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Author: Stephanie M. Greene

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RECONCILING NAPSTER WITH THE SONY DECISION AND RECENT AMENDMENTS TO COPYRIGHT LAW

*Stephanie Greene**

INTRODUCTION

From October of 1999 to March of 2001, music fans around the world enjoyed an unprecedented, unlimited amount of music—for free. A ruling issued by the Court of Appeals for the Ninth Circuit in February of 2001 ended the free ride. In *A&M Records, Inc. v. Napster, Inc.*,¹ the Ninth Circuit upheld a preliminary injunction which required Napster, the wildly popular online music sharing system, to stop making unauthorized copyrighted music available on its service.² Napster, one of the “killer applications” of recent years,³ was devised by Shawn Fanning, a nineteen-year-old college student in search of

* Carroll School of Management, Boston College.

¹ 239 F.3d 1004 (9th Cir. 2001).

² *Id.* at 1027.

³ Karl Taro Greenfeld, *Meet the Napster*, TIME, Oct. 2, 2000, at 61. This article calls Napster one of the greatest Internet applications ever, “up there with e-mail and instant messaging.” *Id.* at 62; see also Amy Kover, *Napster: The Hot Idea of the Year*, FORTUNE, June 26, 2000, at 128; Peter H. Lewis, *Napster Rocks the Web*, N.Y. TIMES, June 29, 2000, at G1.

a method to make finding music on the Internet less frustrating.⁴ Napster became a household word and a worldwide success, attracting an estimated fifty to seventy million users in its brief two-year period of operation.⁵ But Napster's success incurred the wrath of the recording industry, which screamed copyright infringement and Napster, the innovative system, became Napster the embattled, alleged infringer. When the recording industry filed suit against Napster in October of 2000,⁶ the case provoked discussion about technology and the law and the regulation of the Internet. Despite scholarly debates about the new frontier of cyberspace and challenges to legal controls,⁷ the Court of Appeals for the Ninth Circuit took a straightforward approach in *Napster*. Holding that the recording industry was likely to succeed on its claims of copyright infringement, the Ninth Circuit upheld the lower court's decision to issue a preliminary injunction,⁸ echoing the sentiment expressed by another court dealing with online music distribution: "The complex marvels of cyberspatial communication may create difficult legal issues; but not in this case."⁹

⁴ See Greenfeld, *supra* note 3, at 62.

⁵ See D.C. Denison, *Pondering How Napster Can Make It to Pay Day*, BOSTON GLOBE, Feb. 4, 2001, at H9.

⁶ Eighteen record companies filed suit but the complainants are frequently referred to as the RIAA, the Recording Industry Association of America, a trade group that represents the industry. References to the recording industry frequently focus on the "Big Five," which include AOL Time Warner, Inc., EMI Group PLC, Vivendi Universal SA, Sony Corp.'s Sony Music Entertainment, and BMG, a unit of Bertelsmann AG. Bertelsmann AG's music group, BMG Entertainment, settled its claims with Napster in October of 2000 and has loaned Napster money to launch a fee-based service. See Michael Learmonth, *Let the Music Play: Bertelsmann and Napster Come Together*, INDUSTRY STANDARD, <http://www.thestandard.com/article/0,1902,19820,00.html> (Oct. 31, 2000).

⁷ See generally Symposium, *Surveying Law and Borders: The Zones of Cyberspace*, 48 STAN. L. REV. 1403 (1996) (addressing various approaches to cyberlaw and whether it will or should develop as a body of law separate from real space law). See also LAWRENCE LESSIG, CODE 122-141 (Basic Books 1999); Ruth Okedigi, *Givers, Takes, and Other Kinds of Users: A Fair Use Doctrine for Cyberspace*, 53 FLA. L. REV. 107 (2001); Ian Clarke, *The Philosophy Behind Freenet, The Freenet Network Project*, at <http://freenet.sourceforge.net/index.php?page=philosophy> (last visited July 22, 2001) (where Ian Clarke, the creator of Freenet states that Freenet is designed to make censorship impossible through anonymous communication on the Internet and that the sacrifice of copyright protection is worth the price for a truly censorship-proof program).

⁸ A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1027 (9th Cir. 2001).

⁹ UMG Recordings, Inc. v. MP3.com, Inc., 92 F. Supp. 2d 349, 350 (S.D.N.Y. 2000).

The advent and growing popularity of the Internet have posed new challenges to Congress and the courts to fulfill the constitutional imperative behind copyright law to “promote the Progress of Science and the useful Arts.”¹⁰ The litigation involving Napster brought such issues into the public forum, pitting cyberlibertarians who argue for a new order of freedom of information and access in cyberspace against those who maintain that the traditional laws of real space apply to cyberspace as well.¹¹ The success of Napster was made possible by technological innovation in digital reproduction and online dissemination. Congress has passed legislation that addresses such issues. The Audio Home Recording Act of 1992 (AHRA)¹² and the Digital Millennium Copyright Act of 1998 (DMCA)¹³ both attempt to balance the need to promote creative incentive and protect the rights of copyright holders with the need to encourage the growth and development of the Internet and related technology.¹⁴ Courts have demonstrated a similar attempt to balance these interests and to defer to Congress “when major technological innovations alter the market for copyrighted materials.”¹⁵ In its confrontation with the recording industry over claims of copyright infringement, Napster hoped to persuade the courts that its online distribution system was worthy of this balancing analysis and that as a new technological innovation that altered the market for copyrighted materials, it should arouse consideration for the public interest in access to information, or that the courts should defer to Congress in this matter. Napster sought legal refuge in the Supreme Court’s decision, *Sony Corp. of America v. Universal City Studios, Inc.*¹⁶ (holding that the manufacturers of the VCR were not liable for copyright infringement), in the language and legislative history of the AHRA, in the Ninth Circuit’s decision in *Recording Industry Assn. of America v. Diamond Multimedia Systems*,¹⁷ and in the safe harbors of the DMCA. But the law provided

¹⁰ U.S. CONST. art. I, § 8, cl. 8.

¹¹ See LESSIG, *supra* note 7; see also John Perry Barlow, *The Economy of Ideas*, WIRED, Mar., 1994, at 84.

¹² 17 U.S.C.S. §§ 1001-10 (2001).

¹³ 17 U.S.C.S. § 512 (2001).

¹⁴ See Orrin G. Hatch, *Toward a Principled Approach to Copyright Legislation at the Turn of the Millennium*, 59 U. PITT. L. REV. 719 (1998).

¹⁵ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984).

¹⁶ *Id.*

¹⁷ 180 F.3d 1072 (9th Cir. 1999).

no shelter for Napster.¹⁸ The *Napster* decision is a clear victory not only for the recording industry, but also for the point of view that intellectual property in cyberspace is subject to the same legal analysis as it is in real space. The decision gives little recognition to Napster as a new technology that supports freedom of expression or access to information. Instead, it supports traditional copyright analysis and traditional methods of disseminating copyrighted information.

This article will explain why Napster's music sharing system could not survive a legal challenge from the recording industry. Part I provides background regarding the parties and the history of the litigation. Part II explains the differences between the Supreme Court's analysis of copyright infringement in *Sony* and the Ninth Circuit's analysis in *Napster*. More specifically, Part II discusses why the fair use exception to claims of direct infringement and the substantial noninfringing use defense for contributory copyright infringement, as articulated by the Supreme Court in *Sony*, were not helpful to Napster's defense. Part II also discusses why the *Napster* court did not address the AHRA and the Ninth Circuit's recent decision in *Diamond Multimedia*,¹⁹ involving the downloading of MP3 files from personal computers to a portable player. Part III explains

¹⁸ While the legal analysis of *Napster* raises interesting issues regarding copyright law in cyberspace, the lawsuit was, as is often the case, a weathervane for negotiations between Napster and the recording industry. Despite its valiant efforts to defeat claims of copyright infringement, Napster, throughout the litigation, had professed its intention to become a fee-based subscription service, its belief that artists should be compensated, and its desire to enter into licensing agreements with the major recording labels. See *Senate Judiciary Hearing on The Future of Digital Music: Is There an Upside to Downloading?*, http://www.senate.gov/~judiciary/7112000_hb.html (July 11, 2000) [hereinafter *Hearings*] (statement of Hank Barry, Chief Executive Officer, Napster, Inc.). The Ninth Circuit's decision put Napster at a decided disadvantage in negotiating with the recording industry. Napster was fortunate to settle with Bertelsmann in October of 2000, before the Court of Appeals upheld the district court's injunction. Following the Ninth Circuit's decision to uphold the injunction, Napster offered to settle with the recording industry. According to its plan, Napster would become a fee-based subscription service and would pay one billion dollars to record companies over a period of five years for licenses to their copyrighted material. Napster would pay \$150 million per year to the major labels and \$50 million per year to independent labels for non-exclusive licenses. Napster believes its users are willing to pay a Basic Membership fee of \$2.95 to \$4.95 per month or a Premium Membership fee, which would offer unlimited downloads, of \$5.95 to \$9.95 per month. See Don Clark, *Napster Offers Annual Fees to CD Labels*, WALL ST. J., Feb. 21, 2001, at B5. The recording industry was not responsive to the offer. *Id.*

¹⁹ 180 F.3d 1072.

why Napster is unlikely to receive protection in the safe harbors of the DMCA as either an Internet service provider or an information location tool. The article concludes with a brief summary and reflections.

I. THE CONFLICT: NAPSTER, CONSUMERS, ARTISTS, AND THE RECORDING INDUSTRY

Are they all criminals? Let's be honest. Despite all the reservations, Napster is cool, an exceptional music brand with the following characteristics: high quality, free delivery of music, a global selection from the repertoire of all labels, fast service and independent program choice. Which of us can match that?

Thomas Middlehoff, Chief Executive, Bertelsmann AG²⁰

In the summer of 2000, music lovers paused from the cheerful hum of downloading free music to tune into the discordant rulings of Judge Marilyn Hall Patel of the United States District Court in San Francisco. When Judge Patel ruled that Napster, the popular Internet site that allows users to swap music files over the Internet, had to stop its copyright infringing activities by midnight on July 28,²¹ fans of the site scrambled to download as much music as they could in the fifty-five hours and seven minutes remaining before the injunction was to take effect. The minutes were precious to Napster users, as the combination of MP3 technology and a high-speed Internet connection allows songs to be downloaded in one to two minutes. The threatened injunction also pushed Napster users to experiment with alternative sites for acquiring free music.²² Napster fans breathed a sigh of relief and relented the downloading pace when the Court of Appeals for the Ninth Circuit granted an emergency stay of the injunction.²³ In February of 2001, however, the Court of Appeals affirmed, in part, the district court's decision, holding that

²⁰ William Boston, *What Has Bertelsmann Got in Mind?*, WALL ST. J., Nov. 2, 2000, at A21.

²¹ Transcript of Judge Marilyn Hall Patel's Ruling, at <http://news.cnet.com/news/0-1005-202-2426706-0.html> (August 3, 2000).

²² Gnutella and Freenet were two of the better-known file sharing programs but a multitude of Napster clones also emerged as the threat of injunction loomed. See *Napster Feeding Frenzy*, ATLANTA J. & CONST., July 28, 2000, at 1E; Patti Hartigan, *Music Industry Can't Outwit Online Outlaws*, BOSTON GLOBE, May 31, 2000, at A1.

