

## **FROM SONY TO GROKSTER**

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

JUSTICE STEVENS delivered the opinion of the Court.

Petitioners manufacture and sell home video tape recorders. Respondents own the copyrights on some of the television programs that are broadcast on the public airwaves. Some members of the general public use video tape recorders sold by petitioners to record some of these broadcasts, as well as a large number of other broadcasts. The question presented is whether the sale of petitioners' copying equipment to the general public violates any of the rights conferred upon respondents by the Copyright Act.

Respondents commenced this copyright infringement action against petitioners in the United States District Court for the Central District of California in 1976. Respondents alleged that some individuals had used Betamax video tape recorders (VTR's) to record some of respondents' copyrighted works which had been exhibited on commercially sponsored television and contended that these individuals had thereby infringed respondents' copyrights. Respondents further maintained that petitioners were liable for the copyright infringement allegedly committed by Betamax consumers because of petitioners' marketing of the Betamax VTR's. Respondents sought no relief against any Betamax consumer. Instead, they sought money damages and an equitable accounting of profits from petitioners, as well as an injunction against the manufacture and marketing of Betamax VTR's.

After a lengthy trial, the District Court denied respondents all the relief they sought and entered judgment for petitioners. The United States Court of Appeals for the Ninth Circuit reversed the District Court's judgment on respondents' copyright claim, holding petitioners liable for contributory infringement and ordering the District Court to fashion appropriate relief. We granted certiorari; since we had not completed our study of the case last Term, we ordered reargument. We now reverse.

An explanation of our rejection of respondents' unprecedented attempt to impose copyright liability upon the distributors of copying equipment requires a quite detailed recitation of the findings of the District Court. In summary, those findings reveal that the average member of the public uses a VTR principally to record a program he cannot view as it is being televised and then to watch it once at a later time. This practice, known as "time-shifting," enlarges the television viewing audience. For that reason, a significant amount of television programming may be used in this manner without objection from the owners of the copyrights on the programs. For the same reason, even the two respondents in this case, who do assert objections to time-shifting in this litigation, were unable to prove that the practice has impaired the commercial value of their copyrights or has created any likelihood of future harm. Given these findings, there is no basis in the Copyright Act upon which respondents can hold petitioners liable for distributing VTR's to the general public. The Court of Appeals' holding that respondents are entitled to enjoin the distribution of VTR's, to collect royalties on the sale of such equipment, or to obtain other relief, if affirmed, would enlarge the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection. Such an expansion of the copyright privilege is beyond the limits of the grants authorized by Congress.

I

The two respondents in this action, Universal City Studios, Inc., and Walt Disney Productions, produce and hold the copyrights on a substantial number of motion pictures and other audiovisual works. In the current marketplace, they can exploit their rights in these works in a number of ways: by authorizing theatrical exhibitions, by licensing limited showings on cable and network television, by selling syndication rights for repeated airings on local television stations, and by marketing programs on prerecorded videotapes or videodiscs. Some works are suitable for exploitation through all of these avenues, while the market for other works is more limited.

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

Petitioner Sony manufactures millions of Betamax video tape recorders and markets these devices through numerous retail establishments, some of which are also petitioners in this action. Sony's Betamax VTR is a mechanism consisting of three basic components: (1) a tuner, which receives electromagnetic signals transmitted over the television band of the public airwaves and separates them into audio and visual signals; (2) a recorder, which records such signals on a magnetic tape; and (3) an adapter, which converts the audio and visual signals on the tape into a composite signal that can be received by a television set.

Several capabilities of the machine are noteworthy. The separate tuner in the Betamax enables it to record a broadcast off one station while the television set is tuned to another channel, permitting the viewer, for example, to watch two simultaneous news broadcasts by watching one "live" and recording the other for later viewing. Tapes may be reused, and programs that have been recorded may be erased either before or after viewing. A timer in the Betamax can be used to activate and deactivate the equipment at predetermined times, enabling an intended viewer to record programs that are transmitted when he or she is not at home. Thus a person may watch a program at home in the evening even though it was broadcast while the viewer was at work during the afternoon. The Betamax is also equipped with a pause button and a fast-forward control. The pause button, when depressed, deactivates the recorder until it is released, thus enabling a viewer to omit a commercial advertisement from the recording, provided, of course, that the viewer is present when the program is recorded. The fast-forward control enables the viewer of a previously recorded program to run the tape rapidly when a segment he or she does not desire to see is being played back on the television screen.

