

***Arista Records v. Lime Group* Summary**

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The United States District Court for the Southern District of New York recently issued an important copyright decision, *Arista Records LLC v. Lime Group LLC*, No. 06 CV 6936, 2010 WL 1914816 (S.D.N.Y. May 11, 2010) (Wood, J.). Plaintiffs, consisting of 13 major record companies, raised several claims for secondary copyright infringement against LimeWire, LLC (LimeWire), a file-sharing program that utilizes peer-to-peer technology (namely, the BitTorrent protocol and the Gnutella network) and permits users to share digital files via an Internet-based network. LimeWire users can enter search terms into a search function available on LimeWire's service, and LimeWire then searches other users' computers to match the search terms. The user then has the option to download any files that LimeWire locates from the search. The lawsuit also named LimeWire's founder and chairman, and owners (at different times) of 87 percent of LimeWire, Lime Group LLC (Lime Group) and LimeWire Family Limited Partnership.

The plaintiffs had moved for summary judgment for secondary copyright infringement by inducement, contributory liability (under the *Sony-Betamax* "staple article of commerce" theory), and common law infringement and unfair competition, among other claims, and the defendants moved on each of those claims, as well as on the plaintiffs' vicarious liability claim (in the latter case requesting that the court find that it was not vicariously liable as a matter of law). Judge Wood granted the Plaintiffs' motions for summary judgment on its inducement claim,¹ determined that the *Sony-Betamax* contributory liability claim could not be decided as a matter of law, and found there was evidence of vicarious infringement.

A. Contributory Infringement, Inducement Theory

Based on her review of the Supreme Court's *Grokster* decision, Judge Wood articulated a two-part test to establish inducement liability: (1) the defendant engaged in purposeful conduct that encouraged copyright infringement, with (2) the intent to encourage such infringement. Judge Wood found overwhelming evidence of purposeful conduct that fostered infringement, including that LimeWire created and distributed the LiveWire software, which "users employ to commit a substantial amount of infringement."

¹ Judge Wood discusses inducement liability as a distinct form of secondary liability from "contributory copyright infringement," namely, the *Sony-Betamax* staple article of commerce theory of contributory liability. We note, however, that the Supreme Court in *Grokster* describes both inducement liability and the *Sony-Betamax* staple-article form of contributory liability as forms of contributory infringement. Contributory infringement occurs where one "intentionally induc[es] or encourage[es] direct infringement" *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 929 (2005). The *Grokster* court stated that the *Sony-Betamax* theory of liability is based on imputing culpable intent as a matter of law from the characteristics of the distributed product where there is no direct evidence of intent, but did not foreclose fault based contributory liability (such as existed in *Grokster*). 545 U.S. at 934. See *Capital Records, Inc. v. MP3tunes, Inc.*, No. 07 CV 9931, 2009 WL 3364036, at *4 (S.D.N.Y. Oct. 16, 2009) (dismissing the plaintiffs' cause of action for inducement because it was not a separate claim from contributory liability); but see *Arista v. Usenet*, 633 F. Supp. 2d 124, 150-54 (S.D.N.Y. 2009) (court found liability under the *Grokster* inducement theory as a separate claim, where issue of whether it was in fact a separate claim was not raised by parties).

With respect to the second factor, Judge Wood explained that a defendant's "intent to foster infringement can be established by evidence of a defendant's "clear expression" of such intent, or of "affirmative steps [the defendant has] taken to foster infringement" (quoting *Groskter*, 545 U.S. at 936-37). Judge Wood looked at five factors: LimeWire's (1) awareness of substantial infringement by users, (2) efforts to attract infringing users, (3) efforts to enable and assist users to commit infringement, (4) dependence on infringing use for the success of its business, and (5) failure to mitigate infringing activities.

Judge Wood found that the defendants had awareness of substantial infringement using LimeWire. The plaintiffs had presented evidence that "the overwhelming majority of download requests" were for copyrighted material and that internal communications demonstrated that LimeWire was aware of such infringement. LimeWire had even developed a plan expressly intended to convert users using the system for unauthorized, copyrighted material into customers of an authorized music store, but never implemented that plan. The plaintiffs also showed that LimeWire had developed specific plans to attract Napster and Kazaa (previously determined to be liable for copyright infringement for their file-sharing services) users and even engaged in a marketing campaign through Google's AdWords where search terms such as "replacement napster" and "kazaa" would link to LimeWire. Demonstrating Defendants' efforts to enable and assist users to infringe, the plaintiffs relied on evidence that LimeWire's system was designed to ensure that users could download digital records, specifically through use of search functions which allowed users to find artists or albums, and even created categories such as "Classic Rock," "SoundTrack," and "Top 40" which "inevitably guide[d] users to copyrighted recordings," since the vast majority of these types of works are protected by copyright. To show dependence on infringing use for the success of LimeWire's business, the plaintiffs showed that LimeWire main revenue source was a wide user base, and so LimeWire depended on "attracting the massive user population generated by its infringement-enabling features." Finally, the plaintiffs raised the fact that LimeWire failed to implement in any "meaningful way" any technological barriers available, including techniques LimeWire was already using to prevent users from sharing files purchased from its online store. Judge Wood concluded that "[f]ailure to utilize existing technology to create meaningful barriers against infringement [wa]s a strong indicator of intent to foster infringement."