²³ A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2000).

the injunction was "not only warranted but required."²⁴ The case was remanded to the district court with instructions that the injunction be narrowed to place the burden on the plaintiff record companies to notify Napster of infringing files on its system.²⁵ The injunction subsequently fashioned by Judge Patel required record labels and music publishers to provide Napster with a list of copyrighted materials they wish to have Napster block; Napster had three days from the date of notification to remove the identified infringing files from its index.²⁶ With the new filtering system required by the injunction, the Napster music fans knew and loved appeared to be finished.²⁷

²⁴ A & M Records, Inc. v. Napster Inc., 239 F.3d 1004, 1027 (9th Cir. 2001).

²⁵ *Id.*

²⁶ A & M Records, Inc. v. Napster, Inc., No. C99-05183, 2001 U.S. Dist. LEXIS 2186 (N.D. Cal. Mar. 5, 2001); see also Lee Gomes, *Napster is Told to End Violations Quickly*, WALL ST. J., Mar. 7, 2001, at A13.

²⁷ Following the Court of Appeals' decision, Napster use plummeted, with unique users reportedly declining from 26.4 million to 18.3 million from February to June of 2001. See IDG, *Napster Rivals Rise Is Bad News for Labels*, INDUSTRY STANDARD, <http://www.thestandard.com/article/0,1902,28129,00.html> (July 20, 2001). Following the March 5, 2001 injunction issued by Judge Patel, Napster struggled to implement file identification technology that would effectively filter out the more than 800,000 works which it had received notification to block. See Napster, *Q&A on Temporary Suspension of File Transfers*, at <http://www.napster.com/pressroom/010702-qanda.html> (July 2, 2001). In July of 2001, Napster suspended its file-sharing service while it tested its ability to comply with the injunction. See *id.* On July 11, 2001, Judge Patel ruled that Napster's file-sharing system had to remain offline, because tests showed that it failed to achieve perfect filtering of copyrighted material. See *Statement of Hank Barry, Interim CEO of Napster*, at <http://www.napster.com/pressroom/0107011-statement.html> (July 11, 2001). Napster protested that its newly implemented file identification technology was ninety-nine percent effective in blocking copyrighted material and that this rate satisfied the terms of the preliminary injunction. See *id.* Napster maintained that Judge Patel's order, requiring that there be zero infringing files on its system, departs from both the Court of Appeals' decision in February and the subsequent preliminary injunction. Napster's argument emphasized language in the Court of Appeals' decision which stated that any preliminary injunction against Napster was "cabined by the system's current architecture." See Appellant Napster, Inc.'s Emergency Motion for Stay Pursuant to Rule 27-3 and Motion to Expedite Appeal of Order Modifying Preliminary Injunction Issued by the Honorable Marilyn Hall Patel on July 11, 2001, No. 01-16308, citing 239 F.3d 1004, 1024 (9th Cir. 2001). The United States Court of Appeals for the Ninth Circuit granted Napster's request for a stay of the injunction on July 18, 2001. A & M Records, Inc. v. Napster, Inc., No. 01-16308 (9th Cir. July 18, 2001); see Ronna Abramson, *Court Allows Napster Back Online*, INDUSTRY STANDARD, <http://www.thestandard.com/article/0,1902,28049,00.htm> (July 18, 2001).

Napster began as a small, privately-held company based in San Mateo, California. The system makes use of MP3 technology, which is a non-proprietary compression algorithm. MP3 technology allows digital compression of computer files, enabling consumers to download digital recordings of music with speed and ease.²⁸ Napster describes itself as "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."²⁹ The user connects to the web page at www.Napster.com, elects to download Napster's software program, MusicShare, at no cost, and the world of music is at his fingertips. The MusicShare software which Napster makes available allows one user to peruse and access the hard drives of users who are logged on during the same time period. A user need only type in the name of an artist or song and the program delivers a list of available versions. The user can then highlight and download that song, and listen to it from his computer. Napster enables a user to compile a music library that he can easily access on his own computer. Napster uses more than 100 central computers in its function as a clearing-house that points users to computers where songs in MP3 format can be downloaded.³⁰ "The Napster directory system allows ordinary individuals to contribute to a collective directory, in which everyone connected to the Internet can both supply and access information, and where the information available is indexed in real time."³¹ In other words, the Napster system creates a constantly changing database of millions of songs stored in MP3 format.³² While Napster's primary use and popularity undoubtedly focus on the music-sharing function, it also provides a New Artists Program and chat rooms in which users can share their comments and views about music and artists.³³

How Napster is defined and what functions it actually performs were crucial to its legal position and attempt to defend itself from

²⁸ See generally Eric Berger, *The Legal Problems of the MP3*, 18 TEMP. ENVTL. L. & TECH. J. 1 (1999); Mary Jane Frisby, Note, *Rockin' Down the Highway: Forging a Path for the Lawful Use of MP3 Digital Music Files*, 33 IND. L. REV. 317 (1999).

²⁹ *Hearings*, *supra* note 18.

³⁰ See *id.*

³¹ *Id.*

³² See Greenfeld, *supra* note 3, at 61.

³³ Napster, at <http://www.artist.napster.com/newartists.html> (last visited July 22, 2001).

claims of copyright infringement. Napster has repeatedly asserted that Napster does not copy files, does not provide the technology for copying files, does not make MP3 files, and does not transfer files.³⁴ According to Hank Barry, the interim Chief Executive Officer of Napster, "Napster simply facilitates communication among people interested in music."³⁵ This characterization of Napster suggests the lines drawn in this litigation—between those who believe that the service offered by Napster is merely "sharing," a legitimate, private, noncommercial use by consumers, and those who believe that Napster is a service that facilitates music piracy on a grand scale in violation of the copyright laws of the United States.³⁶

From the consumer's point of view, Napster has everything to offer—it is free and it is easy to use. Any scruples about copyright infringement seem to be assuaged by an "everyone's doing it" mentality. A simple argument for Napster's legitimacy is that it is like inviting friends over to listen to music, "but the friends are anonymous and may be anywhere."³⁷ Artists are divided on the impact of Napster; some support the recording industry and allegations that Napster is a facilitator of piracy,³⁸ others hail Napster as a promoter of their talent, a promoter capable of reaching an otherwise unavailable audience of vast proportions.³⁹ A few artists have filed separate suits against Napster for copyright infringement,⁴⁰ seeking their share

³⁴ See *Hearings*, *supra* note 18.

³⁵ *Id.*

³⁶ An automatic property right is granted to "original works of authorship fixed in any tangible medium of expression." 17 U.S.C.S. § 102 (2001).

³⁷ Jon Pareles, *Envisaging the Industry as the Loser in Napster*, N.Y. TIMES, Feb. 14, 2000, at E1.

³⁸ Artists Don Henley, Dr. Dre, Elton John, Puff Daddy, and the band Metallica are among those who strongly oppose Napster. See Jenny Eliscu, *Napster Fights Back*, ROLLING STONE, June 22, 2000, at 29.

³⁹ Public Enemy's Chuck D, a Napster supporter, stated: "The only ones screaming about this are those who had dominance in the prior system." *Id.*

⁴⁰ Musical artists Dr. Dre and the rock band Metallica filed suit against Napster. *Metallica v. Napster, Inc.*, C.A. No. 2:00-3914 (C.D. Cal. 2000). The case was consolidated with other cases against Napster in the Northern District of California. *In Re Napster, Inc.*, Copyright Litigation, 2000 U.S. Dist. LEXIS 15493 (Oct. 11, 2000). Both Dre and Metallica settled with Napster on July 12, 2001; the terms of the settlement included an agreement by Napster to identify and block access to the artists' files unless they consented to share them. See *Napster and Dr. Dre Reach Accord* and *Napster and Metallica Reach Accord*, at <http://www.napster.com/pressroom/pr/010712> (July 12, 2001).

of the copyright revenues and claiming that free music decreases the incentive to create, thereby undermining the purpose of the Copyright Law. Artists who support Napster see the potential for Napster's method of music distribution which gives more return to the artist directly by eliminating the middleman and the stranglehold of the big record labels.⁴¹

From the point of view of recording labels, which claim to own 90% of the copyrights in material downloaded by Napster users, the service openly violates their exclusive right to distribute and license their works, causing serious financial harm. In the original complaint, filed against Napster by eighteen record companies in December 1999, the plaintiffs alleged that Napster knowingly engaged in online piracy of plaintiff's copyrighted sound recordings by providing the infrastructure that enables and encourages individuals to share the music.⁴² The record companies maintain that most of the reproductions and distributions facilitated by Napster are infringing;⁴³ that Napster's assurances of user anonymity encourage large scale piracy;⁴⁴ and that Napster is a business that intends to attract investment and advertising dollars, causing irreparable harm to the recording industry through loss of licensing and royalty fees.⁴⁵ In addition to loss of income, the record companies claim that Internet piracy of music harms the public because it prohibits the development of legitimate online music distribution services.⁴⁶

II. RECONCILING *SONY* AND *NAPSTER*

Although the distribution of free online music might appear so like theft that any legal justification would be implausible, the ability to record television broadcasts at home must have appeared equally

⁴¹ See Fred Vogelstein, *Is it Stealing or Sharing?*, U.S. NEWS & WORLD REP., June 12, 2000, at 38.

Rapper Chuck D stated: "By shrinking the power of the middlemen, musicians will keep more of the proceeds from the sale of their records—which right now is about \$1 per CD." *Id.*

⁴² *A & M Records, Inc. v. Napster Inc.*, No. C99-5183-MHP (N.D. Cal. May 5, 2000), Complaint for Contributory Vicarious Copyright Infringement, Violations of California Civil Code Section 980(a)(2) and Unfair Competition, at 3.

⁴³ *Id.* at 2.

⁴⁴ *Id.*

⁴⁵ *Id.* at 8.

⁴⁶ *Id.* at 10.

certain to infringe the rights of copyright owners when the VCR was first available to consumers. In 1984, the Supreme Court held, in a five-to-four decision, that the manufacturers of Sony's Betamax VCR were not liable for copyright infringement.⁴⁷ The *Sony* and *Napster* cases are alike in that they both involved a new technology that excited consumers but threatened the rights of copyright holders and their traditional methods of doing business. The studios that brought suit in *Sony* feared that the ability to record television programming, including movies, at home would greatly impact their business because people would not go to movies as frequently, people would not buy or rent prerecorded films, and their licenses for television programming would decrease in value. Napster executives like to remind the public of the words of Jack Valenti, President of the Motion Picture Association of America at the time of the VCR controversy, who testified before Congress that the VCR was to the movie industry "as the Boston Strangler is to a woman alone."⁴⁸ In fact, the sale and renting of videos proved to be extremely advantageous to the motion picture industry and fears that the public would forego cinemas for a home video library proved groundless as box office receipts have reached record highs in recent years.⁴⁹ The music industry responded to Napster in much the same way as the motion picture industry responded to VCRs. Entertainment moguls have claimed that the creators of programs such as Napster are "part of a rogue computer network determined to bring down the entertainment industry."⁵⁰ The music industry fears that the availability of music for free, through online services such as Napster, will prevent consumers from purchasing music at retail prices.