The respondents and Sony both conducted surveys of the way the Betamax machine was used by several hundred owners during a sample period in 1978. Although there were some differences in the surveys, they both showed that the primary use of the machine for most owners was "time-shifting"—the practice of recording a program to view it once at a later time, and thereafter erasing it. Time-shifting enables viewers to see programs they otherwise would miss because they are not at home, are occupied with other tasks, or are viewing a program on another station at the time of a broadcast that they desire to watch. Both surveys also showed, however, that a substantial number of interviewees had accumulated libraries of tapes. Sony's survey indicated that over 80% of the interviewees watched at least as much regular television as they had before owning a Betamax. Respondents offered no evidence of decreased television viewing by Betamax owners.

Sony introduced considerable evidence describing television programs that could be copied without objection from any copyright holder, with special emphasis on sports, religious, and educational programming. For example, their survey indicated that 7.3% of all Betamax use is to record sports events, and representatives of professional baseball, football, basketball, and hockey testified that they had no objection to the recording of their televised events for home use.

Respondents offered opinion evidence concerning the future impact of the unrestricted sale of VTR's on the commercial value of their copyrights. The District Court found, however, that they had failed to prove any likelihood of future harm from the use of VTR's for time-shifting.

### The District Court's Decision

The lengthy trial of the case in the District Court concerned the private, home use of VTR's for recording programs broadcast on the public airwaves without charge to the viewer. No issue concerning the transfer of tapes to other persons, the use of home-recorded tapes for public performances, or the copying of programs transmitted on pay or cable television systems was raised.

The District Court concluded that noncommercial home use recording of material broadcast over the public airwaves was a fair use of copyrighted works and did not constitute copyright infringement. It emphasized the fact that the material was broadcast free to the public at large, the noncommercial character of the use, and the private character of the activity conducted entirely within the home. Moreover, the court found that the purpose of this use served the public interest in increasing access to

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

television programming, an interest that “is consistent with the First Amendment policy of providing the fullest possible access to information through the public airwaves. Even when an entire copyrighted work was recorded, the District Court regarded the copying as fair use “because there is no accompanying reduction in the market for ‘plaintiff’s original work.’”

As an independent ground of decision, the District Court also concluded that Sony could not be held liable as a contributory infringer even if the home use of a VTR was considered an infringing use. The District Court noted that Sony had no direct involvement with any Betamax purchasers who recorded copyrighted works off the air. Sony’s advertising was silent on the subject of possible copyright infringement, but its instruction booklet contained the following statement:

“Television programs, films, videotapes and other materials may be copyrighted. Unauthorized recording of such material may be contrary to the provisions of the United States copyright laws.”

The District Court assumed that Sony had constructive knowledge of the probability that the Betamax machine would be used to record copyrighted programs, but found that Sony merely sold a “product capable of a variety of uses, some of them allegedly infringing.” It reasoned:

“Selling a staple article of commerce—*e.g.*, a typewriter, a recorder, a camera, a photocopying machine—technically contributes to any infringing use subsequently made thereof, but this kind of ‘contribution,’ if deemed sufficient as a basis for liability, would expand the theory beyond precedent and arguably beyond judicial management.”

. . . .

“. . . Commerce would indeed be hampered if manufacturers of staple items were held liable as contributory infringers whenever they ‘constructively’ knew that some purchasers on some occasions would use their product for a purpose which a court later deemed, as a matter of first impression, to be an infringement.”

Finally, the District Court discussed the respondents’ prayer for injunctive relief, noting that they had asked for an injunction either preventing the future sale of Betamax machines, or requiring that the machines be rendered incapable of recording copyrighted works off the air. The court stated that it had “found no case in which the manufacturers, distributors, retailers and advertisers of the instrument enabling the infringement were sued by the copyright holders,” and that the request for relief in this case “is unique.”

It concluded that an injunction was wholly inappropriate because any possible harm to respondents was outweighed by the fact that “the Betamax could still legally be used to record noncopyrighted material or material whose owners consented to the copying. An injunction would deprive the public of the ability to use the Betamax for this noninfringing off-the-air recording.”

