

Appeal No. 00-16401

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UNITED STATES COURT OF APPEALS  
NINTH CIRCUIT

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NAPSTER, INC., a corporation, Petitioner/Appellant,  
v.  
A & M RECORDS, INC., a corporation,  
(For Continuation of Caption See Next Page)

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NAPSTER, INC., a corporation, Petitioner/Appellant,  
v.  
JERRY LEIBER, individually and doing  
business as JERRY LEIBER MUSIC,  
(For Continuation of Caption See Next Page)

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Appeal from the United States District Court  
for the Northern District of California,  
San Francisco Division Jointly Heard In  
Civil Nos. C 99-5183 MHG (ADR)(A&M Records) and  
C 00-0074 MHG (ADR)(Leiber) Judge Marilyn Hall Patel

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APPELLANT NAPSTER INC'S EMERGENCY MOTION FOR STAY  
PURSUANT TO RULE 27-3 AND MOTION TO EXPEDITE APPEAL

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**Respondents/Appellees.**

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doing business as MIKE STOLLER MUSIC,**

**-and-**

**FRANK MUSIC CORP., on behalf of themselves  
and all others similarly situated,**

**Respondents/Appellees.**

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## **CORPORATE DISCLOSURE STATEMENT**

This statement is made pursuant to Federal Rule of Appellate Procedure 26.1.

Petitioner/Appellant, Napster, Inc., has no parent corporation, subsidiaries or affiliates that have issued shares to the public.

## **CIRCUIT RULE 27-3 CERTIFICATE**

Daniel Johnson, Jr., counsel for Petitioner/Appellant, hereby certifies:

1. I am a member of the bar of this Court, and of Fenwick & West LLP, counsel for Petitioner/Appellant Napster, Inc. (“Napster”). I make this certificate in support of Napster’s motion for a stay pending appeal and for an expedited appeal pursuant to Circuit Rule 27-3.

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3. Petitioner/Appellant Napster, is located in San Mateo County, California, and is an Internet company engaged in the business of providing users with an index of other users who are prepared to share music files on a peer-to-peer basis without compensation.

Respondents/Appellees alleged that Napster was a contributory and vicarious copyright infringer because it knew that many of the users of the Napster system, among other things shared MP3 files of copyrighted song recordings. The Napster system neither makes, stores, or copies MP3 files. The Napster directory service enables users to identify MP3 files stored on the hard drive of another Napster user and the system provides internet addresses of users who will permit other users to copy their music files and a list of the music files available for copying. A user wishing

to copy music can then directly connect his or her hard drive to that of the other user. The Napster technology has been referred to as so revolutionary that it is redefining the Internet.

4. As such set forth more fully below, the trial court's decision that a preliminary injunction was appropriate was based on several rulings of first impression and several rulings contrary to prior decisions in the district, recent statements by this Court (which Plaintiffs convinced the court below were *dicta*), principles articulated in controlling Supreme Court precedent.

5. The preliminary injunction entered was impermissibly broad in that (a) because Napster is required to block the copying of any music whose copyright is owned by plaintiffs, and plaintiffs refused to identify such music, Napster again can avoid contempt sanctions only by terminating its basic service, and (b) because the peer-to-peer architecture of Napster makes it impossible for Napster to monitor and control what its users' share, the injunction in necessary effect required Napster to block the sharing of all music files despite the uncontradicted evidence that a significant amount of music copying by Napster does not infringe any copyright. The court below found that "as much as 87% available on Napster may be copyrighted, certainly a substantial amount of it is." Excepting the court's finding, a substantial (but not quantified) amount of the music available on Napster is not copyrighted at all. In addition, none of the copyrighted music is available with permission, and much of the copying of music by Napster users is protected by the AHRA or the doctrine of fair use. The court then ruled directly contrary to Sony that "Plaintiffs are entitled to enforce their copyright rights not have them infringed just because the nature of the technology is such that it's too hard to identify. TR 85:12-15, R153. The effect of the court's injunction is to prevent Napster users from sharing any and all of the foregoing.

6. For reasons set forth below, unless the Preliminary Injunction against Napster is stayed pending appeal, Napster, a privately owned business, will not be able to continue with its peer-to-peer technology, and its 20 million subscribers will be unable to use Napster's services. Approximately 40 employees will have to be laid off within a matter of days. Napster will also suffer irreparable injury to its business reputation and customer goodwill, and will lose a customer base for Napster services that it has invested large amounts of time, money and hard work in building. Further, a stay will not harm plaintiffs at all. The copying of MP3 files already number in the millions if not billions. Enjoining Napster will have no affect on Respondents/Appellees' business ability to prevent MP3 files from being shared by the public. Further, the evidence shows that (certainly between now and the resolution of this appeal) plaintiffs' compact disc sales have and will continue to increase due to the existence of Napster.

7. To avoid irreparable harm to Napster in this case, relief from this Court is needed by Friday, July 28, 2000, at midnight.

8. Napster's request for a stay pending appeal was submitted to the District Court in open court. The District Court summarily denied Napster's request for a stay pending appeal to this Court.