Both the *Sony* and *Napster* cases involved claims of contributory and vicarious copyright infringement. These claims assert that the defendant has assisted and benefited a primary or direct copyright infringer. In *Sony*, the United States Supreme Court held that Sony was not liable for contributory infringement of copyrighted works because the VCR has substantial noninfringing uses.⁵¹ The *Sony* court

⁴⁷ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984).

⁴⁸ *Hearings*, *supra* note 18.

⁴⁹ Annual sales of prerecorded videocassettes went from three million in 1980 to 742 million in 1999. See John Gibeaut, *Facing the Music*, A.B.A. J., Oct. 2000, at 37.

⁵⁰ Vogelstein, *supra* note 41.

⁵¹ *Sony*, 464 U.S. at 442.

also held that consumers who recorded copyrighted programs were not liable for direct infringement because such copying meets the criteria for fair use under Section 107 of the Copyright Act.⁵² In *Napster*, the record companies claimed that Napster is vicariously and contributorily liable for the direct infringement of Napster users.⁵³ Relying on the *Sony* decision, Napster attempted to establish that its service has substantial noninfringing uses⁵⁴ and that Napster users who download copyrighted music, like VCR users who record copyrighted television programming, are entitled to a fair use defense.⁵⁵ While some of the language in *Sony* supports Napster's position, the *Sony* court's conclusions are difficult to adapt to Napster's service. Although the facts in the two cases present tempting similarities, neither the fair use defense nor the substantial noninfringing use defense can be convincingly presented in Napster's favor.

A. *Direct Infringement and the Fair Use Defense*

The plaintiff studios in *Sony* and the plaintiff record companies in *Napster* each had to establish a case of direct copyright infringement in order to proceed to claims of contributory or vicarious infringement.⁵⁶ A case of direct copyright infringement occurs when a party violates one of the exclusive rights granted to the copyright holder by law.⁵⁷ Such rights include the exclusive right to reproduce the work, to prepare derivative works, to distribute copies to the public, to publicly display the work, and, in the case of sound recordings, to perform the work publicly by means of a digital audio transmission.⁵⁸ To establish a claim of copyright infringement, a plaintiff must establish (1) ownership of a valid copyright and (2) unauthorized copying or a violation of one of the other exclusive rights afforded copyright owners pursuant to the Copyright Act.⁵⁹ In both *Sony* and *Napster*, it was clear that VCR users and Napster downloaders were engaged in copying or distributing copyrighted works without

⁵² *Id.* at 454-55.

⁵³ See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1010 (9th Cir. 2001).

⁵⁴ *Id.* at 1018-21.

⁵⁵ See *id.* at 1014-19.

⁵⁶ See, e.g., *Fonovisa v. Cherry Auction*, 76 F.3d 259, 264 (9th Cir. 1996); *Sega Enters., Ltd. v. MAPHIA*, 948 F. Supp. 923, 934 (N.D. Cal. 1996).

⁵⁷ 17 U.S.C.S. § 501(a) (2001).

⁵⁸ *Id.* § 106.

⁵⁹ *Id.* § 302(a).

permission from some copyright owners,⁶⁰ but the law recognizes an exception to such claims of copyright infringement in the form of the fair use exception.⁶¹

Fair use, a judicially crafted exception to copyright infringement, was first enunciated as a doctrine that recognized that copyright infringement may, in some circumstances, be justifiable. In *Folsom v. Marsh*,⁶² Justice Story stated that a court should consider whether use of copyrighted material is justifiable depending "upon the nature of the new work, the value and extent of the copies, and the degree in which the original authors may be injured thereby."⁶³ This language was codified in amendments to the Copyright Act of 1976,⁶⁴ with Justice Story's suggestions expressed in four nonexclusive factors: "(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work."⁶⁵ In applying the fair use factors, courts agree that no one factor is determinative; rather all of the factors must be weighed together and determinations made on a case by case basis.⁶⁶ Although both the *Sony* and *Napster* courts considered these four factors in assessing fair use, and although both courts placed particular emphasis on the first and fourth factors, the courts interpreted and applied these factors very differently, leading to the different results in fair use determination.

The *Sony* court's fair use analysis is unusual in its application of the four factors, perhaps because the use of VCRs seemed clearly inevitable and desirable. Cases since *Sony* have been much stricter in

⁶⁰ See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 420 (1984); *A&M Records, Inc. v. Napster*, 239 F.3d at 1014.

⁶¹ See 17 U.S.C.S. § 107 (2001).

⁶² *Folsom v. Marsh*, 9 F. Cas. 342 (C.C. Mass. 1841) (No. 4, 901).

⁶³ *Id.* at 348-49.

⁶⁴ 17 U.S.C.S. § 107 (2001); see also Blaine C. Kimrey, *Amateur Guitar Player's Lament II: A Critique of A&M Records, Inc. v. Napster, Inc., and a Clarion Call for Copyright Harmony in Cyberspace*, 20 REV. LITIG. 309, 330-37 (2001) (discussing how the four factors of fair use apply to the *Napster* case).

⁶⁵ 17 U.S.C.S. § 107 (2001).

⁶⁶ See, e.g., *Campbell v. Acuff-Rose*, 510 U.S. 569, 577 (1994); *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 560-61 (1985).

applying the four factor test, focusing on several concerns that were raised in the *Sony* dissent. First, in analyzing the first factor, purpose and use, courts have been less concerned with *Sony's* focus on whether the use is commercial and more concerned with whether the use is transformative.⁶⁷ Second, in considering the fourth factor, market harm, courts have considered harm in a less tangible manner than *Sony* did. Finally, *Sony* gave little consideration to the second and third factors, factors which, given the facts in *Sony*, would have weighed against a finding of fair use. A brief summary of the fair use analysis in *Sony* and *Napster*, followed by a discussion of the *Sony* dissent and cases subsequent to *Sony*, explain why *Napster* could not rely on *Sony* for a successful fair use exception to a claim of direct infringement.

The *Sony* court held that, on balance, the factors weighed in favor of fair use.⁶⁸ The Court's analysis focused almost exclusively on the first and fourth factors, specifically whether at-home recording by VCR users was commercial or noncommercial in nature and whether such copying had a harmful effect on the potential market of the copyrighted works.⁶⁹ The purpose and use of the VCR was "non-commercial, nonprofit activity," according to the Court, because the use, which the Court termed "time shifting," is "for private home use"⁷⁰ and merely enables viewers to watch programs they have already been invited to view for free at a more convenient time.⁷¹ *Sony* makes no reference to the second factor, the nature of the copyrighted works. The third factor, "the amount and substantiality" of the work used, might ordinarily weigh against the defendant *Sony*, according to the Court, because VCR users usually record programs in their entirety.⁷² But because viewers had already been invited to watch the entire program for free, the Court held that "the fact that the entire work is reproduced, does not have its ordinary effect of militating against a finding of fair use."⁷³ In considering the fourth factor, the harm to the potential market or value of plaintiff's copyrighted works, the *Sony* court found that the plaintiff studios had

⁶⁷ See *Acuff-Rose*, 510 U.S. at 579; *Harper & Row*, 471 U.S. at 562.

⁶⁸ See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 447-56 (1984).

⁶⁹ See *id.* at 448-56.

⁷⁰ *Id.* at 449.

⁷¹ *Id.* at 449.

⁷² *Id.* at 450.

⁷³ *Id.* at 449-50.

not introduced evidence of any actual or potential harm.⁷⁴ Furthermore, the practice of time shifting benefited society, according to the Court, by expanding public access to television broadcasting.⁷⁵ This benefit, together with the noncommercial purpose and the lack of market harm to the copyrighted work led the *Sony* court to conclude that home time-shifting is fair use.⁷⁶

Napster hoped to benefit from *Sony*'s liberal application of the fair use doctrine, claiming that its system allows several forms of fair use: sampling (making temporary copies of music before purchasing it); space shifting (accessing songs through Napster that the user already owns); and accessing works authorized by new and established artists.⁷⁷ Napster hoped to convince the court that the downloading of copyrighted material by Napster users was, like the time shifting use of the VCR users, noncommercial, nonprofit use. But the Ninth Circuit found that the first factor of fair use analysis weighed against Napster, stating that downloading copyrighted music was commercial use because "repeated and exploitative unauthorized copies of copyrighted works were made to save the expense of purchasing authorized copies."⁷⁸ In further support of its characterization of such use as commercial, the *Napster* court referred to the definition of a "financially motivated transaction" in the No Electronic Theft Act, which includes "trading infringing copies of a work for other items, including the receipt of other copyrighted works."⁷⁹ The second factor also weighed against a finding of fair use in *Napster*, because the works in question were creative in nature, thus "closer to the core of intended copyright protection."⁸⁰ The fact that Napster users usually

⁷⁴ *Sony*, 464 U.S. at 452.

⁷⁵ *Id.* at 454.

⁷⁶ *Id.* at 454-55.

⁷⁷ *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1017-19 (9th Cir. 2001).

⁷⁸ *Id.* at 1015 (citing *Worldwide Church of God v. Phila. Church of God*, 227 F.3d 1110, 1118 (9th Cir. 2000)); *See also Sega Enters., Ltd. v. MAPHIA*, 948 F. Supp. 923, 934 (N.D. Cal. 1996).

⁷⁹ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d at 1015 (citing No Electronic Theft Act, Pub. L. No. 105-147, 18 U.S.C.S. § 101 (Defining "Financial Gain")); *see also* Karen J. Bernstein, Note, *Net Zero: The Evisceration of the Sentencing Guidelines Under the No Electronic Theft Act*, 27 NEW ENG. J. ON CRIM. & CIV. CONFINEMENT 57 (2001) (arguing that the NET Act should be used aggressively to pursue non-commercial copyright infringers).

⁸⁰ *A&M Records, Inc. v. Napster*, 239 F.3d at 1015 (citing *Campbell v. Acuff-Rose*, 510 U.S. 569, 586 (1994)). Courts have held that a finding that copyrighted material is creative

download copyrighted songs in their entirety also weighed against a finding of fair use, although the Court recognized that such a finding was not conclusive.⁸¹

The Ninth Circuit's characterization of Napster's use as commercial left Napster little hope to survive the fourth prong of fair use analysis. Instructed by *Sony* that harm is presumed where use is commercial,⁸² the Ninth Circuit referred to expert reports for the plaintiffs which claimed that the record companies had sustained as much as 300 million dollars of damages at the time suit was filed due to lost CD sales and that damages would continue to accrue as long as Napster users continued to make unauthorized copies of plaintiffs' copyrighted works.⁸³ Napster's own expert reports claimed that Napster actually stimulated sales of CDs for the recording industry by increasing consumer interest in music.⁸⁴ Recognizing flaws in the expert reports of both parties, the Ninth Circuit concluded that even assuming Napster use benefited the record companies by stimulating CD sales, the fourth factor of market harm still weighed against Napster because Napster had a "deleterious effect on the present and future digital download market."⁸⁵ The district court's opinion details the steps, including financial commitments and security measures, that each of the plaintiff record companies had undertaken to enter the digital download market.⁸⁶ Persuaded by this analysis, the Court of Appeals for the Ninth Circuit held that "having digital downloads available for free on the Napster system necessarily harms

in nature such as material whose primary purpose is entertainment, as opposed to factual information, weighs against a finding of fair use. *See e.g.*, *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 563 (1985); *Sega*, 948 F. Supp. at 934; *Playboy Enters., v. Frena*, 839 F. Supp. 1552, 1558 (M.D. Fla. 1993).

