DUANE MORRIS LLP
Gregory P. Gulia
John Dellaportas
1540 Broadway
New York, NY 10036
(212) 692-1000
-and-
Edward M. Cramp (*pro hac vice*)
Michelle Hon (*pro hac vice*)
101 West Broadway, Suite 900
San Diego, CA 92101
(619) 744-2200

Attorneys for MP3tunes, Inc.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

CAPITOL RECORDS, INC.; CAROLINE RECORDS, INC.; EMI CHRISTIAN MUSIC GROUP INC.; PRIORITY RECORDS LLC; VIRGIN RECORDS AMERICA, INC.; BEECHWOOD MUSIC CORP.; COLGEMS-EMI MUSIC INC; EMI APRIL MUSIC INC.; EMI BLACKWOOD MUSIC; EMI FULL KEEL MUSIC; EMI GOLDEN TORCH MUSIC CORP.; EMI LONGITUDE MUSIC; EMI VIRGIN MUSIC, INC.; EMI VIRGIN SONGS, INC., Plaintiffs, v. MP3TUNES, LLC., Defendant.	CIVIL ACTION NO. 07-Civ. 9931 (WHP) ECF Case
MP3TUNES, INC., Counterclaimant, v. CAPITOL RECORDS, INC.; *et al.* Counter-Defendants.	

MP3TUNES' MEMORANDUM OF LAW IN OPPOSITION TO EMI'S MOTION TO DISMISS AND REQUEST FOR RECONSIDERATION OF THE DENIAL OF ITS MOTION TO STAY DISCOVERY

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Defendant / Counterclaimant MP3tunes, Inc. ("MP3tunes") hereby respectfully submits this memorandum of law in opposition to: (a) the motion of Counter-Defendants (collectively, "EMI") to dismiss all of MP3tunes' Counterclaims; and (b) EMI's request for reconsideration of this Court's previous denial of EMI's motion to stay discovery.

PRELIMINARY STATEMENT

This lawsuit was of borne EMI's outrageous demand that MP3tunes remove from its search engine, Sideload.com, all links to all EMI-copyrighted songs anywhere on the World Wide Web, regardless of whether such songs were ever on an EMI take-down list or not. EMI based this on its representation, made under penalty of perjury, that it has never authorized any songs by any of its artists to be put on the Internet. On this theory, EMI asserts that MP3tunes has an independent duty to cleanse its search engine of all such songs. This would be all but impossible to undertake, and would essentially put MP3tunes out of business.

Indeed, that was exactly the point. It is important to call this as it is – this lawsuit is nothing more than an act of harassment. EMI is misusing the civil litigation process to try to drive a legitimate Internet innovator out of the music marketplace. Indeed, the entire premise of EMI's suit – that all EMI songs on the Internet are infringing – is plainly and knowingly false. The truth is that EMI routinely authorizes its songs to be distributed for free on the Internet. As MP3tunes pleads, and as EMI has never denied, such EMI-authorized songs can be found for free download on the websites of such established music industry sources as MTV.com, music magazines like *Spin* and *Filter*, large music festivals like South by Southwest, the artist's own websites, and directly from the music labels themselves.

That, of course, is EMI's right. But once it places its music for free download on the Internet, it loses the right to sue MP3tunes for failing to remove links to all EMI songs, which is exactly what EMI is trying to do here. Under these circumstances, EMI's breathless rhetoric of

"massive copyright infringement" necessarily falls by the wayside.

Moreover, that only deals with EMI's claims. At issue in this motion is EMI's assault on MP3tunes' Counterclaims, which unlike EMI's claims are meritorious. EMI desperately wants these counterclaims dismissed from the case, so that it may avoid having any discovery taken on them. MP3tunes' Counterclaims will reveal that EMI has been going around perjuring itself in its take-down notices, unlawfully demanding that legitimate Internet service providers such as MP3tunes remove links to any and all EMI songs on the Internet, based on representations made under oath that such material is infringing, even though EMI knowingly places such music on the Internet itself for promotional purposes.

Issues of evidence and proof are for another day. For purposes of the instant Rule 12(b)(6) motion, it is sufficient that MP3tunes has pled its causes of action with sufficient particularity to survive dismissal. Specifically, MP3 alleges that: "**EMI knowingly materially misrepresented that certain material on the Sites - such as the aforementioned material - was infringing in violation of 17 U.S.C. § 512(f)(1) when it was not.**" Counterclaims ¶ 56. Unable to address this allegation, EMI simply pretends it does not exist. Throughout its brief, EMI repeatedly and falsely claims that MP3tunes has not alleged any "knowing" violation by EMI, when paragraph 56 says just that in clear and plain language. EMI also claims, falsely, that the California court dismissed MP3tunes' claims on the merits, when all it held (with respect to but one of MP3tunes' claims) was that greater specificity was needed, and that MP3tunes should go plead that specificity in this Court. That is what MP3tunes has done.

Since it filed its Counterclaims, MP3tunes has learned information which even further supports its claims of perjury and bad faith, and further belies EMI's representation, made under oath, that "**EMI has not authorized any of its recordings to be copied, distributed, or performed in this manner on or by MP3Tunes or its users."** *See* Counterclaims Ex. A – 01

(underlining in original, bold added). As set forth in the accompanying Declaration of Michael Robertson, EMI has not only been distributing its songs over the Internet by itself, but has been paying content delivery networks and others to do so on EMI's behalf.

Accordingly, these Counterclaims present an important issue, one that cries out for judicial resolution. Namely, may the Record Industry, and the EMI entities in particular, continue to exploit their superior resources to threaten, harass and sue Internet innovators, based on perjured claims that they do not place free music on the Internet, when they know full well that they do? And when they get caught red-handed, does the victim have redress? MP3tunes respectfully submits that it does have such redress, one that a jury must decide.

This is ultimately an issue with far broader implications than just this case. If EMI can threaten MP3tunes with impunity, free of any possible counterclaim, then, *e.g.,* it can do so to Google, which links to all the same MP3s as does Sideload. EMI and its cohorts in the Record Industry have a long history of trying to stifle innovation through litigation. They sued the first makers of portable MP3 players (the predecessors to today's iPods) and digital video recorders, on the ground that such playback constituted "copyright infringement." Those technologies exist today only because those lawsuits failed. Now the Record Industry is trying to litigate away the music search engine and the personal music locker. If they are going to do so, they should, at the very least, be held to account for their bad faith, perjury and other misconduct.

