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A & (and) M Records, Inc. v. Napster, Inc.: A Case Comment

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I. INTRODUCTION

Ask anyone with a computer and a quick Internet connection what was the coolest thing about going on-line and more than likely the response will be, "Free music on Napster!" But, the Napster case does not just concern the simple notion of bootlegging music. Nor is it about consumer justification since record companies are charging exorbitant fees for a CD, when they can produce the same CD for pennies on the dollar. More than a quick, easy, and free way to share music with fellow music buffs using the innovations of Internet technology, the Napster controversy is about the value of intellectual property ("IP") in today's new world of Cyberspace. Beyond the notion of "fair use,"[1] this comment will discuss how the Napster outcome should shape current copyright law to deal with the exchange of information through peer-to-peer file sharing on the World Wide Web.

Napster exploded onto the Internet. Since its founding in May 1999,[2] Napster estimated that it would expand its network to reach beyond seventy million users by the end of 2000.[3] The creator of Napster, Shawn Fanning, was a 20-year-old computer programming student at Northeastern University when he decided to develop an easier way to share music with his college roommate.[4] From a small user base to one of the most popular sites on the Internet in less than one year, this "brainchild of a college student"[5] has brought the court's attention to copyright infringement at an exponential rate. The ultimate holding will be critical toward defining boundaries for Internet services, and just how far the notion of "fair use" can be stretched.[6] Beyond whether or not one Internet service is liable for the bootlegging of CDs among its user community, this case presents the court with a new technology known as peer-to-peer ("P2P") file sharing, which can facilitate copyright infringement in a matter of seconds between millions of different and anonymous users.[7]

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1. *See* 17 U.S.C. § 107 (2000).
2. *See* http://www.napster.com/company (last visited Oct. 9, 2001).
3. A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 902 (N.D. Cal. 2000) (referring to defendant's internal documents that suggest there will be seventy-five million Napster users by the end of 2000).
4. *See* http://www.napster.com/company (last visited Oct. 9, 2001).
5. *Napster*, 114 F. Supp. 2d at 902.
6. *See* 17 U.S.C. § 107 (2000).
7. *Napster*, 114 F. Supp. 2d at 901.

II. FACTS

A collection of eighteen powerful record and publishing companies sued Napster, Inc. (hereinafter, "Napster"), an Internet company, for alleged contributory and vicarious copyright infringement.[8] The plaintiff companies brought suit on December 6, 1999 and moved for a preliminary injunction to prevent Napster from allowing its users to make copies of copyrighted music without permission of the owners of the rights.[9] The alleged copyright infringement was accomplished through the use of MP3 files and Napster's MusicShare software, which could be downloaded for free from Napster's Internet site.[10] MP3 or MPEG3 stands for Motion Picture Experts Group, level 3.[11] MP3 files are capable of compressing digital audio files to 1/12 of their original size without destroying the sound quality.[12] Once users had the software and were registered on the Napster system, they were able to make their user directory containing their own MP3 files available to other users while on-line, and could perform searches for MP3 files on other user directories to make copies for their own personal use.[13] The contents of the music files did not reside on and never even passed through the Napster servers; only the names of the files and users were stored and indexed.[14] Therefore, the plaintiff record companies alleged that Napster users were the *direct* infringers and Napster was *contributorily and vicariously* liable through facilitation of the infringing behavior.[15]

On July 26, 2000, the Northern District Court of California granted the plaintiff record companies' motion for a preliminary injunction and enjoined Napster "from engaging in, or facilitating others in copying, downloading, uploading, transmitting, or distributing plaintiffs' copyrighted musical compositions and sound recordings, protected by either

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8. *Id.* at 896-900 (listing plaintiffs as A&M Records, Inc., Geffen Records, Inc., Interscope Records, Sony Music Entertainment Inc., MCA Records, Atlantic Recording Corporation, Island Records, Inc., Motown Record Company L.P., Capitol Records, Inc., La Face Records, BMG Music d/b/a the RCA Records Label, Universal Records Inc., Elektra Entertainment Group Inc., Arista Records, Inc., Sire Records Group Inc., Polygram Records, Inc., Virgin Records America Inc., and Warner Bros. Records, Inc.).

9. *Id.* at 900.

10. *See id.* at 901; *see also* http://www.napster.com/download (providing a method to download the software needed to trade MP3s) (last visited Oct. 9, 2001).

11. *See* http://whatis.techtarget.com/definition/0,,sid9_gci212600,00.html (providing a technical definition of "MP3") (last visited Nov.10, 2001).

12. *See id.*; *see also* Recording Indus. Ass'n. of Am. v. Diamond Multimedia Sys. Inc., 180 F.3d 1002, 1074 (9th Cir. 1999) (explaining MP3).

13. *Napster*, 114 F.Supp.2d at 901-902.

14. A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1012 (9th Cir. 2000) (describing how the transfer or copy of an MP3 file is made from one user's computer to another, otherwise known as "peer-to-peer").