⁸¹ *A&M Records, Inc. v. Napster*, 239 F.3d at 1017.

⁸² *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 451 (1984).

⁸³ *See A&M Records, Inc. v. Napster, Inc.*, 239 F.3d at 1017; *see also A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 927 (N.D. Cal. 2000). The expert reports for plaintiff record companies focused mostly on college students, believed to be Napster's greatest audience. Some colleges banned Napster on campus in response to complaints from record companies. The universities questioned whether they had legal, ethical, or moral obligations to block students' access to Napster but the issue may have been as much about bandwidth use as copyright infringement. *See Patrick Healy, Down on Downloading: Colleges Try to Rein in Network-Clogging Napster*, WALL ST. J., Sept. 10, 2000, at A1.

⁸⁴ *See A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d at 909-11.

⁸⁵ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d at 1017.

⁸⁶ *See A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d at 908.

the copyright holder's attempt to charge for the same downloads."⁸⁷ Thus, the Court of Appeals agreed with the fair use conclusions of the district court, finding no merit in Napster's fair use defense.⁸⁸

The Ninth Circuit extended its general finding that Napster was not entitled to a fair use exception to the functions Napster identified as "sampling" and "space shifting."⁸⁹ For reasons similar to those involving the downloading of copyrighted works, the Court found that both sampling and space shifting are commercial activities that affect the market for the recording industry's works.⁹⁰ Sampling, the practice of listening to music with a view towards purchase, is not a fair use according to both the Court of Appeals and the district court because sampling by Napster users adversely affects the market for CDs and for online distribution.⁹¹ Space shifting, a Napster feature which allows a user to transfer music she already owns from one computer to another, is also not fair use, according to the Ninth Circuit.⁹² In addressing the space-shifting function, the court rejected Napster's reliance on *Recording Industry Assn. of America v. Diamond Multimedia, Inc.*,⁹³ a recent decision by the Court of Appeals for the Ninth Circuit.⁹⁴ In *Diamond Multimedia*, the Ninth Circuit recognized that transferring MP3 files from the hard drive of a computer to a portable MP3 player, called a Rio, was a noncommercial use, which it referred to as "space shifting."⁹⁵ But the *Diamond Multimedia* case, according to the Court of Appeals, was irrelevant to Napster's defense because it involved claims under the AHRA, not claims of copyright infringement.⁹⁶ The *Napster* court held that neither Sony's time-shifting analysis nor the Ninth Circuit's space-shifting analysis in *Diamond Multimedia* could be extended to the type of space shifting employed by Napster users.⁹⁷ The distinction between VCR time shifting and

⁸⁷ A&M Records, Inc. v. Napster, Inc. 239 F.3d at 1017.

⁸⁸ See *id.* at 1018-19.

⁸⁹ See *id.*

⁹⁰ See *id.*

⁹¹ See *id.* at 1018.

⁹² See *id.*

⁹³ 180 F.3d 1072 (9th Cir. 1999).

⁹⁴ A&M Records, Inc. v. Napster, Inc., 239 F.3d at 1019.

⁹⁵ Recording Indus. Assn. of Am. v. Diamond Multimedia Systems, Inc., 180 F.3d 1072, 1079 (9th Cir. 1999).

⁹⁶ A&M Records, Inc. v. Napster, Inc., 239 F.3d at 1019.

⁹⁷ See *id.*

Rio space shifting, on the one hand, and Napster downloading on the other, according to the Ninth Circuit, was that VCR owners and Rio users copied material that was only available to the individual while a Napster user makes the copyrighted material available to a multitude of other users.⁹⁸

In assessing the four factors that determine fair use, the *Napster* and *Sony* courts differed markedly in their approach to the first factor – “purpose and use.” The purpose and use of VCR recording and downloading music are alike in that both involve mere mechanical copying of material. The original copyrighted work and the copy generated by recording or downloading are essentially the same, thus raising the issue of piracy. In *Folsom v. Marsh*, Justice Story differentiated between works that “cite largely from the original . . . for the purposes of fair and reasonable criticism,” and works that cite “the most important parts of the work, with a view, not to criticize but to supersede the use of the original work.”⁹⁹ The latter type of use he concluded “will be deemed in law a piracy.”¹⁰⁰ In assessing the purpose and use of the alleged infringement, the majority in *Sony* addressed only whether the use was commercial or noncommercial and ignored the mere mechanical nature of VCR recording and the fact that nothing was added to the use of the original copyrighted work. The dissent, however, focused on whether the use was “productive” or “ordinary.”¹⁰¹ Because VCR users add nothing to the copyrighted work, the *Sony* dissent concluded that the use was “ordinary” or “unproductive” and less worthy of fair use protection because it serves the same purpose as the original.¹⁰²

Courts since *Sony* have moved away from the majority’s emphasis on commercial versus non-commercial use and have increasingly focused on the dissent’s inquiry into whether the use was “productive” or “transformative.”¹⁰³ In *Campbell v. Acuff-Rose*, a case decided ten years after *Sony*, the Supreme Court stated that the extent to

⁹⁸ See *id.*

⁹⁹ *Folsom v. Marsh*, 9 F. Cas. 342, 344-45 (C.C. Mass. 1841) (No. 4, 901).

¹⁰⁰ *Id.*

¹⁰¹ See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 478-79 (1984) (Blackmun, J., dissenting).

¹⁰² See *id.* at 480-483.

¹⁰³ See generally Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105 (1990).

which the use is transformative is the more critical inquiry.¹⁰⁴ Despite the fact that the *Sony* decision recognizes that merely mechanical copying may survive fair use analysis, cases since *Sony* have stated that where there is a finding that such use is not transformative, it weighs against a finding of fair use. For example, in *American Geophysical Union v. Texaco Inc.*,¹⁰⁵ the Court of Appeals for the Second Circuit considered whether Texaco was liable for copyright infringement when researchers copied articles from journals that Texaco had purchased.¹⁰⁶ The purpose of the use was primarily to afford researchers the personal convenience of having a readily accessible copy.¹⁰⁷ In assessing the purpose and use factor of fair use, the Second Circuit found that if the secondary use is just a duplication, then the value generated by the secondary use is little or nothing more than the value that inheres in the original.¹⁰⁸ Consequently, according to the Second Circuit, there can be no justification for fair use because the untransformed copy serves the same purpose as the original and therefore does not foster creativity, consistent with the goals of copyright law.¹⁰⁹ Similarly, in *Worldwide Church of God v. Philadelphia Church of God*,¹¹⁰ the Court of Appeals for the Ninth Circuit found that unauthorized copying of a religious book was not transformative and that this factor weakened its claim for fair use.¹¹¹ In *UMG Recordings, Inc. v. MP3.com, Inc.*,¹¹² a case that involved the online distribution of digital music, the United States District Court for the Southern District of New York rejected MP3.com's claim that its space-shifting function, allowing users to listen to music through their computers without "lugging around the physical discs themselves," was a transformative use.¹¹³ In *UMG Recordings*, the court found that transmitting recordings through a new medium might be "innovative" but did not qualify as "transformative" because

¹⁰⁴ *Campbell v. Acuff-Rose*, 510 U.S. 569, 595 (1994).

¹⁰⁵ 60 F.3d 913 (2d Cir. 1993).

¹⁰⁶ *See id.* at 914.

¹⁰⁷ *See id.* at 919.

¹⁰⁸ *Id.* at 923.

¹⁰⁹ *Id.* at 919-20.

¹¹⁰ 227 F.3d 1110 (9th Cir. 2000).

¹¹¹ *See id.* at 1117.

¹¹² 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

¹¹³ *Id.* at 351.

the use added nothing new to the original work.¹¹⁴ Cases such as *American Geophysical Union*, *Worldwide Church* and *UMG Recordings*, illustrate that, despite the Supreme Court's holding in *Sony*, cases that involve mere mechanical copying are less likely to survive fair use analysis.

In addition to the emphasis on whether use is transformative, the *Sony* dissent and courts since *Sony* have assessed the purpose and use factor of fair use analysis less generously than the *Sony* majority in determining whether a use is noncommercial. In *Sony*, the Supreme Court found that commercial use of copyrighted material is presumptively unfair,¹¹⁵ but in *Campbell v. Acuff-Rose*, the Supreme Court cautioned against overemphasizing the commercial use of copyrighted works, stating that "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use."¹¹⁶ The converse proposition would seem to be true then, that the less transformative the work, the more other factors, such as commercialism, would assist in determining fair use. In assessing the commercial use of copyrighted works, *Sony* appears to have considered only direct financial harm to the plaintiff studios.¹¹⁷ The *Sony* dissent and recent decisions have focused less on monetary gain as the critical factor and more on whether "the user stands to profit from exploitation of the copyrighted material without paying the customary price."¹¹⁸ The *Sony* majority saw no commercial exploitation of the plaintiff studios' copyrighted works because viewers had already been invited to view the program for free.¹¹⁹ The *Sony* dissent, however, believed that diminishing an artist's control over his work diminished the incentive to create¹²⁰ and feared that use, which seemed harmless in isolation, would become harmful when multiplied many times.¹²¹ These concerns were echoed by the Court of Appeals for the Second Circuit in *American Geophysical Union v.*

¹¹⁴ *Id.*

¹¹⁵ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 449 (1984).

¹¹⁶ *Campbell v. Acuff-Rose*, 510 U.S. 569, 579 (1994).

¹¹⁷ *See Sony*, 464 U.S. at 450-453.

¹¹⁸ *Id.* at 464 U.S. at 484-86 (Blackmun, J., dissenting); *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985).

¹¹⁹ *Sony*, 464 U.S. at 449.

¹²⁰ *See id.* at 480-81 (Blackmun, J., dissenting).

¹²¹ *See id.*

Texaco and by the Court of Appeals for the Ninth Circuit in *Worldwide Church*. In *American Geophysical*, the Second Circuit found that personal convenience, a use that *Sony* endorsed, did not weigh in *Texaco*'s favor for fair use because the copying of journal articles by researchers was "part of a systematic process of encouraging employee researchers to copy articles so as to multiply available copies while avoiding payment."¹²² Nor did the Second Circuit find that the use was noncommercial even though the use was for research purposes,¹²³ a use specifically mentioned in the preamble to the fair use exception.¹²⁴ The Second Circuit found that the copying of journal articles for personal convenience was not "commercial exploitation," but that it could not "ignore the for-profit nature of *Texaco*'s enterprise," especially since "*Texaco* reaps some indirect economic advantage from its photocopying."¹²⁵ The Court of Appeals for the Ninth Circuit went even further in finding an indirect benefit to the user in *Worldwide Church of God v. Philadelphia Church of God*.¹²⁶ The Ninth Circuit found that even though the copying of a religious book was clearly not for profit, the users benefited because they did not have to account to the copyright holder.¹²⁷ Deemphasizing the commercial versus noncommercial distinction, the Second Circuit focused on the benefits or advantages that the users gained through unauthorized use of the religious text.¹²⁸ The court found that copying and distribution of the text to church members benefited the church because it provided the text at no cost and increased the church's membership and, consequently, its income through tithes.¹²⁹

In *Napster*, the Ninth Circuit continued this trend in evaluating the first factor of fair use by stating that "direct economic benefit is not required to demonstrate a commercial use."¹³⁰ Despite the fact that

¹²² *Am. Geophysical Union v. Texaco*, 60 F.3d 913, 920 (2d Cir. 1993).