For these reasons, and the other reasons set forth below, EMI's motion to dismiss should be denied, and fact discovery should proceed pursuant to the Court-ordered schedule.

MP3TUNES' ALLEGATIONS

A. MP3tunes

MP3tunes is an Internet pioneer that now operates two websites – MP3tunes.com and Sideload.com. Counterclaims ¶ 35. MP3tunes.com offers online storage "lockers" for users to

store music, which they purchased from the MP3tunes Store or other retailers such as iTunes or Amazon. *Id.* at ¶ 36. Users can access their lockers, and thus their music collections, from any computer with an Internet connection, much the same way email users can access messages on Gmail or Yahoo! from any such computer. *Id.* The music is uploaded into the online lockers by the users themselves. *Id.* at ¶ 37. Contrary to EMI's allegations, music files cannot be shared or transferred between lockers and cannot be accessed by anyone other than the user. *Id.* While MP3tunes can identify songs stored in a user's locker, it cannot determine from where the track originated, as it is not possible to distinguish between a song that was burned from a user's CD versus a song purchased from an online store such as Amazon. *Id.*

Sideload.com is a search engine much like Google or Yahoo!, except that it searches exclusively for free music downloads available on the Internet. *Id.* at ¶ 38. The free music downloads come from a variety of legitimate music industry sources, including promotional music offered for free through popular websites such as MTV.com, music magazines such as Spin and Filter, large music festivals such as South by Southwest, artist websites, and directly from the music labels themselves. *Id.* at ¶¶ 49-53. MP3tunes has no control over which links are included in Sideload. *Id.* at ¶ 38. Sideload.com only contains links to third party websites. *Id.* No music files are stored on Sideload.com. *Id.*

Notably, both sites merely store users' information at the direction of the user. In short, MP3Tunes is a "service provider" and as such is protected under the Digital Millennium Copyright Act (the "DMCA"), which was enacted to protect service providers from the heavy-handed legal harassment in which EMI has engaged.

B. EMI's Extensive Internet Promotion

Major music labels these days embrace the concept of free promotional MP3s as a marketing and sales tool for both new and established artists. Declaration of Michael Robertson

("Robertson Decl.") ¶ 8. MP3tunes has recently learned that EMI appears to be one of the most aggressive labels when it comes to mp3 promotion on the Internet. *Id.* As part of its business and marketing efforts EMI routinely distributes and authorizes others to distribute promotional copies of their music, including free mp3 downloads on the Internet. This year EMI successfully gave away an MP3 for "I Kissed A Girl" by Katy Perry which helped propel that song to #1 on both iTunes and Billboard charts. *Id.*

EMI works with numerous online music partners, such as MTV.com, spin.com, filter.com and more to distribute these free mp3 downloads. Specific examples of such authorized mp3 files were enumerated in the Counterclaims:

> 49. For example, the first band that is listed in EMI's spreadsheet is "Air." MP3tunes features an "Air" track – "Once Upon A Time" – on the first page of Sideload.com. That track is from the popular online music magazine, *Filter*, and is accessed by the URL .... Thus, MP3tunes has no reason to believe that the *Filter* track is anything but lawful. Nevertheless, MP3tunes removed this track from availability for sideloading as per EMI's demand. Another example is the promotional track that appears to be associated with Amazon.com: .... Amazon is clearly a reputable, authorized retailer of digital music. Other links included in the Notice that appear to be authorized by EMI for free download include links from the MTV2 website, which offers numerous authorized free music downloads: ....
>
> 50. Similarly, EMI's list also includes the track "Nobody Move, Nobody Get Hurt" by the band "We Are Scientists" from the URL .... *Spin* is a popular online music magazine. All the labels distribute MP3s promotionally. MP3tunes believes that it is likely that this track is such a promotional distribution and is lawfully available. The same is true for the tracks that EMI lists from the *Paste Store*: ..... Paste Store is a store which often distributes promotional tracks provided to them.
>
> 51. Still additional links to *Artist Direct,* an online music retailer and promoter, were wrongfully listed in the Notice: .....
>
> 52. There were also several songs listed from the SXSW (South by Southwest) website. The SXSW MUSIC AND MEDIA CONFERENCE features a legendary festival showcasing more than 1,800 musical acts of all genres from around the globe on over eighty stages in downtown Austin and offers free promotional downloads for artists featured at the festival. For example, ...
>
> 53. Links were also included from promotional companies such as

> ToolShed, which is billed as an online promotion for independent records: ....
>
> 54. The links referenced herein are not exhaustive, but merely examples of the many links that EMI represented as being associated with infringing copies of their alleged copyrighted works, which were not, in fact, infringing.

Counterclaims ¶¶ 49-54.

MP3tunes has further recently come to learn that EMI makes extensive use of its own websites to distribute free music downloads. Robertson Decl. at ¶ 13. This fact was mentioned briefly in the Counterclaims (*see* Counterclaims ¶ 49), but MP3tunes now has additional, far more specific information. Indeed, among the record label sites owned by EMI which distribute free MP3 files are EMI Chrysalis, Definitive Jux Records, Siren Records, Parlophone Records, Bec Recordings, and Mute Record. *See* Robertson Decl. at ¶ 13.

MP3tunes also recently discovered that EMI contracts with several content delivery networks ("CDN") to mass distribute free MP3s to promote its artist online. Robertson Decl. ¶ 9. These are private, third-party companies that are paid to distribute materials such as MP3s over the Internet. The biggest and most prominent CDN in the business is a company called Akamai, which uses "edgeboss" as the marketing brand for their technology service. *Id.* It is clear that EMI has one or more accounts with Akamai to distribute its music over the Internet for free. *Id.* MP3tunes has found on the Internet several EMI-copyrighted songs available for download with Akamai URLS. MP3tunes has also found EMI songs on the Internet with URLs indicating that they were distributed by CoralCDN and Nine Systems, two other CDNs which like Akamai, are paid services which distribute free MP3 songs for download over the Internet. *Id.* at ¶ 12.