9. Napster also requests an expedited briefing and hearing schedule. Appellant proposes the following schedule

Appellant's opening brief due Friday August 18, 2000

Respondents Opposition brief due Friday September 8, 2000

Appellant's reply Brief due Friday September 12, 2000

Appellant requested that a copy of the transcript be completed on an expedited basis. Appellant believes that the transcript will be completed prior to the filing of appellant's opening



brief.

10. On July 27, 2000, the Clerk of this Court, notified counsel for Respondents/Appellees by telephone of Napster's intention to file this motion today. Respondents indicated that they will oppose the request for expedited motion and stay. Napster's motion papers are being served by fax on Respondents/Appellees' counsel contemporaneously with the filing in this Court. On July 26, 2000, Daniel Johnson, Jr. also notified the Clerk of this Court that Napster intended to file this motion today.

11. The following Memorandum of Points and Authorities, and a separately bound appendix containing the relevant portion of the record, are submitted in support of this motion.

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## **PRELIMINARY STATEMENT**

This case is one of the most important, and closely watched, cases involving the application of copyright laws to Internet activities. Yesterday (July 26) at 5:30 pm the court below entered a preliminary injunction requiring Napster, no later than midnight Friday (July 28), to prevent Napster users from sharing music whose copyright was owned by any of the plaintiffs. In doing so the court resolved numerous issues of first impression, and decided numerous other issues contrary to decisions of other courts in the District, contrary to recent statements by this Court, and contrary to principles articulated in controlling Supreme Court precedent.

The court denied Defendant's application to stay the injunction until this Court had an opportunity to act on a motion to stay. The court below further declined to limit the injunction to music whose copyright had been proved, or even to music as to which Plaintiffs notified Napster that they claimed they had copyrighted.

Since defendant has no way to ascertain what music made available by Napster users for copying by other Napster users is copyrighted by Plaintiffs, and since Plaintiffs have refused to identify what music copyrights they claim, defendant is unable to comply with the injunction. The only way for Defendant to avoid contempt sanctions is to block the peer-to-peer copying by Napster users of all music – despite the uncontradicted evidence that a significant amount of music copying by Napster users does not infringe any copyright. This would essentially destroy Napster as a business, and deprive the more than 20 million Napster users of their service.

The court below issued its preliminary injunction from the bench, after earlier denying defendant's request for an evidentiary hearing. Plaintiffs' motion for a preliminary injunction was not filed until June 12, 2000 even though plaintiffs complained to Napster as early as

September, 1999, and Plaintiffs' lawsuit was commenced on December 6, 1999.

The court ordered a bond of \$5 million without any findings or support in the record. (Defendant had argued for a \$800 million bond since the breadth and impossibility of the injunction would destroy the economic viability of Napster; even plaintiffs' expert placed the litigation depressed-value of Napster of between 60 and 80 million. (Teece Rep. at 12, R540)

The court below found that Plaintiffs had a strong likelihood of proving both that Napster users were engaged in copyright infringement when they copy each other's music, and that Napster was engaged in contributory/vicarious infringement because Napster knew that much of the music shared by its users was copyrighted.

The court reached its conclusion that Napster users were engaged in direct infringement in part because

- it ruled (contrary to the section's express terms) that the immunity from suit provided by 17 USC § 1008 only applied to actions under the AHRA.
- it ruled that 17 USC § 1008's protections only applied to copying by specifically identified devices rather than, as this Court said in *RIAA v. Diamond Multimedia Syst., Inc.*, 180 F.3d 1072 (9<sup>th</sup> Cir. 1999), to all noncommercial copying by consumers.<sup>1</sup>
- it ruled that Defendant had the burden of proving the absence of harm from the allegedly infringing activity of Napster users rather than, as the Supreme Court held in *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984) (and reaffirmed in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590-91 (1994) ), that

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<sup>1</sup> The court relied on the fact that this Court in *Diamond Multimedia* had held (in the context of the AHRA's serial copying and royalty provisions) that digital audio recording device did not include computer hard-drives. The court below ignored, however, that 17 U.S.C. § 1008 permits non-commercial copying by consumers using either analog or digital audio recording devices or "such a device"; that the legislative history makes clear that Congress intended by that language to immunize all non-commercial copying of music by consumers; that the same *Diamond Multimedia* Court expressly said that 17 U.S.C. § 1008 "protects all noncommercial copying by consumers of digital and analog musical recordings" (180 F.3d at 1079); and that throughout the *Diamond Multimedia* opinion the Court discusses copying of music using computer hard-drives as AHRA protected activity.

plaintiffs had the burden of proving such harm by a preponderance of the evidence.

- it ruled, contrary to *RIAA v. Diamond Multimedia Syst., Inc.*, that space shifting was not a fair use.
- it ruled that non-commercial sampling was not a fair use even if such sampling increased rather than decreased sales of the music sampled – contrary to the *Sony* Court’s holding that: “A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work.” (464 U.S. at 451).
- It wrongly imposed on Defendant the burden of proof both on fair use and substantial non-infringing uses. Tr. 71:21-22, R139. See *Genentech, Inc. v. Novo Nordisk, A/S*, 108 F.3d 1361, 1364 (Fed. Cir. 1997) (plaintiffs’ burden to negate affirmative defenses on motion for preliminary injunction).

