

08-2376-cv

United States Court of Appeals for the Second Circuit

LAVA RECORDS, LLC, WARNER BROS. RECORDS, INC.,
CAPITOL RECORDS, INC., UMG RECORDINGS, INC.,
SONY BMG MUSIC ENTERTAINMENT,
ARISTA RECORDS LLC and BMG MUSIC,

Plaintiffs-Appellees,

-against-

ROLANDO AMURAO,

Defendant-Appellant

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF OF PLAINTIFFS - APPELLEES

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CORPORATE DISCLOSURE STATEMENT

The undersigned counsel of record provides the following statement under Fed. R. App. P. 26.1(b): Each Plaintiffs-Appellee identifies its parent corporations and lists any publicly held company that owns 10% or more of its stock:

The following companies are parents of, or partners in Plaintiff-Appellee Capitol Records, Inc. (n/k/a Capitol Records, LLC): Maltby Investments Limited, which is privately owned.

The following companies are parents of, or partners in Plaintiff-Appellee Sony BMG Music Entertainment: USCO Holdings Inc.; BeSo Holding LLC; Sony Music Entertainment Inc.; Bertelsmann Music Group; Bertelsmann, Inc.; Arista Holding, Inc.; Zomba US Holdings, Inc.; Bertelsmann AG; and Sony Corporation, of which only Sony Corporation is publicly traded. Sony Corporation is publicly traded in the United States.

The following companies are parents of, or partners in Plaintiff-Appellee UMG Recordings, Inc.; Interscope Records; PRI Productions, Inc.; Polygram Holding, Inc.; Universal Music Group, Inc.; Vivendi Holding I Corp.; Vivendi Holdings Company; Vivendi Holding S.A.S.; SPC S.A.S.; and Vivendi S.A., of which only Vivendi S.A. is publicly traded. Vivendi S.A. is publicly traded in France.

The following companies are parents of, or partners in Plaintiff Arista Records LLC.: BMG Music; Sony BMG Music Entertainment; Ariola Eurodisc LLC; USCO Holdings Inc.; BeSo Holding LLC; Sony Music Entertainment Inc.; Bertelsmann

Music Group; Bertelsmann, Inc.; Arista Holding, Inc.; Zomba US Holdings, Inc.; Bertelsmann AG; and Sony Corporation, of which only Sony Corporation is publicly traded. Sony Corporation is publicly traded in the United States.

The following companies are parents of, or partners in Plaintiff-Appellee BMG Music: Ariola Eurodisc LLC; USCO Holdings Inc.; BeSo Holding LLC; Sony Music Entertainment Inc.; Bertelsmann Music Group; Bertelsmann, Inc.; Arista Holding, Inc.; Zomba US Holdings, Inc.; Bertelsmann AG; and Sony Corporation, of which only Sony Corporation is publicly traded. Sony Corporation is publicly traded in the United States.

The following companies are parents of, or partners in Plaintiff-Appellee Warner Bros. Records Inc.: Atlantic Recording Corporation; WMG Acquisition Corp.; WMG Holdings Corp.; and Warner Music Group Corp., of which only Warner Music Group Corp. is publicly traded. Warner Music Group Corp. is publicly traded in the United States.

The following companies are parents of, or partners in Plaintiff-Appellee Lava Records, LLC: Atlantic Recording Corporation; Warner Bros. Records Inc.; WMG Acquisition Corp.; WMG Holdings Corp.; and Warner Music Group Corp., of which only Warner Music Group Corp. is publicly traded. Warner Music Group Corp. is publicly traded in the United States.

TABLE OF CONTENTS

CORPORATE DISCLOSURE STATEMENT.....	i
TABLE OF CONTENTS.....	iii
TABLE OF AUTHORITIES	vi
STATEMENT OF SUBJECT MATTER AND APPELLATE JURISDICTION.....	1
STATEMENT OF ISSUES	2
STATEMENT OF THE CASE.....	2
STATEMENT OF FACTS.....	5
I. The Unauthorized Sharing Of Digital Music Files Over The Internet Constitutes Copyright Infringement And Has Had Devastating Effects On Copyright Owners.	5
II. Amurao Was Identified As An Infringer Of Plaintiffs' Copyrights.....	7
III. Plaintiffs Attempted, Unsuccessfully, To Resolve The Infringement Before Filing Suit.	8
IV. Amurao Refused To Engage In Any Dialogue With Plaintiffs And Provided False Responses To Plaintiffs' Written Discovery— Claiming That He Had No Knowledge At All Regarding The Infringement.....	9
V. By Their Own Efforts, Plaintiffs Identified Amurao's Adult Daughter As The Direct Infringer, And, Then, Once They Identified Her, They Moved Quickly To Dismiss Their Suit Against Amurao.....	10
VI. The District Court Denied Amurao's Request For Attorney Fees And Dismissed Amurao's Purported Misuse Counterclaim With Prejudice.....	11
SUMMARY OF THE ARGUMENT	13
ARGUMENT.....	15

I.	The District Court Correctly Exercised Its Equitable Discretion In Denying Amurao’s Request For Attorney Fees.....	15
A.	Standard of review.....	15
B.	The District Court correctly denied fees to Amurao in this case	16
1.	The District Court’s finding of “unclean hands” justifies the denial of fees.....	17
2.	The District Court followed the <i>Fogerty</i> standard and addressed a number of the <i>Fogerty</i> factors	20
a.	There is no precise rule or formula for making fee determinations in a copyright case	20
b.	The District Court ruled that Plaintiffs’ lawsuit was not frivolous and that ruling is supported by the record	21
c.	Plaintiffs’ motivations were entirely faithful to the purposes of the Copyright Act.....	26
d.	The District Court correctly determined that Plaintiffs’ litigation tactics were objectively reasonable and that Amurao’s were not.....	28
e.	An award of attorney fees to Amurao would not advance the goals of compensation and deterrence.....	29
3.	Amurao’s reliance on the <i>Foster</i> and <i>Andersen</i> cases is misplaced.....	30
4.	There is no basis under the law or the facts of this case for any “presumption” in favor of awarding fees.....	31
II.	The District Court Correctly Dismissed Amurao’s Purported Copyright Misuse Counterclaim	33
A.	Standard of review.....	33
B.	Amurao’s misuse claim is not a valid cause of action and no policy justification exists for creating such a cause of action	34

C.	Amurao has no evidence to support even his own purported misuse theory	40
D.	Plaintiffs' activities are protected by the First Amendment.....	42
CONCLUSION	45

TABLE OF AUTHORITIES

CASES

<i>A&M Records, Inc. v. Napster, Inc.</i> , 239 F.3d 1004 (9th Cir. 2001)	23
<i>Advanced Comp. Servs. of Mich., Inc. v. MAI Sys. Corp.</i> , 845 F. Supp. 356 (E.D. Va. 1994)	39
<i>Alderman v. Pan Am World Airways</i> , 169 F.3d 99 (2d Cir. 1999).....	15
<i>Ariel (UK) Ltd. v. Reuters Group PLC</i> , No. 05 Civ. 9646 (JFK), 2007 U.S. Dist. LEXIS 7423 (S.D.N.Y Jan. 24, 2007)	30
<i>Arista Records, Inc. v. Flea World, Inc.</i> , 356 F. Supp. 2d 411 (D.N.J. 2005).....	35
<i>Ass'n of Am. Med. Colleges v. Princeton Review, Inc.</i> , 332 F. Supp. 2d 11 (D.D.C. 2004)	35, 36
<i>Atlantic Recording Corp. v. Andersen</i> , Civ. No. 05-933-AC (D. Or.).....	30, 31
<i>Atlantic Recording Corp. v. Heslep</i> , No. 4:06-cv-132-Y, 2007 U.S. Dist. LEXIS 35824 (N.D. Tex. 2007).....	26, 44
<i>Atlantic Recording Corp. v Raleigh</i> , No. 06- CV-1708-CEJ, (E.D. Mo. Aug. 18, 2008)	43, 44
<i>B. Braun Medical v. Abbott Lab.</i> , 124 F.3d 1419 (Fed. Cir. 1997)	36
<i>BMG Music v. Gonzalez</i> , 430 F.3d 888 (7th Cir. 2005)	6, 7, 23, 27
<i>Baker v. Urban Outfitters, Inc.</i> , 431 F. Supp. 2d 351 (S.D.N.Y. 2006)	17

<i>Basic Books, Inc. v. Kinko's Graphics Corp.</i> , 758 F. Supp. 1522 (S.D.N.Y. 1991)	38
<i>Berkla v. Corel Corp.</i> , 302 F.3d 909 (9th Cir. 2002)	17, 18, 19
<i>Bridgeport Music, Inc. v. Rhyme Syndicate Music</i> , 376 F.3d 615 (6th Cir. 2004)	28
<i>Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Services</i> , 746 F. Supp. 320 (S.D.N.Y. 1990)	34
<i>CMI, Inc. v. Intoximeters, Inc.</i> , 918 F. Supp. 1068 (W.D. Ky. 1995).....	36
<i>California Motor Transp. Co. v. Trucking Unltd.</i> , 404 U.S. 508 (1972)	43
<i>Capitol Records Inc. v. Foster</i> , No. CIV-04-1569-W (W.D. Okl.)	30, 31
<i>Capitol Records, Inc. v. O'Leary</i> , No. SACV 05-406 CJC, 2006 U.S. Dist. LEXIS 5115 (C.D. Cal. Jan. 31, 2006)	25
<i>Celotex Corp. v. Catrett</i> , 477 U.S. 317 (1986)	42
<i>Creations Unlimited, Inc. v. McCain</i> , 889 F. Supp. 952 (S.D. Miss. 1995).....	22
<i>Crescent Publ'g Group, Inc. v. Playboy Enters.</i> , 246 F.3d 142 (2d Cir. 2001)	16, 21, 32
<i>DSC Comms. Corp. v. DGI Techs. Inc.</i> , 81 F.3d 597 (5th Cir. 1996)	38
<i>Davis v. Blige</i> , 505 F.3d 90 (2d Cir. 2007).....	39
<i>Diamond v. Am-Law Publ'g Corp.</i> , 745 F.2d 142 (2d Cir. 1984)	29

<i>DirecTV, Inc. v. Milliman</i> , No. 02-74829, 2003 U.S. Dist. LEXIS 20938 (E.D. Mich. Aug. 26, 2003)	43
<i>DirecTV, Inc. v. Personette</i> , No. 5:03-CV-66, 2003 U.S. Dist. LEXIS 19694 (W.D. Mich. May 22, 2003)	43, 44
<i>Doro v. Sheet Metal Workers' Int'l Ass'n</i> , 498 F.3d 152 (2d Cir. 2007)	33, 34
<i>Dubbin v. Union Bank of Switz. (In re Holocaust Victim Assets Litig.)</i> , 424 F.3d 150 (2d Cir. 2005)	15
<i>Electronic Data Systems Corp. v. Computer Assoc. Int'l, Inc.</i> , 802 F. Supp. 1463 (D. Tex. 1992)	37
<i>Elektra Entm't Group, Inc. v. Licata</i> , Case No. 07-cv-569, Report and Recommendation (S.D. Ohio Aug. 25, 2008)	24, 26
<i>Enercon GMBH v. Erdman</i> , 13 Fed. Appx. 651 (9th Cir. 2001)	36
<i>F. W. Woolworth Co. v. Contemporary Arts, Inc.</i> , 344 U.S. 228 (1952)	39
<i>Fogerty v. Fantasy Inc.</i> , 510 U.S. 517 (1994)	14, 16, 17, 20, 21, 28, 29, 32, 33
<i>Ford Motor Co. v. Obsolete Ford Parts, Inc.</i> , 318 F. Supp. 2d 516 (E.D. Mich. 2004)	36
<i>In re Aimster Copyright Litigation</i> , 334 F.3d 643 (7th Cir. 2003)	6, 7, 23
<i>In re von Bulow</i> , 828 F.2d 94 (2d Cir. 1987)	41

<i>Interscope Records v. Kimmel</i> , No. 3:07-cv-0108, 2007 U.S. Dist. LEXIS 43966 (N.D.N.Y. June 18, 2007)	34
<i>Kebodeaux v. Schwegmann Giant Super Markets, Inc.</i> , 33 U.S.P.Q. 2d 1223 (E.D. La. 1994)	27
<i>Lasercomb Am., Inc. v. Reynolds</i> , 911 F.2d 970 (4th Cir. 1990)	38
<i>Lava Records LLC v. Amurao</i> , Case No. 08-cv-3462 (S.D.N.Y.)	11
<i>MGM Studios, Inc. v. Grokster, Ltd.</i> , 269 F. Supp. 2d 1213 (C.D. Cal. 2003)	35
<i>Matthew Bender & Co. v. West Publ'g Co.</i> , 240 F.3d 116 (2d Cir. 2001)	15, 16, 17, 18, 19, 30, 32
<i>Medforms, Inc. v. Healthcare Mgmt. Solutions, Inc.</i> , 290 F.3d 98 (2d Cir. 2002)	15
<i>Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.</i> , 454 F. Supp. 2d 966 (C.D. Cal. 2006)	37, 39
<i>Metro-Goldwyn-Mayer Studios, Inc., v. Grokster Ltd.</i> , 545 U.S. 913 (2005)	6, 7, 22, 27, 44
<i>Nat'l Nonwovens, Inc. v. Consumer Prods. Enters.</i> , 397 F. Supp. 2d 245 (D. Mass. 2005)	22
<i>Online Policy Group v. Diebold, Inc.</i> , 337 F. Supp. 2d 1195 (N.D. Cal. 2004)	35
<i>Open Source Yoga Unity v. Chowdhury</i> , No. C03-03182 PJH, 2005 U.S. Dist. LEXIS 10440, (N.D. Cal. Apr. 1, 2005)	35
<i>Perfect 10, Inc. v. Amazon.com, Inc.</i> , 487 F.3d 701 (9th Cir. 2007)	22