Lastly, since the filing of the Counterclaims, MP3tunes has researched the URLs for the songs listed on EMI's take-down notice in great detail, and has discovered that over 140 of the links are to music blogs and related online sites. *Id.* at ¶ 14. MP3tunes has further learned that

record companies such as EMI are often well aware that such sites post downloads but either choose to ignore them or, in many cases, openly cooperate and license them, because exposure of artists on such sites can lead to increased sales. *Id.*

In short, EMI has engaged in active marketing of its music directly and through hundreds if not thousands of online music partners. As a consequence, thousands of EMI songs are available on the Internet for free download with their authorization.

C. EMI's Fraudulent Take-Down Notices

Despite their mass distribution of free mp3 downloads on the Internet, EMI has sent take-down notices that expressly and falsely represent that all mp3 files on the Internet infringe their copyrights. Counterclaims ¶ 47, Ex. A at A-01. The DMCA requires putative copyright holders to first provide service providers such as MP3tunes with notice of the claimed infringement, so that such service providers have the opportunity to remove the infringing content – without littering the federal courts with frivolous lawsuits. The DMCA requires that the information in the notice be accurate, and that the putative copyright holder swear, *under penalty of perjury*, that an *exclusive* right is allegedly infringed. 17 U.S.C. 512(c)(3)(A).

Unfortunately, EMI has taken its obligation not to commit perjury with the proverbial grain of salt. On September 4, 2007, September 18, 2007, and October 25, 2007 its counsel sent MP3tunes three separate DMCA take-down notices, in which it identified 350 or more links from the Sideload.com website, which EMI claimed were linked to unauthorized EMI works. Counterclaims ¶¶ 43, 46. EMI also represented that each and every link to any EMI artist on Sideload.com was infringing, thereby taking the position that any free MP3 files on the Internet are infringing, despite its mass distribution of free MP3s on the Internet: "based on EMI's representative list, MP3Tunes is obligated to remove all of EMI's copyrighted works, even those not specifically identified on the attached." *Id.* at ¶ 47.

As noted above, even without the benefit of discovery, MP3tunes has already learned that a large number of these links were expressly or implicitly authorized to be on the web. Indeed, many of these links are to unimpeachable websites such as Amazon.com and MTV.com, which no one would ever accuse of trafficking in infringing materials. MP3tunes suspects discovery will reveal that many if not most of these music links were proper.

In any event, MP3tunes did not debate the point. Rather, *it took down all 350 music links*. Counterclaims ¶ 55. In any rational world, that would have been the end of this story. But this being EMI, it sued anyway, on the outrageous theory that MP3tunes had an independent obligation to cleanse its entire search engine of any and all links to any and all EMI-copyrighted songs – whether on its take-down list or not – anywhere on the Internet. At the same time, EMI seeks to dismiss all of MP3tunes' counterclaims, and thereby shield itself from any discovery, which is sure to reveal the bad faith business and legal tactics it uses. As EMI cannot even remotely meet the relevant burden, its motion should be denied in full.

LEGAL ARGUMENT

I. Governing Standard

Rule 8(a) of the Federal Rules of Civil Procedure provides that all pleadings filed in federal court, including counterclaims, must set forth three elements: (1) a basis for the court's subject matter jurisdiction over the claim; (2) "a short and plain statement of the claim showing that the pleader is entitled to relief," and (3) a demand for judgment for the relief sought. A district court's task in determining the sufficiency of a pleading that satisfies Rule 8(a) is "necessarily a limited one." *Scheuer v. Rhodes*, 416 U.S. 232, 236 (1974), overruled on other grounds, *Davis v. Scherer*, 468 U.S. 183 (1984). "The issue is not whether a plaintiff will ultimately prevail, but whether the claimant is entitled to offer evidence to support the claims. Indeed it may appear on the face of the pleadings that a recovery is very remote and unlikely but

that is not the test." *Id*.

Here, EMI has moved to dismiss all of MP3tunes' Counterclaims under Fed. R. Civ. P. Rule 12(b)(6), on the putative ground that MP3tunes has failed to state a claim upon which relief can be granted. Motions on this ground are generally disfavored and should not be granted unless the movant can show "beyond doubt that the plaintiff can prove no set of facts in support of [its] claim which would entitle [it] to relief." *Padavan v. United States*, 82 F.3d 23, 26 (2d Cir. 1996), quoting *Hughes v. Rowe*, 449 U.S. 5, 10 (1980). "In reviewing a Rule 12(b)(6) motion, this Court must accept the factual allegations of the complaint as true and must draw all reasonable inferences in favor of the plaintiff. The review of such a motion is limited, and the issue is not whether a plaintiff will ultimately prevail but whether the claimant is entitled to offer evidence to support the claims." *Bernheim v. Litt*, 79 F.3d 318, 321 (2d Cir. 1996) (citations omitted). Thus, the Second Circuit holds that: "Dismissal of a complaint before discovery is a drastic step." *Wade v. Johnson Controls, Inc*., 693 F.2d 19, 22 (2d Cir. 1982).

As set forth below, such a drastic step would not be justified here. EMI – after citing Rule 12(b)(6) – proceeds to ignore it, suggesting that MP3tunes is under some sort of heightened pleading standard akin to Rule 9(b) for fraud claims. But there is no such requirement here, and even if there were, MP3tunes has more than satisfied it. The motion should be denied.

II. MP3tunes Has Stated A Claim For Relief Under 17 U.S.C. 512(f)

A. Digital Millennium Copyright Act

The Digital Millennium Copyright Act of 1998, 17 U.S.C. § 512, amended the Copyright Act to update domestic law for the online era. *See* 3 *Nimmer on Copyright* § 12A.02[A]. The DMCA was designed, *inter alia,* "to facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development, and education." S. Rep. No. 105-190, at 1 (105th Congress, 2d Session 1998).