The court below held that all, or virtually all, of Napster’s more than 20 million users were guilty of copyright infringement because of their non-commercial sharing of music, basing its holding on the assertion that the scale of such sharing could not be viewed as “personal” because:

- neither *Sony* nor 17 U.S.C. § 1008 uses the term “personal”; each uses the term “non-commercial.”
- neither *Sony* nor 17 U.S.C. § 1008 makes any reference to a quantity or scale limitation.
- there is *nothing* in the record to support an assumption that any given Napster user shares music with a large number of users.

The court below expressly sought to try to adapt existing copyright provisions to the new realities of Internet technology. In doing so, the court ignored the counsel of the *Sony* Court (464 U.S. at 431-432) and this Court in *Diamond Multimedia* that extending copyright protections in response to new technologies should be left to Congress.

The court below ruled that (assuming that Napster users were engaged in direct infringement) Napster was engaged in contributory/vicarious infringement even though

- a significant amount of music copied by Napster users was not copyrighted (or, if copyrighted, the copying was authorized).
- Napster did not, and because of its peer-to-peer directory approach could not, control whether the music shared by its users was infringing.
- even assuming that 17 USC § 1008 is not applicable and that non-commercial music sharing by consumers is not fair use, Napster was “capable of substantial noninfringing uses” under *Sony* – including the sharing of uncopyrighted music, of music whose copyright had lapsed, of music whose copying was expressly authorized, of music whose sharing (*e.g.*, sampling, space-shifting) otherwise represented fair use.

The court below also held, contrary to the *Sony* decision and to numerous subsequent cases, including *Religious Technology Ctr. v. Netcom On-Line Communic. Corp.*, 907 F. Supp. 1361 (N.D. Cal. 1999) (Judge Whyte), that Defendant had the obligation to modify a service that was used for both infringing and non-infringing uses to guarantee that it could only be used for non-infringing uses – and to do so even if the modification were impossible to implement.

The court held that Plaintiffs had made out sufficient threatened harm (both to avoid fair use and to justify a preliminary injunction) based on a survey by Plaintiffs’ paid expert of 500 college students by even though

- a survey by Defendants’ paid expert, and six out of seven reported independent surveys, found that Napster increased music sales.
- the undisputed fact that music sales have increased, not decreased, since Napster started – and that Plaintiffs’ expert found a decrease in sales through college area music stores only by ignoring the facts that
  - college area sales were *up* if both store and on-line sales were considered
  - college area store sales were falling before Napster (because of a shift to on-line purchases), and indeed sales in college area stores fell more before Napster than after Napster

In relying on speculation as to what might happen in the future, the court below

- departed from *Sony*’s holding that a copyright plaintiff must prove by “a preponderance of the evidence that some meaningful likelihood of future harm



exists”

- ignored the fact that for preliminary injunction proposes the period of expected harm is the period between now and trial

### **The Napster Peer-To-Peer Technology**

Napster’s “peer-to-peer” file sharing technology has ignited a revolution. Andy Grove, the President of Intel has asserted that “the whole Internet could be re-architected by Napster-like technology.”<sup>2</sup> The power of peer-to-peer is its decentralization. Previous Internet architecture relied on large centralized file storage servers. Tygar Rep. at 25, R1300. In the peer-to-peer system, by contrast, available files are distributed all over the Internet and the world, residing on individual users’ computer hard drives. *Id.* The names of files that individuals choose to share are compiled into a computerized directory, which can be searched by other users. The decentralized structure multiplies the information available to the public, while also enabling easier delivery and avoiding the expense and bottlenecks of centralized servers. Barry Decl ¶ 5, R654; Expert Report of Professor Lawrence Lessig ¶¶ 43, 48, R1237, R1239. In the case of music, an artist—whether new or established—may share and promote his or her works to millions worldwide at minimal cost. Chuck D. Decl ¶¶ 10-13, R687, R689.

Napster provides software that may be downloaded by users for free from the Napster.com website. The software enables the user to sign onto the Napster service over the Internet, and then delivers to the Napster service a list of the names of music files that the user has chosen to share with others. The Napster Internet directory service compiles an index of the names of all the files that its users choose to share. A user may search the index to find a file name he wishes to download. If the user clicks to download a particular file name, the Napster

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<sup>2</sup> Fortune, “The Idea of the Year,” Barry Decl. Exh. B. at R678.

service provides that user with the Internet protocol address of the corresponding user and file name selected, and the download is accomplished directly between these two users on a one-to-one basis. No file or music or copy is ever held by Napster. No file ever passes through the Napster server. And no copy of the file is ever made by Napster. Kessler Decl. ¶ 12, R1119-1120.

MP3 files, are the predominant format of choice on the Internet and are unsecured. MP3 files may be easily created from any CD (which are also unencrypted) by use of freely available encoding, or “ripping” software some of which is offered by Respondents themselves. Files are individually named by their creators. There are currently millions of such files and the files carry no reliable indication of copyright protection. Kessler Decl. ¶ 29-34, R1126-1128.