<i>Practice Mgmt, Info. Corp. v. American Med. Assoc.</i> , 121 F.3d 516 (9th Cir. 1997)	35, 38, 39
<i>Primetime 24 Joint Venture v. Nat'l Broad. Co.</i> , 219 F.3d 92 (2d Cir. 2000).....	43, 44
<i>Priority Records L.L.C. v. Chan</i> , No. 04-CV-73645-DT, 2005 U.S. Dist. LEXIS 20360 (E.D. Mich. May 19, 2005)	25
<i>Shady Records, Inc. v. Source Enters., Inc.</i> , No. 03 Civ. 9944 (GEL), 2004 U.S. Dist. LEXIS 26143 (S.D.N.Y. Jan. 3, 2005)	34
<i>Shloss v. Sweeney</i> , 515 F. Supp. 2d 1068 (N.D. Cal. 2007)	37
<i>Smith v. Jackson</i> , 84 F.3d 1213 (9th Cir. 1996)	22
<i>T.F.T.F. Capital Corp. v. Marcus Dairy, Inc.</i> , 312 F.3d 90 (2d Cir. 2002).....	43, 44
<i>Ticketmaster L.L.C. v. RMG Techs., Inc.</i> , 536 F. Supp. 2d 1191 (C.D. Cal. 2008).....	35
<i>Timely Products Corp. v. Arron</i> , 523 F.2d 288 (2d Cir. 1975)	17
<i>UMG Recordings, Inc. v. Lindor</i> , No. CV-05-1095 (DGT), 2007 U.S. Dist. LEXIS 88285 (E.D.N.Y. Nov. 30, 2007)	34, 38
<i>United Mine Workers v. Illinois State Bar Ass'n</i> , 389 U.S. 217 (1967)	42
<i>Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.</i> , 342 F.3d 191 (3d Cir. 2003)	38, 39
<i>Virgin Records Am., Inc. v. Darwin</i> , No. SA CV 04-1346 AHS, 2006 U.S. Dist. LEXIS 96069 (C.D. Cal. Apr. 17, 2006)	25

<i>Virgin Records Am., Inc. v. Thompson</i> , 512 F.3d 724 (5th Cir. 2008), <i>cert. denied</i> 128 S. Ct. 2096 (U.S. 2008).....	19, 20, 24, 26
<i>Wal-Mart Stores, Inc. v. Visa U.S.A., Inc.</i> , 396 F.3d 96 (2d Cir. 2005).....	23
<i>Warner Bros. Records, Inc. v. Payne</i> , No. W-06-CA-051, 2006 U.S. Dist. LEXIS 65765 (W.D. Tex. July 17, 2006)	25
<i>Warner/Chappel Music, Inc. v. Pilz Compact Disc, Inc.</i> , No. CIV A 99-293, 1999 WL 999332 (E.D. Pa. Oct. 26, 1999)	35

FEDERAL STATUTES

17 U.S.C. § 101 <i>et seq</i>	1, 3, 27
17 U.S.C. § 106(1).....	23
17 U.S.C. § 106(3).....	23
17 U.S.C. § 505.....	2, 16
28 U.S.C. § 1291	1
28 U.S.C. § 1331	1
Fed. R. App. P. 4(a)(1).....	1
Fed. R. App. P. 26(a).....	1
Fed. R. Civ. P. 30(c)	41
Fed. R. Civ. P. 30(d)(1)	41
Fed. R. Civ. P. 54(d)(1)	15
Fed. R. Civ. P. 56(c)	34

U.S. Const. Amend. I.....	42
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OTHER AUTHORITIES

2-8 <i>Nimmer on Copyright</i> § 8.08[A][1]	23
4-14 <i>Nimmer on Copyright</i> § 14.10[D][1]	17
Lev Grossman, <i>It's All Free</i> , Time, May 5, 2003	5
Report of the Department of Justice's Task Force on Intellectual Property, available at http://www.cybercrime.gov/IPTaskForceReport.pdf (October 2004)	6, 7

STATEMENT OF SUBJECT MATTER AND APPELLATE JURISDICTION

Plaintiffs-appellees Lava Records LLC, Warner Bros. Records Inc., Capitol Records, Inc., UMG Recordings, Inc., Sony BMG Music Entertainment, Arista Records LLC, and BMG Music (“Plaintiffs”) filed this lawsuit in the United States District Court for the Southern District of New York, alleging violations of Plaintiffs’ exclusive rights under the Copyright Act, 17 U.S.C. § 101 *et seq.* (A27-A47.)¹ The District Court therefore had jurisdiction under 28 U.S.C. § 1331.

On April 15, 2008, the District Court entered a final order granting Plaintiffs’ Motion to Dismiss and denying Defendant Rolando Amurao’s (“Amurao’s”) Motion for Attorneys’ Fees. (A24.) On May 6, 2008, Amurao filed a notice of appeal. *See* Fed. R. App. P. 4(a)(1) and 26(a). (A25.) This Court thus has jurisdiction under 28 U.S.C. § 1291.

¹ References to the Joint Appendix shall be by page number “A1” through “A293.”

STATEMENT OF ISSUES

Whether the District Court properly exercised its discretion in denying Defendant Rolando Amurao's motion for attorney fees under the Copyright Act, 17 U.S.C. § 505, where Plaintiffs' claim of infringement was based on substantial evidence and where Amurao acted with "unclean hands" by both providing false information and withholding material information from Plaintiffs.

Whether the District Court properly dismissed Amurao's purported counterclaim for copyright misuse where no such claim has been recognized by any court and where Amurao offered no evidence to support even his theory of such a claim.

STATEMENT OF THE CASE

This case arose out of the substantial copyright infringement that took place on a computer in Amurao's home and through his Internet account. On June 1, 2005, a company retained by Plaintiffs identified an individual using the Limewire file-sharing program to distribute 528 digital audio files—including many of Plaintiffs' copyrighted sound recordings—to potentially millions of other users of the network. (A174-A175.) This person connected to the Internet at Internet Protocol ("IP") address 162.83.166.67. (A175) In response to a federal court subpoena, Amurao's Internet Service Provider, Verizon Internet Services, Inc., identified Amurao as the person responsible for IP address 162.83.166.67 at the time of infringement. (*Id.*)

After learning Amurao's identity, Plaintiffs wrote to Amurao in an effort to resolve the matter. (A165-A167; A175.) Amurao responded with a letter stating, "**We downloaded the songs through a program called Lime Wire** [sic]," and the songs were being "**shared**" over the Internet. (A133; 175.) Despite Amurao's admission of responsibility for downloading and sharing Plaintiffs' copyrighted sound recordings, Plaintiffs were not able to resolve the matter and filed this lawsuit under the Copyright Act, 17 U.S.C. § 101 *et seq.* (A27-A47; A133; A152; A175.)

Amurao filed his Answer on February 12, 2007. (A49-A57.) Remarkably, after having admitted responsibility for the infringement in writing, Amurao denied Plaintiffs' allegations and asserted counterclaims seeking a declaration of non-infringement and damages for purported copyright misuse. (*Id.*) Amurao also sought an award of attorney fees. (A57.) The declaratory judgment counterclaim was dismissed on May 18, 2007. (A3.)

During the course of the lawsuit, Plaintiffs continued their efforts to discuss the infringement with Amurao and also sought clarification from Amurao concerning his admission of responsibility in his letter and his denial of responsibility in his Answer. (A175-A176.) Amurao rejected Plaintiffs' efforts and refused any dialogue. (*Id.*) Amurao also provided written discovery responses denying any knowledge of the infringement that had occurred in his home and through his Internet account. (A134; A178-A186.) When Plaintiffs deposed Amurao, his spouse, and his adult daughter, however, they learned that, contrary to Amurao's sworn discovery

responses, Amurao knew before the case was ever filed that his adult daughter, Audrey Amurao, had used his Internet account and computer to download music over the Internet. (A135-A137.)

Immediately after learning this information, Plaintiffs attempted again to resolve the lawsuit, this time by way of a global settlement with Amurao and his adult daughter. (A176.) Plaintiffs also offered to stipulate to a joint dismissal of all claims, including Amurao's counterclaim for copyright misuse, with each side bearing his or its own costs and attorney fees. (*Id.*) Amurao, however, refused and, remarkably, stated that he would continue to seek fees from Plaintiffs. (*Id.*)

After their efforts failed, and within weeks of discovering that Amurao's adult daughter is the direct infringer, Plaintiffs sought leave to dismiss the lawsuit against Amurao so that they could pursue Audrey Amurao in a separate action. (A129-A138.) Plaintiffs also sought leave to file a motion for summary judgment on Amurao's purported copyright misuse counterclaim. (*Id.*) Plaintiffs filed their motions on January 28, 2008. (A150-A225.) Amurao filed his response on March 26, 2008 (A238-A250), and Plaintiffs filed a joint reply on April 2, 2008 (A267-A274).

On April 11, 2008, after hearing the parties' arguments, the District Court granted Plaintiffs' motion to dismiss the case, denied Amurao's motion for attorney fees, and dismissed Amurao's purported misuse counterclaim with prejudice. (A9-

A23; SA2-SA28.)² In denying Amurao's motion for fees, the District Court found that Plaintiffs' lawsuit was not frivolous, that there was no reason to discourage lawsuits like the one filed by Plaintiffs against Amurao, and that Amurao did not have "clean hands" because he knew that his adult daughter had used his Internet account to engage in the conduct Plaintiffs had complained of and withheld that information from Plaintiffs. (A16; A17; A20-A23; SA19, lines 18-19.) In dismissing the purported misuse counterclaim, the Court found no basis to create an affirmative claim for copyright misuse "out of nothing" and that Amurao had "no evidence or facts to support such a claim against the plaintiffs" in any event. (A13-A14.) Amurao filed a Notice of Appeal on May 6, 2008. (A25.)

STATEMENT OF FACTS

I. The Unauthorized Sharing Of Digital Music Files Over The Internet Constitutes Copyright Infringement And Has Had Devastating Effects On Copyright Owners.

Plaintiffs are recording companies who own or control exclusive copyrights in sound recordings. (A29; A151.) Collectively, Plaintiffs face a massive problem of digital piracy over the Internet. (A151.) Every month, copyright infringers unlawfully disseminate billions of perfect digital copies of Plaintiffs' copyrighted sound recordings over peer-to-peer ("P2P") networks. (*See, e.g.,* Lev Grossman, *It's All Free*, Time, May 5, 2003.) (A66.) Indeed, the Supreme Court has characterized the

² References to the Supplement to Joint Appendix shall be by page number "SA1" through "SA28."

magnitude of online piracy as “infringement on a gigantic scale.” *See Metro-Goldwyn-Mayer Studios, Inc., v. Grokster Ltd.*, 545 U.S. 913, 940 (2005).

As a direct result of piracy over P2P networks, Plaintiffs have sustained devastating financial losses. (A66.) Indeed, the Department of Justice concluded that online media distribution systems are “one of the greatest emerging threats to intellectual property ownership,” estimated that “millions of users access P2P networks,” and determined that “the vast majority” of those users “illegally distribute copyrighted materials through the networks.” Report of the Department of Justice’s Task Force on Intellectual Property, *available at* <http://www.cybercrime.gov/IPTaskForceReport.pdf> at 39 (October 2004) (“Task Force Report”). As the Seventh Circuit held, “Music downloaded for free from the Internet is a close substitute for purchased music; many people are bound to keep the downloaded files without buying the originals.” *BMG Music v. Gonzalez*, 430 F.3d 888, 890 (7th Cir. 2005). In addition, downloads from P2P networks compete with licensed broadcasts and undermine the income available to authors. *Id.* at 891. Plaintiffs’ losses from online music piracy have resulted in layoffs of thousands of employees in the music industry. Unfortunately, infringing users of P2P systems are often “disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement,” rendering the problem of online infringement even more difficult for copyright owners to combat. *In re Aimster Copyright Litigation*, 334 F.3d 643, 645 (7th Cir. 2003).

P2P users who disseminate (upload) and copy (download) copyrighted material violate the Copyright Act. *See Grokster*, 545 U.S. at 918-924 (noting that users of P2P networks share copyrighted music and video files on an enormous scale, and, as such, even the providers of those networks “concede infringement” by the individual users); *Gonzalez*, 430 F.3d at 889 (“[P]eople who post or download music files are primary infringers.”); *Aimster*, 334 F.3d at 645 (observing that those who “swap” music files over the Internet “are the direct infringers”). “A copy downloaded, played, and retained on one’s hard drive for future use is a direct substitute for a purchased copy” *Gonzalez*, 430 F.3d at 890.

Copyright infringement over P2P networks is rampant and widespread largely because users can conceal their identities. *See* Task Force Report at 39-40. Copyright owners are able to detect infringement occurring on P2P networks, but can only identify the names and locations of the infringers with the court-ordered assistance of the infringer’s Internet Service Provider (“ISP”). *See id.* In this case, it has never been disputed that Plaintiffs’ copyrighted sound recordings were both downloaded to and distributed from Amurao’s Internet account in violation of the Copyright Act.

II. Amurao Was Identified As An Infringer Of Plaintiffs’ Copyrights.

On June 1, 2005, a company retained by Plaintiffs, MediaSentry,³ located a P2P infringer using the Limewire file-sharing program on the Gnutella file sharing

³ MediaSentry is a business unit of SafeNet, Inc., and is sometimes referred to in the record as “SafeNet.” (A252 n.1.)

network. (A174-A175.) MediaSentry detected the infringement by logging onto the P2P network in the same fashion as any Internet user would and by viewing the files that this individual was distributing to other users for free over the Internet. (A289.) This infringer was openly distributing 528 digital audio files from a Limewire share folder—many of them Plaintiffs’ copyrighted sound recordings—to potentially millions of other P2P users. (A152; A174-A175; A33-A47, userlog showing files being distributed from Amurao’s Internet account on June 1, 2005.)

MediaSentry determined that this individual connected to the Internet at IP address 162.83.166.67, which belonged to an Internet account being serviced by Verizon Internet Services, Inc. (“Verizon”). (A214-A215.) Plaintiffs then filed a “Doe” Complaint and obtained leave to subpoena the ISP to determine this individual’s actual identity. (A152.) After obtaining the Court’s permission to seek discovery, Plaintiffs issued a subpoena to Verizon in order to determine who was responsible for the referenced IP address. (A152; A175.) In response to the subpoena, Verizon identified only Amurao. (A152; A175.)

III. Plaintiffs Attempted, Unsuccessfully, To Resolve The Infringement Before Filing Suit.

On October 11, 2006, Plaintiffs sent a letter to Amurao in an attempt to resolve the infringement. (A165-A167.) Amurao responded with a letter stating, “We downloaded the songs through a program called Lime Wire [sic]” and the songs were being “shared” over the Internet. (A133; A170.) Despite Defendant’s admission of

responsibility for downloading and sharing Plaintiffs' works, Plaintiffs were not able to resolve the matter and filed this lawsuit.

Defendant filed his Answer on February 2, 2007. Contrary to the admission of responsibility in his October 11, 2006 letter to Plaintiffs, Amurao's Answer denied responsibility for the infringement. (A49.) Amurao also asserted counterclaims seeking a declaration of non-infringement and damages for Plaintiffs' purported misuse of their copyrights. (A54-A56.) The Court dismissed Amurao's declaratory judgment counterclaim but allowed Amurao to proceed with his misuse theory. (A3.)

IV. Amurao Refused To Engage In Any Dialogue With Plaintiffs And Provided False Responses To Plaintiffs' Written Discovery—Claiming That He Had No Knowledge At All Regarding The Infringement.