Most relevant here, Title II of the DMCA explicitly created a new statutory "safe harbor" limiting liability for copyright infringement for Internet service providers who, among other enumerated activities, provide links to Internet sites containing allegedly infringing material. Congress added title II in order to "provide greater certainty to service providers concerning their legal exposure for infringements that may occur in the course of their activities." *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004) (internal quotation omitted). A qualified service provide who complies with the DMCA cannot be monetarily liable for copyright infringement. 17 U.S.C. § 512(a).

To qualify for the safe harbor provided by the DMCA, a service provider must adopt, implement and inform its subscribers and account holders of a policy that provides for the termination of repeat infringers. 17 U.S.C. § 512(i)(1)(A). A service provider, however, has no affirmative duty to monitor its service or search for facts that show infringing activity in order to qualify for the protections afforded by the DMCA. 17 U.S.C. § 512(m).

Further, the DMCA explicitly limits a service provider's duty to act to those instances where it receives proper notice of infringing activity. "The DMCA requires a complainant to declare, under *penalty of perjury*, that he is authorized to represent the copyright holder, and that he has a good-faith belief that the use is infringing. This requirement is not superfluous." *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1112 (9th Cir. 2007) (emphasis added), citing 17 U.S.C. § 512(c)(3)(A)(v)-(vi); *see also Hendrickson v. eBay Inc.,* 165 F. Supp.2d 1082, 1089 (C.D. Cal. 2001) (finding take-down notices deficient where notices did not include written statement under penalty of perjury that plaintiff had "a good faith belief that use of the material in the manner complained of is not authorized").

The DMCA makes it unlawful for copyright holders to use take-down threats when the copyright holder knows that infringement has not actually occurred. 17 U.S.C. § 512(f); S. Rep.

No. 105-90, at 49 (105th Congress, 2d Session 1998) ("[Section 512(f)] is intended to deter knowingly false allegations to service providers."). A copyright holder who issues such frivolous threats must pay damages, including costs and attorneys' fees, to those harmed by the misrepresentations. 17 U.S.C. § 512(f); *see also Online Policy Group v. Diebold, Inc.,* 337 F. Supp.2d 1195, 1202 (N.D. Ca. 2004) (holding that defendant knowingly misrepresented that plaintiffs infringed defendant's copyright interest where defendant could not reasonably have believed that material at issue was protected by copyright).

B. Section 512(f)

Under 17 U.S.C. § 512(f): "Any person who knowingly materially misrepresents ... that material or activity is infringing is liable for any damages, including costs and attorneys' fees, incurred by the alleged infringer ... who is injured by such misrepresentation, as the result of the service provider relying upon such misrepresentation in removing or disabling access to the material or activity claimed to be infringing, or in replacing the removed material or ceasing to disable access to it." (Emphasis added.) *See*, *e.g.*, *Lenz v. Universal Music Corp.*, 572 F. Supp. 2d 1150 (N.D. Cal. 2008) (plaintiff's allegation that record company acted in bad faith for failure to consider fair use survives motion to dismiss).

Here, EMI is seeking § 512(f) damages by way of its Second Claim for Relief. As MP3tunes sets forth with great particularity in its Counterclaims, EMI made numerous material misrepresentations in its DMCA take-down notices, the most egregious being that: "EMI has not authorized any of its recordings to be copied, distributed, or performed in this manner on or by MP3Tunes or its users." *See* Counterclaims Ex. A – 01 (underlining in original). Based on this falsehood, MP3tunes declared that: "MP3tunes is obligated to remove all of EMI's copyrighted works, even those not specifically identified the attached [song list]." *Id.* Under the DMCA, all these statements are made under penalty of perjury. 17 U.S.C. § 512(c)(3)(A)(vi).

In its Counterclaims, MP3tunes lays out in considerable detail its basis for concluding that these statements were false. Even without the benefit of discovery, MP3tunes is able to specifically identify 12 links from established companies in the music business, which clearly have authorization from EMI to distribute the MP3s and are not infringing. Counterclaims ¶¶ 49-54. In fact, EMI has never denied that these links are non-infringing. Rather, EMI admits that discovery relating to EMI's online licensing arrangements would be "immense." EMI Br. at 24. As set forth in the accompanying Declaration, MP3tunes now believes that another 140 of the cited links, from famous and reputable music blogs, also have explicit or implicit authorization from EMI to disseminate free mp3 downloads. *See* Robertson Decl. ¶ 14.

In its brief, EMI tries to write all this off as "*de minimis*." EMI Br. at 1. And it will be free to put that defense to the jury. But for purposes of a motion to dismiss, MP3tunes alleges – with good basis – that: "EMI knowingly materially misrepresented that certain material on the Sites - such as the aforementioned material - was infringing in violation of 17 U.S.C. § 512(f)(1) when it was not." Counterclaims ¶ 56. That allegation is assumed to be true. Indeed, MP3tunes will prove it to be true once it can take discovery.

EMI also that these allegations should be disregarded by the Court, because MP3tunes has not been as categorical in some of its pleadings as EMI has been in its take-down notices. In other words, EMI suggests that MP3tunes should be punished for careful pleadings, rather than throwing caution and truth to the wind as EMI does. There is no basis for this argument. Rather, the courts in this Circuit have repeatedly held that a party may plead allegations on "information and belief" without thereby exposing the pleading to a Rule 12(b)(6) motion. *See, e.g., Vento & Co., LLC v. Metromedia Fiber Network*, 1999 U.S. Dist. Lexis 3020, *21 (S.D.N.Y. 1999) (denying motion to dismiss complaint based on plaintiff's "information and belief" allegations); *Meilke v. Constellation Bancorp*., 1992 U.S. Dist. Lexis 2368, *4 (S.D.N.Y. Mar. 3, 1992)

(same); *Neilan v. Value Vacations, Inc*., 116 F.R.D. 431, 433-34 (S.D.N.Y. 1987) (same). This is particularly the case where, as here, the matters at issue are "peculiarly within the opposing party's knowledge." *Meilke*, 1992 U.S. Dist. Lexis 2368 at *3-*4, citing *Schlick v. Penn-Dixie Cement Corp*., 507 F.2d 374, 379 (2d Cir. 1974). MP3tunes has a good faith belief that a significant portion of the links cited by EMI were explicitly or implicitly authorized by EMI and thus non-infringing. MP3tunes is entitled to test this claim in discovery.