Overall, due to the above factors, Judge Wood found that LimeWire had engaged in purposeful conduct that fostered infringement, with the intent to foster such infringement.

B. Other Forms of Secondary Liability

Although Judge Wood granted the plaintiffs' motions for summary judgment on its inducement claim, the court denied the plaintiffs' motion for summary judgment under the *Sony-Betamax* material contribution theory of contributory infringement. A defendant may be held liable under the material contribution theory if (1) with knowledge of the infringing activity, the defendant (2) materially contributes to the infringing conduct of another. Judge Wood found that there was a material issue of fact regarding whether the *Sony-Betamax* rule established in the Supreme Court's *Sony Corp. v. University City Studios*, 464 U.S. 417 (1984) case applied. Under such rule, "a defendant who distributes a product that materially contributes to copyright infringement *will not* be liable ... if the product also is widely used for legitimate, unobjectionable purposes or is merely capable of substantial noninfringing use." *Id.* (citations omitted). LimeWire presented evidence of noninfringing content on the file sharing server. Judge Wood thus found that she could not determine as a matter of law whether the system was capable of such noninfringing use.

Judge Wood also denied LimeWire's motion for summary judgment on the issue of vicarious infringement. LimeWire argued that it was not vicariously liable for infringement as a matter of law. A defendant may be held liable for vicarious liability if the defendant (1) has the right and ability to supervise the infringing activity and (2) has a direct financial interest in such activity. Here, Judge Wood found that LimeWire had the right and ability to supervise, but did not exercise any meaningful supervisory control, and failed to provide a legitimate reason for not doing so. Furthermore, Judge Wood noted that LimeWire users were drawn to the service because of the infringement, and that LimeWire profited from an increased user base, including through advertising, as well as sales through its music store.

Of particular interest, Judge Wood also held that LimeWire's founder and chairman, as well as Lime Group (an 87 percent share investor, owned by LimeWire's founder) were secondarily liable for infringement. An individual, including an officer, who has the "ability to supervise infringing activity and has a financial interest in that activity, or who personally participates in that activity is *personally* liable for infringement." Judge Wood relied on evidence showing that the founder/Chairman played a major part in strategic decisions and knew about the infringement. Lime Group, as majority owner, benefited financially from LimeWire's inducement of infringement. The founder and chairman, as owner of Lime Group, therefore also benefited.

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The *LimeWire* case is part of an emerging body of law on inducement liability in the Southern District of New York; it is the second decision in which a group of record companies has prevailed on a claim of inducement liability on summary judgment. In *Arista v. Usenet*, Judge Baer similarly found there was inducement liability where there was evidence of massive amounts of infringement on the service, and that defendants had openly and affirmatively sought to attract former users of Napster and Kazaa, had used "metatags" referencing known sources for pirated content, and had employees overtly acknowledging infringement. 633 F. Supp. 2d 124, 151 (S.D.N.Y. 2009). Together *LimeWire* and *Usenet* provide solid grounds for inducement liability based on evidence in the summary judgment record — provided there is actual evidence in the record that the defendant intended to foster infringement. A motion for summary judgment on inducement also is pending in *Viacom Int'l Inc. v. YouTube, Inc.*, 07 CV 2103 (Stanton, J.) and undoubtedly will provide additional precedent on the issue of when it is appropriate to grant summary judgment on grounds of inducement.

It is unclear whether inducement should be pled as a separate cause of action or as part of a cause of action for contributory liability. As the court in *Usenet* noted, "several courts have expressed doubt as to whether inducement of infringement states a separate claim for relief, or rather whether it is as species of contributory infringement." 633 F. Supp. 2d at 150. For instance, the court in *Capital Records* dismissed a claim for inducement, stating that since *Grokster* "explicitly state[d] that one infringes contributorily by intentionally inducing" infringement, it could not find inducement was a separate claim from contributory infringement. *Capital Records*, 2009 WL 3364036 at *4. On the other hand, the court in both *LimeWire* and *Usenet* allowed separate claims for inducement liability to go forward. Until there is clearer case law on this issue, it might be best to hedge and plead inducement both ways.