In an effort to resolve this matter as efficiently as possible, Plaintiffs invited Amurao on multiple occasions to discuss what information he had regarding the infringement. (A175-A176.) Plaintiffs also asked Amurao to explain the admission of responsibility in his letter compared to the denials in his Answer. (*Id.*) Plaintiffs told Amurao that were only interested in pursuing the most culpable infringer and would dismiss the case against him if verified information revealed that someone else was directly responsible. (*Id.*) Amurao, however, refused to provide any information and refused to clarify what he meant when he wrote "We downloaded the songs through a program called Lime Wire." (*Id.*)

In response to Plaintiffs' written discovery regarding the infringement, Amurao swore on multiple occasions that he was "Not aware of any such downloading, or of

any persons who may have done so.” (A179; A184, Resp. to Interrog. Nos. 9, 10 and 12.) Amurao also swore that he was “[n]ot aware of any infringing actions and therefore unaware of any person or persons who may be responsible for it.” (*Id.*) When asked to identify the files in Exhibit B to Plaintiffs’ Complaint, Amurao stated that he “[h]as no such files and lack[s] any knowledge of the existence or contents of any such files.” (A180; A185, Resp. to Interrog. No. 19.) When asked to produce electronic copies of the files identified in Exhibit B to the Complaint, Amurao again stated that he “[had] no such files.” (A182; A187, Resp. to Req. for Prod. No. 13.) As explained below, all of these responses were knowingly false.⁴

V. By Their Own Efforts, Plaintiffs Identified Amurao’s Adult Daughter As The Direct Infringer, And, Then, Once They Identified Her, They Moved Quickly To Dismiss Their Suit Against Amurao.

In November 2007, Plaintiffs deposed Amurao, his spouse, and his adult daughter, Audrey Amurao. As a result of those depositions, Plaintiffs discovered that (1) Audrey Amurao is the direct infringer of Plaintiffs’ copyrights at issue in this matter (A188-A190; A192; A195-A196; A198); (2) Amurao was aware that his daughter was the direct infringer since before the time that Plaintiffs filed their Complaint (A135-A137; A192-A193; A198-A199); (3) the infringing files still reside

⁴ One of the reasons this case dragged on for as long as it did in the District Court is that Amurao took more than five months to respond to Plaintiffs’ written discovery. (A128-A128.4; A183-A187.)

on the computer (A194); and (4) therefore, Amurao had provided false and misleading responses to Plaintiffs' written discovery.

After the depositions, Plaintiffs attempted to negotiate a global resolution of the lawsuit with Amurao and his adult daughter. (A176.) Plaintiffs also offered to stipulate to a joint dismissal of all claims, including Amurao's purported misuse counterclaim, with all parties bearing their own costs and fees. (*Id.*) Amurao, however, rejected these efforts and insisted that he was entitled to attorney fees. (*Id.*)

During a status conference with the District Court on December 14, 2007, the parties agreed to provide Amurao until January 9, 2008 to respond to Plaintiffs' settlement offers. (A176-A177.) Despite Plaintiffs' inquiries, Amurao failed to respond. (*Id.*) Accordingly, Plaintiffs filed their motions for voluntary dismissal of their claim against Amurao and for summary judgment on Amurao's counterclaim for copyright misuse. Plaintiffs also filed a separate action against Amurao's adult daughter, Audrey Amurao, *Lava Records LLC v. Amurao*, Case No. 08-cv-3462 (S.D.N.Y.).

VI. The District Court Denied Amurao's Request For Attorney Fees And Dismissed Amurao's Purported Misuse Counterclaim With Prejudice.

Significantly, not one of the facts described in Section I through Section V above was challenged by Amurao in the District Court. (A238-A244; SA8; SA16-SA21.) On April 11, 2008, after hearing the parties' arguments, the District Court granted Plaintiffs' motion to dismiss the case, denied Amurao's motion for attorney

fees, and dismissed Amurao's purported misuse counterclaim with prejudice. (A9-A23; SA2-SA28.)

In the District Court, Amurao argued that Plaintiffs' infringement claim against him was frivolous and based on an unreasonably "flawed investigation," and that Plaintiffs should be deterred from filing cases like this one. (A19-A20; A241; SA18.) To support his contention that Plaintiffs' claim was "frivolous," Amurao argued that Plaintiffs had acted in "clear violation of Rule 11." (A241; *see also* SA18, "I would be looking at a Rule 11 sanction.")

In denying Amurao's motion for attorney fees, the District Court specifically rejected each of Amurao's contentions. (A16; A17; A20-A23.) The District Court found that Plaintiffs' lawsuit was not frivolous and that there was no reason to discourage lawsuits like the one filed by Plaintiffs against Amurao. (A11-A12; A21.) The District Court also specifically found that Amurao did not have "clean hands" because he first admitted responsibility and then concealed his knowledge that his adult daughter is, in fact, the direct infringer. (A20-A23; *see also* SA19, finding that Amurao "didn't come clean with [Plaintiffs] in the beginning.") After a "balancing of the equities," the District Court properly exercised its discretion and concluded that, on the facts of this case, an award of fees to Amurao was not warranted or appropriate. (A17.)

The District Court's ruling should be affirmed. This case might never have been filed at all had Amurao responded truthfully to Plaintiffs' multiple efforts to

discuss the acknowledged illegal activity that occurred in his household and through his Internet account. Rather than discussing the claims and being forthcoming about who was most responsible for the infringement, Amurao provided a factually inaccurate letter implicating himself, and then refused to discuss the matter at all after the lawsuit was filed, preferring instead to provide false information and to posture for attorney fees, a tactic which the District Court did not condone. On these facts, the District Court correctly exercised its equitable discretion to deny Amurao's motion for attorney fees.

In dismissing Amurao's purported misuse counterclaim, the District Court noted that other courts have "consistently held that copyright misuse is a defense that cannot be asserted as an affirmative claim," and that it would not "create such a claim out of nothing." (A13-A14.) The District Court also found that Amurao had "no evidence or facts to support such a claim against the plaintiffs" in any event. (A13.) Accordingly, the District Court correctly dismissed Amurao's misuse counterclaim with prejudice. (A14.)

SUMMARY OF THE ARGUMENT

This Court reviews the District Court's order denying Amurao's motion for attorney fees for abuse of discretion. Here, the District Court properly exercised its equitable discretion in denying Amurao's fees motion. First, the District Court's finding that Amurao has "unclean hands" is fully supported by the record. This finding, by itself, justifies the denial of fees. Second, contrary to Amurao's

contention, the District Court's ruling follows the standard for determining fees established in *Fogerty v. Fantasy Inc.*, 510 U.S. 517 (1994), and squarely addresses a number of the non-exclusive *Fogerty* factors. In particular, the District Court correctly determined that Plaintiffs' infringement claim against Amurao was not frivolous and that Plaintiffs' conduct was reasonable whereas Amurao's was not. It would not serve the interests of the Copyright Act to reward Amurao with attorney fees where he provided a factually inaccurate letter implicating himself in the infringement, then denied responsibility, and then provided false discovery responses concealing the identity of the direct infringer.

This Court reviews the District Court's order granting Plaintiffs' motion for summary judgment on Amurao's purported misuse counterclaim *de novo*. Here, the District Court correctly dismissed Amurao's purported misuse counterclaim because no such claim exists, nor is there any reason to create such a claim, and because Amurao has no facts to support even his own theory of such a claim. In addition, the facts alleged in support of Amurao's misuse counterclaim involve conduct that is privileged under the First Amendment.

ARGUMENT

I. The District Court Correctly Exercised Its Equitable Discretion In Denying Amurao's Request For Attorney Fees.

A. Standard of review.

This Court reviews a district court's denial of an award of attorney fees under the Copyright Act for abuse of discretion. *Medforms, Inc. v. Healthcare Mgmt. Solutions, Inc.*, 290 F.3d 98, 117 (2d Cir. 2002). The abuse of discretion standard is one of the most "highly deferential" standards of review. *Alderman v. Pan Am World Airways*, 169 F.3d 99, 102 (2d Cir. 1999) (quotation omitted); *see also Matthew Bender & Co. v. West Publ'g Co.*, 240 F.3d 116, 121 (2d Cir. 2001) ("Abuse of discretion is one of the most deferential standards of review.") (quotation omitted). Particularly in the context of fee awards, it recognizes that the district court, which is intimately familiar with the nuances of the case, is in far better position to make certain decisions than is the appellate court, which must work from a cold record. *Dubbin v. Union Bank of Switz.* (*In re Holocaust Victim Assets Litig.*), 424 F.3d 150, 157 (2d Cir. 2005) (citation omitted). Thus, this Court will not reverse the denial of a fee award unless the district court's conclusions are based on an erroneous determination of law, or on a clearly erroneous assessment of the evidence. *Matthew Bender*, 240 F.3d at 121. ⁵

⁵ At page 15 of his Opening Brief, Amurao states that a prevailing defendant "is entitled to costs 'as a matter of course'" under Fed. R. Civ. P. 54(d)(1). Rule 54 has no application here, however, as Amurao presented no evidence of any costs in this case and did not even seek costs under Rule 54. (A7-A8; SA20-SA21.)

B. The District Court correctly denied fees to Amurao in this case.

Section 505 of the Copyright Act provides that, “In any civil action under this title, the court in its discretion may allow the recovery of full costs by or against any party . . . [T]he court may also award a reasonable attorney’s fee to the prevailing party as part of the costs.” 17 U.S.C. § 505. Attorney fees are not awarded as a matter of course under the Copyright Act. Rather, attorney fees are to be awarded only as a matter of the court’s discretion, and only when equity requires such an award. *Fogerty*, 510 U.S. at 533-34 (noting that the word “may” in the statute “clearly connotes discretion”).

“[T]here is no precise rule or formula for making [attorney fees] determinations” under the Copyright Act. *Fogerty*, 510 U.S. at 534. Rather, in making fee decisions, district courts should exercise their “equitable discretion” consistent with the purposes of the Copyright Act. *Id.*; see also *Crescent Publ’g Group, Inc. v. Playboy Enters.*, 246 F.3d 142, 147 (2d Cir. 2001) (quoting *Fogerty*, 510 U.S. at 534 n.19). Among the factors that lower courts may consider are (1) the frivolousness of the action, (2) the plaintiff’s motivation, (3) the objective unreasonableness (factual and legal) of the claims, and (4) the need to advance considerations of compensation and deterrence. *Crescent Publ’g Group*, 246 F.3d at 147.

In exercising their equitable discretion, the district courts should deny attorney fees to a party that has engaged in misconduct or acted in bad faith during the litigation. See *Matthew Bender*, 240 F.3d at 125 (“bad faith in the conduct of the

litigation” is a proper consideration in making a fees decision); *see also Timely Products Corp. v. Arron*, 523 F.2d 288, 305 (2d Cir. 1975) (a finding of unclean hands warrants an award of attorney fees in patent context); *Berkla v. Corel Corp.*, 302 F.3d 909, 924 (9th Cir. 2002) (affirming the district court’s denial of fees to the defendant because the defendant’s improper conduct had precipitated the complaint and, thus, the defendant was “not a blameless victim”); 4-14 *Nimmer on Copyright* § 14.10[D][1] (hard-ball litigation tactics and discovery abuse in general merit an award of attorney fees).⁶ It would be inconsistent with the Copyright Act’s purposes to endorse improper conduct with an award of attorney fees. *See Matthew Bender*, 240 F.3d at 125.

1. The District Court’s finding of “unclean hands” justifies the denial of fees.

In copyright cases, district courts properly exercise their equitable discretion in denying fees to any party that has engaged in misconduct or acted in bad faith during the litigation. *See Matthew Bender*, 240 F.3d at 125; *see also Berkla*, 302 F.3d at 924; *Arron*, 523 F.2d at 305. The ultimate goal of determining fees under section 505 “is to be ‘faithful to the purpose of the Copyright Act.’” *Matthew Bender*, 240 F.3d at 124-25 (quoting *Fogerty*, 510 U.S. at 535 n.19). In such cases, the bad faith conduct of a party, by itself, is a “valid ground” for determining whether to award fees. *Id.* (“Thus, bad faith in the conduct of the litigation is a valid ground for an award of fees.”); *Baker v.*

⁶ Although some of these authorities cite a non-prevailing party’s bad faith as a reason to award attorney fees to a prevailing party, there is no reason not to apply the same reasoning to deny fees to a party that has itself acted in bad faith.

Urban Outfitters, Inc., 431 F. Supp. 2d 351, 357 (S.D.N.Y. 2006) (awarding fees based on “manifest bad faith alone”). Such conduct in the course of litigation does not advance the purpose of the Copyright Act. *Matthew Bender*, 240 F.3d at 124-25; *see also Berkla*, 302 F.3d at 924 (denying fees to prevailing defendant whose conduct, while not “technically” infringing, nevertheless “constituted a highly questionable business practice”).

Here the District Court properly, and expressly, exercised its equitable discretion to deny Amurao’s fee request because of Amurao’s bad faith. Amurao’s Opening Brief ignores completely the District Court’s finding that Amurao had “unclean hands” and, therefore, was not entitled to an award of attorney fees under section 505. The District Court’s finding that Amurao has “unclean hands” has substantial support in the record.

There is no dispute that Plaintiffs discovered substantial infringement of their copyrights through Amurao’s Internet account and from a computer in Amurao’s home. (A27-A47; A174-A175; A192; A194.) There is also no dispute that Amurao sent Plaintiffs a letter admitting his responsibility for the infringement, stating that “[w]e downloaded the songs through a program called Lime Wire [sic]” and that the songs were being “shared” over the Internet. (A-133; A170.) During the course of the lawsuit, however, Amurao changed his story. He denied responsibility for the infringement and claimed in sworn discovery responses that he had no information at all concerning the infringement. (A49; A184; A185; A187.) It was only when

Plaintiffs took the depositions of Amurao and his adult daughter that they finally were able to learn the truth, *i.e.*, that Amurao knew before the lawsuit was filed that his adult daughter is directly responsible for the infringement. (A135-A137; A190-A194; A198-A199.) Thus, the District Court properly concluded that Amurao did not “have clean hands because he knows, or you can figure he probably knows, what’s going on here” but “didn’t come clean with [Plaintiffs] in the beginning.” (A23; SA19.)

Having first claimed responsibility, then denied it, and then concealed information regarding his adult daughter’s use of the computer and his Internet account to infringe Plaintiffs’ copyrights, Amurao did not come to the District Court with clean hands in asking for fees under section 505. On the contrary, Amurao’s misconduct unreasonably prolonged and delayed the resolution of this case. An award of fees to Amurao under these circumstances does not comport with the purpose of the Copyright Act and, on this basis alone, the District Court properly exercised its discretion in denying Amurao’s motion for fees. *See Matthew Bender*, 240 F.3d at 124-25; *Berkla*, 302 F.3d at 924.