15. *Napster*, 114 F.Supp.2d at 911.

federal or state law, without express permission of the right's owner."[16] Napster appealed.[17]

On July 28, 2000, pending the appeal, a Ninth Circuit panel of judges stayed the injunction.[18] But on appeal, the Ninth Circuit Court of Appeals agreed with the district court that a preliminary injunction was "not only warranted but required."[19] The Ninth Circuit Court of Appealsfound that the Plaintiff record companies would likely succeed in establishing that Napster was contributorily and vicariously liable for copyright infringement.[20]

In district court, Napster asserted the affirmative defenses of fair use and substantial non-infringing uses, as well as a First Amendment challenge, copyright misuse and waiver.[21] The lower court rejected all defenses raised by Napster.[22] Both sides presented expert witnesses and moved to exclude certain expert reports and findings.[23] The district court denied all of Napster's motions to exclude the plaintiff record companies' reports because they were useful in showing irreparable injury.[24] In addition, the court granted the plaintiff record companies' motions to exclude or not rely on certain defense reports due to inadmissible conclusions and dubious credibility.[25]

On appeal, the Ninth Circuit Court of Appeals reviewed the conclusions made by the district court on the expert opinions and determined the report rulings were not an abuse of discretion and were valid.[26] The court also revisited Napster's fair use defense and the new defenses it raised under the Audio Home Recording Act and the Digital Millennium Copyright Act.[27] Concluding that "having digital downloads available for free on the Napster system necessarily harms the copyright holders' attempts to charge for the same downloads,"[28] the court of appeals stated that Napster has had a "deleterious effect on the present and future digital download market."[29]

Therefore, on February 12, 2001, the Ninth Circuit Court of Appeals affirmed the Northern District Court of California's decision and ruled

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16. *See id.* at 927.
17. *Napster*, 239 F.3d at 1004.
18. *Id.* at 1011.
19. *Id.* at 1027.
20. *See id.* at 1022-24.
21. *Napster*, 114 F.Supp.2d at 912-25.
22. *Id.*
23. A&M Records, Inc. v. Napster, Inc., No. C9905183MHP, 2000 WL 1170106 at *1 (N.D. Cal. Aug. 10, 2000).
24. *Napster*, 2000 WL 1170106, at *7-8.
25. *Id.* at *8.
26. A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1017 (9th Cir. 2000).
27. *Id.* at 1014-26.
28. *Id.* at 1017.
29. *Id.*

for a preliminary injunction, but reversed and remanded to the lower court to clarify the scope of the original injunction because it was overbroad.[30] The district court modified the injunction on March 5, 2001 to: (1) require notice by the record companies of copyrighted works they wish removed from the Napster system; and (2) require Napster itself to police the system, ensuring that copyrighted works of which it has received notice are not copied, downloaded, uploaded, transmitted, or distributed.[31] In the event the injunction was wrongfully issued, according to Federal Rule of Civil Procedure 65 (c), the district court required the plaintiffs to set bond for damages incurred in the amount of five million dollars.[32]

III. BACKGROUND

Federal copyright law has roots in the Constitution, where exclusive rights are granted to creators of original works to encourage "the progress of science and useful arts."[33] Rather than an "inevitable, divine, or natural right that confers on authors the absolute ownership of their creations," copyright law is intended to "stimulate activity and progress... for the intellectual enrichment of the public."[34] In other words, copyright law has a dual purpose; it protects the author of the original work and allows for certain uses by others that provide societal benefits. The Copyright Law of 1976 gives copyright owners a cause of action if someone infringes on their original work.[35] Unfortunately, the 1976 Act was limited in the area of copyright law as it pertains to the internet and especially silent in its specific applicability to the peer-to-peer copying of digital music files.[36]

In 1992, the Audio Home Recording Act ("AHRA") amended the existing Copyright Act to allow the use of digital audio recording devices to copy digital music recordings for personal, noncommercial use.[37] This statute arose as part of the legislature's attempt to keep up with technology.[38] Nevertheless, it is evident that, at the time the AHRA was passed, the legislators did not anticipate that home computers would be used as audio recording and listening devices just a few years later. Accordingly, the Ninth Circuit Court of Appeals has held that the AHRA does not

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30. *Id.* at 1027-28.

31. A&M Records, Inc. v. Napster, Inc., No. C 99-05183, 2001 U.S. Dist. LEXIS 2186, at *3-7 (N.D. Cal. Mar. 5, 2001).

32. A&M Records, Inc. v. Napster, Inc., 114 F.Supp.2d 896, 927 (N.D. Cal. 2000); *Napster*, 239 F.3d at 1011; FED. R. CIV. P. 65(c).

33. U.S. CONST. art. I, § 8, cl. 8.

34. Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1107 (1990).

35. 17 U.S.C. § 106 (2001).

36. *See id.*

37. 17 U.S.C. § 1008 (1992).

38. Kristine J. Hoffman, Comment, *Fair Use or Fair Game? The Internet, MP3 and Copyright Law*, 11 ALB. L.J. SCI. & TECH. 153, 166 (2000).

protect persons who copy MP3 files from a computer hard drive because "computers are not digital audio recording devices" as defined by the statute.[39]

In another attempt to update the existing copyright law with advancements in technology, Congress passed the Digital Millennium Copyright Act ("DMCA") in 1998.[40] The DMCA provides Internet Service Providers ("ISPs") a safe harbor from copyright infringement suits.[41] To qualify for the safe harbor, ISPs cannot initiate the transfer, modify the illegal material, or keep a copy of the work.[42] If applicable, the DMCA shields an ISP from any contributory copyright liability where the users of the service are sharing illegal files.

A. *Copyright Infringement*

Generally, in order to be successful in establishing a claim for *direct* copyright infringement, a plaintiff must satisfy the following requirements: (1) proof of ownership of the material in question, and (2) demonstration of a violation of one of the exclusive rights of the copyright holder.[43] Furthermore, in order to establish *secondary* copyright liability, the secondary infringer must know or have reason to know of the direct infringement, and induce, cause, or materially contribute to the infringing behavior.[44]

A recent case of *contributory* infringement on the Internet involving Netcom, a popular ISP, determined that the requisite knowledge required for secondary liability cannot be imputed to a system operator merely through the defendant's conduct.[45] Instead, *contributory* infringement must be demonstrated through actual awareness of specific acts of infringement.[46] In *Netcom*, the ISP and the operator were accused of contributory copyright infringement because they allowed the posting of infringing material, taken from copyrighted works of L. Ron Hubbard, on one of the bulletin boards by one of Netcom's many users.[47] The court refused to conclude that the ISP or the operator were liable simply because the structure of the system allowed for copyrighted material to be

39. *See* Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys. Inc., 180 F.3d 1002, 1078 (9th Cir. 1999).

