrighted works

1 are "exclusive rights of copyright holders." A&M Records, 239 F.3d at
2 1027. The right to exclude is inherent in the grant of a copyright; a
3 copyright is not improperly expanded simply because the owner has
4 exercised his or her power to exclude. Moreover, there is no reason
5 to think that musicians and filmmakers will be prevented from engaging
6 in creative activity because Plaintiffs refused to grant a
7 distribution license to StreamCast. The alleged boycotts would not
8 have "deprived the public of the would-be competitor's creativity,"
9 Video Pipeline, 342 F.3d at 204, or leveraged Plaintiffs' copyrights
10 "to restrain the creative expression of another." Id. at 205. Of
11 course, concerted boycotts may constitute serious antitrust
12 violations; StreamCast may recover treble damages if it so proves in
13 an antitrust action. However, in the absence of a nexus between the
14 antitrust violation and the copyright laws' policy of promoting
15 creative activity, StreamCast's remedy lies in antitrust rather than
16 copyright. To the extent this holding is inconsistent with In re
17 Napster, the Court declines to follow that precedent.

18 StreamCast further alleges that the record company Plaintiffs
19 engaged in retail and wholesale price-fixing with respect to both
20 compact discs and online media distribution. In addition to harming
21 consumers, the music companies also damaged retail distributors by
22 forcing them to overpay for distribution licenses. Just like the
23 alleged boycotts, these price-fixing allegations do not implicate the
24 policy concerns that motivate the misuse doctrine. Price-fixing, in
25 and of itself, does not restrict competitors or the public from
26 engaging in creative activity. Nor does it extend Plaintiffs'
27 copyrights into non-copyrighted ideas and expressions. Indeed,
28 collusive pricing is not "connected to any copyrighted work, but [is]

1 merely conduct in which the providers of any good or service,
2 copyrighted or not, could engage." Arista Records, Inc., 356 F. Supp.
3 2d at 430 (denying misuse defense predicated on price fixing
4 allegations in the compact disc market). That price-fixing violates
5 the antitrust laws is not, without more, sufficient to trigger the
6 misuse defense.

7 Lastly, StreamCast argues that the music publisher Plaintiffs
8 have abused their copyrights by demanding mechanical royalties for
9 music streaming over the Internet. Under 17 U.S.C. § 115, anyone who
10 makes or distributes a phonorecord of a music composition must obtain
11 a license from the copyright holder. That right to distribute a
12 phonorecord is known as a mechanical license. Streaming, in turn,
13 refers to on-demand music performances over the Internet. In a
14 streaming performance, the user is not provided with a permanent
15 digital copy of the streamed music, and instead accesses copies
16 residing on the provider's server computers. Various segments of the
17 music industry vigorously dispute whether streaming requires just a
18 license for public performance, or whether both performance and
19 mechanical license are needed. According to StreamCast, the music
20 publisher Plaintiffs have refused to grant licenses for conventional
21 music downloads, which are uncontroversially subject to mechanical
22 licenses, unless licensees also agree to pay royalties for streaming.
23 In StreamCast's view, such aggressive licensing tactics amount to
24 "double-dipping," an attempt to extend the publishers' monopoly
25 rights over phonorecords into the area of public music performances.

26 However, music publishers asserting their mechanical rights have
27 prevailed in at least one infringement action against a streaming
28 service provider. See The Rodgers and Hammerstein Organization v. UMG

1 Recordings, Inc., 2001 WL 1135811 (S.D.N.Y. Sept. 26, 2001). Thus,
2 even if the music publishers aggressively demanded royalties for
3 streaming, they were merely enforcing their copyrights. A plaintiff's
4 "enforcement of its copyrights does not constitute copyright misuse."
5 Advanced Computer Services of Michigan, Inc. v. MAI Systems Corp., 845
6 F. Supp. 356, 370 (E.D. Va. 1994).

7 StreamCast points to testimony before Congress by Jonathan
8 Potter, a representative of royalty-paying digital music distributors,
9 and Marybeth Peters, the Registrar of Copyright. Both disputed the
10 music publishers' position that mechanical licenses are required for
11 streaming. Nevertheless, Potter referred to "ambiguities" in section
12 115 with regard to mechanical rights for streaming, and Peter declined
13 to characterize demanding both mechanical and performance royalties as
14 "double-dipping." (Young Decl. Ex. 4 at 29; Peters Testimony at 7.)
15 The Court need not now decide whether mechanical licenses are required
16 for streaming. But the Court rejects StreamCast's position that a
17 copyright holder's assertion of what it plausibly believes to be its
18 rights under an ambiguous statute can constitute copyright misuse. A
19 contrary result would turn the copyright law on its head.

20 StreamCast's misuse allegations, even if proven, are insufficient
21 to defeat summary judgment as a matter of law. Further discovery
22 under Rule 56(f) is not warranted.

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1 VII. CONCLUSION

2 For the foregoing reasons, this Court GRANTS Plaintiffs' motion
3 for summary judgment as to StreamCast's liability for inducing
4 copyright infringement through MusicCity/OpenNap and Morpheus. This
5 Court DENIES StreamCast's Rule 56(f) motion for a continuance.

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7 IT IS SO ORDERED.

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10 DATED: 9/27/06


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12 STEPHEN V. WILSON
13 UNITED STATES DISTRICT JUDGE
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