The *Rossi* and *Arista* cases cited by EMI are inapposite because they are summary judgment cases, which apply a completely different standard. In each case, the Court found that after the parties engaged in discovery, there was no evidence that the misrepresentation was made knowingly. Here, no discovery has occurred. In ¶ 56 of its Counterclaims, MP3tunes has alleged that EMI has made knowing misrepresentations. Once EMI grants MP3tunes access to the evidence, MP3tunes will prove this allegation. For now, the allegation alone suffices. In any event, as noted above, MP3tunes has put forward a plethora of evidence.

Equally specious is EMI's allegation that MP3tunes has "identifies no harm that it suffered from" EMI's misconduct. *See* EMI Br. at 4. Once again, this misses the point. Proof of damages is for trial. For now, it is sufficient that MP3tunes alleges harm, which it undeniably has done. Specifically, in ¶ 95 of its Counterclaims, MP3tunes pleads that: "it has been injured by EMI's misrepresentations because (1) it relied upon such misrepresentations and removed or disabled access to the allegedly infringing material; and (2) MP3tunes was forced to bring this action as a result of the inaccuracies and deficiencies in EMI's Notice." This is comparable to the harm found cognizable in *Lenz v. Universal Music Corp.*, 572 F. Supp. 2d 1150, 1156-57 (N.D. Cal. 2008). There, the District Court rejected an almost identical argument to the one EMI makes now, holding that the plaintiff had incurred a "cognizable injury" in reviewing counter-notice procedures, seeking attorney, and responding to the take-down notice.

Here, MP3tunes has been forced to take down possibly hundreds of legitimate music links, and has incurred substantial legal fees, as a result of EMI's perjurious take-down notice. The exact amounts and proofs of damages will come at trial.

C. The California Court's Decision

Next, EMI argues that the prior, "without prejudice" dismissal of this claim by the District Court in California bars MP3tunes from re-pleading it. Frankly, we are surprised to see this argument in EMI's brief, as Your Honor expressly asked EMI's counsel at the pre-motion conference not to make it. But since it has been made, we will respond.

EMI alternatively labels this argument as one of ""law of the case" or "collateral estoppel." Neither doctrine even remotely applies here. First, there is no law of the case because this is not the same case. *See Christianson v. Colt Indus. Operating Corp.,* 486 U.S. 800, 816 (1988). If EMI wanted to take advantage of the law of the case doctrine, it could have continued the case in California. Instead, it got it dismissed in favor of this action.

Second, there is no collateral estoppel because the merits of the claim has not been "both actually litigated and actually decided.'" *In re PCH Assocs.*, 949 F.2d 585, 593 (2d Cir. 1991) (*quoting* 18 *Federal Practice & Procedure* § 4419, at 177). Instead, the California court merely held that MP3tunes had not sufficiently pled its claim. *See* 4/1/8/08 Order at 13 ("the Court finds that, as pled, the misrepresentations were not material given the breadth of infringement alleged by Defendant and the speculative nature of the allegations"). But the Court took pains to note twice in its Order that the dismissal was without prejudice, so that MP3tunes could remedy the pleading deficiency before this Court. *Id.* at 13-14.

Of course, had MP3tunes merely re-filed the exact same pleading, this Court could simply follow the decision of the California Court (although Your Honor would not be bound to do so). But MP3tunes did not merely re-file the same pleading. It has beefed up its allegations

significantly. Among other things, MP3tunes is now able to specifically identify twelve links from established companies in the music business, which clearly have authorization from EMI to distribute the MP3s, which EMI lied and said were infringing. Counterclaims ¶¶ 49-54. And MP3tunes has explained in greater detail exactly why these are not infringing. *Id.* Perhaps most tellingly, EMI in its twenty-five page brief does not deny any of this.

This is a considerable showing, given that it has been done without discovery. MP3tunes believes discovery will confirm that more than 140 additional links were explicitly or implicitly authorized by EMI and non-infringing. Furthermore, as explained in detail in the accompanying Declaration, MP3tunes now has solid proof that EMI routinely distributes free MP3s, on the Internet. In fact, MP3tunes recently discovered that EMI contracts with several content delivery networks to distribute these free MP3s, including Akamai - the largest content delivery network in the world. Yet, as noted above, EMI tried to force MP3tunes to drop every song in the EMI library. This is a textbook case of bad faith copyright infringement accusations – just what the DMCA was enacted to prevent. MP3tunes has pled a cognizable claim.

III. MP3tunes Has Stated Proper Claims Under New York And California Unfair Competition Laws

A. New York General Business Law § 349

A *prima facie* claim under New York unfair competition law, New York General Business Law § 349 requires a showing that: (1) the conduct of the defendant that is consumer-oriented, (2) defendant engaged in an act or practice that is deceptive or misleading in a material way, and (3) that plaintiff has been injured by reason thereof. *See Oswego Laborers' Local 214 Pension Fund v. Marine Midland Bank, N.A.,* 85 N.Y.2d 20, 25-26 (1995). Plaintiff need not show that the defendant committed the complained-of acts repeatedly, but instead must demonstrate that the acts or practices have a broader impact on consumers at large. *Id.* at 25.

"The critical question, then, is whether the matter affects the public interest in New York, not whether the suit is brought by a consumer or a competitor." *Securitron Magnalock Corp. v. Schnabolk*, 65 F.3d 256, 264 (2d Cir. N.Y. 1995).

In short, the question is not whether consumers were misled by EMI's unfair, misleading and unlawful practices, but whether such unfair, misleading and unlawful practices affect the public interest in New York. MP3tunes' claims clearly affect the public interest in New York because the New York users stand to lose substantial sums of money if, as a result of EMI's harassment, their lockers are shut down and their MP3s appropriated. Further, New York users are affected in that they will lose the ability to access and utilize the Sideload.com search engine, much like the general public would be harmed if someone tried to shut down Google because it could be used to locate mp3 files on the Internet.