40. 17 U.S.C. § 512 (1998) (effective Oct. 28, 1998).

41. *Id.* § 512(a).

42. *Id.*

43. *See* Baxter v. MCA, Inc., 812 F.2d 421, 423 (9th Cir. 1987), *cert. denied*, 484 U.S. 954 (1987).

44. *See* Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc., 907 F.Supp. 1361, 1373-74 (N.D. Cal. 1995); Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971).

45. *Netcom*, 907 F.Supp. at 1372-73.

46. *Id.* at 1374.

47. *Id.* at 1365-66.

posted.[48] In addition, both Netcom and the operator lacked the requisite knowledge that one of its users infringed upon the copyrighted work.[49]

Beyond direct and contributory copyright liability in copyright law, a final way to impose fault is through *vicarious* liability. *Vicarious* copyright infringement occurs when a defendant "has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities."[50] Simply stated, the Ninth Circuit Court of Appeals has held that there are two aspects of *vicarious* liability: financial benefit and supervision.[51] Financial benefit can be shown through conclusive evidence of a party's direct financial interest in activities "where infringing performances enhance the attractiveness of the venue to potential customers."[52] Furthermore, the right and ability to supervise can arise either from an existing employer-employee relationship or in the absence of any formal supervisory power, so long as the party is in a position to police the behavior of the direct infringers.[53]

The supervision aspect of *vicarious* liability is exemplified in the *Fonovisa* case, which held auction operators vicariously liable for the direct copyright infringement of booth operators.[54] The Ninth Circuit Court of Appeals held that because the auction operators, whose goal was to maximize profits, had the ability to block the access of copyright infringers to the swap meet, and did nothing, they played a secondary role in the infringement.[55] In sum, any evidence of a direct financial interest coupled with the ability to supervise the infringing behavior gives rise to liability through *vicarious* copyright infringement.

B. *Affirmative Defenses*

One defense in copyright infringement cases is known as the fair use defense.[56] It is an affirmative defense that, when raised, can bar a defendant's direct copyright infringement liability by applying four factors and an "equitable rule of reason" to the specific facts of each individual case.[57] Furthermore, if someone is accused of direct copyright infringement and is later found to be a fair user, then the logical conclu-

48. *Id.* at 1372-73.

49. *Id.* at 1374.

50. Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996) (quoting Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971)).

51. *Fonovisa*, 76 F.3d 259 at 262.

52. *Id.* at 263.

53. *Id.*

54. *Id.* at 261-64.

55. *Id.* at 263-65.

56. *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 433 (1984); 17 U.S.C. § 107(1)-(4) (2001).

57. *Sony*, 464 U.S. at 448 (referring to H.R. REP. NO. 94-1476, at 65-66 (1976)).

sion follows that there can be no basis for secondary infringement.[58] The fair use defense is derived from Section 17 U.S.C. § 107 and reads in part:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include:
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> > (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.[59]

There are other ways to limit secondary liability beyond proving that the use is a fair use. In 1984, the U.S. Supreme Court held that manufacturers of home video tape recorders, whose product is purchased by the general public to copy television programs for private viewing, did not infringe on copyright holders who had their works broadcast on free television because it in effect expanded the viewing audience.[60] The *Sony* court focused on the fair use activities of the consumer of the home video tape recorder, and found that there were substantial non-infringing activities, such as taping public domain material.[61] Because the U.S. Supreme Court applied an "equitable rule of reason" when weighing out all the factors of a fair use analysis, they held that the manufacturers could not be secondary infringers since the balance tipped in their favor.[62] Thus, the Court reasoned the sale of the Betamax device did not amount to secondary infringement because: (1) the intended use was for non-commercial purposes, (2) the space-shifting entitled exposure of the copyrighted material for private home use, and (3) substantial, non-

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58. *See generally Sony Corp. of Am.*, 464 U.S. 417, 454-56 (holding that Sony is not liable for contributory copyright infringement because time-shifting is a fair use).

59. 17 U.S.C. § 107(1)-(4).

60. *See Sony*, 464 U.S. at 421, 443.

61. *Id.* at 424, 444 (emphasizing sports, religious, and educational programming); *see also id.* at 433 (explaining that a copyright owner does not possess the exclusive right to reproductions of public domain material).

62. *Id.* at 454-55.

infringing uses of the product or service existed, such as access to free television programming.[63]

C. *Recent Cases Involving Digital Music Files*

In cases of copying digital music files on the Internet, the fair use defense, when specifically applied to space- or time-shifting, has seen both a success and a failure. In June 1999, the fair use defense was stretched to include the distribution of MP3 files via a portable device.[64] The Ninth Circuit Court of Appeals held that the space-shifting of copyrighted music from a user's computer hard drive to the user's portable MP3 player (the "Rio") is a noncommercial personal use, and therefore a fair use.[65] The court said that this did not involve distribution of the copyrighted material to the general public, and was merely allowing an individual user to make a copy of his own file to render it portable.[66]

On May 4, 2000, the District Court for the Southern District of New York analyzed a similar case but rejected the fair use defense and held that the reproduction of unauthorized copies of audio CDs into MP3 files for space-shifting purposes on the website My.MP3.com did not significantly transform the work.[67] In its fair use analysis, the court pointed out that even though My.MP3.com's use of the copyrighted works seemed to have a positive impact on one market, the impact did not tip the scale toward a finding of fair use where copyright infringement has occurred, nor did it give an unauthorized user the right to enter into a valid copyright holder's future market.[68]

IV. *A&M RECORDS, INC. V. NAPSTER, INC.*[69]

The Court of Appeals for the Ninth Circuit agreed with the lower court's finding that the record company plaintiffs could successfully present "a prima facie case of direct infringement" against Napster users.[70] In other words, since the court held that Napster users directly infringed the copyrighted works, Napster could potentially be liable for contributory and/or vicarious copyright infringement.[71] The direct infringement

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63. *Id.* at 442, 446.