In *Virgin Records America, Inc. v. Thompson*, 512 F.3d 724 (5th Cir. 2008), *cert. denied* 128 S. Ct. 2096 (U.S. 2008), a case similar to this one, the Fifth Circuit reached the same conclusion. *Thompson* affirmed the district court’s denial of fees based, in part, on the finding that the defendant had unreasonably withheld information from the plaintiffs. *Id.* at 727. In *Thompson*, the plaintiffs discovered substantial infringement of their copyrights by a P2P file sharer and traced the infringement to an

Internet account registered to Thompson. *Id.* at 725. Before filing suit, the plaintiffs attempted to contact Thompson multiple times to discuss the infringement. *Id.* When Thompson did not respond, the plaintiffs filed their lawsuit. *Id.* Then, in response to the plaintiffs' motion to dismiss Thompson's counterclaims, Thompson, for the first time, identified his "adult daughter" as the direct infringer of the plaintiffs' copyrights. *Id.* When the plaintiffs moved to dismiss their claim against Thompson, Thompson moved for attorney fees under section 505, which the district court denied. *Id.* In affirming the district court, the Fifth Circuit held that Thompson had "'delayed the prompt resolution' of [the] litigation by failing to respond to [the plaintiffs'] pre-suit communications and to disclose the identify of the true copyright infringer," and that an award of fees to Thompson under such circumstances "would not advance considerations of compensation and deterrence" under the Copyright Act. *Id.* at 727. The same reasoning applies with equal force to the facts of this case.

2. The District Court followed the *Fogerty* standard and addressed a number of the *Fogerty* factors.

a. There is no precise rule or formula for making fee determinations in a copyright case.

In his Opening Brief, Amurao contends that the District Court did not properly analyze his fee request under *Fogerty* and that, therefore, the District Court's denial of fees should be reversed. (Opening Br. at 13, 20-21.) This contention is without merit. While not specifically intoning the name of the case, the District

Court's ruling both follows the *Fogerty* standard for determining fees and addresses a number of the *Fogerty* factors.

Contrary to Amurao's apparent contention, "there is no precise rule or formula for making [fee] determinations" under the Copyright Act. *Fogerty*, 510 U.S. at 534. Rather, courts must exercise their "equitable discretion" consistent with the Copyright Act. *Id.*; *see also Crescent Publ'g Group*, 246 F.3d at 147. The non-exclusive factors listed in *Fogerty* are not mandatory; rather, they are factors that the district court "could consider" when deciding to award fees. *Crescent Publ'g Group*, 246 F.3d at 147; *see also Fogerty*, 510 U.S. at 534 n.19 ("We agree that these factors *may* be used to guide courts' discretion.") (emphasis added).

Here, the District Court properly, and expressly, exercised its equitable discretion in denying Amurao's fee request. (A16; A17, stating that it was "balancing the equities" and exercising its "judicial discretion.") Amurao's Opening Brief ignores completely the District Court's finding that Amurao had "unclean hands" and, therefore, was not entitled to an award of attorney fees under section 505.

b. The District Court ruled that Plaintiffs' lawsuit was not frivolous and that ruling is supported by the record.

Not only is Amurao wrong regarding the District Court's adherence to the *Fogerty* standard of equitable discretion, he also ignores the District Court's rejection of his contention that Plaintiffs' claim against him was frivolous. As noted above, the very first *Fogerty* factor is frivolousness. 510 U.S. at 534 n. 19. Under *Fogerty*, when a

claimant's factual allegations and legal theories are not frivolous, a court may properly exercise its discretion to deny attorney fees. *See Smith v. Jackson*, 84 F.3d 1213, 1221 (9th Cir. 1996); *Nat'l Nonwovens, Inc. v. Consumer Prods. Enters.*, 397 F. Supp. 2d 245, 260 (D. Mass. 2005); *Creations Unlimited, Inc. v. McCain*, 889 F. Supp. 952, 954 (S.D. Miss. 1995).

Here, Amurao argued to the District Court that Plaintiffs' claim against him was "frivolous" and brought "without conducting an adequate investigation." (A19-A20; A241; SA18.) To support his contention that Plaintiffs' claim was "frivolous," Amurao argued that Plaintiffs had acted in "clear violation of Rule 11." (A241; *see also* SA18, "I would be looking at a Rule 11 sanction.") The District Court, however, expressly acknowledged and rejected Amurao's argument that Plaintiffs' lawsuit was "frivolous" (A11-A12; A21), and its finding on this issue is more than adequately supported by the record.

To begin with, it is beyond dispute that Plaintiffs' claim against Amurao was well grounded in the law. Plaintiffs' Complaint alleges both unlawful downloading and distribution of Plaintiffs' works on a P2P network. (A29.) It is well established that P2P users who download and distribute copyrighted material over the Internet without the permission of the copyright holder violate the Copyright Act. *See Grokster*, 545 U.S. at 918-924 (noting that even the providers of P2P networks "concede infringement" by the individual users); *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 718-19 (9th Cir. 2007) (confirming that a defendant who makes actual files

available for distribution, not just links to files, “distributes” them under the Copyright Act); *Gonzalez*, 430 F.3d at 889 (“[P]eople who post or download music files are primary infringers.”); *Aimster*, 334 F.3d at 645 (“[M]aking . . . a digital copy of [copyrighted] music . . . infringes copyright.”); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001) (“Napster users who download files containing copyrighted music violate plaintiffs’ reproduction rights,” and “Napster users who upload file names to the search index for others to copy violate plaintiffs’ distribution rights.”); 2-8 *Nimmer on Copyright* § 8.08[A][1] (“[The] input of a work into a computer results in the making of a copy, and hence . . . such unauthorized input infringes the copyright owner’s reproduction right.”).⁷

⁷ At page 20 of his Opening Brief, Amurao argues, without citation to any authority, that considerable disagreement exists as to whether making copyrighted works available for distribution on a P2P network infringes the copyright owner’s distribution right and that “copyright defendants and their attorneys should be encouraged to litigate who is right.” (Opening Br. at 20.) Leaving aside Amurao’s misunderstanding of the law concerning the scope of the distribution right under 17 U.S.C. § 106(3), Plaintiffs in this case alleged violations of both their reproduction (*i.e.*, downloading) and distribution (*i.e.*, uploading) rights under 17 U.S.C. § 106(1) and 106(3), and have proof of both. (A29; A33-A47; A133; A174-A175; A189-A190.) In addition, Amurao never argued to the District Court that he should recover fees because he wanted to press arguments concerning the scope of the distribution right. Rather, Amurao argued that Plaintiffs’ claim was “frivolous” and brought “without conducting an adequate investigation,” which arguments the District Court squarely rejected. (A11-A12; A19-A21.) Having lost the arguments he did raise, Amurao cannot seek to raise new arguments for the first time on appeal. *See Wal-Mart Stores, Inc. v. Visa U.S.A., Inc.*, 396 F.3d 96, 124 n.29 (2d Cir. 2005) (holding that a party is precluded from raising on appeal “arguments available but not pressed below”).

Similarly, Plaintiffs' claim against Amurao was well grounded in fact. The District Court found that, "on June 1, 2005 at 11:57 p.m.," Plaintiffs discovered substantial infringement of their copyrighted sound recordings by use of "an online media distribution facility or system," and that "distribution was occurring" at a specific IP address "identified as being registered to the defendant" Amurao. (A9-A10.) Indeed, more than 500 digital audio files were downloaded and were being distributed from a computer in Defendant's home and through his Internet account, including many sound recordings of which Plaintiffs are the copyright owners or licensees of exclusive rights under United States copyright. (A33; A174-A175; A190-A194.) Plaintiffs also had a letter from Amurao stating, "We downloaded the songs through a program called Lime Wire [sic]" and the songs were being "shared" over the Internet. (A-133; A170; A175.) It was on this basis that Plaintiffs brought this lawsuit. (SA3-SA4.)

For these reasons alone, the District Court correctly held that Plaintiffs properly brought suit against Amurao, and the fact that it was later determined that Amurao was not the direct infringer did not warrant an award of fees. (A11-A12; A21). Numerous other courts have held the same in the context of assessing the *Fogerty* factors on similar facts. *See, e.g., Thompson*, 512 F.3d at 726 (affirming the district court's conclusion that the plaintiffs' lawsuit was neither frivolous nor objectively unreasonable where the plaintiffs had discovered substantial copyright infringement through an Internet account registered to the defendant); *Elektra Entm't*

Group, Inc. v. Licata, Case No. 07-cv-569, Report and Recommendation at 7 (S.D. Ohio Aug. 25, 2008) (“The record reflects that Plaintiffs instituted this action in good faith after acquiring substantial evidence indicating that Defendant’s Internet account had been used to commit copyright infringement.”)⁸; *Virgin Records Am., Inc. v. Darwin*, No. SA CV 04-1346 AHS, 2006 U.S. Dist. LEXIS 96069, at *13 (C.D. Cal. Apr. 17, 2006) (“As such, it was not frivolous for plaintiffs to initiate a lawsuit against defendant, whom Cox identified.”); *Capitol Records, Inc. v. O’Leary*, No. SACV 05-406 CJC, 2006 U.S. Dist. LEXIS 5115, at *4 (C.D. Cal. Jan. 31, 2006) (“[T]he record is clear that Plaintiffs were reasonable in bringing an action against [defendant] because the Internet account used to commit the alleged infringement was registered in her name only.”); *Priority Records L.L.C. v. Chan*, No. 04-CV-73645-DT, 2005 U.S. Dist. LEXIS 20360, at *6 (E.D. Mich. May 19, 2005) (observing that it was proper to bring a lawsuit under the Copyright Act against “the registered user for the IP address from which the allegedly improper downloading and file sharing occurred”).

Moreover, as another court has observed, “piracy typically takes place behind closed doors and beyond the watchful eyes of a copyright holder.” *Warner Bros. Records, Inc. v. Payne*, No. W-06-CA-051, 2006 U.S. Dist. LEXIS 65765, at *10 (W.D. Tex. July 17, 2006). Here, it is undisputed that infringement was taking place behind the closed doors of Amurao’s household through an Internet account for which he

⁸ Copies of all unreported decisions are attached hereto.

was responsible, and Amurao admitted responsibility before Plaintiffs filed suit.

(A133.) For all of these reasons, the District Court did not abuse its discretion in rejecting Amurao's contention that Plaintiffs' claim against him was frivolous.

c. Plaintiffs' motivations were entirely faithful to the purposes of the Copyright Act.

The second Fogerty factor—Plaintiff's motivation for filing the lawsuit—also supports the District Court's denial of fees here. Indeed, Amurao did not even argue to the District Court that Plaintiffs lacked a proper motive in bringing this lawsuit, nor could he do so.

It is undisputed that Plaintiffs brought this case based on evidence of substantial infringement of their copyrights through an Internet account for which Amurao was responsible, as well as a letter from Amurao admitting the very infringement Plaintiffs had discovered. (A29; A33-A47; A133; A174-A175; SA3-SA4.) Plaintiffs' case is entirely faithful to the purposes of the Copyright Act. *See Thompson*, 512 F.3d at 726 (affirming the district court's conclusion "that Plaintiffs' 'motivation in bringing the suit was proper'"); *Atlantic Recording Corp. v. Heslep*, No. 4:06-cv-132-Y, 2007 U.S. Dist. LEXIS 35824, at *15-16 (N.D. Tex. 2007) (holding in a case similar to this one that Plaintiffs acted properly in bringing suit "to protect their . . . copyrights from infringement and to help . . . deter future infringement"); *Licata*, Report and Recommendation at 11 (holding in a similar case that "Plaintiffs acted reasonably in filing this lawsuit with the purpose of protecting their valid copyrights")

after discovering “substantial copyright infringement on a computer in Defendant’s home and through Defendant’s Internet account”); *see also Kebodeaux v. Schwegmann Giant Super Markets, Inc.*, 33 U.S.P.Q.2d 1223, 1224 (E.D. La. 1994) (holding that it would be inconsistent with the purposes of the Copyright Act to “deter plaintiffs . . . from bringing suits when they have a reason to believe, in good faith, that their copyrights have been infringed”). As soon as Plaintiffs became aware of another individual culpable for the direct infringement alleged in this matter, they sought first to resolve the infringement through settlement, and then to dismiss their claim against Amurao so they could proceed against the direct infringer. Amurao presented no evidence to suggest that Plaintiffs had any motivation for bringing this suit other than for the legitimate purpose of protecting their copyrights, because there is no such evidence.⁹

⁹ Amurao’s argument (Opening Br. at 20) that Plaintiffs are engaged in a “large scale attempt” to extend the boundaries of copyright law “to the detriment of the public’s rights and interests” is entirely without merit. Amurao provides no basis or citation in the record for such assertions, because none exists. In any event, Plaintiffs acknowledge that they are engaged in a world-wide campaign to protect their copyrights from online piracy. Plaintiffs are assuredly entitled to protect their rights through litigation, particularly given what the Supreme Court has described as “infringement on a gigantic scale.” *Grokster*, 545 U.S. at 940; 17 U.S.C. § 101 *et seq.* Amurao’s accusations brush aside the devastating economic effects on the recording industry caused by individuals who download and distribute millions of perfect digital copies of Plaintiffs’ copyrighted works. *See, e.g., Gonzalez*, 430 F.3d at 890 (“A copy downloaded, played, and retained on one’s hard drive for future use is a direct substitute for a purchased copy . . .”).

d. The District Court correctly determined that Plaintiffs’ litigation tactics were objectively reasonable and that Amurao’s were not.

The third *Fogerty* factor is objective reasonableness. 510 U.S. at 534 n. 19. Specifically, under *Fogerty*, the litigation tactics employed by both parties are relevant to determining objective unreasonableness. *Bridgeport Music, Inc. v. Rhyme Syndicate Music*, 376 F.3d 615, 627-28 (6th Cir. 2004).

Here, Amurao argued to the District Court that Plaintiffs’ “case against him was presumptively unreasonable” based on an alleged inadequate “pre-filing investigation required by Rule 11.” (Opening Br. at 7.) The District Court, however, expressly rejected Amurao’s argument and correctly found that Plaintiffs’ litigation tactics were objectively reasonable (A11-A12; A19; A21) while Amurao’s were not (A20; A23; SA19.) Specifically, while the Court found “no need to deter litigation” like that brought by Plaintiffs, it also found that Amurao had acted with “unclean hands.” (A21; A23.) The record amply supports these findings.