¹²³ *See id.* at 922.

¹²⁴ Section 107 provides that reproduction for use and purposes "such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research" do not constitute an infringement. 17 U.S.C.S. § 107 (2001).

¹²⁵ *American Geophysical Union*, 60 F.3d at 922.

¹²⁶ 227 F.3d 1110 (9th Cir. 2000).

¹²⁷ *See id.* at 1117-18.

¹²⁸ *See id.*

¹²⁹ *See id.* at 1118.

¹³⁰ *A & M Records, Inc. v. Napster Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001).

Napster users, like VCR users, operate at home and the copies in question were not for sale, the court found that the use was not "personal" because of the "repeated and exploitative copying of the copyrighted works"¹³¹ and that users benefited by getting for free something for which they would ordinarily have to pay.¹³²

The first and fourth factors of fair use analysis are closely related, so that the determination of whether a use is commercial or noncommercial will usually dictate whether there is market harm. Whereas the *Sony* court was satisfied that no substantial harm would come to the plaintiff studios because there was no evidence of actual or potential harm, the dissent suggested a broader standard for assessing harm. According to the dissent, "an infringer cannot prevail merely by demonstrating that the copyright holder suffered no net harm . . . even a showing that the infringement has resulted in a net benefit to the copyright holder will not suffice. Rather, the infringer must demonstrate that he has not impaired the copyright holder's ability to demand compensation from . . . any group who would otherwise be willing to pay to see or hear the copyrighted work."¹³³ The dissent's argument was picked up by the Court of Appeals for the Ninth Circuit in *Worldwide Church*, which recognized harm even where the copyright owner was a not-for-profit organization and there was no conventional market for the works in question.¹³⁴ The copyright holder may still be harmed, according to this decision, because exploitation can harm the goodwill of the work.¹³⁵ This theory of harm, not contemplated by the *Sony* majority, recognizes the copyright holder's right not only to consider harm to the potential market for his work, but also to decide whether to publish or withhold his work.¹³⁶ *Sony* considers harm to the potential market in the sense of potential financial harm,¹³⁷ but does not envision harm in the sense that the copyright holder's rights are infringed when works are copied and distributed without the owner's consent.

¹³¹ *Id.*

¹³² *See id.*

¹³³ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 485 (1984) (Blackmun, J., dissenting).

¹³⁴ *See Worldwide Church of God v. Phila. Church of God*, 227 F.3d 1110, 1119-20 (9th Cir. 2000).

¹³⁵ *See id.*

¹³⁶ *See id.*

¹³⁷ *See Sony*, 464 U.S. at 452-53.

The language in the *Sony* dissent addressing the possibility that infringement could "result in a net benefit to the copyright holder" is particularly applicable to arguments presented by MP3.com and Napster—that their online distribution services actually stimulated CD sales.¹³⁸ Rejecting this theory, both the court in *UMG Recordings* and the *Napster* court agreed that "[a]ny allegedly positive impact of defendant's activities on plaintiff's prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiff's copyrighted works."¹³⁹ Thus, the *Napster* court found harm in Napster's supplying for free that for which the recording companies had a right to demand compensation.

The different conclusions on fair use reached in *Sony* and *Napster* can be attributed largely to different approaches to the four factors. In examining the first factor, *Sony* ignored whether VCR recording was transformative and characterized the at-home use as noncommercial. In assessing the fourth factor, *Sony* ignored a potential market for licensing by studios. Furthermore, *Sony* gave little consideration to the second and third factors, which could have weighed against fair use. The *Napster* court, on the other hand, could not ignore cases subsequent to *Sony* which had increased the emphasis on whether use is transformative, focused more on indirect benefits to the user than financial rewards, and found harm to the defendant in less tangible forms. Yet despite what might seem an unorthodox application of the four factors by the *Sony* court, the case still stands up to fair use analysis when the facts are assessed in light of the underlying purpose of the fair use exception. At the heart of the fair use doctrine is the concept that certain uses are justifiable because the reasonable copyright holder would not object to the use.¹⁴⁰ Obviously, copyright holders' minds can differ on what is reasonable or fair use. *Sony's* conclusion, that time shifting is fair use, rests on the assumption and evidence that most copyright holders did not object

¹³⁸ Statistics during the first year of Napster's operation supported its argument that its service stimulated CD sales. The research firm, Jupiter Communications, reported that Napster users were forty-five percent more likely to purchase music both online and offline. See Laura Carr, *Stats Speak Kindly of Napster*, INDUSTRY STANDARD at <http://www.thestandard.com/article/display/0,1151,17057,00.html> (July 21, 2000).

¹³⁹ *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 352 (S.D.N.Y. 2000); *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1016 (9th Cir. 2001).

¹⁴⁰ See Leval, *supra* note 103, at 1110.

to such use and, therefore, that the recording would not stifle creative incentive. The converse is true in *Napster*; most copyright holders did object to unauthorized downloading of copyrighted music. Despite the popularity of Napster, it is hard to argue that increased access to free music is a benefit to the public that is worth the risk of diminishing artists' incentive to create.

B. *Contributory Infringement and Substantial Noninfringing Use*

Because the record companies were able to show that Napster was unlikely to prevail in a fair use defense, they had established the likelihood of succeeding on a claim of direct infringement against Napster users and, were, therefore, free to pursue claims of contributory and vicarious infringement against Napster itself.¹⁴¹ In *Sony*, the Supreme Court found that Sony was not liable for contributory infringement because VCRs have a substantial noninfringing use;¹⁴² many copyright holders of television programming did not object to viewers recording programs for later viewing.¹⁴³ Napster claimed that its service, too, had substantial noninfringing uses in the form of its New Artists Program and space shifting.¹⁴⁴ The Ninth Circuit rejected Napster's claims of substantial noninfringing use, finding that Napster was liable for contributory infringement because it had knowledge of its users' infringing activities.¹⁴⁵ A brief summary of the approaches to contributory infringement and the defense of substantial noninfringing use in *Sony* and *Napster* suggests that courts must focus not only on how "substantial" a noninfringing use is, but also on the extent to which the primary use is infringing. The *Napster* decision also indicates that the question of substantial noninfringing use cannot be isolated from the critical indicia of contributory infringement—control and knowledge.

Before *Sony*, courts recognized claims for contributory copyright infringement where the defendant "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing

¹⁴¹ See *Sega Enters., Ltd. v. MAPHIA*, 948 F. Supp. 923, 934 (N.D. Cal. 1996); *Fonovisa v. Cherry Auction*, 76 F.3d 259, 264 (9th Cir. 1996).

¹⁴² See *Sony*, 464 U.S. at 446.

¹⁴³ See *id.*

¹⁴⁴ See *Napster*, 239 F.3d at 1020-21.

¹⁴⁵ See *id.* at 1021-22..

conduct of another."¹⁴⁶ *Sony* addressed claims of contributory and vicarious infringement in the general sense of third party liability¹⁴⁷ without distinction between the two claims and without reference to the specific elements that courts have recognized for such claims in cases since *Sony*. In assessing contributory copyright infringement, *Sony* focused on two issues: whether Sony had control over the use of copyrighted works, and whether Sony had constructive knowledge that its customers were making unauthorized copies of copyrighted works.¹⁴⁸ The *Sony* court did not find the required element of control in the relationship between the manufacturers of the VCR and the use of the copyrighted work because the only contact between Sony and VCR users was at the moment of sale and there was no evidence of influence through sales or advertising to encourage infringement.¹⁴⁹ Furthermore, the Court concluded that no constructive knowledge could be imputed to Sony because the VCR was capable of substantial noninfringing use, which the court identified as time sharing.¹⁵⁰ The Court recognized that the plaintiff studios held "a large inventory of valuable copyrights," but they accounted for a relatively small portion of the total television programming copyright holders, and thus could not prevent nonobjecting copyright holders from authorizing time shifting use of their programming.¹⁵¹

Unlike the *Sony* court, the Court of Appeals for the Ninth Circuit in *Napster* divided its analysis into two distinct claims of contributory and vicarious copyright infringement.¹⁵² Since *Sony*, courts have required that a case for contributory copyright infringement show two distinct elements: (1) knowledge of the infringing conduct and (2) material contribution to the infringement.¹⁵³ Vicarious infringement requires a showing that the alleged infringer (1) benefited financially from the infringing activity and (2) that the defendant was capable of

¹⁴⁶ *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

¹⁴⁷ *See Sony*, 464 U.S. at 434-44.

¹⁴⁸ *See id.* at 437-39.

¹⁴⁹ *Id.* at 437-38.

¹⁵⁰ *See id.* at 442-47.

¹⁵¹ *Id.* at 443-46.

¹⁵² *See A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019-24 (9th Cir. 2001).

¹⁵³ *See, e.g., Fonovisa v. Cherry Auction*, 76 F.3d 259, 264 (9th Cir. 2001); *Sega Enters., Ltd. v. MAPHIA*, 948 F. Supp. 923, 923 (N.D. Cal. 1996).

supervising the infringing activity.¹⁵⁴ In considering the claim for contributory infringement, the *Napster* court found that the record supported a finding that Napster had both actual and constructive knowledge of direct infringement by its users, citing as evidence documents authored by Napster key personnel that referred to "pirated music," notification from the recording industry of over 12,000 infringing files, as well as the intellectual property experience of Napster executives.¹⁵⁵

Because Napster had such knowledge and did not block access to infringing users or remove the infringing material, it was liable for contributory copyright infringement.¹⁵⁶

Sony, the Ninth Circuit held, was of "limited assistance" to Napster because the "Sony court declined to impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and substantial noninfringing use."¹⁵⁷ The Court of Appeals for the Ninth Circuit disagreed with the district court's focus on current uses of Napster, as opposed to the system's capabilities required by *Sony*, but the Court held that "regardless of the number of Napster's infringing versus noninfringing uses, the record supported a finding that Napster had knowledge of the infringement."¹⁵⁸

The Ninth Circuit also held that Napster materially contributes to direct infringement by its users because it provides the "site and facilities" that make direct infringement possible.¹⁵⁹ In so holding, the court relied on *Fonovisa v. Cherry Auction*,¹⁶⁰ a case which held the operators of a swap meet liable for contributory copyright infringement because the operators provided the support and facilities that enabled individual vendors to sell counterfeit recordings.¹⁶¹

Fonovisa was also persuasive in the Ninth Circuit's determination that the plaintiff record companies would prevail against Napster in their claims for vicarious infringement, satisfactorily demonstrating

¹⁵⁴ See, e.g., *Religious Tech. Ctr. v. Netcom On-Line Communications Servs., Inc.*, 907 F. Supp. 1361, 1375 (N.D. Cal. 1995).

¹⁵⁵ *Napster*, 239 F.3d at 1020-22.

¹⁵⁶ See *id.*

¹⁵⁷ *Id.* at 1020.

¹⁵⁸ *Id.* at 1021.

¹⁵⁹ *Id.* at 1022.

¹⁶⁰ 76 F.3d 259 (9th Cir. 1996).