MP3tunes has standing to bring this claim because it was actually injured when it had to engage counsel to respond to EMI's threats and misrepresentations, when it had to take down hundreds of lawful links from its search engine, and when it had to interpose its Counterclaims to defend itself from EMI's harassment. MP3tunes, of course, will have to prove its allegations and injury allegations at trial. But there is no basis to dismiss this claim on the pleadings.

B. New York Common Law Unfair Competition

"New York's law of unfair competition is a broad and flexible doctrine that depends more upon the facts set forth ... than in most causes of action. It has been broadly described as encompassing any form of commercial immorality, or simply as endeavoring to reap where one has not sown" *Telecom Int'l Am., Ltd. v. AT&T Corp.*, 280 F.3d 175, 197-98 (2d Cir. 2001) (citations omitted) (emphasis added). "The incalculable variety of illegal commercial practices denominated as unfair competition is proportionate to the unlimited ingenuity that overreaching entrepreneurs and trade pirates put to use." *Ronson Art Metal Works, Inc. v. Gibson Lighter Mfg.*

Co., 3 A.D.2d 227**,** 230 (1957) (emphasis added).

Here, MP3tunes alleges in its Counterclaims that EMI threatened it into taking down links to over five hundred songs, based on false and possibly perjured claim that: "EMI has not authorized any of its recordings to be copied, distributed, or performed in this manner on or by MP3tunes or its users." *See* Counterclaims ¶¶ 56-57, 101-04, and Ex. A at A-01. EMI claims this allegation, even if true, does not state a cause of action under New York unfair competition law because: "MP3tunes fails to allege that EMI has competed with the company by somehow using its labors." EMI Br. at 18.

New York law recognizes no such pleading requirement. To the contrary, commercial misrepresentations can and do create a basis for an action in unfair competition. "Common law unfair competition must be grounded in either deception or appropriation of the exclusive property of the plaintiff." *NYC Mgmt. Group Inc. v. Brown-Miller*, 2004 U.S. Dist. Lexis 8652, *29 (S.D.N.Y. May 14, 2004) (emphasis added), citing *H.L. Hayden Co. of New York, Inc. v. Siemens Med. Sys., Inc.,* 879 F.2d 1005, 1025 (2d Cir. 1989); *Michele Pommier Models, Inc. v. Men Women NY Model Mgmt., Inc.,* 14 F. Supp. 2d 331, 337 (S.D.N.Y. 1998).

In short, EMI's deception does indeed qualify as unfair competition, without any allegation of misappropriation. *See also, e.g.,* 104 *New York Jur. 2d* § 194 (2005) (citing *Dior v. Milton*, 9 Misc.2d 425, 437 (N.Y. Cnty. Sup. Ct. 1956) "unfairness required to sustain the cause of action for unfair competition may be satisfied by showing that the defendants ... obtained entrance to the shows of the plaintiffs by fraudulent representations and promises"); J. Thomas McCarthy, *McCarthy On Trademarks and Unfair Competition*, § 1:10 (4th ed. 2005) (listing "false representations" among the numerous types of conduct that can be unfair competition; W. Page Keeton, *Prosser and Keeton On Torts*, § 130 (5th ed. 1988) ("unfair competition ... can be found when the defendant engages in any conduct that amounts to a recognized tort and when

that tort deprives the plaintiff of customers or other prospects").

MP3tunes' unfair competition claim falls well within the prevailing law as set forth above. It should not be struck on the pleadings.

C. California Business and Professions Code § 17200

A violation of California Business and Professions Code § 17200 merely requires a party to show that the defendant is a business engaged in acts or practices that are unlawful, fraudulent, or unfair. Cal. Bus. & Prof. Code § 17200 *et seq.*

"An unlawful business practice or act" is an act or practice that is forbidden by law. *Klein v. Earth Elements, Inc.*, 59 Cal. App. 4th 965, 969 (1997). This prong is met where EMI has violated any law, including Section 349, Section 512(f) or any statutory or common law tort. Thus, MP3tunes has stated a claim under the "unlawful" prong of Section 17200.

To show that an unlawful business practice or act is "fraudulent" merely requires a showing that a person is "likely to be deceived." *Bank of the West v. Superior Court,* 2 Cal.4th 1254, 1267 (1992). EMI is required to state that the works cited in the notice are infringing and swear, *under penalty of perjury*, that the notice is accurate and that EMI is authorized to send said notice. Thus, their practice of including numerous non-infringing works in their take-down notices is likely to deceive.

The "unfair" prong of Section 17200 intentionally provides courts with broad discretion to prohibit new schemes to defraud. *Motors, Inc. v. Times Mirror Co.*, 102 Cal.App.3d 735, 740, 162 (1980). An unlawful business practice or act is "unfair" "when [it] offends an established public policy or when the practice is immoral, unethical, oppressive, unscrupulous or substantially injurious to consumers." *People v. Casa Blanca Convalescent Homes, Inc.*, 159 Cal.App.3d 509, 530 (1984). "[T]he court must weigh the utility of the defendant's conduct against the gravity of the harm to the alleged victim." *State Farm Fire & Casualty Co. v.*

Superior Court, 45 Cal.App.4th 1093, 1104 (1996). EMI's business acts and practices, such as sending fraudulent take-down notices in an attempt to put legitimate Internet service providers out of business and abusing its copyrights to prevent consumers from storing and accessing their own digital property violates public policy, is immoral, unethical, oppressive, unscrupulous and is substantially injurious to consumers.

The *Cel-Tech* case articulated by EMI is inapposite. In *Cel-Tech Communications, Inc. v. Los Angeles Cellular Tel. Co.*, the California Supreme Court set forth the test for determining an "unfair" business practice between direct competitors as whether that act or practice threatens "an incipient violation of those law, or violates the policy or spirit of one of the antitrust laws because its effects are comparable to or are the same as a violation of the law." 20 Cal. 4th 163, 187 (1999). However, this test applies only to unfairness between direct competitors. *Id.* at n. 12 ("This case involves an action by a competitor alleging anticompetitive practices. Our discussion and this test are limited to that context."); *see also Watson Labs., Inc. v. Rhone-Poulenc Rorer, Inc.*, 178 F. Supp.2d 1099, 1118 n.13 (C.D. Cal. 2001). EMI and MP3tunes are not direct competitors. Therefore, the *Cel-Tech* test in inapplicable.