#### **I. Napster Meets The Standard For A Stay Pending Appeal.**

To obtain a stay, Napster must show “either (1) a combination of probable success on the merits [of the appeal] and the possibility of irreparable injury [should the stay be denied], or (2) that serious legal or factual questions are raised by the case and the balance of hardships tips sharply in its favor.” *Lopez v. Heckler*, 713 F.2d 1432, 1435-36 (9th Cir. 1983) (also noting that public interest may be considered), *rev’d in part on other grounds*, 463 U.S. 1328 (1983).

As will be shown below, Napster raises both very serious legal issues, and very serious factual questions. Because the balance of hardships tips decidedly in Napster’s favor, an immediate stay is necessary to preserve the status quo pending appeal.

#### **II. The Trial Court’s Draconian Order Will Force Napster To Close Its Service Within 48 Hours.**

The District Court’s Order required Napster to block any Napster user from copying any “copyrighted songs, musical compositions or material in which plaintiffs hold a copyright or

with respect to which plaintiffs' pre-1972 recordings in which they hold rights." The court issued this far reaching order knowing that Napster's architecture would not enable it to do so. "That's the system that has been created..... And I think you're stuck with the consequences of that." TR at 87, R155.

Moreover, the Court refused to limit the injunction to music that plaintiffs had listed. When Napster asked how Napster could block the copying of music that was not identified, the court stated "they're going to have to figure [it] out."

Without even a list of the millions of song names that the Court has ruled must be excluded (a list plaintiffs refuse to provide), Napster cannot know whether any song is or is not off limits and acts in peril of contempt if it allows any materials to be shared by any users. Napster cannot conceivably comply with the order in any way other than by turning off its service. Kessler App. Decl. ¶¶4, 9.

Such an injunction is completely unfair. It also defies the copyright law. Under 17 U.S.C. § 411(a), "no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made." "Copyright registration is not a prerequisite to a valid copyright, but it is a prerequisite to a suit based on copyright." *Kodadek v. MTV Networks, Inc.*, 152 F.3d 1209, 1211 (9th Cir. 1998) (citation omitted). In this case, Plaintiffs have identified only about 200 works in which they allegedly claim copyrights. Compl. App. A. It would undermine the mandate of § 411(a) if, by merely identifying a few selected works, Plaintiffs were able to obtain relief for millions of songs they will not even identify, in a manner to shut down a technology that cannot itself differentiate copyrighted material. Plaintiffs request for relief for multiple works without both specifying the works with particularity and providing proof of their registrations is fatally defective (*see Cole v. Allen*,

3 F.R.D. 326, 237 (S.D.N.Y. 1942)), as well as vastly overbroad.

Second, even if Napster were provided an authoritative list of copyrighted songs, it would be technologically impossible to comply with this injunction. Judge Patel ordered Napster to write software to “fix” the perceived problem. This would require Napster to compile a database of millions of artist and band names, and then to compare every user’s search request against that list, attempting to exclude any file name contained on the “off-limits” database, all within 48 hours. The sheer burden this would impose on the Napster system would preclude its operation. Kessler Decl. ¶ 4, 9, R1116-1118.<sup>3</sup>

Judge Patel suggested that Napster might “stay open” to continue its non-infringing uses, identifying its chat room and the New Artist Program. This comment reveals a fundamental misunderstanding of Napster’s technology. Napster’s New Artist Program does not supply music. It is a stand alone registry in which over 17,000 artists have registered to promote their works on Napster. Krause Decl., ¶ 9, R1047. The registry contains the names, hometowns, genres, and “sounds like” descriptions of these artists. It does not contain any song names, nor does Napster hold or make available any song of any artist. Thus, these artists’ materials can be found only through the same decentralized, user-named index that Napster must terminate to comply with the Court’s order.

Ironically, Judge Patel herself noted last month that, if any interim relief were appropriate, “the Court has to tailor an injunction” to fit the evidence and parties; and that it

should be cautious of Plaintiffs' seeking an order "the effect of which, even if it doesn't [ask to] close them down, will be to close them down." Hearing of 6/19/00 at 22:12-14, 24:3-4. R303, R305.

To compound the hardship to Napster, Judge Patel has required an essentially nominal bond. Even Plaintiffs' experts valued Napster at between \$60 and \$80 million in its litigation-depressed condition. Teece Report at 12. Comparably sized Internet companies, are valued in the billions of dollars. Barry Decl. ¶ 7, R654-655. Napster's potential losses if this injunction is ultimately reversed at trial or on appeal approximate that amount, as it will lose ground to its numerous competitors in the peer-to-peer marketplace, lose employees and business relationships, and fall quickly behind in the fast-paced Internet marketplace. Barry App. Decl. ¶ 3. It is settled law that Napster's recovery for any losses suffered are capped at the amount of the bond, even if actual losses are much higher. *See Nintendo of America, Inc. v. Galoob Toys, Inc.*, 16 F.3d 1032, 1036 (9th Cir. 1994). An injunction shutting down the service, coupled with a bond far below its actual losses itself will irreparably injure Napster.