64. *See* Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys. Inc., 180 F.3d 1002, 1079 (9th Cir. 1999) (describing the Rio's function as being for personal use and consistent with the Copyright Act's main purpose).

65. *Id.*

66. *Id.*

67. UMG Recordings, Inc. v. MP3.com, Inc., 92 F. Supp. 2d. 349 (S.D.N.Y. 2000); *see also* Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 578-79 (1994) (considering the first factor of a fair use analysis, "the purpose and character of the use," and whether the new use transforms the work by infusing it with new meaning or new understanding).

68. *See UMG Recordings*, 92 F. Supp. 2d at 349.

69. 239 F.3d 1004 (9th Cir. 2001).

70. *See Napster*, 239 F.3d at 1013.

71. *See id.* at 1019-20.

claim achieved success through demonstration of ownership of the copyrighted files and proof that Napster users violated the reproduction and the distribution rights of the copyright owners.[72] On appeal, Napster did not dispute that direct infringement occurred through its users, but rather asserted the affirmative defenses of fair use and substantial non-infringing uses, as well as defenses under the Audio Home Recording Act and the safe harbor of the Digital Millennium Copyright Act, and the defenses of waiver, implied license, and copyright misuse.[73] The court of appeals rejected all of Napster's defenses.[74]

A. *Are Napster users "fair users?"*

If Napster is unable prove its users were fair users, then Napster itself may be liable for contributory or vicarious copyright infringement.[75] In considering the preliminary injunction, the court of appeals applied the four statutory factors of the fair use doctrine listed in the Copyright Act of 1976 to determine that Napster users were not fair users.[76]

The first factor in a fair use analysis, "the purpose and character of the use,"[77] focuses on how transformative the work is as related to the original copyrighted work.[78] The court of appeals held that the downloading of MP3 files is merely a transmission of the copyrighted work in a different medium and, therefore, is not transformative.[79] In addition, the court of appeals looked at whether the uses had commercial or noncommercial purposes.[80] Because Napster users anonymously requested files and, by copying the MP3 files, the users obtained music for free that they otherwise would have had to buy, the court found that Napster users qualified as commercial users.[81]

The second factor, "the nature of the copyrighted work,"[82] did not require much analysis by the court of appeals, as musical compositions are generally considered creative in nature.[83] Since creative works are

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72. *See* A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 911 (N.D. Cal. 2000) ("as much as eighty-seven percent of the files available on Napster may be copyrighted, and more than seventy percent may be owned or administered by plaintiffs"), *aff'd in part, rev'd in part*, 239 F.3d 1004. *See also* 17 U.S.C. § 106(1)-(3) (2000) (setting forth the exclusive rights of a copyright owner).

73. *See Napster*, 239 F.3d at 1014, 1024-26.

74. *See id.* at 1019, 1024-26.

75. *See id.* at 1019-20.

76. *See id.* at 1014-19.

77. 17 U.S.C. § 107(1) (1999).

78. *See* Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994).

79. *See Napster*, 239 F.3d at 1015.

80. *See id.*

81. *See id.*

82. 17 U.S.C. § 107(2).

83. *See Napster*, 239 F.3d at 1016.

"closer to the core of intended copyright protection"[84] than other fact-based works, the scale is tipped in the copyright owner's favor and against a finding of fair use.[85]

The third factor of a fair use analysis, "the amount and substantiality of the portion used,"[86] rests on a qualitative and quantitative analysis.[87] No absolute rules govern the determination as to how much of a copyrighted work may be copied and still qualify as a fair use.[88] The court of appeals based its decision on *Worldwide Church of God v. Philadelphia Church of God, Inc.*,[89] which held that "[w]hile 'wholesale copying does not preclude fair use per se,' copying an entire work 'militates against a finding of fair use.'"[90] Therefore, because Napster users copied the entire work, the court found strong, but not conclusive, evidence of infringing behavior.[91]

The Supreme Court has described the fourth factor, "the effect of the use upon the potential market,"[92] as the "single most important element of fair use."[93] The court of appeals reviewed the expert reports presented by both parties and agreed with the district court that Napster had a "deleterious effect on the present and future digital download market."[94]

Using all four factors in an "'equitable rule of reason' analysis,"[95] the court held that Napster users were not fair users and that they directly infringed on the exclusive rights of copyright owners.[96]

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84. *Id.* (quoting Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 586 (1994)).

85. *See Napster*, 239 F.3d at 1016.

86. 17 U.S.C. § 107(3).

87. *See Napster*, 239 F.3d at 1016.

88. *See, e.g.*, Maxtone-Graham v. Burtchaell, 803 F.2d 1253, 1255, 1263 (2d Cir. 1986) (affirming the lower court's grant of summary judgment for defendant author because the verbatim copying of published interviews amounted to only 4.3% of the words in the copyrighted work); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 454-55 (1984) (holding that copying a television program in its entirety, for the purpose of home time-shifting, is a fair use); Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 564-66 (1985) (finding the use of an insubstantial amount of quoted words from a manuscript to be infringement because the quoted words were essentially the book's focal point).