D. There Is No Preemption

Lastly, EMI sets forth the novel argument that the DMCA preempts any state law claim might have for EMI's false and perjurious take-down notices. No court of law has ever applied this theory to this context, and this Court should not be the first.[1]

Plaintiff's "field conflict" argument that Congress intended § 512(f) to be the exclusive remedy in connection with take-down notices is baseless. If that were the case, Congress would have so stated in the DMCA. The preemptive effect of the Copyright Act is expressly defined

[1] Interestingly, EMI seems not to believe its own argument, as it alleges several state law claims against MP3tunes on top of its federal copyright claim.

within the Act itself. Federal copyright law preempts state law claims only if the claims create "legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by Section 106." 17 U.S.C. § 301. Notably, the preemption section only applies to the enumerated rights set forth in § 106, namely the right to prohibit the reproduction, performance, distribution, or display of any copyrighted work, whether original or derivative. Absent from the preemption statute is the right of an Internet service provider to recover damages for known, material misrepresentations in take-down notices. When Congress enacted the DMCA, it could have included § 512 rights in the preemption provision, but it chose not to. Thus, a federal cause of action under 17 U.S.C. § 512(f) does not preempt MP3tunes' state law causes of action. No Court has ever ruled to the contrary.

Nor do MP3tunes' state claims not conflict with provisions in the Copyright Act. Any analysis of preemption "starts with the basic assumption that Congress did not intend to displace state law." *Maryland v. Louisiana*, 451 U.S. 725, 747 (1981). Indeed, conflict preemption occurs only "when compliance with both state and federal [laws] is a physical impossibility or when state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Hillsborough County Fla. v. Automated Med. Labs. Inc.*, 471 U.S. 707, 713 (1985) (citations omitted). No such actual conflict exists here.

Section 512 was enacted to protect service providers from copyright infringement liability unknowingly caused by third parties. S. Rep. (DMCA), at 8.[2] Unfair competition law

[2] "[W]ithout clarification of their liability, service providers may hesitate to make the necessary investment in the expansion of the speed and capacity of the Internet. In the ordinary course of their operations service providers must engage in all kinds of acts that expose them to potential copyright infringement liability. For example, service providers must make innumerable electronic copies by simply transmitting information over the Internet. Certain electronic copies are made to speed up the delivery of information to users. Other electronic copies are made in order to host World Wide Websites. Many service providers engage in directing users to sites in response to inquiries by users or they volunteer sites that users may find attractive. Some of these sites might contain infringing material. In short, by limiting the liability of service providers, the DMCA ensures that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will continue to expand."

protects against unfair, fraudulent, unlawful and deceptive acts and practices. Preventing EMI from engaging in unfair, fraudulent, unlawful and deceptive acts and practices does not in any way make it impossible to prevent EMI from making material misrepresentations in its take-down notices. If anything, such laws are complementary in nature.

Indeed, EMI's argument is a non-sequitur. EMI argues that it would upset Congress' intent to impose the "additional burden" on EMI to engage in fair, lawful and honest business practices and acts, and in essence, states that EMI can engage in otherwise unfair, fraudulent or deceptive acts and practices, so long as they comply with the provisions of 512(f). This clearly was not Congress' intent. Nor has EMI cited anything that would indicate as much.

The *American Society of Composers, Authors, and Publishers v. Pataki*, 1997 WL 438849 (S.D.N.Y. Feb. 27, 1997) case relied upon by EMI is inapposite. The New York law in the ASCAP case is the type of law specifically contemplated in § 301 – a state law that involves the enforcement of the enumerated rights specified in § 106, specifically the right to prohibit the public performance of a copyrighted work.

Lenz v. Universal Music Corp., 2008 WL 962102 (N.D. Cal. April 9, 2008) and *Online Policy Group v. Diebold*, 337 F. Supp.2d 1195 (N.D. Cal. 2004) – relied upon by EMI – are inapposite. Both cases addressed claims of intentional interference with contract on the grounds that a DMCA take-down notice interfered with the contractual relationship with the Internet service provider. These courts held the interference claims at issue were preempted because it is impossible to send a valid take-down notice without interfering with contracts. *See Lenz v. Universal Music Corp.*, 2008 WL 962102 at * 4 (N.D. Cal. April 9, 2008) and *Online Policy Group v. Diebold*, 337 F. Supp.2d 1195, 1206 (N.D. Cal. 2004). There is no such impossibility here, and thus dismissal on preemption grounds would not be justified.

IV. Declaratory Relief Is Appropriate

Most specious of all is EMI's suggestion that it should be free to threaten and harass MP3tunes, but that MP3tunes should be stripped of the right to declaratory relief provided to it under 28 U.S.C. § 2201, because such relief would be "duplicative" of EMI's claims. Here, MP3tunes seeks a declaration that it falls within the DMCA's safe harbor provisions for Internet service providers. As this Court is aware, MP3Tunes – faced with EMI's wrongful threats – initially brought a declaratory judgment action in the Southern District of California, so as to do business free of EMI's harassment. EMI responded by filing suit in this Court, and then urged the California court to dismiss that case in favor of this one, promising that: "the pending New York action will resolve all of the copyright issues that MP3tunes' suit alleges here, as well as additional causes of action – making the present suit redundant under Rule 12(f)." Yet now that it has convinced the California court to dismiss that suit in favor of this one, such dismissal is speciously labeled "law of the case." Apparently, EMI would prefer that *no* court ever consider the merits of MP3Tunes' claims against it.

Declaratory relief is available where there is a case of actual controversy within the Court's jurisdiction. 28 U.S.C. § 2201. The Second Circuit has held that:

> The two principal criteria guiding the policy in favor of rendering declaratory judgments are (1) when the judgment will serve a useful purpose in clarifying and settling the legal relations in issue, and (2) when it will terminate and afford relief from the uncertainty, insecurity, and controversy giving rise to proceeding.' ... If either of these objectives can be achieved the action should be entertained and the failure to do so is error.

Broadview Chemical Corp. v. Loctite Corp., 417 F.2d 998, 1001 (2d Cir. 1970).