¹⁶¹ See *id.* at 264.

the required elements of financial benefit and ability to supervise. In *Fonovisa*, the Court of Appeals for the Ninth Circuit held that the availability of counterfeit recordings acted as a draw to the swap meets, thereby benefiting the operators in the form of various fees associated with the event.¹⁶² Similarly, the Ninth Circuit held that Napster financially benefited from the direct infringement of its users because the ability to download infringing material acted as a "draw" to users and Napster's future revenue was directly dependent upon increases in its userbase.¹⁶³ Napster also satisfied the supervision requirement of vicarious liability because its express reservation of rights policy is evidence of its right and ability to control access to the system.¹⁶⁴ The legend on Napster's website states that Napster reserves the "right to refuse service and terminate accounts in [its] discretion, including, but not limited to, if Napster believes that user conduct violates applicable law . . . or for any reason in Napster's sole discretion, with or without cause."¹⁶⁵ Again referring to *Fonovisa*, the Ninth Circuit concluded that "to escape imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent."¹⁶⁶

Despite evidence of contributory and vicarious copyright infringement, Napster hoped to survive the motion for a preliminary injunction based on the defense of substantial noninfringing use or the staple article of commerce doctrine, successfully employed in *Sony*.¹⁶⁷ Language in *Sony* indicated that the mere capability of a future substantial noninfringing use is enough to defeat a claim of contributory infringement. In *Sony*, the Court stated that "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses."¹⁶⁸ Napster would have the

¹⁶² See *id.* at 263.

¹⁶³ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d at 1023.

¹⁶⁴ See *id.* at 1023-24.

¹⁶⁵ Napster, at <http://www.napster.com> (July 2000). Following the decision by the Court of Appeals for the Ninth Circuit, Napster expanded its Copyright Policy and Terms of Use to comply with the decision. See Napster, at <http://www.napster.com/terms/terms/html> (last visited July 23, 2001).

¹⁶⁶ *A&M Records v. Napster, Inc.*, 239 F.3d at 1023.

¹⁶⁷ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 440-42 (1984).

¹⁶⁸ *Id.* at 442.

court interpret this language to mean that a product or service need merely show it is capable of a substantial noninfringing use to defeat a claim of contributory copyright infringement. But this view would ignore the condition stated in *Sony*—that the product be “widely used for legitimate, unobjectionable purposes.”¹⁶⁹ Although the *Sony* Court stated that “we need not give precise content to the question of how much use is commercially significant,”¹⁷⁰ *Sony* was clearly influenced by the amount of commercially significant authorized use VCRs allowed. In *Sony*, the Court called attention to the relatively small market share of the plaintiff studios’ inventory of copyrighted works, estimating that it was “well below 10%.”¹⁷¹ Just as the *Sony* court was influenced by the relatively small interest of the plaintiff studios, so the *Napster* court was influenced by the large interest held by the recording companies which claimed to hold copyrights to as much as 90% of the material downloaded from Napster. Although Napster could claim that it had substantial noninfringing uses, the court’s conclusion is based, in part, on the fact that Napster’s primary use was not for legitimate, unobjectionable purposes.

Sony did not go so far as to state that the primary use of a product or service must be noninfringing, but *Napster* seems to extend *Sony*’s doctrine to this point. Although a case decided by the Court of Appeals for the Fifth Circuit, *Vault Corp. v. Quaid Software*,¹⁷² relied on *Sony* in holding that a single noninfringing use was a sufficient defense to a claim of contributory infringement, other courts have not taken this approach. In *Vault*, the defendant conceded it had actual knowledge that its product, RAMKEY, was used to make unauthorized copies of copyrighted material.¹⁷³ Despite such knowledge, the Fifth Circuit held that the defendant was not liable for contributory copyright infringement because RAMKEY had a substantial noninfringing use—it was capable of making fully functional archival copies of a program that could otherwise be damaged.¹⁷⁴ The district court, in deciding *Napster*, mentioned the *Vault* case in a footnote, noting that other courts have disagreed with

¹⁶⁹ *Id.*

¹⁷⁰ *Id.*

¹⁷¹ *Id.* at 443.

¹⁷² 847 F.2d 255 (5th Cir. 1988).

¹⁷³ *See id.* at 262.

¹⁷⁴ *See id.* at 267.

the Fifth Circuit's conclusion in *Vault*.¹⁷⁵ While the Ninth Circuit is not bound by the Fifth Circuit's decision in any case, *Vault* could be distinguished because the substantial noninfringing use it served, making archival copies of a computer program, is a use specifically recognized in Section 117(2) of the Copyright Law.¹⁷⁶ In rejecting the *Vault* approach, that a single noninfringing use is sufficient to defeat a claim of contributory infringement, the *Napster* court followed the lead of other courts that have looked at the primary purpose of the product or service involved. For example, in *A&M Records v. General Audio Video Cassettes, Inc.*,¹⁷⁷ the court held that a defendant that manufactured and sold time-loaded tapes, with knowledge that they would be used for counterfeiting purposes, was liable for contributory infringement even though the time-loaded tapes also had legitimate purposes.¹⁷⁸ In *General Audio Video*, the court interpreted *Sony* to mean that the noninfringing uses had to be "substantial" in comparison to the illegal purposes.¹⁷⁹

The *Napster* court's decision indicates that where the defendant has both control and knowledge of the infringing activity, it will be found liable for contributory infringement, despite the existence or capability of noninfringing uses. The fact that Napster had knowledge of the infringing activity seems to be the crucial point. While the Ninth Circuit recognized that *Sony* requires an inquiry into the capability of a product's substantial noninfringing uses, that inquiry was not necessary, according to the court, where there was evidence that Napster knew of the infringing activity.¹⁸⁰ This

¹⁷⁵ See *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 916 n.20 (N.D. Cal. 2000).

¹⁷⁶ 17 U.S.C.S. § 117(2) (2001).

¹⁷⁷ 948 F. Supp. 1449 (C.D. Cal. 1996).

¹⁷⁸ See *id.* at 1456-57. Blank tapes are "time loaded" or cut to a specific time so that the counterfeit work will not exceed the time limit of the tape or have long periods of blank running time. See *id.* at 1455.

¹⁷⁹ *Id.* The court also stated that the *Sony* doctrine only applies to staple articles of commerce which would exclude products specifically made for counterfeiting. *Id.* at 1456; see also *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829 (11th Cir. 1990) (holding defendant liable for contributory infringement for promotion and sale of pirate chips used to descramble cable television programs even though the devices might have some legitimate uses).

¹⁸⁰ *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001). The Court of Appeals disagreed slightly with the district court's characterization of Napster's noninfringing uses. The district court found that neither Napster's New Artist Program nor

conclusion is consistent with *Sony* because *Sony* inquired into the substantial noninfringing uses of the VCR in the context of whether the manufacturers of the VCR had knowledge that the product was being used for infringing purposes.¹⁸¹ The *Sony* court stated, "[i]f vicarious liability is to be imposed on petitioners in this case, it must rest on the fact that they have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material."¹⁸²

The Ninth Circuit's emphasis on knowledge and control as the key elements in determining a claim for contributory infringement in *Napster*, follows the approach taken in *Religious Technology Center v. Netcom On-Line Communication*.¹⁸³ In *Netcom*, the District Court for the Northern District of California held that whether an Internet service provider (ISP) could be held liable for contributory copyright infringement depended on whether it had control over the use of its system and whether it had knowledge of the alleged infringing activity.¹⁸⁴ The case involved a dispute between a minister-turned-critic of the Church of Scientology who had used copyrighted material owned by the church without permission and had posted that material on a bulletin board service which was accessed through the ISP.¹⁸⁵ In the *Netcom* decision, the court makes no reference to the substantial noninfringing uses of the ISP, although it is assumed that most of its activity was noninfringing. The court's analysis focused solely on whether the ISP retained control over its system and whether it knew of the infringing activity and could, therefore, have acted to remove it before it was widely disseminated.¹⁸⁶ In *Napster*, the Ninth Circuit's reliance on *Netcom* indicates that defending a claim for contributory copyright infringement begins with an inquiry into the defendant's knowledge of the infringing activity, not whether the product or service is capable of a substantial noninfringing use.

its space-shifting function were commercially significant uses. See *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d at 916. The Ninth Circuit agreed but noted that *Sony* required the court to consider Napster's capability of commercially significant noninfringing uses. See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d at 1021.

¹⁸¹ See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984).

¹⁸² *Id.*

¹⁸³ 907 F. Supp. 1361 (N.D. Cal. 1995).

¹⁸⁴ *Id.* at 1373-74.

¹⁸⁵ See *id.* at 1365.

¹⁸⁶ See *id.* at 1374.

Netcom stressed the importance of actual notice regarding the infringing activity. Accordingly, once the ISP has received notice of an infringement, the ISP must remove the infringing material; failure to remove the material supports a claim of substantial participation in the infringement and, hence, a claim for contributory infringement.¹⁸⁷ In reviewing the motion for a preliminary injunction in *Napster*, the Ninth Circuit stated that the question of "whether copyright owners must give 'official' notice of infringing activity in order for [a defendant] to have knowledge or awareness of infringing activity on its system" is a question that remains to be answered.¹⁸⁸ In its instructions to the district court to modify the preliminary injunction, the Court of Appeals instructed that the plaintiff record companies must "provide notice to Napster of copyrighted works . . . on the Napster system before Napster has the duty to disable access to the offending content."¹⁸⁹ This requirement indicates that copyright holders, to ensure full protection of their rights, should send official notice to ISPs when infringing activity occurs, despite evidence that the ISP has such knowledge.¹⁹⁰

C. *The AHRA and the Diamond Multimedia Case*

Napster sought to use the legislative history of the Audio Home Recording Act (AHRA) and the Ninth Circuit's interpretation of the AHRA in *Recording Industry Assn. of America v. Diamond Multimedia Systems, Inc.*¹⁹¹ to support its contention that at-home recording by Napster users is noncommercial activity and should be protected from claims of copyright infringement.¹⁹² Napster's focus on the AHRA seems reasonable given the AHRA's goal—to facilitate personal at home recording.¹⁹³ The Ninth Circuit's interpretation of the AHRA

¹⁸⁷ *See id.*

¹⁸⁸ *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001).

¹⁸⁹ *Id.* at 1027.

¹⁹⁰ Following the ruling by the Court of Appeals for the Ninth Circuit, the Recording Industry Association of America sent notices to as many as sixty ISPs that provide connections to Napster-like servers. Lee Gomes, *'Open Napster' Clones Feel Industry Heat*, WALL ST. J., Feb. 23, 2001, at B9.

¹⁹¹ 180 F.3d 1072 (9th Cir. 1999).

¹⁹² *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d at 1024.

¹⁹³ *See Diamond Multimedia*, 180 F.3d at 1079 (citing a Senate Report which states "[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." S. Rep. No. 102-

in *Diamond Multimedia* was particularly appealing to Napster because the court employed terms such as “noncommercial use” and “space shifting” in connection with a product that enabled at-home users to copy unauthorized copyrighted music from their personal computers to a portable digital music player. But the Court of Appeals for the Ninth Circuit held that the AHRA and its interpretation in *Diamond Multimedia* are irrelevant to Napster’s defense because the plaintiffs in Napster made no claims under the AHRA.¹⁹⁴ Despite the fact that *Diamond Multimedia* did not involve claims for contributory copyright infringement, the court’s analysis provides insight into the *Napster* decision. Given the facts in *Diamond Multimedia*, *Sony*, and *Napster*, the *Napster* decision seems to have been decided mostly on the scale of distribution that Napster makes possible, a scale that neither the AHRA nor the *Diamond Multimedia* court had envisioned.