Finally, the overbreadth of this injunction subverts the public interest. This injunction would deprive 20 million Napster users of access to a much valued resource for finding and sharing new music. It would also destroy peer to peer technology because, under the judge's order, because such systems are capable of transferring copyrighted material, such systems must be barred. Further, the order would also deprive the 98 percent of artists that the RIAA has

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<sup>3</sup> Plaintiffs' only submission on this point in the trial court was an untimely reply declaration of Daniel Farmer. That reply declaration, however, testified only that it was technologically feasible for Napster to compile a database of those songs for which Napster had received express authorization to distribute—a far smaller universe than all Plaintiffs' copyrighted works for fifty years. Further, that declaration merely stated that Plaintiffs could then require works that were to be shared through Napster to contain those precise file names--the converse of what is required by Judge Patel's order, which requires Napster to exclude all

rejected of a valuable forum to disseminate their protected speech. *See National Endowment v. Finley*, 524 U.S. 569, 602 (1998) (“It goes without saying that artistic expression lies within the First Amendment protection.”) “[a] valid First Amendment question” is raised by “injunctive relief that is broader than necessary to prevent [Napster] from committing copyright infringement.” *RTC v. Netcom*, 907 F. Supp. at 1383. “Requiring [Napster] to pre-screen postings for possible infringement would chill their users’ speech.” *Id.* Napster’s information dissemination functions are independently entitled to First Amendment protection.

The overwhelming equities require that Napster, its users, its employees, and non-RIAA artists not be victimized pending appeal by the trial court’s ill-considered order.

### **III. THE TRIAL COURT FUNDAMENTALLY MISINTERPRETED THE *SONY* DECISION AND THE DOCTRINE PROTECTING TECHNOLOGIES WITH NON-INFRINGEMENT USE.**

Under the seminal decision in *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 442 (1984), as long as a technology “is capable of substantial non-infringing uses,” a provider making a technology available cannot be liable for copyright infringement. The *Sony* Court refused, over the vehement objection of the entertainment industry, to enjoin sale of the Betamax video recorder—notwithstanding that it was being used primarily for the copying of copyrighted works without permission. As the Supreme Court recognized:

“Sound policy, as well as history, supports our deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.” *Id.* at 431.<sup>4</sup>

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files, regardless of their names, that contain copyrighted works.

The trial court, in enjoining Napster's technology, has failed to follow *Sony* in four crucial respects.

**A. The Trial Court Erred In Finding Insubstantial Non-infringing Uses.**

**1. Authorized Uses.**

Napster presented compelling, indeed, undisputed, evidence of the following authorized non-infringing uses of its system.

- Independent managers and record labels are using Napster to promote and distribute their products worldwide. For example, the bands "Of a Revolution" and "Pancho's Lament" have successfully promoted themselves through Napster. Issacs Decl. ¶ 17 R1043; Xelot Decl. ¶¶ 1-8, R1845; Gilbert Decl. ¶ 11, R692; Nichols Decl. ¶¶ 6-8, R1145-1146; Chuck D. Decl. ¶¶ 6, 11, R686-687; Sivers Decl. ¶¶ 6-11, R1842-1843; Guerinot Decl. ¶¶ 4-7, R1035.
- Major stars like The Offspring and Chuck D use Napster as a mechanism to reach fans directly, without having to rely on the whim and be bound by the "standard" financial terms of the major labels. Chuck D. Decl. ¶¶ 6-13, R686-688; Guerinot Decl. ¶¶ 7-9, R1035-1036.
- Thousands of artists post MP3s on the Internet, over 3,000 artists are using Napster to circulate their music for free, while also listing themselves at the MP3.com website, where they can sell CDs and charge for downloads. Gonzalez Decl. ¶¶ 2-4, R783; Krause Decl. ¶ 16, Exh. 1, R1049, R1077-R1096.
- Napster's new artist program has already enlisted over 17,000 artists who expressly approve of sharing their music through Napster; by contrast, the major labels released a total of only 2,600 albums last year, and only 150 of those songs were played on the radio on a regular basis. Krause Decl. ¶ 16, R1049; Vidich Dep. 94:2-96:8 & Exh. 277 at T0009. R1593-1595, R1657.
- Napster permits the transfer of secure file formats, subject to the conditions governing access to the file, thereby facilitating viral distribution, which Plaintiffs recognize as maximizing product penetration at little cost.<sup>5</sup> Kenswil Dep. 44:20-46:16, R1490-1491; Chuck D. Decl. ¶ 8, R687.

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<sup>4</sup> Appropriately, Congress is, even this month, conducting its own investigation into the peer-to-peer file sharing phenomenon. See Pulgram Decl. Re. Evidentiary Objections at ¶ 10, R1879.

- Hundreds of artists allow the digital taping of their live performances and the trading of these recordings among their fans. Barlow Decl. ¶¶ 8-9, R650; Gonzalez Decl. ¶¶ 2, 8, Exh. J, R783, R785, R961-R1006. For example, Metallica itself has authorized trading of hundreds of concert recordings on Napster, and Courtney Love, The Offspring, the Beastie Boys, and Motley Crüe have made their concert recordings available in MP3 format. Gonzalez Decl. ¶ 9 (R785).