### The Court of Appeals’ Decision

The Court of Appeals reversed the District Court’s judgment on respondents’ copyright claim. It did not set aside any of the District Court’s findings of fact. Rather, it concluded as a matter of law that the home use of a VTR was not a fair use because it was not a “productive use.” It therefore held that it was unnecessary for plaintiffs to prove any harm to the potential market for the copyrighted works, but then observed that it seemed clear that the cumulative effect of mass reproduction made possible by VTR’s would tend to diminish the potential market for respondents’ works.

On the issue of contributory infringement, the Court of Appeals first rejected the analogy to staple articles of commerce such as tape recorders or photocopying machines. It noted that such machines “may have substantial benefit for some purposes” and do not “even remotely raise copyright problems.” VTR’s, however, are sold “for the primary purpose of reproducing television programming” and “[virtually] all” such programming is copyrighted material. The Court of Appeals concluded, therefore,

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

that VTR's were not suitable for any substantial noninfringing use even if some copyright owners elect not to enforce their rights.

The Court of Appeals also rejected the District Court's reliance on Sony's lack of knowledge that home use constituted infringement. Assuming that the statutory provisions defining the remedies for infringement applied also to the nonstatutory tort of contributory infringement, the court stated that a defendant's good faith would merely reduce his damages liability but would not excuse the infringing conduct. It held that Sony was chargeable with knowledge of the homeowner's infringing activity because the reproduction of copyrighted materials was either "the most conspicuous use" or "the major use" of the Betamax product.

On the matter of relief, the Court of Appeals concluded that "statutory damages may be appropriate" and that the District Court should reconsider its determination that an injunction would not be an appropriate remedy; and, referring to "the analogous photocopying area," suggested that a continuing royalty pursuant to a judicially created compulsory license may very well be an acceptable resolution of the relief issue.

## II

Article I, § 8, of the Constitution provides:

"The Congress shall have Power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

The monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.

"The copyright law, like the patent statutes, makes reward to the owner a secondary consideration. In *Fox Film Corp. v. Doyal*, Chief Justice Hughes spoke as follows respecting the copyright monopoly granted by Congress, 'The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.' It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius."

As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product. Because this task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand, our patent and copyright statutes have been amended repeatedly.

From its beginning, the law of copyright has developed in response to significant changes in technology. Indeed, it was the invention of a new form of copying equipment—the printing press—that gave rise to the original need for copyright protection. Repeatedly, as new developments have occurred in this country, it has been the Congress that has fashioned the new rules that new technology made necessary. Thus, long before the enactment of the Copyright Act of 1909, it was settled that the protection given to copyrights is wholly statutory. The remedies for infringement "are only those prescribed by Congress."

The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials.

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.

In a case like this, in which Congress has not plainly marked our course, we must be circumspect in construing the scope of rights created by a legislative enactment which never contemplated such a calculus of interests. In doing so, we are guided by Justice Stewart's exposition of the correct approach to ambiguities in the law of copyright:

“The limited scope of the copyright holder's statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good. 'The sole interest of the United States and the primary object in conferring the monopoly,' this Court has said, 'lie in the general benefits derived by the public from the labors of authors.' When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.”

Copyright protection “subsists . . . in original works of authorship fixed in any tangible medium of expression.” This protection has never accorded the copyright owner complete control over all possible uses of his work. Rather, the Copyright Act grants the copyright holder “exclusive” rights to use and to authorize the use of his work in five qualified ways, including reproduction of the copyrighted work in copies. All reproductions of the work, however, are not within the exclusive domain of the copyright owner; some are in the public domain. Any individual may reproduce a copyrighted work for a “fair use”; the copyright owner does not possess the exclusive right to such a use.

“Anyone who violates any of the exclusive rights of the copyright owner,” that is, anyone who trespasses into his exclusive domain by using or authorizing the use of the copyrighted work in one of the five ways set forth in the statute, “is an infringer of the copyright.” Conversely, anyone who is authorized by the copyright owner to use the copyrighted work in a way specified in the statute or who makes a fair use of the work is not an infringer of the copyright with respect to such use.

The Copyright Act provides the owner of a copyright with a potent arsenal of remedies against an infringer of his work, including an injunction to restrain the infringer from violating his rights, the impoundment and destruction of all reproductions of his work made in violation of his rights, a recovery of his actual damages and any additional profits realized by the infringer or a recovery of statutory damages, and attorney's fees.