89. 227 F.3d 1110 (9th Cir. 2000).

90. *Worldwide Church of God*, 227 F.3d at 1118 (quoting Hustler Magazine, Inc. v. Moral Majority, Inc., 796 F.2d 1148, 1155 (9th Cir. 1986)); *see Napster*, 239 F.3d at 1016.

91. *See Napster*, 239 F.3d at 1016.

92. 17 U.S.C. § 107(4) (1999).

93. Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566 (1985).

94. *Napster*, 239 F.3d at 1017.

95. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 448 (1984) (stating the four factors "enable a Court to apply an 'equitable rule of reason' analysis to particular claims of infringement") (quoting H.R. REP. NO. 94-1476, at 65 (1976)).

96. *See Napster*, 239 F.3d at 1014-17.

B. *Substantial Non-infringing Uses*

Napster also attempted to show its system was capable of a substantial number of non-infringing uses,[97] which outweighed any of the potential infringing uses.[98] However, the court of appeals did not agree with Napster that sampling, space-shifting, or permissive reproduction constituted substantial non-infringing uses.[99] First, the court determined that sampling is, in fact, a commercial use, and even if sampling boosted compact disc sales, it was still unauthorized.[100] Next, the court of appeals rejected the space-shifting defense because rather than exposing the copyrighted material solely to the original user, Napster's method of space-shifting made the material available to the general public.[101] Lastly, the court said Napster could not assert permissive reproduction as a defense because the plaintiff record companies had not challenged the noninfringing uses of Napster, which included Napster's "New Artist Program," message boards, and chat rooms,[102] as well as music downloads from copyright owners who consented to their music being available through Napster.

C. *Audio Home Recording Act*[103]

Napster asserted the Audio Home Recording Act of 1992 ("AHRA") as a defense to the charges of copyright infringement based on secondary liability.[104] The AHRA protects the manufacturers, importers, and distributors of digital audio recording devices by allowing "in-home noncommercial recording of copyrighted works."[105] However, the court of appeals rejected Napster's AHRA defense, concluding "the Audio Home Recording Act does not cover the downloading of MP3 files to computer hard drives" because "computers . . . are not digital audio recording devices," as that term is defined in the AHRA.[106]

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97. *See id.* at 1017-19.

98. *See, e.g., Sony*, 464 U.S. at 442 ("[T]he 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.").

99. *See Napster*, 239 F.3d at 1018-19. Sampling occurs when a user downloads a music file to consider whether to buy the recording. *See id.* at 1018. Space-shifting occurs when a user downloads a music file from Napster that the user already possesses on an audio compact disc. *See id.* at 1019.

100. *See id.* at 1018-19.

101. *See id.* at 1019.

102. *See id.*

103. 17 U.S.C. § 1008 (1999).

104. *See Napster*, 239 F.3d at 1024.

105. Kevin Davis, Comment, *Fair Use on the Internet: A Fine Line Between Fair and Foul*, 34 U.S.F. L. REV. 129, 159 (1999).

106. *See Napster*, 239 F.3d at 1024 (quoting Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys. Inc., 180 F.3d 1072, 1078 (9th Cir. 1999)). The court also noted that the plaintiff record companies did not assert claims under the AHRA. *See Napster*, 239 F.3d at 1024.

D. *Digital Millennium Copyright Act*[107]

Napster also asserted a defense under the Digital Millennium Copyright Act ("DMCA"), which, Napster argued, limited its liability as a secondary infringer.[108] Section (d) of the DMCA reads:

> (d) Information location tools.--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 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, if the service provider--
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> (1)(A) does not have actual knowledge that the material or activity is infringing;
>
> (B) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
>
> (C) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;
>
> (2) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and
>
> (3) upon notification of claimed infringement as described in subsection (c)(3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity, except that, for purposes of this paragraph, the information described in subsection (c)(3)(A)(iii) shall be identification of the reference or link, to material or activity claimed to be infringing, that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate that reference or link.[109]

Based on its DMCA analysis, the court of appeals reversed the district court's finding.[110] The district court had rejected Napster's DMCA defense and held that § 512(d) of the DMCA does not protect secondary infringers.[111] The court of appeals disagreed with this blanket conclusion made by the district court because it felt that circumstances might exist in which the DMCA could protect a party from contributory and vicarious

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107. 17 U.S.C. § 512 (1999).

108. *See Napster*, 239 F.3d at 1025.

109. 17 U.S.C. § 512(d).

110. *See Napster*, 239 F.3d at 1025.

111. *See* A&M Records Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 919 n.24 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004; *Napster*, 239 F.3d at 1025.

liability.[112] Although the plaintiffs had shown that Napster would probably be unable to obtain protection under the safe harbor of the DMCA, the court felt that questions raised by this defense, such as whether Napster qualifies as an ISP, would be better resolved at trial.[113] Therefore, in considering the motion for a preliminary injunction, the court determined the DMCA defense was not strong enough to protect Napster.[114] However, the court noted the DMCA defense may prove useful during trial.[115]

E. *Other Defenses*

The court rejected Napster's defenses of waiver, implied license, and copyright misuse.[116] First, the court noted that "[w]aiver is the intentional relinquishment of a known right with knowledge of its existence and the intent to relinquish it."[117] Napster asserted that the "plaintiffs knowingly provided consumers with technology designed to copy and distribute MP3 files over the Internet and, thus, waived any legal authority to exercise exclusive control over creation and distribution of MP3 files."[118] However, the court refused to hold the record companies responsible for creating the tools that enable the illegal reproduction of music files.[119]