Plaintiffs sought early on to identify the individual, if other than Amurao, who was responsible for the copyright infringement discovered in Amurao’s household and to engage in settlement discussions with the responsible party. Specifically, although Plaintiffs had sufficient information to allow them to file suit against Amurao without trying to contact him first, Plaintiffs reached out to Amurao to discuss this matter anyway. (A165-A167.) Amurao responded with a letter admitting responsibility. (A133.) After Amurao filed his Answer denying liability, Plaintiffs

continued their efforts to get to the truth, both through informal discussions and discovery. (A175-A176; A178-A187.) Amurao, however, refused any informal dialogue and provided false and misleading discovery responses denying any knowledge of the infringement or of the digital sound recordings that were still sitting on the computer in his home. (A175-A176; A184-A185; A187; A194.) It was not until Plaintiffs took Amurao’s and his adult daughter’s depositions that they finally learned what Amurao knew all along—*i.e.*, that his adult daughter Audrey Amurao is the direct infringer of Plaintiffs’ copyrights and that the sound recordings were still on the computer. After finally learning the truth regarding the identify of the direct infringer, Plaintiffs acted quickly to dismiss this lawsuit. On these facts, the District Court correctly concluded that Plaintiffs had acted properly while Amurao had not.

e. An award of attorney fees to Amurao would not advance the goals of compensation and deterrence.

The final *Fogerty* factor—whether an award of attorneys’ fees is necessary to, or would further in any manner, the interests of compensation or deterrence—likewise favors Plaintiffs. The “principal purpose of the [Copyright Act] is to encourage the origination of creative works by attaching enforceable property rights to them.” *Diamond v. Am-Law Publ’g Corp.*, 745 F.2d 142, 147 (2d Cir. 1984). This Court has recognized that “objective reasonableness is a factor that should be given substantial weight in determining whether an award of attorneys’ fees is warranted” because “the imposition of a fee award against a copyright holder with an objectively reasonable

litigation position will generally not promote the purposes of the Copyright Act.” *Matthew Bender*, 240 F.3d at 121-22. “This is because such attorney fee awards may chill litigation of close cases, preventing the clear demarcation of the boundaries of copyright law.” *Ariel (UK) Ltd. v. Reuters Group PLC*, No. 05 Civ. 9646 (JFK), 2007 U.S. Dist. LEXIS 7423, at *5 (S.D.N.Y Jan. 24, 2007) (quotation omitted).

Here, as discussed above, the District Court found that Plaintiffs’ litigation position was objectively reasonable whereas Defendant’s was not. Plaintiffs brought a nonfrivolous claim in the interests of protecting valid copyrights, and deposition testimony finally revealed that Defendant’s adult daughter, Audrey Amurao, committed the acts alleged by Plaintiffs. The District Court correctly found no “need to deter” Plaintiffs’ conduct (A21), and there is certainly no basis for compensating Amurao for his intentional concealment of material facts. To the contrary, awarding attorney fees to Amurao on the facts of this case would serve only to promote conduct that no court should encourage, including refusing to disclose relevant information, providing false discovery responses, and intentionally and unnecessarily prolonging litigation. Indeed, if any fees were to be awarded in order to incentivize conduct, they should be to Plaintiffs from Amurao due to his unreasonable conduct.

3. Amurao’s reliance on the *Foster* and *Andersen* cases is misplaced.

To support his argument for reversal, Amurao relies on two cases where courts awarded fees against the plaintiffs under section 505: *Capitol Records Inc. v. Foster*, No.

CIV-04-1569-W (W.D. Okl.) and *Atlantic Recording Corp. v. Andersen*, Civ. No. 05-933-AC (D. Or.). (Opening Br. at 21.) This case is nothing like *Foster* or *Andersen*.

Foster is factually distinguishable because that case involved secondary infringement claims litigated for almost two years after the plaintiffs learned the identity of the direct infringer. This case, by contrast, involves no claims of secondary infringement and Plaintiffs started the process of dismissal within weeks of learning the truth about the identity of the direct infringer. *Andersen*, likewise, is factually distinguishable because that case involved conflicting evidence regarding the identity of the direct infringer that was never resolved and which ultimately led the plaintiffs to dismiss the case. Here, by contrast, there is no question that substantial infringement occurred through Defendant's Internet account and that Plaintiffs acted quickly to dismiss the case once they learned the identity of the direct infringer. Finally, the defendants in *Foster* and *Andersen* were not found to have acted in bad faith, as Amurao was here. For all of these reasons, these cases have no application to the issues before this Court.

4. There is no basis under the law or the facts of this case for any "presumption" in favor of awarding fees.

In an effort to rescue his appeal, Amurao argues that other courts have adopted a "presumption" in favor of fees to the prevailing party or to the prevailing defendant in particular. (Opening Br. at 16-18.) This argument is misplaced for several reasons.

First, neither the statutory text nor the Supreme Court’s *Fogerty* opinion support the existence of any “presumption.” The statutory language of section 505—“the court may also award a reasonable attorney’s fee to the prevailing party as part of the costs”—gives no hint of any presumption in favor of awarding fees. Nor does *Fogerty* give any hint of a presumption. Rather, *Fogerty* holds that “[p]revailing plaintiffs and prevailing defendants are to be treated alike, but attorney’s fees are to be awarded to prevailing parties *only as a matter of the court’s discretion*.” 510 U.S. at 534 (emphasis added).

Second, the standard for determining fees under the Copyright Act in this Circuit is clear and is consistent with the statutory text and with *Fogerty*. District courts exercise “equitable discretion” consistent with the purposes of the Copyright Act, and may deny fees to a party that engaged in misconduct or acted in bad faith during the litigation. *See Crescent Publ’g Group*, 246 F.3d at 147; *Matthew Bender*, 240 F.3d at 125.

Finally, there is no basis for creating a presumption standard under the facts of this case. To the extent that Amurao argues that the denial of fees in this case reduces incentives to defend against unworthy claims of infringement (Opening Br. at 17), he is incorrect for at least two reasons. First, there is no dispute that the copyright infringement alleged in Plaintiffs’ Complaint did, in fact, occur. Thus, Plaintiffs’ lawsuit cannot be seen as discouraging legitimate Internet activity. Conversely, although Plaintiffs repeatedly and diligently attempted to discuss with Amurao the

evidence of infringement using an Internet account registered in his name both before and during the lawsuit, Amurao provided either false information or no information at all. On these facts, Plaintiffs' lawsuit against Amurao was consistent with the goals of the Copyright Act. Second, the District Court correctly found that Amurao did not assert a "meritorious copyright defense" worthy of encouragement. *See Fogerty*, 510 U.S. at 527. Instead, he asserted a "gotcha" defense, acknowledging that infringement occurred through his Internet account, even admitting responsibility at one point, but then withholding information about the person directly responsible for such infringement apparently for the sole purpose of manufacturing a motion for attorney fees. Such conduct should not be encouraged with a presumption in favor of fees.

For all of these reasons, the District Court correctly exercised its equitable discretion to deny Amurao's motion for fees and its ruling should be affirmed.

II. The District Court Correctly Dismissed Amurao's Purported Copyright Misuse Counterclaim.

A. Standard of review.

This Court reviews a district court's granting of a motion for summary judgment *de novo*, construing the evidence in the light most favorable to the nonmoving party and drawing all inferences and resolving all ambiguities in favor of the nonmoving party. *Doro v. Sheet Metal Workers' Int'l Ass'n*, 498 F.3d 152, 155 (2d Cir. 2007). "Summary judgment is appropriate 'if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show

that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.” *Id.* (quoting Fed. R. Civ. P. 56(c)).

Here, the District Court dismissed Amurao’s counterclaim for copyright misuse because no such affirmative claim for relief exists and because Amurao has “no evidence or facts” to support even his theory of such a claim in any event. (A13-A14.) The District Court’s dismissal should be affirmed.

B. Amurao’s misuse claim is not a valid cause of action and no policy justification exists for creating such a cause of action.

Every reported decision, including decisions from the courts in this Circuit, has held that no affirmative claim for copyright misuse exists. For example, in *Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Services*, 746 F. Supp. 320 (S.D.N.Y. 1990), the Court rejected copyright misuse as a claim for affirmative relief and dismissed the defendant’s copyright misuse counterclaim because “[s]uch a claim is unprecedented and the Court declines to create the claim.” *Id.* at 328.¹⁰ Courts in other districts agree that copyright misuse is, at best, an affirmative defense and is not

¹⁰ See also *Interscope Records v. Kimmel*, No. 3:07-cv-0108, 2007 U.S. Dist. LEXIS 43966, at *17 (N.D.N.Y. June 18, 2007) (dismissing a counterclaim virtually identical to the one Defendant asserts here and holding that “misuse is not the basis for affirmative relief”); *Shady Records, Inc. v. Source Enters., Inc.*, No. 03 Civ. 9944 (GEL) 2004 U.S. Dist. LEXIS 26143, at *50 (S.D.N.Y. Jan. 3, 2005) (granting summary judgment and dismissing claim for copyright misuse); *UMG Recordings, Inc. v. Lindor*, No. CV-05-1095 (DGT), 2007 U.S. Dist. LEXIS 88285, at *10-16 (E.D.N.Y. Nov. 30, 2007) (striking the defendant’s affirmative defense of copyright misuse).

an affirmative claim for relief.¹¹ Plaintiffs are not aware of any published opinion where an affirmative claim of copyright misuse has been recognized.

Nor is there any public policy basis for creating an affirmative cause of action for copyright misuse. Where applicable, misuse is an equitable doctrine invoked to limit enforcement of intellectual property rights. The copyright misuse doctrine “has its historical roots in the unclean hands defense.” *Ass’n of Am. Med. Colleges v. Princeton Review, Inc.*, 332 F. Supp. 2d 11, 17 & n.2 (D.D.C. 2004). In appropriate circumstances, the defense may temporarily close the doors of a court of equity to a party that has engaged in inequitable or bad faith conduct relative to the matter in which that party seeks relief. *Practice Mgmt, Info. Corp. v. American Med. Assoc.*, 121 F.3d 516, 520 n.9 (9th Cir. 1997) (“Copyright misuse does not invalidate a copyright, but precludes its enforcement during the period of misuse.”). “Because the policy reasons

¹¹ See *Ticketmaster L.L.C. v. RMG Techs., Inc.*, 536 F. Supp. 2d 1191, 1198 (C.D. Cal. 2008) (holding that, where applicable, “copyright misuse is an affirmative defense to a claim for copyright infringement, and does not support an independent claim for damages); *Open Source Yoga Unity v. Chowdhury*, No. C03-03182 PJH, 2005 U.S. Dist. LEXIS 10440, at *24 (N.D. Cal. April 1, 2005) (“Copyright misuse exists solely as a defense to copyright infringement, and thus arguably cannot exist as an affirmative claim.”) (internal citations omitted); *Arista Records, Inc. v. Flea World, Inc.*, 356 F. Supp. 2d 411, 428 (D.N.J. 2005) (“copyright misuse is not a claim but a defense.”); *Ass’n of Am. Med. Colleges v. Princeton Review, Inc.*, 332 F. Supp. 2d 11, 18 (D.D.C. 2004); *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195, 1199 (N.D. Cal. 2004) (holding that it was not aware of any legal authority “that allows an affirmative claim for damages for copyright misuse.”); *MGM Studios, Inc. v. Grokster, Ltd.*, 269 F. Supp. 2d 1213, 1225 (C.D. Cal. 2003) (stating that “copyright misuse cannot found a claim for damages”); *Warner/Chappel Music, Inc. v. Pilz Compact Disc, Inc.*, No. CIV A 99-293, 1999 WL 999332, at *6 n. 5 (E.D. Pa. Oct. 26, 1999) (“[There is] virtually no authority in any Circuit for [an affirmative claim of copyright abuse].”).

underlying the development of the equitable doctrine of copyright misuse are grounded in the unclean hands doctrine, permitting copyright misuse as an independent, affirmative claim would be contrary to the purpose of the doctrine.” *Princeton Review*, 332 F. Supp. 2d at 19 (dismissing copyright misuse counterclaim).

Applying the same analysis, courts have also rejected affirmative “misuse” claims in the trademark and patent context. *See, e.g., Enercon GMBH v. Erdman*, 13 Fed. Appx. 651, 652 (9th Cir. 2001) (“patent misuse is an affirmative defense to a suit for patent infringement, not an independent cause of action”); *B. Braun Medical v. Abbott Lab.*, 124 F.3d 1419, 1428 (Fed. Cir. 1997) (holding that “the defense of patent misuse may not be converted to an affirmative claim for damages simply by restyling it as a declaratory judgment counterclaim”); *Ford Motor Co. v. Obsolete Ford Parts, Inc.*, 318 F. Supp. 2d 516, 521 (E.D. Mich. 2004) (holding that trademark misuse may or may not be an existing defense, but in any event it does not support any affirmative claim); *CMI, Inc. v. Intoximeters, Inc.*, 918 F. Supp. 1068, 1090 (W.D. Ky. 1995) (“Patent

misuse cannot be the basis of a cause of action. Rather, it is an *affirmative defense* to a patent holder's claim of infringement.”)¹²

Finally, there is no basis for creating an affirmative cause of action for copyright misuse under the facts alleged by Amurao. Amurao's misuse theory complains that Plaintiffs have joined together in this case to protect their copyrights from infringement, retained common lawyers, and engaged in joint settlement discussions, which actions Amurao alleges are “in violation of the antitrust laws and public policy.” (A52-A53; A56-A57.) These allegations do not state even a viable misuse defense, let alone an affirmative claim for relief.

The misuse defense is far more limited than some general “violation” of “antitrust laws” or “public policy.” Rather, the misuse defense applies only “when a copyright holder leverages its copyright to restrain creative activity” in a manner that undermines the policies behind the copyright laws. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 994-997 (C.D. Cal. 2006) (analyzing the circuit

¹² To support his assertion that copyright misuse “can be asserted as a positive claim in an appropriate case” (Opening Br. at 25-26), Amurao cites two cases, *Electronic Data Systems Corp. v. Computer Assoc. Int'l, Inc.*, 802 F. Supp. 1463 (D. Tex. 1992), and *Shloss v. Sweeney*, 515 F. Supp. 2d 1068 (N.D. Cal. 2007). Neither of these cases, however, presents copyright misuse as an affirmative claim but, rather, as a claim for declaratory relief asserting the misuse defense as a means to avoid responsibility for copyright infringement. See *Electronic Data*, 802 F. Supp. at 1466 (seeking “a declaration that it has not infringed [the holder's] copyrights because of [the holder's] alleged misuse of such copyrights”); *Shloss*, 515 F. Supp. 2d at 1074, 1079 (discussing the “defense of copyright misuse” in the context of the plaintiff's “Count 3, for a declaratory judgment that Defendants have misused their copyrights”).

decisions in *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); *DSC Comms. Corp. v. DGI Techs. Inc.*, 81 F.3d 597 (5th Cir. 1996); *Practice Mgmt, Info. Corp. v. American Med. Assoc.*, 121 F.3d 516 (9th Cir. 1997); and *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191 (3d Cir. 2003)). That is clearly not the case here, as Amurao has alleged no facts that would remotely suggest any restraint on creative expression.