Diamond Multimedia was a suit brought by the recording industry to enjoin the manufacture and distribution of a portable recording device called a Rio player.¹⁹⁵ The Rio allows users to download MP3 files from a personal computer to the small, portable Rio.¹⁹⁶ In *Diamond Multimedia*, the recording industry claimed that the manufacturers of the Rio violated the AHRA which requires manufacturers of digital audio recording devices (1) to comply with the Serial Copyright Management System (SCMS), a system which controls or limits serial copying of recorded material¹⁹⁷ and (2) to contribute to a royalty fund to offset the costs of pirated music.¹⁹⁸ The *Diamond Multimedia* court held, however, that the manufacturers of the Rio were not subject to the AHRA because the Rio was not a “digital audio recording device” within the meaning of the Act.¹⁹⁹

294, at *86 (1992)).

¹⁹⁴ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d at 1024.

¹⁹⁵ *Diamond Multimedia*, 180 F.3d at 1074-75.

¹⁹⁶ *See id.*

¹⁹⁷ 17 U.S.C.S. § 1002(a)(1) (2001). The SCMS limits serial copying of digital recordings by preventing the reproduction of first generation copies while allowing unlimited copies of an original. *See* Joel L. McKuin, Comment, *Home Audio Taping of Copyrighted Works and the AHRA of 1992: A Critical Analysis*, 16 HASTINGS COMM. & ENT. L.J. 311 (1994) (maintaining that audio home taping harms society by decreasing funds available to produce new musical works).

¹⁹⁸ 17 U.S.C.S. § 1003(a) (2001).

¹⁹⁹ A digital audio recording is defined as “a reproduction in a digital recording format of a digital musical recording, whether that reproduction is made directly from another digital

Material copied from the hard drive of a personal computer was intentionally excluded from the Act's coverage, according to the Ninth Circuit.²⁰⁰ Thus, the recording industry was unable to prevent the manufacture and distribution of the Rio despite the fact that the Rio was used primarily to make unauthorized copies of copyrighted works.

In further support of its conclusion that the Rio was not subject to the AHRA, the *Diamond Multimedia* court stated that the use of the Rio player was entirely consistent with the main purpose of the AHRA – to facilitate at-home personal recording.²⁰¹ Copying files from a computer to the Rio was space shifting, according to the court, and, like the time-shifting function of the VCR approved in *Sony*, “paradigmatic noncommercial personal use.”²⁰² The *Diamond Multimedia* court's emphasis on the noncommercial purpose of the Rio and its space-shifting function clearly recall the Supreme Court's analysis in *Sony*. But *Diamond Multimedia* was not a case for contributory copyright infringement. Section 1008 of the AHRA prohibits suits for contributory copyright infringement based on the manufacture, import, distribution or noncommercial private use of a digital audio recording device.²⁰³ The AHRA attempted to preclude copyright infringement suits by requiring manufacturers of audio home recording devices to install certain protections against serial

musical recording or indirectly from a transmission.” 17 U.S.C.S. § 1001(1) (2001). The Act expressly excludes from the definition of “digital musical recordings” a material object in which “one or more computer programs are fixed” *Id.* at § 1001(5) (B). Thus, the *Diamond Multimedia* Court reasoned that the hard drive of a computer is excluded from the definition of digital music recordings. *Diamond Multimedia*, 180 F.3d at 1075-76. The exclusion for personal computers may have been a response to pressure from the personal computer industry. European countries have traditionally imposed levies on recording equipment to compensate the recording industry for losses due to pirating. Some European countries may include personal computers within the levy requirements. See Brandon Mitchener, *EU Commits to Copyright Protection; Critics Warn It Could Boost Prices*, WALL ST. J., Feb. 15, 2001, at A9.

²⁰⁰ See *Diamond Multimedia*, 180 F.3d at 1078. The Ninth Circuit dismissed the district court's concern that excluding hard drives and computers from the reach of the AHRA would allow evasion of the Act because devices could “evade regulation simply by passing the music through a computer and ensuring that the MP3 file resided momentarily on the hard drive.” *Id.*

²⁰¹ *Id.* at 1079.

²⁰² *Id.*

²⁰³ 17 U.S.C.S. § 1008 (2001).

copying and to contribute to a royalty fund, thereby embracing new digital technologies, while still affording protection to copyright holders.²⁰⁴

Because the *Diamond Multimedia* decision held that the Rio was not a device covered by the AHRA, the recording industry could, presumably, have sued the manufacturer for contributory copyright infringement.²⁰⁵ The Ninth Circuit's analysis in *Diamond Multimedia* seems to suggest that the Rio would have survived a claim for contributory copyright infringement because its "noncommercial use" would survive fair use analysis and its space-shifting function would qualify as a substantial noninfringing use. But a brief examination of fair use and substantial noninfringing use suggest that the Rio might not have had a successful defense to a claim for contributory copyright infringement.

The four factors of fair use analysis would seem to weigh against the Rio manufacturer. First, Rio use is not transformative; the MP3 files are merely copied or transferred from the personal computer to the portable player.²⁰⁶ Furthermore, although the *Diamond Multimedia* decision characterizes Rio use as "noncommercial" for purposes of the AHRA, fair use analysis would suggest that such use is commercial because Rio users get portable music for free, something they would ordinarily have to pay for. Second, the musical recordings that are copied are clearly creative in nature and therefore of the type the copyright laws seek to protect. Third, songs are recorded in their entirety. Fourth, the Rio depends on access to MP3 files, most of which the *Diamond Multimedia* court recognized as unauthorized copyrighted works.²⁰⁷ Consequently, use of such works would cause harm to the legitimate CD market.

Given the Ninth Circuit's analysis of substantial noninfringing use in *Napster*, it is difficult to see how the Ninth Circuit would have found that the Rio had a substantial noninfringing use. In *Diamond*

²⁰⁴ See Wendy M. Pollack, Note, *Tuning In: The Future of Copyright Protection for Online Music in the Digital Millennium*, 68 FORDHAM L. REV. 2445, 2461 (2000).

²⁰⁵ See Alex Allemann, Note, *Manifestation of an AHRA Malfunction: The Uncertain Status of MP3 Under Recording Association of America v. Diamond Multimedia Systems, Inc.*, 79 TEX. L. REV. 189 (2000) (arguing that because the Rio is not subject to the AHRA, the Ninth Circuit implies that infringement suits based on the use of such devices are not prohibited, increasing uncertainty and lawsuits where new technologies are involved).

²⁰⁶ See *Diamond Multimedia*, 180 F.3d at 1074-75.

²⁰⁷ See *id.* at 1073-75.

Multimedia, the court noted that "[b]y most accounts, the predominant use of MP3 is the trafficking in illicit audio recordings."²⁰⁸ This statement would seem to indicate that the manufacturers of the Rio would have knowledge that their product was being used primarily for infringing activities. Such knowledge would seem to satisfy the *Netcom* requirement that a defendant must have knowledge to be liable for contributory copyright infringement. Although the *Diamond Multimedia* court also stated that there was a "burgeoning traffic in legitimate audio computer files,"²⁰⁹ it would be hard to argue that the Rio had a substantial noninfringing use because its primary purpose was, like Napster's, to copy unauthorized copyrighted works.

Because Napster use and Rio use are similar in many ways (the primary use being at-home access and enjoyment of unauthorized copyrighted MP3 files), the distinction between the Ninth Circuit's approach to the two cases seems to rest primarily on a difference in degree. Neither Congress, in passing the AHRA, nor the Ninth Circuit, in deciding *Diamond Multimedia*, could have foreseen a service like Napster which took at-home access to copyrighted material to an unprecedented level. VCR use and Rio use, it could be argued, harm the copyright holder because the personal use, in the aggregate, impairs the copyright holder's right to control the use and distribution of his work. Napster, though, goes well beyond this harm which *Sony*, and perhaps *Diamond Multimedia*, found justifiable, because Napster's service escalates the infringement from a device that makes material available to an individual to a system that proliferates the availability of copyrighted material on a worldwide scale.

III. NAPSTER AND THE DIGITAL MILLENNIUM COPYRIGHT ACT

In 1998, Congress passed the Digital Millennium Copyright Act, (DMCA).²¹⁰ Title II of the DMCA, the Online Copyright Infringement Liability Limitation,²¹¹ attempts to clarify the extent to which Internet service providers (ISPs) are liable for copyright infringement and to provide certainty in this area for ISPs attempting to attract investors.²¹² The DMCA provides four safe harbors that

²⁰⁸ *Id.*

²⁰⁹ *Id.*

²¹⁰ 17 U.S.C.S. § 512 (2001).

²¹¹ *Id.*

²¹² See Hatch, *supra* note 14, at 748-49; see also Alfred C. Yen, *Internet Service Provider Liability*

limit monetary liability for qualifying ISPs in suits for contributory or vicarious copyright infringement.²¹³ Recognizing that an online service provider is frequently merely a passive conduit, used to create a copy by a third party, the DMCA may limit liability where service providers merely facilitate transitory digital network communications and could not possibly police all of the transmissions of its users.²¹⁴ To gain the safe harbor protection, however, ISPs must have in place reasonable policies to terminate users who repeatedly infringe the rights of others and must not interfere with owners' security measures for protecting or identifying copyrighted material.²¹⁵ These provisions of the DMCA are consistent with the *Netcom* decision, which required that there be "some element of volition or causation" to hold an ISP liable.²¹⁶

Whether Napster qualifies for protection under the DMCA is an issue that may be settled if the case goes to trial,²¹⁷ but indications are that the court would rule against Napster on this issue. The two safe harbors in which Napster seeks protection are found in Subsections 512(a) and 512(d). Subsection 512(a) limits the liability of ISPs that merely serve as a conduit for digital network communication.²¹⁸ Subsection 512(d) protects services acting as directories or information location tools.²¹⁹ Neither Subsection (b), which protects systems that perform caching functions,²²⁰ nor Subsection (c), which protects certain storage functions,²²¹ apply to Napster. Rulings by both the district court and the Court of Appeals for the Ninth Circuit indicate that Napster is unlikely to find shelter in one of the DMCA's safe harbors. In an opinion issued before the copyright issues were addressed, the district court denied Napster's motion for summary

for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment, 88 GEO. L.J. 1833 (2000) (arguing that the DMCA does not provide a satisfactory solution to ISP liability because it changes the law very little and encourages ISPs to remove material to avoid risk).

²¹³ 17 U.S.C.S. § 512(a)-(d) (2001).

²¹⁴ See *id.* § 512(a); see also Hatch, *supra* note 14, at 748-51.

²¹⁵ 17 U.S.C.S. § 512(i)(1)(A) (2001).

²¹⁶ *Religious Tech. Ctr. v. Netcom On-Line Communication*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995).

²¹⁷ See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001).

²¹⁸ 17 U.S.C.S. § 512(a) (2001).

²¹⁹ *Id.* § 512(d).

²²⁰ *Id.* § 512(b).