Next, Napster claimed that the record companies granted Napster an implied license to distribute MP3 files on the Internet.[120] Courts have been reluctant to find implied licenses except where one party has created a work by request and provided the work to the requestor, with the intention that the requestor would copy and distribute the work.[121] Thus, this defense succeeds in very few circumstances.[122] Therefore, the court felt that the existence of some online advertising that promoted permissive downloads of specified music files did not equate to the record companies granting to Napster an implied license that made countless copyrighted works available for distribution.[123]

Finally, Napster claimed copyright misuse and alleged that online distribution of music files "is not within the copyright monopoly."[124] The court rejected this defense simply because the rights to reproduce and

112. *See Napster*, 239 F.3d at 1025.
113. *See id.*
114. *See id.*
115. *See id.*
116. *See id.* at 1026-27.
117. *Id.* at 1026 (quoting United States v. King Features Entm't, Inc., 843 F.2d 394, 399 (9th Cir. 1998)).
118. *Napster*, 239 F.3d at 1026.
119. *See id.*
120. *See id.*
121. *See id.* (citing SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms., Inc., 211 F.3d 21, 25 (2d Cir. 2000)).
122. *See Napster*, 239 F.3d at 1026.
123. *See id.*
124. *Id.*

distribute a copyrighted work are the copyright owner's exclusive rights.[125]

In rejecting all of Napster's defenses, the court of appeals upheld the preliminary injunction against Napster to stop its participation in copyright infringement.[126] The court of appeals affirmed in part, and reversed in part, the lower court's decision.[127] The court then remanded the case to the District Court for the Northern District of California to modify the scope of the injunction.[128] The court of appeals ordered modification to limit Napster's burden of ensuring protection of all copyrighted works on its system.[129] The court held that although Napster must still police its system for infringing MP3 files, the plaintiff record companies must supply Napster with notice of the copyrighted works they wish to protect.[130]

F. *Damages*

If the district court finds Napster liable for contributory and vicarious copyright infringement, the question of damages naturally arises. Napster may prove that it did not cause any actual monetary damage to the record companies. In fact, by making an artist's songs available on the Internet, Napster may have sparked listeners' interests in purchasing the entire compact disc.[131] Thus, it is possible that Napster's shareware music programs help sales, rather than hinder them.[132] Furthermore, Napster never technically made money.[133] Napster was simply an extremely popular site with potential to make future acquisitions or to be acquired themselves.[134] Damages, however, can be considerable in copyright infringement cases. For example, when a court found MP3.com guilty of willful copyright infringement through its site, My.MP3.com, the court assessed MP3.com with statutory damages of $53,400,000.[135] The *Napster* case will be the first in which a court will assess damages, if any, for

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125. *See id.* at 1026-27.

126. *See id.* at 1029.

127. *See id.*

128. *See id., remanded to* No. C 99-05183 MHP, 2001 U.S. Dist. LEXIS 2186, at *3 (N.D. Cal. 2001).

129. *See Napster*, 239 F.3d at 1027, 1029; *Napster*, 2001 U.S. Dist. LEXIS 2186, at *3-*9.

130. *See Napster*, 239 F.3d at 1027; *Napster*, 2001 U.S. Dist. LEXIS 2186, at *3-*7.

131. *See* Joel Selvin, Editorial, *Did Napster Help Boost Record Sales?*, S.F. CHRON., Aug. 5, 2001, at 54, *available at* 2001 WL 3410699.

132. *See id.*

133. *See Napster*, 114 F. Supp. 2d 896, 902 (N.D. Cal. 2000) (explaining that Napster does not collect revenues and does not charge its users any fees), *aff'd in part and rev'd in part*, 239 F.3d 1004 (9th Cir. 2001).

134. *See A&M Records*, 114 F. Supp. 2d at 902 (measuring Napster's value partially by the number of Napster users and concluding that Napster was worth between sixty and eighty million dollars).

135. *See* UMG Recordings, Inc. v. MP3.com, Inc., No. 00 Civ. 0472 (JSR), 2000 U.S. Dist. LEXIS 17907 (S.D.N.Y. 2000).

contributory and vicarious copyright liability on the Internet for music piracy. The district court will have to decide if it wants to send a message to other current or potential pirate sites by imposing a large damages award against Napster.

V. ANALYSIS

The aftermath of the injunction, in essence, disabled Napster and forced its user community to turn elsewhere for pirated music.[136] Today, Napster must police itself for infringing users and files.[137] Consequently, music fans, although still claiming devout loyalty to Napster, have turned their attention temporarily to other piracy tools such as Gnutella, Morphius, Aimster, Freenet, iMesh, and others.[138] These services have tweaked the Napster idea to limit their central involvement and, for now, decrease their liability.[139] In other words, while Napster takes the wrath of the record companies, the infringing behavior has simply shifted to other sites and systems that continue to do the forbidden file sharing; these other systems just share files in a different manner.[140]

A court would likely absolve a peer-to-peer ("P2P") software distributor of any *direct* infringement liability since the distributor plays no actual part in the infringing behavior. However, as the court of appeals for the Ninth Circuit held in granting a preliminary injunction against Napster, creators and operators of P2P systems can be liable for *contributory* and *vicarious* copyright infringement.[141] The court analyzed the secondary infringement issue as follows: (1) a party can be liable for *contributory* copyright infringement if it has knowledge of and materially contributes to another party's infringing activity, and (2) a party can be liable for *vicarious* infringement if it receives financial benefit from and controls another party's infringing activity.[142] Additionally, the court found that once a party receives information regarding specific acts of infringing behavior, the party must do something to prevent the behavior.[143]

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136. *See* Opinion, *New Labels, Same Act*, PALM BEACH POST, July 28, 2001, at 12A, *available at* 2001 WL 24556444.