There is no dispute that significant infringement of Plaintiffs' copyrights occurred on a computer in Amurao's home and through his Internet account. The infringement in this case had nothing to do with any type of creative expression by the infringer; rather, it was simply an effort to get music for free over the Internet. Plaintiffs' actions in joining together to stop this infringement by bring this enforcement action, retaining common lawyers, and engaging in joint settlement discussions are entirely consistent with the purpose of the Copyright Act and do not harm creative expression in any way. See *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1538-39 (S.D.N.Y. 1991) (holding that collective enforcement of copyrights is reasonable and does not support a copyright misuse defense); *UMG Recordings, Inc. v. Lindor*, No. CV-05-1095 (DGT), 2007 U.S. Dist. LEXIS 88285, at *10-16 (E.D.N.Y. Nov. 30, 2007) (striking a copyright misuse defense that was based on allegations virtually identical to those raised by Amurao on grounds that joint action to protect copyrights does not amount to copyright misuse). Simply put, "a plaintiff's 'enforcement of its copyrights does not constitute copyright misuse.'"

Grokster, 454 F. Supp. 2d at 998 (quoting *Advanced Comp. Servs. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356, 370 (E.D. Va. 1994)).

Far from supporting a misuse theory, Plaintiffs' efforts to enforce their copyrights in this case are entirely consistent with the Copyright Act and should be encouraged, not discouraged. A primary purpose of copyright law is to discourage wrongful infringement and to compensate the copyright owner. *See F. W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952); *see also Davis v. Blige*, 505 F.3d 90, 105 (2d Cir. 2007) (noting the "principal purpose" of the Copyright Act—"to encourage the origination of creative works by attaching enforceable property rights to them"). Amurao has not cited a single case suggesting that even remotely similar facts could give rise to a misuse defense, let alone an affirmative claim for relief. Indeed, joining together to protect copyrights is more efficient for both the Court and the parties.

The relief that Amurao seeks is also unprecedented. Amurao seeks an order that Plaintiffs have "forfeited [their] exclusive rights" under copyright with respect to the sound recordings at issue. (A56.) Such relief has no basis in the law and would be wholly inappropriate. In the rare case where it applies, the misuse defense "is not cause to invalidate the copyright or patent, but instead 'precludes its enforcement during the period of misuse.'" *Video Pipeline*, 342 F.3d at 191 (quoting *Practice Management Info.*, 121 F.3d at 520 n.9).

Because there is no cognizable cause of action for copyright misuse, no policy justification for creating such a cause of action, and no basis for such a cause of action under the circumstances here, the District Court correctly dismissed this purported counterclaim.

C. Amurao has no evidence to support even his own purported misuse theory.

Not only is Amurao's misuse counterclaim not recognized as an affirmative claim for relief, but Amurao has no facts to support any of the allegations he offers in support of his alleged misuse theory.

First, when asked in written discovery to identify all facts supporting his misuse allegations (*i.e.*, that Plaintiffs “have engaged in a wide-ranging conspiracy to defraud the Courts,” are a “cartel acting collusively in violation of the antitrust laws . . . by litigating and settling” cases like this one, and that such conduct “constitute[s] misuse of plaintiffs’ copyrights”), Amurao simply referred back to his allegations and nothing more. (A218; A220, Resp. to Interrog. No. 24 Thirteenth Defense.)

Second, Amurao admitted at his deposition that he can present no facts demonstrating that Plaintiffs are part of any alleged “conspiracy” or “cartel” acting in violation of any law or public policy:

Q. So you are alleging that there is a wide-ranging conspiracy. Do you have any facts or information to support that?

...

A: Yes, I don't know. I don't have the evidence.

Q. You don't know the evidence?

A. No.

Q. In the next sentence, number 2, you allege that plaintiffs are a cartel acting collusively in violation of the antitrust laws and public policy. Do you have any information or facts to support your allegation?

A. No, I don't have.

(A138.) After Amurao admitted that he has no evidence to support either of these allegations, his counsel improperly prevented him from answering any further questions regarding his purported misuse theory:

Q. Turning to page 8 of what has been marked as Exhibit 6, I'll have you look at paragraph 22. In this you allege [plaintiffs] have attempted to secure for themselves rights far exceeding those provided by copyright laws. Do you have any information or facts to support this allegation?

...

Mr. Altman: I have had it. I'm directing him not to answer. We are going to get a ruling on all these objections.

...

(A138; A221-A222.) A witness in a deposition may be instructed not to answer only to preserve a privilege or to seek a protective order. *See* Fed. R. Civ. P. 30(c) and 30(d)(1)). Despite having no such objection, Amurao's counsel persisted in refusing to allow Amurao to answer any further questions on his purported misuse theory.

(*Id.*) Thus, Amurao can point to no evidence to support his theory.¹³

¹³ In addition, because Amurao refused to answer any further questions regarding the factual basis for his purported misuse claim, he is precluded from offering such evidence. *See In re von Bulow*, 828 F.2d 94, 103 (2d Cir. 1987) (noting the "fairness considerations" that preclude a party from preventing the disclosure of communications on grounds of privilege while allowing the same party to later disclose self serving portions of such communications).

Finally, Amurao did not disclose a single document or witness with information that would support any of his copyright misuse allegations. (A177; A224-A225.)

Where the non-moving party will bear the burden of proof at trial, the party moving for summary judgment may meet its burden by showing the “evidentiary materials of record, if reduced to admissible evidence, would be insufficient to carry the non-movant’s burden of proof at trial.” *Celotex Corp. v. Catrett*, 477 U.S. 317, 327 (1986). Here, based on Amurao’s interrogatory responses and deposition testimony, his counsel’s improper refusal to allow further questions on his purported misuse theory, and the lack of any evidence in the record to support Amurao’s misuse theory, the District Court properly dismissed this claim. It is clear that Amurao can produce no evidence, and knows of no factual circumstances at all, that would support his misuse counterclaim, even if it were a cognizable claim for relief.

D. Plaintiffs’ activities are protected by the First Amendment.

Finally, although not expressly ruled on by the District Court, Plaintiffs are also entitled to judgment on Amurao’s misuse counterclaim because the facts alleged in support of this claim involve conduct that is privileged under the First Amendment. The First Amendment guarantees “the right of the people . . . to petition the Government for a redress of grievances.” U.S. Const. Amend. I. The Supreme Court has declared the right to petition to be “among the most precious rights of the liberties safeguarded by the Bill of Rights.” *United Mine Workers v. Illinois State Bar Ass’n*, 389 U.S. 217, 222 (1967). This right to petition has been extended to afford a

party the right to access the courts. *See California Motor Transp. Co. v. Trucking Unltd.*, 404 U.S. 508, 510 (1972).

Consistent with this right, sometimes referred to as *Noerr-Pennington* immunity, courts have routinely held that a party may not be sued for commencing litigation. *See, e.g., T.F.T.F. Capital Corp. v. Marcus Dairy, Inc.*, 312 F.3d 90, 93 (2d Cir. 2002) (“The *Noerr-Pennington* doctrine generally immunizes from liability a party’s commencement of a prior court proceeding.”); *DirecTV, Inc. v. Milliman*, No. 02-74829, 2003 U.S. Dist. LEXIS 20938, at *7 (E.D. Mich. Aug. 26, 2003) (stating that *Noerr-Pennington* immunity extends to acts related to the right to seek redress for wrong from the courts, and dismissing deceptive trade practice counterclaim under *Noerr-Pennington*). Courts have also held that this immunity applies equally to efforts incident to litigation, including pre-suit letters. *See Primetime 24 Joint Venture v. Nat’l Broad. Co.*, 219 F.3d 92, 100 (2d Cir. 2000) (“Courts have extended *Noerr-Pennington* to encompass concerted efforts incident to litigation, such as prelitigation ‘threat letters.’”) (citations omitted); *Atlantic Recording Corp. v. Raleigh*, No. 06-CV-1708-CEJ, Slip. op. at 5-9 (E.D. Mo. Aug. 18, 2008) (holding that counterclaims based on the plaintiffs’ investigation of copyright infringement, filing a lawsuit claiming infringement, communicating settlement offers, and threatening further litigation are barred by *Noerr-Pennington*); *DirecTV, Inc. v. Personette*, No. 5:03-CV-66, 2003 U.S. Dist. LEXIS 19694, at *6 (W.D. Mich. May 22, 2003) (holding that actions such as sending pre-suit letters and making

threats of litigation are the type of litigation activities covered by the *Noerr-Pennington* doctrine, and, thus, dismissing the counterclaims at issue).

In this case, Amurao premises his counterclaim for copyright misuse on his allegations that Plaintiffs wrongfully brought an action against him, accused him of acts that allegedly do not constitute copyright infringement, and acted collusively in bringing, litigating, and attempting to settle cases similar to this one. (A56.) The activities that Amurao complains of are directly related to Plaintiffs' First Amendment right to seek redress in the courts and fall squarely within the protection of *Noerr-Pennington*. See *Marcus Dairy*, 312 F.3d at 93 (holding that commencement of litigation is protected activity); *Primetime 24*, 219 F.3d at 100 (holding that “concerted efforts incident to litigation” are protected); *Raleigh*, No. 06-CV-1708-CEJ, Slip. op. at 5-9 (dismissing counterclaims that were based on allegations of conduct incident to litigation); *Personette*, 2003 U.S. Dist. LEXIS 19694, at *6 (same).

Moreover, as copyright holders, Plaintiffs have the need and the right to seek redress for the infringement of their copyrights. The scope of online piracy, the type of infringement at issue in this case, is enormous. See *Grokster*, 545 U.S. at 940 (characterizing the magnitude of online piracy as “infringement on a gigantic scale”). In bringing cases like this one, Plaintiffs are doing nothing more than protecting their rights. See *Heslep*, 2007 U.S. Dist. LEXIS 35824, at *6 (holding in a similar case that Plaintiffs “brought this lawsuit not for the purposes of harassment or to extort [the

defendant] . . . , but, rather, to protect their . . . copyrights from infringement and to help . . . deter future infringement”).

In short, all of the conduct underlying Amurao’s purported counterclaim for copyright misuse involves either the filing of a legitimate lawsuit or conduct incident to it. Plaintiffs’ conduct in this regard is consistent with their right to seek redress for the infringement of their copyrights and is protected under the First Amendment. Accordingly, Amurao’s purported counterclaim for copyright misuse fails as a matter of law and the District Court’s ruling should be affirmed for this reason, too.

CONCLUSION

The attorney fees provision of the Copyright Act should be construed to encourage copyright holders to pursue their legitimate copyright interests and to encourage parties to act reasonably to resolve meritorious copyright claims and to hold infringers responsible. In this case, as the District Court correctly found, Plaintiffs had legitimate copyright interests that they rightfully sought to protect, and Plaintiffs acted objectively reasonably in attempting to do so. On the other hand, Amurao unreasonably provided false information, refused to engage in any meaningful discussions with Plaintiffs, and concealed material information for months, all of which prolonged and complicated this case unnecessarily. On these facts, the District Court properly exercised its discretion to deny Amurao’s claim for attorney fees, and the District Court’s determination correctly encourages copyright

holders like Plaintiffs to act reasonably to protect their copyright interests, while at the same time refusing to condone the type of conduct engaged in by Amurao.

The District Court also properly dismissed Amurao's misuse counterclaim because no such affirmative claim for relief exists and because Amurao has no evidence to support even his creative theory of such a claim. In addition, the facts alleged in support of Amurao's misuse counterclaim involve conduct that is privileged under the First Amendment.

For all of these reasons, the District Court's order should be affirmed.

Respectfully submitted,

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s/Timothy M. Reynolds

Attorney for: Plaintiffs-Appellees

Dated: October 2, 2008

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
WESTERN DIVISION

ELEKTRA ENTERTAINMENT
GROUP, INC., *et al.*

Plaintiffs,

VS.

DAVID LICATA

Defendant.

Case No. 07-cv-569

Magistrate Judge Timothy S. Black

MEMORANDUM OPINION AND ORDER

This civil action is before the Court on Defendant's motion to dismiss Plaintiffs' complaint (Doc. 14) pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure and the parties' responsive memoranda (Docs. 15, 16); Plaintiffs' motion to strike (Doc. 18) and the parties' responsive memoranda (Docs. 20, 21) and; Plaintiffs' motion to voluntarily dismiss pursuant to Rule 41(a)(2) of the Federal Rules of Civil Procedure (Doc. 19) and the parties' responsive memoranda (Docs. 22, 23). The parties have consented to final adjudication by a United States Magistrate Judge pursuant to 28 U.S.C. § 636(c). (*See* Doc. 17).

For the reasons that follow, the Court **GRANTS** Plaintiffs' motion to voluntarily dismiss (Doc. 19); and **DENIES** as moot Defendant's motion to dismiss (Doc. 14) and Plaintiffs' motion to strike (Doc. 18).

I. BACKGROUND AND PROCEDURAL HISTORY

Elektra Entertainment Group, Inc., Capital Records, Inc., BMG Music, and Sony BMG Music Entertainment (collectively, "Plaintiffs") filed this lawsuit on July 24, 2007, alleging copyright infringement. (Doc. 1). On June 29, 2005, Plaintiffs had discovered a peer-to-peer ("P2P") infringer using the LimeWire file-sharing program from the Internet IP address 172.158.149.24. (Doc. 15). This infringer was distributing 450 sound recordings from a computer share folder. (*Id.*) Pursuant to a federal court subpoena served by Plaintiffs, America Online, Inc. ("AOL") advised Plaintiffs that Defendant David Licata was the person responsible for IP address 172.158.149.24 at the time of infringement. (Doc. 15, Ex. C).

Defendant filed his Answer on September 5, 2007, denying liability and claiming that other "third parties" were responsible for the infringement. (Doc. 7, ¶ 1-2). The next day, Plaintiffs sent Defendant a letter advising him that they were only interested in pursuing the direct infringer and advising Defendant of their willingness to dismiss the case if it were determined that he was not responsible. (Doc. 19, Ex. 3B). In response to Plaintiffs' letter, Defendant stated that "he in fact ha[d] no knowledge as to who the actual infringer may be and [was] unable to testify as to the identity of the person who downloaded or uploaded files." (Doc. 19, Ex. 3C).

On January 21, 2008, Defendant filed a motion to dismiss (Doc. 14) pursuant to Rule 12(b)(6). On March 20, 2008, Defendant submitted proposed findings of fact and conclusions of law in support of his motion to dismiss.¹ Having received what they considered to be little meaningful discovery from Defendant, Plaintiffs advised Defendant of their intent to depose Defendant and other members of his household who used his computer and Internet account. (Doc. 15). In a March 20, 2008 letter to Plaintiffs, Defendant confirmed that his family members would, "and should," assert Fifth Amendment privileges in response to any questions regarding the infringement of Plaintiffs' copyrights. (Doc. 19, Ex. 3E). Upon receiving this information, Plaintiffs immediately contacted Defendant and offered to dismiss the case with each party to bear its or his own costs and fees. (Doc. 19, Ex. 3F).