²²¹ *Id.* § 512(c).

adjudication, determining that Napster did not qualify as a service provider under the first safe harbor, Subsection 512(a).²²² Subsequently, in granting the recording industry's motion for preliminary injunction, the district court indicated that Napster was unlikely to qualify for protection under Subsection 512(d).²²³

In its motion for summary adjudication, Napster claimed that it was not liable for infringing material on its service because it qualified as a service provider entitled to the safe harbor protection under Subsection 512(a) of the DMCA.²²⁴ The district court denied Napster's motion for summary adjudication for two reasons. First, the district court held that Napster did not satisfy the definition of service provider as stated in subsection 512(a).²²⁵ Second, the district court held that there were genuine issues of material fact concerning whether Napster satisfied the copyright compliance requirements of Subsection 512(i), which are prerequisite to any safe harbor protections under the DMCA.²²⁶

To qualify for exemption from liability under Subsection 512(a), a party must meet the definition of "service provider" and satisfy five conditions.²²⁷ The DMCA defines "service provider" in Subsection 512(k) as "an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received."²²⁸ This definition appears to qualify Napster as a service provider because Napster transmits, routes and provides connections between points specified by its users, without altering the material. But the substantive subsection, 512(a), contains a slight difference in wording. Subsection 512(a) states:

A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing,

²²² A & M Records, Inc. v. Napster, Inc., No. C99-05183 MHP, 2000 U.S. Dist. LEXIS 6243 (U.S. Dist. Ct. N.D. Cal. May 5, 2000)

²²³ A & M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 919 n.24 (N.D. Cal. 2000).

²²⁴ *A&M Records, Inc. v. Napster, Inc.*, 2000 U.S. Dist. LEXIS 6243.

²²⁵ *Id.* at *25.

²²⁶ *Id.* at *27-8.

²²⁷ 17 U.S.C.S. § 512(a) (2001).

²²⁸ *Id.* § 512(k).

or providing connections for, material *through a system or network controlled or operated by or for the service provider*, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if—

- (1) the transmission of the material was initiated by or at the direction of a person other than the service provider;
- (2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;
- (3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;
- (4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and
- (5) the material is transmitted through the system or network without modification of its content.²²⁹

Even assuming that Napster satisfies the five conditions of Subsection 512(a), the district court found that the language of this section does not cover Napster as a service provider qualified for exemption from liability.²³⁰ While subsection 512(k) refers to online service providers that transmit, connect, or route digital communications “between or among points specified by a user,”²³¹ Subsection 512(a) offers protection to providers that transmit, connect, or route material “*through a system or network controlled or operated by or for the service provider.*”²³² The more specific requirement, in Section 512(a) that transmissions, connections or routing go through the system, proved fatal to Napster’s motion for summary adjudication.

The district court analyzed each function mentioned in Subsection 512(a)—transmitting, connecting, and routing.²³³ In each case, the court considered the way in which Napster functions and whether the function occurs “through a system or network controlled or operated

²²⁹ *Id.* § 512(a) (emphasis added).

²³⁰ *A&M Records, Inc. v. Napster, Inc.*, 2000 U.S. Dist. LEXIS at *25.

²³¹ 17 U.S.C.S. § 512(k) (2001).

²³² *Id.* § 512(a) (emphasis added).

²³³ *A&M Records, Inc. v. Napster, Inc.*, 2000 U.S. Dist. LEXIS at *21-5.

by or for the service provider.²³⁴ The court's analysis and conclusion for each function was similar. The court relied on Napster's express denials that transmission of MP3 files ever pass through its servers.²³⁵ The files are transmitted from one user's hard drive and Napster browser to another user's Napster browser and hard drive via the Internet.²³⁶ Based on this information, the court concluded that the transmission does not go through Napster's system but rather through the Internet.²³⁷ Similarly, the court concluded that although Napster facilitates connections between users, the actual connections are made through the Internet.²³⁸ Finally, the court concluded that routing, too, goes through the Internet, not through the Napster server.²³⁹ The court refused to grant summary adjudication to Napster, stating that it failed to qualify for the 512(a) safe harbor.²⁴⁰

The decision denying Napster the protection of a safe harbor as a mere conduit for information may seem to rely too strictly on the small difference of language between Subsections 512(a) and 512(k). Although the court does not explain its reasoning beyond an analysis of Napster's system within the confines of the language, the decision makes sense because the DMCA requires a service provider to remove material that passes through its system once it is notified of an infringement.²⁴¹ MP3 files never go through Napster's system; they pass from users' hard drives via the Internet. The DMCA certainly could not be interpreted to require Napster to remove infringing files from users' hard drives.

The district court also denied summary adjudication to Napster because it concluded that there are genuine issues of material fact about Napster's copyright compliance program.²⁴² Any party seeking a safe harbor under the DMCA must satisfy the requirements of Subsection 512(i), which states:

²³⁴ *Id.*

²³⁵ *See id.* at *20-1.

²³⁶ *See id.*

²³⁷ *See id.* at *24-5.

²³⁸ *See id.*

²³⁹ *See id.* at *25.

²⁴⁰ *Id.*

²⁴¹ *See* 17 U.S.C.S. § 512(c) (2001).

²⁴² *A&M Records, Inc. v. Napster, Inc.*, 2000 U.S. Dist. LEXIS at *28-9.

The limitations established by this Section shall apply to a service provider only if the service provider has adopted and reasonably implemented, and informs subscribers and account holders of the service provider's system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers.²⁴³

The district court concluded that there was evidence that Napster's compliance with this provision was "neither timely nor reasonable within the meaning of subparagraph 512(i)."²⁴⁴ Napster maintains that it had a compliance policy as early as October of 1999, but that it did not inform subscribers of such a policy until February of 2000.²⁴⁵ At the time of litigation, Napster's site contained the following information under "terms of use:"

Napster will terminate the accounts of users who are repeat infringers of the copyrights, or other intellectual property rights, of others. In addition, Napster reserves the right to terminate the account of a user upon any single infringement of the rights of others in conjunction with use of the Napster service.²⁴⁶

Although Subsection 512(i) does not specify any time frame for posting a copyright compliance program, the district court concluded that the plaintiff record companies could still maintain claims for relief from past harm due to Napster's failure to comply with this provision.²⁴⁷ In addition to its delay in notifying subscribers of this policy, the district court concluded that there are questions of material fact regarding whether Napster's policy regarding repeat infringers is "reasonable" as required by the DMCA.²⁴⁸ Although Napster has blocked the passwords of repeating offenders, it has not blocked the infringer's IP address.²⁴⁹ Because Napster subscribers are anonymous, a repeat infringer may easily regain access to Napster using another password.²⁵⁰

²⁴³ 17 U.S.C.S. § 512(i) (2001).

²⁴⁴ *A&M Records, Inc. v. Napster, Inc.*, 2000 U.S. Dist. LEXIS at *29.

²⁴⁵ *Id.* at *26-27.

²⁴⁶ *Id.* at *6.

²⁴⁷ *Id.* at *27.

²⁴⁸ *Id.* at *28.

²⁴⁹ *See id.*

²⁵⁰ *See id.*

In its subsequent opinion granting the recording industry a preliminary injunction against Napster, the district court discouraged any hopes Napster might have for qualifying for protection under subsection 512(d). Subsection 512(d) applies to services "referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link."²⁵¹ Although the district court recognized that Napster fit the definition of an information location tool in its summary adjudication ruling,²⁵² the court's ruling on the motion for a preliminary injunction indicated that Napster would not be eligible for the 512(d) safe harbor because it had knowledge of the infringing activity of its users.²⁵³ The district court emphasized that Napster had constructive knowledge of infringing use because Napster executives had testified that they had downloaded infringing material to their own computers.²⁵⁴ Furthermore, the court noted that Napster promoted its website with screenshots listing infringing files.²⁵⁵ Subsection 512(d)(1)(A) excludes from protection any defendant who has "actual knowledge that the material or activity is infringing,"²⁵⁶ and subsection 512(d)(1)(B) excludes any defendant who "is aware of facts or circumstances from which infringing activity is apparent."²⁵⁷ Thus, the district court stated that its findings regarding the knowledge and activities of Napster executives should put an end to Napster's "persistent attempts to invoke the Digital Millennium Copyright Act."²⁵⁸

CONCLUSION

The showdown between Napster and the recording industry was followed with intense interest by music lovers, artists, the entertainment industry, and scholars of intellectual property. One

²⁵¹ 17 U.S.C.S. § 512(d) (2001).

²⁵² See *A&M Records, Inc. v. Napster, Inc.*, 2000 U.S. Dist. LEXIS at *15-8. The court noted that Napster's advertisements that users "can locate 'millions of songs' online without 'wading through page after page of unknown artists' [is] tantamount to an admission that its search and indexing functions are essential to its marketability." *Id.*

²⁵³ See *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d at 919 n.24.

²⁵⁴ See *id.* at 919.

²⁵⁵ See *id.*

²⁵⁶ 17 U.S.C.S. § 512(d)(1)(A) (2001).

²⁵⁷ *Id.* § 512(d)(1)(B).

²⁵⁸ *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d at 919 n.24.

journalist observed that the court's ruling in *Napster* would most likely provide "the blueprint for the future of the entertainment industry."²⁵⁹ But the *Napster* case adds little to the interpretation of copyright law. The case seems merely to shout that copyright protection is alive and well, even in cyberspace. Claims of direct and contributory infringement and the defenses of fair use and substantial noninfringing use operate in cyberspace just as they do in real space. When at-home use has the potential to deprive the copyright holder of his exclusive right to distribution on a massive scale, the law will protect the right holder despite cries that we must not limit emerging technologies.

It could be said that the law functioned as it should in *Napster*; that when there is piracy, the law will provide a remedy to the copyright holder, no matter how innocent individual use or how innovative the means of attaining information may seem. In other words, *Napster* indicates that there is no new shift in this digital millennium towards increased tolerance for accessing information where copyright interests are involved. If anything, the opposite seems to be true; neither new legislation nor case law has diminished the rights of copyright holders. Amendments to the Copyright Act in the form of the AHRA and the DMCA have not changed the principles of liability for copyright infringement. The AHRA failed to make it clear whether manufacturers of certain devices could be liable for copyright infringement if their device was not covered by the AHRA, leaving in place traditional direct and contributory infringement analysis. The DMCA adds little protection to Internet service providers because it merely restates what the court held in *Netcom*, that an Internet service provider will be liable for contributory infringement only if it had knowledge of infringing activity and materially contributed to the infringement.

Perhaps the most unsettling aspect of the *Napster* case is that the recording industry stands to benefit not only from its legal victory but also from what it has learned from *Napster* in terms of marketing, using a new method of distribution. While *Napster* may be faulted for what the recording industry identified as its "take first, ask later" approach to use of copyrighted material, the recording industry may be criticized for its refusal to take advantage of the *Napster*

²⁵⁹ Greenfeld, *supra* note 3, at 61.

phenomenon. Had the recording industry been able to see past a legal victory, it might have forged an alliance with Napster that would have benefited the recording industry, Napster, and music fans alike. As it stands, Napster has served as a tremendous promotional tool for the online distribution of music. It remains to be seen whether consumers will pay for a fee-based service, provided by Napster or other online music providers, whether Napster clones will succeed in further frustrating the recording industry, or whether Congress may have to intervene to effectuate a workable cross-licensing scheme in the recording industry.