137. *See Napster*, No. C 99-05183 MHP, 2001 U.S. Dist. LEXIS 2186, at *5-*6. (N.D. Cal. 2001).

138. *See* Opinion, *supra* note 136; Gnutella *at* http://www.gnutella.co.uk (last visited Oct. 21, 2001); Morphius *at* http://www.morphius.com (last visited Nov. 12, 2001); Aimster *at* http://www.aimster.com (last visited Oct. 21, 2001); The Free Network Project *at* http://freenet.sourceforge.net (last visited Oct. 21, 2001); iMesh *at* http://www.imesh.com (last visited Oct. 21, 2001).

139. *See* Lee Gomes, *Entertainment Industry Sues to Curtail Web Music-Sharing System Morpheus*, WALL ST. J., Oct. 4, 2001, at B9, *available at* Westlaw, 2001 WL-WSJ 2877494.

140. *See id.*

141. *See* A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1020, 1024 (9th Cir. 2001), *remanded to* 2001 U.S. Dist. LEXIS 2186.

142. *See Napster*, 239 F.3d at 1019, 1022.

143. *See id.* at 1021.

However, a question arises regarding those systems with architecture making it impossible to monitor, block, or otherwise prevent infringing behavior.[144] With the system at issue in the Napster case, Napster could supervise its users and block certain users if it chose to do so, and the court weighed this factor while considering the allegations of secondary liability.[145] The new and improved alternatives to Napster are true P2P systems, and because of this distinction, may be able to escape liability.[146] A true P2P system requires no central unit.[147] The transfer of information occurs between two end users who work directly with one another.[148] Today, by employing one of the new technologies such as Gnutella, a user simply logs on to the Internet and instantly begins searching and sharing files directly with other Gnutella users.[149] The user never has to communicate with a central server to facilitate the process.[150] Regardless of the ability of file-sharing web sites to control users or block the sharing of certain files, the court must consider those systems that cannot police their users. Software, and particularly Internet software, has the capability of undergoing rapid transformations to alter a particular feature or change the system architecture. In light of this technology and in the interest of judicial economy, the *Napster* court should consider adopting a broadly tailored decision to capture many of the current and future P2P systems that are popular with copyright infringers, rather than limiting its holding to systems with policing capabilities.

As discussed in detail above, the district court held that Napster could not rely on the "Betamax" defense because Napster did not have substantial non-infringing uses.[151] The court of appeals, while recognizing the possibility that a P2P file sharing system could have a substantial number of non-infringing uses, chose not rule on this issue during the preliminary injunction phase.[152] For example, a file sharing system not promoting infringing activity still has the potential of facilitating unauthorized copying.[153] If a P2P system's main purpose is more generic than the facilitation of music piracy, the system could potentially escape liability under the court of appeals's holding. The court of appeals found *Sony* and the defense of substantial non-infringing uses inapplicable

144. *See* Gomes, *supra* note 139.

145. *See Napster*, 239 F.3d at 1023-24.

146. *See* Gomes, *supra* note 139.

147. *See* Dave Wilby, *Top of the Swaps (Six Music-Sharing Web Sites)*, INTERNET MAG., Sept. 1, 2001, *available at* 2001 WL 27915442.

148. *See id.*

149. *See* Hane C. Lee, *The Next Napster? Nowhere in Sight*, INDUSTRY STANDARD, Feb. 19, 2001, *available at* 2001 WL 7800832; Gnutella *at* http://www.gnutella.co.uk (last visited Oct. 21, 2001).

150. *See* Lee, *supra* note 149.

151. *See* A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 917 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004.

152. *See Napster*, 239 F.3d at 1021.

153. *See id.* at 1020-21.

since Napster had "both actual and constructive knowledge that its users exchanged copyrighted music," and therefore could be liable for secondary infringement based on knowledge alone.[154]

At this point, whether centralized or non-centralized P2P systems on the Internet can escape liability by raising the "Betamax" defense for substantial non-infringing uses remains unclear. However, an important distinction must be drawn between a video recorder that allows a person to make a single, in-home copy of a broadcast television program and a software tool that makes available, to thousands of anonymous computer users, a free copy of a copyrighted work that is sold in the market. For example, if Sony Corporation created a VCR with the primary purpose of allowing people to first copy pay-per-view television shows and then simultaneously make the shows available to thousands of anonymous viewers via cable, the *Sony* court may have come to a different conclusion on secondary liability.[155] In fact, the *Sony* court specified that video recorders expanded "public access to freely broadcast television programs."[156] Still, some people argue that the "Betamax" defense should be broadly interpreted to hold that "the sale or distribution of a device that enables others to engage in copyright infringement should not, on its own, constitute a 'material contribution' to that infringement."[157]

Unfortunately, one cannot assume the holding in *Napster* governs systems without policing capabilities, nor can one assume the holding controls over systems with substantial non-infringing uses. Because the court of appeals has ruled, and the district court on remand will have to rule, based on the facts of the *Napster* case, the holding may be too narrow to apply to potential infringers using other similar systems. However, are these other non-centralized systems with substantial non-infringing uses really a threat to copyright holders?

Although non-centralized P2P systems may currently escape liability, the fact remains that unless a service has a centralized repository for users to access, the service will not be as widely accessible or as widely embraced as Napster. Napster is a safe, simple tool that was easy for music fans to use.[158] Napster feels easy and secure because it gives the individual users control over which directories and MP3 files they want to share.[159] Many of the other P2P systems, such as Gnutella, require users to be more technologically savvy than Napster users, and to under-

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154. *Id.* at 1020.

155. *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 456 (1984) (discussing failure to show nonminimal harm to market).

156. *Sony*, 464 U.S. at 454.