On April 4, 2008, Plaintiffs filed a motion to strike Defendant's proposed findings of fact and conclusions of law with respect to Defendant's motion to dismiss. (Doc. 18). Plaintiffs also filed a motion for voluntary dismissal. (Doc. 19). Defendant does not oppose the dismissal of this case. (Doc. 22). Rather, Defendant seeks a dismissal with prejudice so that he can seek attorney fees under Section 505 of the Copyright Act. (Doc. 22).

¹ Defendant's proposed findings of fact and conclusions of law were not filed with the Court using CM/ECF and do not appear in the Court's docket on Pacer. Rather, Defendant apparently submitted the pleading to Judge Weber's chambers via electronic mail on March 20, 2008. (Doc. 18, Ex. A).

II. STANDARD OF REVIEW

Rule 41(a)(2) allows a plaintiff, with the Court's permission and subject to the terms the Court deems proper, to dismiss an action without prejudice at any time. Federal Rule of Civil Procedure 41(a)(2) provides:

an action shall not be dismissed at the plaintiff's insistence save upon order of the court and upon such terms and conditions as the court deems proper. If a counterclaim has been pleaded by a defendant prior to the service upon the defendant of the plaintiff's motion to dismiss, the action shall not be dismissed against the defendant's objection unless the counterclaim can remain pending for independent adjudication by the court. Unless otherwise specified in the order, a dismissal under this paragraph is without prejudice.

Courts in the Sixth Circuit apply the traditional rule that dismissal should be allowed "unless defendant would suffer plain legal prejudice." *Grover by Grover v. Eli Lilly & Co.*, 33 F.3d 716, 718 (6th Cir. 1994); *see also Jones v. Mount Carmel Health Sys.*, 2008 U.S. Dist. LEXIS 8882, at *3-4 (S.D. Ohio Jan. 24, 2008). Thus, absent "clear" and "substantial" legal prejudice to the defendant, the court should grant a voluntary dismissal. *Ohlander v. Larson*, 114 F.3d 1531, 1537 (10th Cir. 1997).

In the context of a Rule 41(a)(2) motion, it is within the Court's discretion to dismiss the case without prejudice unless "defendant would suffer *plain legal prejudice* . . . as opposed to facing the mere prospect of a second lawsuit." *Grover*, 33 F.3d at 718 (quoting *Cone v. W. Virginia Pulp & Paper Co.*, 330 U.S. 212, 217 (1947) (emphasis added)). That is, "plain legal prejudice" does not result from the mere prospect of a second lawsuit. (*Id.*)

Ultimately, whether "dismissal should be granted under the authority of Rule 41(a)(2) is within the sound discretion of the district court." *Grover*, 33 F.3d at 718 (citing *Banque de Depots v. Nat'l Bank of Detroit*, 491 F.2d 753, 757 (6th Cir. 1974)).

III. ANALYSIS

A. Voluntary Dismissal Pursuant to Rule 41(a)(2)

In *Grover*, the United States Court of Appeals for the Sixth Circuit identified four factors to determine whether plain legal prejudice will result from voluntary dismissal: (1) the amount of time, effort and expense the defendant has incurred in trial preparation; (2) any excessive delay and lack of diligence on the part of the plaintiff in prosecuting the action; (3) insufficient explanation for the need to dismiss; and (4) whether a defendant has filed a motion for summary judgment. 33 F.3d at 718.

Each factor need not be resolved in favor of the moving party for dismissal to be appropriate. *Rosenthal v. Bridgestone/Firestone, Inc.*, 217 Fed. Appx. 498, 502 (6th Cir. 2007) (unpublished *per curiam*). Rather, the factors are "simply a guide for the trial judge, in whom the discretion ultimately rests." (*Id.*) "[C]ourts need not analyze each factor or limit their consideration to these factors." *Doe v. Urohealth Sys., Inc.*, 216 F.3d 157, 160 (1st Cir. 2000).

1. What is the Defendant's effort and expense of trial preparation?

The first factor the Court should consider in determining if Defendant will suffer plain legal prejudice is Defendant's effort and expense in defending the action and preparing for trial. *See Grover*, 33 F.3d 716 at 718. Dismissal is warranted if the lawsuit remains at its early stages of litigation. *Morgan v. Del Global Techn. Corp.*, No. 3:05-cv-123, 2007 U.S. Dist. LEXIS, 84638, at *19-20 (S.D. Ohio Oct. 29, 2007).

Defendant claims that the expense and burden of the instant action are substantial. (Doc. 22). Among other tasks, Defendant has filed an answer, prepared for and attended the Rule 26(f) conference, reviewed Plaintiffs' Rule 26(f) materials, attended the pretrial conference, drafted a motion to dismiss, and consulted with an expert witness. (*Id.*) Accordingly, Defendant claims that he has spent approximately 140 hours² preparing for this case. (Doc. 22, Ex. 5).

Despite claims of substantial expense, Defendant admits that this case is in "its relatively early stages." (Doc. 22). Relatively limited discovery has been completed to date. Trial is not set until January 2009 (Doc. 12), and the parties have not taken any depositions (Doc. 19). Additionally, most or all of the discovery completed would be useful in potential litigation between Plaintiffs and Defendant's family members. Moreover, Plaintiffs made clear their intent to pursue only the direct infringers; thus any

² Approximately 40 hours of this time were incurred in motions practice relating to a motion to dismiss which Defendant himself filed in January 2008. (Doc. 22, Ex. 5).

expense and effort incurred by Defendant was not the result of any unreasonable or bad faith conduct by Plaintiffs.

On balance, the case remains in its early stages of litigation, and Defendant's effort and expense to date does not compel dismissal with prejudice.

2. *Has there been excessive delay and lack of diligence on the part of Plaintiffs in prosecuting this action?*

Under the second factor, the Court should consider whether there was excessive delay and lack of diligence on the part of Plaintiffs in prosecuting the action. *See Grover*, 33 F.3d 716 at 718.

Defendant's argument that Plaintiffs did not have a basis to bring this lawsuit is misplaced. (Doc. 22). The record reflects that Plaintiffs instituted this action in good faith after acquiring substantial evidence indicating that Defendant's Internet account had been used to commit copyright infringement. (Doc. 15, Ex. C). Before filing this action, Plaintiffs identified Defendant as the responsible individual based on AOL's IP address identification. (*Id.*) Similar evidence has served as the basis for bringing many other cases that have lead to judgments against Internet account holders. *See, e.g., Sony Pictures Home Entm't v. Lott*, 471 D. Supp. 2d 716, 7719, 722 (N.D. Tex. 2007) (granting summary judgment to the plaintiff motion picture companies based on evidence that their copyrighted motion pictures were being distributed from a specific IP address for which the defendant was responsible); *Virgin Records Am., Inc. v. Thompson*, 512 F.3d 724, 726 (5th Cir. 2008) (affirming district court's determination that the plaintiffs' lawsuit was neither frivolous nor prosecuted with malevolent intent because the plaintiffs had

discovered “substantial copyright infringement of their songs by a file-sharing program attached to an internet account registered to [the defendant]”); *Atlantic Recording Corp. v. Heslep*, No. 4:06-cv-132-y, 2007 U.S Dist. 35824, at *15 (N.D. Tex. May 16, 2007) (holding that, despite the defendant’s sworn denial, the plaintiffs held a reasonable belief that the defendant was responsible or at least shared responsibility for the infringement that had occurred through defendant’s Internet account).

The facts apparent from this case indicate that Plaintiffs acted in good faith, and diligently prosecuted their theory of the case, which theory remained viable throughout the litigation. Defendant, as was his right, chose to defend the lawsuit, and the case proceeded to discovery. It is disingenuous for Defendant to claim that Plaintiffs have known all along that Defendant is not the direct infringer when, in fact, Defendant, armed with more information than Plaintiffs, is not willing to disclose relevant information. Defendant could have avoided prolonging this litigation by promptly providing information relevant to the direct infringers. Plaintiffs in this instance and on this evidence were not dilatory in moving to dismiss.

3. *Is the explanation of the need for dismissal sufficient?*

The third factor the Court should consider in determining if Defendant will suffer plain legal prejudice is Plaintiffs’ explanation of the need for a dismissal. *See Grover*, 33 F.3d 716 at 718.

Prior to filing the lawsuit, Plaintiffs reached out to Defendant to resolve the issue without resorting to legal action. (Doc. 19, Ex. 5). Defendant, however, offered only a blanket denial. (Doc. 23). It was not until late March 2008, when faced with depositions of himself and his family members, that Defendant informed Plaintiffs that his family members would assert a Fifth Amendment privilege against self-incrimination if asked any questions about the infringement of Plaintiffs' copyrights. (Doc. 19). Upon receipt of this new information, Plaintiffs immediately moved to dismiss the case against Defendant in order to pursue those individuals who are more culpable for the infringement.³ (*Id.*) In response, Defendant argues that he has been denying culpability in this matter since its inception. (Doc. 20). However, Defendant's argument is insufficient to rebut Plaintiffs' explanation for ending the litigation. Were that the case, then all defendants in any type of lawsuit could obtain a dismissal with a simple denial of responsibility.

4. *Has a motion for summary judgment been filed?*

The fourth factor the Court should consider is whether a motion for summary judgment has been filed. *Grover*, 33 F.3d 716 at 718.

Defendant argues that his Rule 12(b)(6) motion to dismiss "has become a motion for summary judgment." (Doc. 22). However, before a Rule 12 motion to dismiss can be converted into a Rule 56 motion, the court is required to provide notice to all parties of the court's intention to treat the motion as one for summary judgment. *See Briggs v. Ohio*

³ Plaintiffs allege that they are entitled to an adverse inference that Defendant's family members are responsible for the infringement as a result of asserting their Fifth Amendment privilege. (Doc. 19). The undersigned need not address the validity of this argument. Regardless of any inference of culpability, Plaintiffs' request is that this case be dismissed in order for them to pursue those whom they now believe to be the culpable parties. This explanation alone is sufficient to warrant dismissal.

Elections Comm'n, 61 F.3d 487, 493 (6th Cir. 1995); *see also Ball v. Union Carbide Corp.*, 385 F.3d 713, 719 (6th Cir. 2004). As Professors Wright and Miller have stated: "[U]nless formally converted into a motion for summary judgment under Rule 56, a motion to dismiss under Rule 12 does not terminate the right of dismissal by notice." 9 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 2363, at 259 (2d. ed. 1995).

The undersigned never notified the parties that he would consider Defendant's motion to dismiss as a motion for summary judgment. As of August 8, 2008, the dispositive motion deadline, Defendant had not filed a motion for summary judgment. (Doc. 12). Accordingly, no summary judgment motion is pending before the Court. *Grover*, 22 F.3d at 718.

Ultimately, because Defendant will not suffer plain legal prejudice, and as the *Grover* factors militate strongly in favor of voluntary dismissal without prejudice, dismissal without prejudice is appropriate.

B. Award of Attorneys' Fees Under Section 505 of The Copyright Act

The Copyright Act provides that a prevailing party may be awarded attorneys' fees as a matter for the Court's discretion. 17 U.S.C. § 505. Here, not only is Defendant not a prevailing party, but the circumstances weigh strongly against an award of fees.

Under the Copyright Act, even a prevailing party is not automatically awarded fees because fees are to be awarded only as a matter of the Court's discretion, and only when equity requires such an award. *Forgerly v. Fantasy Inc.*, 510 U.S. 517, 533-34 (1994). *Fogerty* held that lower courts should consider factors such as the frivolousness of the

action, the plaintiff's motivation, the objective unreasonableness (factual and legal) of the claims, and the need to advance considerations of compensation and deterrence. *Fogerty*, 510 U.S. at 533-34; *see also Bridgeport Music, Inc. v. Rhyme Syndicate Music*, 376 F.3d 615, 626 (6th Cir. 2004). As the Sixth Circuit has held, "it generally does not promote the purposes of the Copyright Act to award attorney fees to a prevailing defendant when the plaintiff has advanced a reasonable, yet unsuccessful claim." *Id.* at 628.

As discussed in detail in Section III.A., Plaintiffs' lawsuit was neither frivolous nor objectively unreasonable. Plaintiffs discovered substantial copyright infringement on a computer in Defendant's home and through Defendant's Internet account. (Doc. 15, Ex. C). Therefore, Plaintiffs acted reasonably in filing this lawsuit with the purpose of protecting their valid copyrights.

Additionally, there is no indication that Plaintiffs' suit was not a *bona fide* effort to seek redress for copyright infringement. *See Blackburn v. City of Columbus, Ohio*, 60 F.R.D. 197, 198 (S.D. Ohio 1973) (holding that because plaintiff acted in good faith, attorneys' fees would not be awarded). There is nothing in the record to indicate that Plaintiffs brought this action to harass, embarrass, or abuse the Defendant or the civil process. Nor is there evidence to suggest that Plaintiffs deliberately sought to increase Defendant's costs by extending the litigation. The undersigned finds no pattern of willful misconduct or negligence on behalf of Plaintiffs' counsel. Furthermore, a review of the cases cited by Defendant leads this Court to conclude that, generally, sanctions have not been imposed in similar circumstances.

Having weighed the foregoing, the Court concludes that the American Rule on attorneys' fees, which "refuses to economically penalize in this fashion the litigant who in good faith files a lawsuit," justifiably applies to the case at bar. *Blackburn*, 60 F.R.D. at 198. Accordingly, the Court concludes that imposing an award of attorneys' fees and costs is not warranted.

IV. CONCLUSION

For the reasons stated above, the Court **GRANTS** Plaintiffs' motion to voluntarily dismiss this action without prejudice (Doc. 19) and **DENIES** Defendant's request for an award of attorneys' fees and litigation costs. The Court **DENIES** as moot Defendants' motion to dismiss (Doc. 14) and Plaintiffs' motion to strike (Doc. 18). Accordingly, this case is hereby **DISMISSED** without prejudice.

IT IS SO ORDERED.

Date: August 22, 2008

s/ Timothy S. Black
Timothy S. Black
United States Magistrate Judge

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

ATLANTIC RECORDING CORP.,)	
et al.,)	
)	
Plaintiffs,)	
)	
vs.)	No. 4:06-CV-1708 CEJ
)	
JENNA RALEIGH,)	
)	
Defendant.)	

MEMORANDUM AND ORDER

This matter is before the Court on the plaintiffs' motion to dismiss defendant's counterclaims, and on the motion of defendant to join the Recording Industry Association of America as a counterclaim defendant. The issues are fully briefed.