The District Court’s only acknowledgement of these authorized uses was to deem the New Artist Program—just one of many authorized uses--insubstantial, to erroneously assume that it would continue notwithstanding her ruling, and to ignore all others. Tr. at 38 (R106). Compare *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 444-445 (1989) (the district court properly concluded that there existed not only “significant quantity of broadcasting whose copying is now authorized” but also “a significant *potential* for future authorized copying”.

Here, Plaintiffs’ own documents confirm that they represent merely 2% of America’s musical artists, thus the injunction has an impact on Napster users and 98% of America’s musical artists. The court below found only that 87% of the music available on Napster may be copyrighted. At least 13% by the Court’s reasoning would not be. Other music would be used by permission or pursuant to the AHRA or fair use. Standing alone, these millions of non-infringing uses must be deemed substantial.

## **2. Unauthorized, But Fair, Uses.**

As in *Sony*, this case presents fair uses in addition to authorized uses. “In an action claiming third-party liability for infringement, the focus of the fair use inquiry is the conduct of the alleged direct infringers.” See *Lewis Galoob Toys, Inc. v. Nintendo of America*, 964 F.2d 965, 970 (9<sup>th</sup> Cir. 1992). The record below demonstrates that Napster users engage in several substantial fair uses including: sampling music to decide whether to buy it and space-shifting –

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<sup>5</sup> Napster is a member of, and compliant with, SDMI, and will honor any security placed on any files. Kessler Decl. ¶ 37, R1129-R1130. The transfer of these secured files will only



which the Court below disregarded in issuing its injunction. The record below left little doubt, and the court below did not disagree, that the predominant use of Napster is to make temporary copies of a work to sample the work to decide whether to buy it.<sup>6</sup> Instead, the court below held that sampling was not fair use, and in so holding, made two fundamental legal errors.

First, in cases involving noncommercial uses, *Sony* requires the copyright holder to establish by a preponderance of the evidence that the challenged use poses “a meaningful likelihood of future harm.”<sup>7</sup> The court below improperly reversed this burden shifting, placing the burden on Napster to establish that sampling does not harm the potential market for plaintiffs’ copyrighted works. The court compounded this error by using this presumption to rule against Napster on a record that is completely devoid of evidence that plaintiffs are harmed, or likely to be harmed, by the widespread sampling that occurs via the Napster system. Further, rather than assess the potential market harm of sampling, the Court simply asserted that downloading was displacing the market and thus market harm was occurring. If it were proper to assess the market affect of an alleged fair use by reference to a different and unfair use, the fair use doctrine would be meaningless.

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expand the non-infringing uses of the Napster System as Plaintiffs bring such formats to market.

<sup>6</sup> Out of approximately 300 college students surveyed by plaintiffs’ expert E. Deborah Jay, stated that Napster had an effect on their music purchases, nearly 100 stated that they used Napster to sample. Typical comments were “I can listen to it before I buy it” (B3-2, R495), “To listen to some of the newer stuff before I buy it” (B3-2, R495), “It lets you preview them before you buy them” (B3-3, R496), “It lets me hear before I buy” (B3-4, R497) and “I use Napster to sample songs on a CD before I buy it.” Defendant’s expert found that 84 percent of Napster users download music to see if they want to buy it, and 90 percent of Napster users’ files are deleted after sampling. Fader ¶¶43, 74, R1361, R1373.

<sup>7</sup> The court below erroneously suggested that *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994), undermined this presumption. Transcript at 37-38, R105-R106. That case simply held that there was no presumption of market harm for commercial uses where the use involved more than mere duplication for commercial purposes.

Second, the court erroneously held that sampling was not a fair use because the purpose and character of sampling was not consistent with “personal” use due to the widespread sharing of MP3 files by Napster users. As an initial matter, there was no evidence in the record as to the number of files that are actually transferred by any single Napster user. Moreover, the test for fair use is whether the purpose and character of the use is noncommercial, not whether such a use is “personal.” Because Napster users do not gain a commercial advantage from sampling,<sup>8</sup> application of the correct test, combined with the overwhelming evidence that sampling does not cause harm to (and indeed benefits) the plaintiffs, establishes that sampling is fair use.

The record also established the widespread use of Napster for “space-shifting,” which this Court characterized last year as “paradigmatic noncommercial personal use entirely consistent with the purposes of the [AHRA].” *RIAA v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9<sup>th</sup> Cir. 1999). Apparently accepting this Court’s finding in *Diamond*, the court below held that space-shifting by Napster users was not a “substantial” use of the Napster system. Plaintiffs’ expert found, however, that 49 percent of Napster users space-shift from 10 percent to 100 percent of the time, Jay Rep. Table 7 (R425), and defendant’s expert found that 70 percent of Napster users use the Napster directory service to space shift. Fader Rep. ¶ 77, R1374-R1375. Again, there are millions of users making non-infringing uses of the Napster system—which clearly qualifies for protection under *Sony*.