157. Glynn S. Lunney, Jr., *The Death of Copyright: Digital Technology, Private Copying, and the Digital Millennium Copyright Act*, 87 VA. L. REV. 813, 827 (2001).

158. *See* A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 901-02 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004.

159. *See Napster*, 239 F.3d at 1011-12.

stand concepts such as firewalls and file server systems.[160] These other P2P systems may be slower, more complex, and have many bugs that need to be worked out, including how much of one's system is exposed to other anonymous Internet users.[161] Despite the potential loopholes, the *Napster* holding indicates it is wrong to make unauthorized copies of copyrighted works on the Internet. Internet users will hopefully be more apt to enroll in monthly fee sites in order to share copyrighted music and movies on the Internet rather than risk revealing their personal computer files and information to unknown people.

With its *Napster* decision, whichever court ends up with the "final say" will become a pioneer in shaping the future of Internet copyright law. Given the tremendous advancements in technology today and in preparation for the advancements of tomorrow, the *Napster* opinion most likely will not provide a complete solution for controlling copyright infringement on the Internet. Regardless, by holding that A&M Records "substantially and primarily prevailed on appeal," the court put developers and users of P2P systems on notice that liability for copyright infringement on the Internet is real and violators will be prosecuted.[162] Without this critical starting point in policing copyrights on the Internet, the unlimited reign of file sharing would have continued without set boundaries on what kind of files users could copy for free, which affects even the latest craze of DVD swapping.

The Supreme Court said, "[s]ound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials."[163] Because the *Napster* holding will not altogether eliminate copyright infringement on the Internet, the legislature must devise an amendment to the Copyright Act. The amendment should hold the creators and distributors of P2P programs liable if they facilitate mainstream distribution of software with infringing capabilities, and have the knowledge and intent that a major function of the program is to share copyrighted material without the consent of the copyyright owner. A P2P system really cannot become mainstream without a central website, knowledge base, or team of developers that distribute new versions to the user community. Consequently, copyright owners will not face an impossible task when tracking down the individuals responsible for facilitating the mainstream illegal activity.

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160. *See generally* Gnutella, at http://www.gnutellanews.com/information/what_is_gnutella.shtml (last visited Nov. 15, 2001) (providing information on how Gnutella works); http://gnutellanews.com/information/ firewalls.shtml (last modified May 21, 2000) (providing information on how to establish a connection across a firewall).

161. *See, e.g.*, Mia Garlick, *The Ups and Downs of the Napster Revolution, at* http://www.gtlaw.com.au/templates/publications/default.jsp?pubid=42 (Dec. 9, 2000) (explaining that Gnutella users must know a Gnutella server's numeric Internet protocol address to use the program since Gnutella servers change several times daily).

162. *Napster*, 239 F.3d at 1029.

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

Although the Recording Industry Association of America would probably like to ban altogether the use of MP3 files except where copyright owners retain exclusive control of the reproduction and distribution of the works, a better solution is to find a balance between technology and copyright law.[164] Currently, as the lawmakers focus on expanding existing copyright law to allow greater protection to copyright owners on the Internet, record companies and other members of the music industry are joining forces to improve security measures.[165] The Secure Digital Music Initiative ("SDMI") is one step the music industry has taken to improve security.[166] In particular, the SDMI is preparing to release its "black box" technology, which will "work in conjunction with 'watermarks' to help filter out pirated music."[167] In essence, the SDMI watermarking technology distorts the sound of a particular song if a pirate attempts to copy the watermarked song.[168] Even though this "black box" technology seems like a simple solution for preventing future digital music piracy, the technology still has glitches that developers will have to eliminate. Also, watermarking technology does not solve the existing piracy problems.

VI. CONCLUSION

Technology is advancing at a rapid speed. Internet users have the ability to transfer information all over the world with the click of a single button. In a matter of seconds, data within one file is broken up into pieces and transmitted over cable or phone lines to be rapidly reassembled into a copy of the original file. Even more astounding is the fact that these data transfers can be done anonymously between two personal computers without leaving a trace behind. While legislators try to shape the laws to keep up with new technology, such amendments become outdated before the lawmakers etch them on paper. While huge record companies spend millions of dollars on lawsuits to recoup the pennies they lose each time a song is shared among a community of music fans, a new Internet service or device is developed to take the place of the previous one.

The *Napster* case is an indication that history is repeating itself. With the advent of radio in the 1930s, entertainers perceived radio as a threat to their earnings through live performance.[169] Only gradually did

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164. The Recording Industry Association of America is one of the biggest opponents of Napster and other similar systems on the Internet. *See Napster Lawsuit Q&A at* http://www.riaa.com/Napster.cfm (last visited Oct. 29, 2001).

165. *See, e.g.*, Hoffman, *supra* note 38, at 179 (explaining that the Secure Digital Music Initiative is an industry security initiative).

166. *See id.*

167. *Id.* at 171.

168. *See id.*

169. *See* Robert A. Gorman, *The Recording Musician and Union Power: A Case Study of the American Federation of Musicians*, 37 SW. L.J. 697, 702 (1983).

entertainers fully appreciate the lucrative effect radio could have on their music sales through mass communication. Today, many entertainers and record companies view the Internet as a threat to compact disc sales. However, like the tremendously positive effect radio had on performers' popularity and potential earnings, the Internet possesses the same possibilities, if used appropriately and within the guidelines of the law. Undoubtedly, Napster and other P2P systems provide a novel and innovative means of sharing information. On the other hand, despite the potential of P2P systems becoming a lucrative new avenue to promote artists and their music, copyright owners have every right to prevent the distribution of unauthorized copies of their work to millions of Internet users without their consent.

Jennifer Gokenbach