I. Legal Standard

The purpose of a motion to dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure is to test the legal sufficiency of the complaint. The factual allegations of a complaint are assumed true and construed in favor of the plaintiff, "even if it strikes a savvy judge that actual proof of those facts is improbable." Bell Atlantic Corp. v. Twombly, --- U.S. ---, 127 S. Ct. 1955, 1965 (May 21, 2007) citing Swierkiewicz v. Sorema N.A., 534 U.S. 506, 508 n.1 (2002); Neitzke v. Williams, 490 U.S. 319, 327 (1989) ("Rule 12(b)(6) does not countenance . . . dismissals based on a judge's disbelief of a complaint's factual allegations"); Scheuer v. Rhodes, 416 U.S. 232, 236 (1974) (a well-

pleaded complaint may proceed even if it appears "that a recovery is very remote and unlikely"). The issue is not whether the plaintiff will ultimately prevail, but whether the plaintiff is entitled to present evidence in support of his claim. Id. A viable complaint must include "enough facts to state a claim to relief that is plausible on its face." Bell Atlantic Corp., 127 S. Ct. at 1974. See also id. at 1969 ("no set of facts" language in Conley v. Gibson, 355 U.S. 41, 45-46 (1957), "has earned its retirement.") "Factual allegations must be enough to raise a right to relief above the speculative level." Id. at 1965.

II. Background

Plaintiffs are copyright owners or licensees of exclusive rights with respect to certain copyrighted sound recordings. They allege that defendant Jenna Raleigh has used an online media distribution system to download the copyrighted recordings, to distribute those recordings to other users of the system, and/or to make the copyrighted recordings available for distribution to others without the permission or consent of plaintiffs.

Defendant denies that she is responsible for the allegedly infringing activity plaintiffs have traced to an Internet Protocol (IP) address that they have linked to her. She asserts that plaintiffs' attempt to seek relief under the Copyright Act constitutes extortion and wire and mail fraud within the terms of the Racketeer Influenced and Corrupt Organization Act (RICO), 18 U.S.C. § 1961 et seq. Defendant further proposes to be named class representative for a class of all persons falsely accused of

illegally downloading copyrighted sound recordings. Finally, defendant asserts that the Recording Industry Association of America (RIAA), a trade group, is a necessary and indispensable party to this action, and she moves to join RIAA as a counterclaim defendant.

In their motion to dismiss defendant's counterclaims, plaintiffs assert that the counterclaims are premised on privileged settlement communications and are subject to immunity under the Noerr-Pennington doctrine. See Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961); and United Mine Workers v. Pennington, 381 U.S. 657 (1965). Consequently, plaintiffs assert, the counterclaims are barred as a matter of law and should be dismissed. Plaintiffs further contend that defendant has failed to allege the essential elements of any of her claims of relief, and so her counterclaims fail as a matter of law. Plaintiffs deny that the RIAA is a necessary party under Rule 19(a), Fed. R. Civ. P., and they maintain that defendant has no viable counterclaim against the RIAA.

III. Discussion

Defendant brings the following counterclaims: racketeering (Count I) and conspiracy (Count II) under RICO, 18 U.S.C. § 1962; fraudulent misrepresentation (Count III); prima facie tort (Count IV); and conspiracy (Count V). Defendant also asks the Court to certify a class of all persons falsely accused of illegally downloading copyrighted sound recordings and to appoint plaintiff

as the class representative. In the alternative, defendant moves for leave to amend the counterclaim.

Defendant's counterclaims purport to describe a conspiratorial scheme of racketeering and extortion by the RIAA and plaintiffs. Defendant alleges that the RIAA and recording companies have engaged in an organized campaign by filing lawsuits against "Doe" defendants identified only by IP addresses, engaging in *ex parte* discovery to identify the "Doe" defendants, notifying them of the alleged violations of the Copyright Act, and demanding a settlement.

Defendant describes the above procedure as "an organized effort and pattern of:

- (1) using the mails to send threatening and intimidating letters designed to instill fear of litigation and economic loss and harm; and
- (2) using the mails to send letters containing false and misleading information; and
- (3) using the telephone to make settlement demands and, through a 'Settlement Information Line,' to arrange settlements and collect monies from innocent individuals; and
- (4) filing and dismissing frivolous lawsuits instituted solely to obtain *ex parte* discovery and intended to circumvent the requirements of federal copyright law."

Defendant also accuses plaintiffs of forming an association for the purpose of attempting to extort money and using misrepresentations, threats, fear of economic loss, and lawsuits in order to obtain cash settlements. Finally, defendant alleges that plaintiffs have demanded "outrageous amounts of money to settle their baseless claims" under the Copyright Act. *Id.* at 15.

Noerr-Pennington Immunity

Defendant's counterclaims are based on plaintiffs' investigation of suspected copyright infringement, the filing of a lawsuit against her claiming infringement, and communicating their settlement offer and threatening further litigation proceedings. Plaintiffs argue that such claims are barred by the Noerr-Pennington doctrine.

The Noerr-Pennington doctrine immunizes those who petition the government for redress of grievances from antitrust liability. Prof'l Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc., 508 U.S. 49, 56 (1993), citing Noerr, supra, 365 U.S. 127; and Pennington, supra, 381 U.S. 657. This immunity applies when citizens seek relief in the courts. Id., citing California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508, 510 (1972). See also Porous Media Corp. v. Pall Corp., 186 F.3d 1077, 1080 n 4 (8th Cir. 1999).

Under the Noerr-Pennington doctrine, "participation in the judicial process cannot be asserted as a basis for civil antitrust liability" unless it is merely a "sham cover" for an attempt to directly interfere with a competitor's business. Central Telecommunications, Inc. v. TCI Cablevision, Inc., 610 F.Supp. 891 (W.D. Mo. 1985). "[I]n the litigation context, not only petitions sent directly to the court in the course of litigation but also 'conduct incidental to the prosecution of the suit' is protected by the Noerr-Pennington doctrine." Sosa v. DirectTV, 437 F.3d 923, 934 (9th Cir. 2006), quoting Columbia Pictures Indus., Inc. v. Prof'l

Real Estate Investors, Inc., 944 F.2d 1525, 1528-29 (9th Cir. 1991), aff'd 508 U.S. 49 (1993).

The Noerr-Pennington doctrine arose in the antitrust context, but it is applied outside that context. See, e.g., Central Telecommunications, Inc. v. TCI Cablevision, Inc., 800 F.2d 711, 717 n 7 (8th Cir. 1986) (doctrine "is equally applicable to many types of claims which seek[] to assign liability on the basis of [a litigant's] exercise of its first amendment rights.").¹ If the Noerr-Pennington doctrine applies to plaintiffs' filing of this action and to their attempts to settle their claims with defendant, the plaintiffs are immune from liability for those activities, and the defendant's counterclaims must be dismissed. Defendant, however, alleges that the plaintiff's claims fall within the "sham" litigation exception to the Noerr-Pennington doctrine.

Sham Litigation Exception

Noerr-Pennington immunity does not extend to "sham" litigation. Prof'l Real Estate Investors, *supra*, 508 U.S. at 60. A lawsuit is a "sham" if it is (1) objectively baseless such that no reasonable litigant could realistically expect success on the merits, and (2) subjectively motivated by bad faith. Id.

¹ See also NAACP v. Claiborne Hardware, Co., 458 U.S. 886 (1982) (boycott of white merchants to secure compliance with demands for racial equality); and Hufsmith v. Weaver, 817 F.2d 455, 458-59 (8th Cir. 1987), citing In re IBP Confidential Business Documents Litigation, 755 F.2d 1300 (8th Cir. 1985) (recognized the doctrine's application to claims of "tortious interference with business and to alleged conspiracies under 42 U.S.C. § 1983.").

"The existence of probable cause to institute legal proceedings precludes a finding that an anti-trust litigant has engaged in sham litigation." Id. at 62. "Probable cause to institute civil proceedings requires no more than a reasonable belief that there is a chance that [a] claim may be held valid upon adjudication.'" Id., quoting Hubbard v. Beatty & Hyde, Inc., 178 N.E.2d 485, 488 (1961) (additional citation omitted). If there is no factual dispute over the predicate facts of the underlying legal proceeding, a court may decide probable cause as a matter of law. Id. at 63. The Professional Real Estate Investors Court found probable cause existed when the respondent's copyright infringement action was warranted by existing law. Id. at 65.

Under the Copyright Act, a person who violates the exclusive rights of a copyright owner is an infringer of the copyright or right of the owner. 17 U.S.C. § 501(a). The legal or beneficial owner of an exclusive right under a copyright "is entitled . . . to institute an action for any infringement of that particular right." 17 U.S.C. § 501(b). Plaintiffs are the holders or exclusive licensees of the copyrighted sound recordings, a fact which defendant does not dispute. As such, plaintiffs have a statutory right to bring suit against an alleged infringer.

Defendant disputes that the plaintiffs have probable cause to bring suit against her. She denies that she engaged in any infringing activity. Defendant does not deny that plaintiffs linked the allegedly infringing activity to the IP address of a computer to which she had access. However, she states that she

resided in a sorority house and owned a computer that was not password-protected, and thus any one of the house's residents could have used her computer to engage in unlawful infringement.

The Court finds that defendant's denial that she personally engaged in any wrongdoing is not sufficient to bar this action by plaintiffs. Plaintiffs claim they have linked infringing activity to an IP address for a computer to which defendant admits she had access. While the facts have not been determined at this early stage of the lawsuit, plaintiffs are entitled to present evidence in support of their claim. Whether they can prevail in the face of defendant's denials is an issue that will be decided after the parties have had the opportunity to conduct full discovery. The Court finds that the plaintiffs' action does not fall within the "sham" litigation exception to the Noerr-Pennington doctrine.

Conduct Incident to Litigation

Defendant objects to the plaintiffs' filing of the action against a "Doe" defendant linked to an IP address, and the subpoena of the Internet service provider to determine the identity of the user of that address.

Under 17 U.S.C. § 512(h)(1), a copyright owner "may request the clerk of any United States district court to issue a subpoena to a service provider for identification of an alleged infringer." Plaintiffs thus are entitled under the Copyright Act to engage in *ex parte* discovery and bringing suit against "John Doe" defendants.

Defendant's contention that the "Doe" lawsuits are "frivolous" and "intended to circumvent the requirements of federal copyright

law" is unwarranted, because the procedure is in fact a provision of federal copyright law.

Defendant also objects to the amount of damages requested by plaintiffs as "outrageous." The Court finds that, as a matter of law, any damages within the statutorily-authorized range of \$750 to \$30,000 per each infringed work cannot be deemed outrageous. See 17 U.S.C. § 504(c)(1).

Finally, defendant characterizes the plaintiffs' settlement demand letters as extortion, a claim that is discussed below. The Court observes, however, that a settlement demand is a normal activity incident to litigation, and as such, plaintiffs are immune from liability for sending settlement demand letters under the Noerr-Pennington doctrine. The Court also notes that settlement can be a "just, speedy, and inexpensive" determination of an action, see Rule 1, Fed. R. Civ. P., and as such, demands for settlement are authorized by the Federal Rules.

The Court concludes that the plaintiffs' filing of lawsuits against "Doe" defendants, *ex parte* discovery, efforts to settle their claims with defendant, and request for damages within the statutory range are conduct incident to the underlying litigation. This action is not "sham" litigation. As such, plaintiffs are immune from liability for these activities under the Noerr-Pennington doctrine. The counterclaims thus fail to state a claim upon which relief can be granted, and the Court will dismiss them.

RICO Claims

Defendant claims that plaintiffs have made threats of litigation and settlement demands that contain "misrepresentations." Defendant characterizes these actions as extortion and racketeering under RICO, 18 U.S.C. § 1961 *et seq.*

Title 18, Section 1962[©], of the United States Code provides: "It shall be unlawful for any person employed by or associated with any enterprise engaged in, or the activities of which affect, interstate or foreign commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise's affairs through a pattern of racketeering activity or collection of unlawful debt."

Racketeering activity is defined in 18 U.S.C. § 1961 to include, *inter alia*, offenses under 18 U.S.C. §§ 1951 (relating to interference with commerce, robbery, or extortion) and 1952 (relating to racketeering). A pattern of racketeering activity requires at least two acts of racketeering activity in a ten-year period. 18 U.S.C. § 1961(5). Extortion is defined as "the obtaining of property from another, with his consent, induced by wrongful use of actual or threatened force, violence, or fear, or under color of official right." 18 U.S.C. § 1951(b)(2). RICO also prohibits the use of mail or any facility in interstate commerce (e.g., telephone) with intent to promote, manage, carry on or facilitate unlawful activity. 18 U.S.C. § 1952(a).

Plaintiffs argue that threats of litigation and demands for settlement do not constitute extortion within the meaning of RICO. The Court agrees. The Eighth Circuit has specifically addressed

this issue, and it held that even a groundless, bad-faith threat to sue does not instill "'fear' within the meaning of the criminal statute prohibiting extortion." I.S. Joseph Co., Inc. v. J. Lauritzen A/S, 751 F.2d 265, 267 (8th Cir. 1984).

A majority of federal jurisdictions have held that a threat to file a lawsuit unless a settlement demand is accepted, regardless of whether the threat was made in good faith, is not a wrongful threat within the meaning of extortion statutes. Rendelman v. State, 927 A.2d 468, 479-80 (Md. 2007) (citations omitted) (construing Maryland's extortion statute, which contains the same "economic injury" language as RICO). "A civil action is a lawful means for people to have their private disputes, including financial disputes, decided." Id. at 481. A typical demand letter "serves notice to a potential defendant that the potential plaintiff plans to pursue litigation, unless the underlying dispute can be privately resolved, by an agreement to pay money or other legitimate consideration. . . . Settlement demands of this sort are overtures to negotiation, not threats to inflict economic injury." Id. Defendant's counterclaims based on RICO thus fail to state a claim for extortion and racketeering within the meaning of that statute, providing an additional ground for dismissal of those claims.

Motion to Join RIAA

Defendant moves to join the RIAA as counterclaim defendants, claiming that the RIAA is a necessary and indispensable party for the adjudication of defendant's RICO claims. Because the Court has

found that the RICO claims fail to state a claim upon which relief can be granted, the motion to join the RIAA is moot and will be denied.


Leave to Amend

The defendant seeks leave to amend her counterclaims in the event the plaintiffs' motion is denied. Because defendant has not indicated the substance of any proposed amendments, the Court will deny the request.

Accordingly,

IT IS HEREBY ORDERED that plaintiffs' motion to dismiss defendant's counterclaims [# 25] is **granted**. The counterclaims are **dismissed for failure to state a claim**.

IT IS FURTHER ORDERED that defendant's motion for leave to join the Recording Industry Association of America as a counterclaim defendant [# 18] is **denied**.



CAROL E. JACKSON
UNITED STATES DISTRICT JUDGE

Dated this 18th day of August, 2008.