The court below erroneously assessed the substantiality of space-shifting, sampling and authorized uses by comparing on a percentage basis those uses to what the court believed to be the infringing uses of Napster. Yet this is clearly improper under *Sony*. In the context of the

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caselaw, the term “substantial” does not mean that non-infringing uses must predominate, but rather that they must be important or “commercially significant.” *Sony*, 464 U.S. at 442. *Vault v. Quaid*, 847 F.2d 255 (5<sup>th</sup> Cir. 1988) (advertisement and sale of software whose sole purpose was to defeat an anticopying program did not constitute contributory infringement because software was capable of making archival copies an important use; *no* analysis of which use was the predominant use or of the relative percentages of the uses). *RCA/Ariola Int’l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 776-77 (8th Cir. 1988) (court did not disturb the finding that a machine for duplicating cassette tapes using special timed tapes was capable of substantial noninfringing uses even though the machine was used for making unauthorized copies of copyrighted music); *Mathieson v. Associated Press*, 23 U.S.P.Q.2d 1685, 1687 (S.D.N.Y. 1992) (a single noninfringing use was sufficient where that use was news reporting, a traditional fair use). Moreover, because the technology need only be “capable” of such uses, and because the “potential for future authorized copying” must be considered, Napster’s service plainly qualifies and cannot be terminated.

### **B. The District Court Improperly Focused On Intent Rather Than Use**

The Court below found that Napster’s founders knew of and encouraged the sharing of copyrighted material. Reliance on that conclusion to discount the present non-infringing uses was clear error under *Sony*. The Supreme Court expressly rejected claims by plaintiffs in that case that “supplying the means to accomplish an infringing activity through advertisements are sufficient to establish copyright liability.” *Sony* 464 U.S. at 436. Under *Sony*, knowledge of, or even intent to profit from, infringing uses does *not* justify foreclosing a new technology that has

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<sup>8</sup> There is no evidence in the record that there is a market of customers that are willing to pay to sample music or that Plaintiffs would license individuals to offer tracks to others for sampling on a non-commercial basis.

legitimate uses.

**C. The Court Erroneously Required That Napster Redesign Its System To Prevent Infringing Uses.**

Most importantly, the District Court disregarded *Sony* in requiring Napster to redesign its product in order to prevent infringing uses. The court concluded that, having created a product capable of both infringing and non-infringing uses, it was incumbent on Napster to redesign its product to prevent the former. It stated, “[Napster] created the, quote, ‘monster,’ for want of a better term, and I guess, you know, that the consequence they face..... Whatever it did, it’s going to have to figure out how to undo it. ....” The same could have been, and was, said about the Betamax recorder. The Supreme Court held that Sony was not required to convert its video cassette recorder into a product that could only play and not record. Indeed, other than the Court below, we know of no Court which, in lieu of legislative action, has taken upon itself to order the redesign of such a technology.

**IV. The Lower Court Misinterpreted The AHRA.**

Under § 1008 of the AHRA, the making and distribution of digital and analog musical recordings for noncommercial use by a consumer is not infringement.<sup>9</sup>

Despite its plain, straightforward language, the district court ruled that § 1008 is “irrelevant” to this case because (i) the plaintiffs made no claims under the AHRA against Napster and (ii) the court read the Ninth Circuit’s decision in *RIAA v. Diamond Multimedia Sys.*, 180 F.3d 1072 (9th Cir. 1999) to hold that computer hard drives are “not covered by the AHRA” at all. TR at 76-77, R144-R145. Both of these bases were legally erroneous.

With respect to the first basis, the language of § 1008 itself does not condition its

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<sup>9</sup> 2 M. Nimmer & D. Nimmer, Nimmer on Copyright § 8B.01 (2000) (“*Nimmer*”).

immunity on whether the plaintiffs have made a claim under the AHRA against Napster. Section 1008 by its terms bars any action “under this title”. The court’s ruling to the contrary is simply erroneous.

With respect to the second basis, the *Diamond* case held that the portable Rio MP3 recorder/player was not a “digital audio recording device” for purposes of the AHRA’s SCMS requirements on the following rationale. A “digital audio recording device” is defined as a device having a digital recording function whose primary purpose is to make a “digital audio copied recording,” which is defined as a reproduction of a “digital musical recording.” 17 U.S.C. § 1001(1), (3). However, a “digital musical recording” is defined to *exclude* a material object “in which one or more computer programs are fixed.” *Id.* § 1001(5)(B)(ii). This court ruled that a computer hard drive falls within this exemption, and therefore that MP3 files stored on a hard drive do not constitute a “digital musical recording.” *Diamond*, 180 F.3d at 1078-79. Because the Rio did not make copies from “digital musical recordings,” it was not a “digital audio recording device” and was therefore not subject to the SCMS requirements. *Id.*

Although this Court ruled that computer hard drives were not within the SCMS requirements of the AHRA, with respect to the immunity provisions of § 1008, the Court said that a consumer has the right to create personal MP3 files on computer hard drives:

As the Senate Report explains, “[t]he purpose of [the] Act is to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their private, noncommercial use.” The Act does so through its home taping exemption, see 17 U.S.C. § 1008, which “protects all noncommercial copying by consumers of digital and analog musical recordings.” The Rio merely makes copies in order to render portable, or “space shift,” those files that *already reside on a user’s hard drive*.