There is no dispute that there is a case of actual controversy. Further, the declaratory judgment will clarify and settle the legal relations at issue between EMI and MP3tunes. Moreover, the declaratory relief claims will also terminate and afford MP3tunes' relief from the

uncertainty, insecurity and controversy as to whether its can continue to operate its sideload.com and mp3tunes.com website without constant fear of continuous litigation from EMI entities. This is of critical importance to EMI not just for the present case – which EMI could (and should) drop at any time – but also for the next big record company that tries to bully it out of business. As the Supreme Court explained in *Cardinal Chem. Co. v. Morton Int'l*, 508 U.S. 83, 99-100 (U.S. 1993), "[a] company once charged with infringement must remain concerned about the risk of similar charges if it develops and markets similar products in the future." The same reasoning applies here. Even if EMI dismisses its claims – there still would exist a controversy as to whether MP3tunes qualifies for protection under the DMCA.

V. MP3tunes Should Be Granted Leave To Re-Plead If Necessary

Finally, although MP3tunes believes all of its counterclaims are properly pled, to the extent the Court deems its pleading deficient in any respect, MP3tunes respectfully requests leave to amend. FRCP Rule 15(a) provides that leave to amend "shall be freely given when justice so requires." *See also Foman v. Davis*, 371 U.S. 178, 182 (1962). "[W]hen a motion to dismiss is granted, the usual practice is to grant leave to amend the complaint." *Oliver Sch. v. Foley*, 930 F.2d 248, 253 (2d Cir. 1991). The Second Circuit explains that "mere technicalities" should not prevent a case from being decided on the merits, *see Monahan v. New York City Dep't of Corrections*, 214 F.3d 275, 283 (2d Cir. 2000) (citation omitted), and that the trial courts should "allow a party to amend its pleadings in the absence of a showing by the non-movant of prejudice or bad faith." *Block v. First Blood Associates*, 988 F.2d 344, 350 (2d Cir. 1993).[3] To do otherwise has even been held by the Second Circuit to constitute reversible error. *See, e.g., Ronzani v. Sanofi S.A.*, 899 F.2d 195, 198 (2d Cir. 1990).

[3] It should be noted that MP3tunes has not previously amended its pleadings even though an Amended Answer and Counterclaims have been filed. This amendment was solely for the purposed of correcting the case caption. No changes to the actual pleading were made.

Accordingly, the courts in this Circuit routinely permit the amendment of pleadings in response to a motion to dismiss. *See, e.g., Covington v. Kid*, 1999 WL 9835 (S.D.N.Y. Jan. 7, 1999) (noting that Magistrate had authorized the filing of a third amended pleading); *Peckham Materials Corp. v. Raima Corp.,* 821 F. Supp. 123, 124 (S.D.N.Y. 1993) (granting leave to file third amended complaint); *Cohen v. Citibank, N.A.*, 1997 WL 88378 *2 (S.D.N.Y. Feb. 28, 1997) (permission to amend following a motion to dismiss is the usual practice and should be "freely given when justice so requires").

Here, MP3tunes has followed the dictates of Rule 8(a) and provided "a short and plain statement" for each of its counterclaims, supported by a detailed factual discussion, and submits that each Counterclaim has been well-pled for purposes of Rule 12(b)(6). MP3tunes has also demonstrated, in the accompanying Declaration, that it has numerous additional facts, which it can plead in support of these causes of action. By contrast, EMI would suffer no "prejudice" as a result an amendment at this early stage in the proceeding. It has only been two and a half months since the original Answer and Counterclaims were filed. Initial Disclosures still have yet to be exchanged. Therefore, MP3tunes should be permitted at least one opportunity to correct any pleading deficiency in its new counterclaims.

VI. A Partial Discovery Stay Would Not Be Proper

Lastly, EMI request's reconsideration of Your Honor's denial of its request for a stay of discovery. Having now briefed the issue, EMI make no better case for one than before. As an initial matter, such a stay would materially prejudice MP3tunes, as this Court has ordered that all fact discovery be completed by March 31, 2009. MP3tunes has now served its discovery upon EMI, and is awaiting EMI's responses.

Further, discovery on § 512(f) is likely to be the same or similar as discovery on infringement. MP3tunes' § 512(f) claim is based on EMI's material misrepresentations that all

links in the take-down notice were directed to infringing works. MP3tunes believes that a significant portion of the links in the take-down notice were expressly or implicitly authorized by EMI for distribution and download. The pivotal question is whether EMI has authorized the copying and distribution of these works. EMI's infringements claims are based on the alleged unauthorized copying, distributing of copyrighted works on third party websites. If EMI has authorized the distribution and copying of these works then there is no infringement. Thus, the two hinge on the same factual findings. As such, discovery for MP3tunes' § 512(f) claim and affirmative defenses will be largely the same.

The EMI plaintiffs are fifteen record companies with enormous resources. They were the ones who needlessly launched this litigation based on bogus allegations. And they have imposed extreme discovery demands on MP3tunes. There is nothing inequitable about their participating in discovery as well. Discovery should proceed without further delay.

CONCLUSION

Accordingly, for all of the foregoing reasons, and for the reasons set forth in the accompanying Declaration of Michael Robertson, MP3tunes respectfully requests the Court deny EMI's motions to dismiss and stay discovery or, in the alternative, grant leave to amend.

Dated: New York, NY
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DUANE MORRIS LLP

By: s/ Gregory P. Gulia
Gregory P. Gulia
John Dellaportas
1540 Broadway
New York, NY 10036
(212) 692-1000

Edward M. Cramp (*pro hac vice*)
Michelle Hon (*pro hac vice*)

Attorneys for MP3tunes, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I caused a copy of the foregoing to be served by electronic service via ECF this 30th day of December, 2008:

Andrew H. Bart
Jenner & Block LLP
919 Third Avenue, 37th Floor
New York, NY 10022
abart@jenner.com

Steven B. Fabrizio
Jenner & Block LLP
601 Thirteenth Street, NW, Suite 1200S
Washington, D.C. 20005
sfabrizio@jenner.com

/s/ John Dellaportas

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