*Id.* at 1079 (citations omitted; emphasis added). This passage makes clear this court read the immunity provisions as not being limited by the definitions of the technical terms that it held

limited the scope of the SMCS requirements. Prof. Nimmer is in accord.<sup>10</sup> Indeed, the Court found space-shifting using the Rio to be “paradigmatic noncommercial personal use entirely consistent with the purposes of the Act[‘s]” immunity provisions. *Id.*

The district court’s narrow application of § 1008 establishes the absurd construction that a manufacturer of a device whose primary purpose is copying a CD (which is clearly a digital musical recording) onto a hard drive is immune, yet when a consumer uses that very same device to copy her musical recording from the hard drive back onto a CD or onto a Rio for her own or a friend’s personal use, she does not have immunity. Constructions of statutory language that lead to absurd results clearly contrary to legislative intent must be rejected. *See, e.g. United Steel Workers v. Weber*, 443 U.S. 193, 204 (1979); *Train v. Colorado Public Interest Research Group*, 426 U.S. 1, 7 (1975); *Ozawa v. United States*, 260 U.S. 178, 194 (1922). The immunity provisions of § 1008 clearly apply to Napster’s users, and the district court’s ruling to the contrary is plain error.

### **1. The Court Applied the Incorrect Standard for Knowledge**

Ignoring precedent, the statute, and the intent of Congress, the Court applied an erroneous legal standard to find that Napster had knowledge of direct infringements and was a contributory infringer not entitled to the online service provider safe harbors of the Digital Millennium Copyright Act (the “DMCA safe harbors”). The Court held knowledge of direct infringement existed based on internal documents indicating awareness that Napster could be used for infringing purposes, Napster’s decision to remain ignorant of users’ IP addresses, Napster’s

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<sup>10</sup> “Based on the legislative history’s characterization of ‘all noncommercial copying by consumers of digital and analog musical recordings’ as falling under the protection of the home taping exemption, the court appears ready to apply that provision beyond its precise wording.” *Nimmer* § 8B.07[C][4], at 8B-94.

executives' recording industry experience, and Napster employees' downloading of files through Napster.<sup>11</sup> Tr. at 79-81 (R147-R149). Even if true, these facts establish nothing more than generalized knowledge that some people use Napster to engage in conduct that might be infringing – which *Sony* expressly held was insufficient for liability.

No prior case has ever held that generalized knowledge alone is enough. *Religious Tech. Center, Inc. v. Netcom On-line Communs., Inc.*, 907 F. Supp. 1361, 1374 (N.D. Cal. 1995). As *Netcom* recognized, knowledge only should be found in the online setting where the service provider had an opportunity to become aware of a specific infringing act and the infringing nature of that act. *Id.*

When combined with the court's broad interpretation of the material contribution standard as being satisfied simply by providing software, a search engine, and connections,<sup>12</sup> this sweeping standard for contributory infringement renders every online service provider liable—effectively burdening each with examining millions of communications to permit only those deemed noninfringing. Such a standard is not in the public interest.

Because the court applied an erroneous knowledge standard, the court also improperly denied Napster the information location tools safe harbor by finding knowledge where there was none. 17 U.S.C. § 512(d). Furthermore, the court ignored the plain language of the DMCA safe

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<sup>11</sup> The record shows that Plaintiffs mischaracterized the sources of MP3s files disclosed as having been on the hard drives of employees of Napster. For example, the MP3s on founder Shawn Fanning's computer were ones Fanning ripped off CDs he owns to his hard drive for his own personal use. Second Pulgram Decl., Exh. 94, Fanning Dep. 92:22-93:25. None of these files were shared on Napster. *Id.* at 98:7-99:18.

<sup>12</sup> The Court inexplicably found Napster provides “connections” for the purpose of issuing a preliminary injunction, while denying Napster's earlier motion for summary adjudication under 17 U.S.C. § 512(a) on grounds that Napster did *not* “provide connections.” *A&M Records, Inc. v. Napster, Inc.*, 54 U.S.P.Q2d 1746 (N.D. Cal. 2000).

harbors and the legislative history stating that knowledge that deprives one of the safe harbors must be either actual or “awareness of facts and circumstances” from which the presence of infringement would be apparent *and* failure to expeditiously disable access to such materials upon development of such knowledge. *Id.* “Awareness of facts and circumstances” arises only where the service provider observes “red flags,” such as the word “pirate,” indicating that works at a specific location are infringing and nevertheless indexes the material. *See S. Rep. No. 105-190* (1998), at 48. Plaintiffs allege only generalized constructive knowledge of the conduct of Napster users. The court did not deny that Napster has expeditiously taken down materials upon receipt of actual notice from the infringer or that Napster has a policy for taking down repeat infringers. 17 U.S.C. § 512(d). Rather, the court set the level of knowledge that triggers an obligation to act so low that no service provider will be able to come within the scope of the safe harbor, rendering it meaningless.

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