The two respondents in this case do not seek relief against the Betamax users who have allegedly infringed their copyrights. Moreover, this is not a class action on behalf of all copyright owners who license their works for television broadcast, and respondents have no right to invoke whatever rights other copyright holders may have to bring infringement actions based on Betamax copying of their works. As was made clear by their own evidence, the copying of the respondents' programs represents a small portion of the total use of VTR's. It is, however, the taping of respondents' own copyrighted programs that provides them with standing to charge Sony with contributory infringement. To prevail, they have the burden of proving that users of the Betamax have infringed their copyrights and that Sony should be held responsible for that infringement.

### III

The Copyright Act does not expressly render anyone liable for infringement committed by another. In contrast, the Patent Act expressly brands anyone who “actively induces infringement of a patent” as an infringer, and further imposes liability on certain individuals labeled “contributory”

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

infringers. The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.

Such circumstances were plainly present in *Kalem Co. v. Harper Brothers*, the copyright decision of this Court on which respondents place their principal reliance. In *Kalem*, the Court held that the producer of an unauthorized film dramatization of the copyrighted book *Ben Hur* was liable for his sale of the motion picture to jobbers, who in turn arranged for the commercial exhibition of the film. Justice Holmes, writing for the Court, explained:

“The defendant not only expected but invoked by advertisement the use of its films for dramatic reproduction of the story. That was the most conspicuous purpose for which they could be used, and the one for which especially they were made. If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law.”

The use for which the item sold in *Kalem* had been “especially” made was, of course, to display the performance that had already been recorded upon it. The producer had personally appropriated the copyright owner’s protected work and, as the owner of the tangible medium of expression upon which the protected work was recorded, authorized that use by his sale of the film to jobbers. But that use of the film was not his to authorize: the copyright owner possessed the exclusive right to authorize public performances of his work. Further, the producer personally advertised the unauthorized public performances, dispelling any possible doubt as to the use of the film which he had authorized.

Respondents argue that *Kalem* stands for the proposition that supplying the “means” to accomplish an infringing activity and encouraging that activity through advertisement are sufficient to establish liability for copyright infringement. This argument rests on a gross generalization that cannot withstand scrutiny. The producer in *Kalem* did not merely provide the “means” to accomplish an infringing activity; the producer supplied the work itself, albeit in a new medium of expression. Sony in the instant case does not supply Betamax consumers with respondents’ works; respondents do. Sony supplies a piece of equipment that is generally capable of copying the entire range of programs that may be televised: those that are uncopyrighted, those that are copyrighted but may be copied without objection from the copyright holder, and those that the copyright holder would prefer not to have copied. The Betamax can be used to make authorized or unauthorized uses of copyrighted works, but the range of its potential use is much broader than the particular infringing use of the film *Ben Hur* involved in *Kalem*. *Kalem* does not support respondents’ novel theory of liability.

Justice Holmes stated that the producer had “contributed” to the infringement of the copyright, and the label “contributory infringement” has been applied in a number of lower court copyright cases involving an ongoing relationship between the direct infringer and the contributory infringer at the time the infringing conduct occurred. In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the “contributory” infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner. This case, however, plainly does not fall in that category. The only contact between Sony and the users of the Betamax that is disclosed by this record occurred at the moment of sale. The District Court expressly found that “no employee of Sony, Sonam or DDBI had either direct involvement with the allegedly infringing activity or direct contact with purchasers of Betamax who recorded copyrighted works off-the-air.” And it further found that “there was no evidence that any of the copies made by Griffiths or the other individual witnesses in this suit were influenced or encouraged by [Sony’s] advertisements.”

If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law.

In the Patent Act both the concept of infringement and the concept of contributory infringement are expressly defined by statute. The prohibition against contributory infringement is confined to the knowing sale of a component especially made for use in connection with a particular patent. There is no suggestion in the statute that one patentee may object to the sale of a product that might be used in connection with other patents. Moreover, the Act expressly provides that the sale of a “staple article or commodity of commerce suitable for substantial noninfringing use” is not contributory infringement.

When a charge of contributory infringement is predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe a patent, the public interest in access to that article of commerce is necessarily implicated. A finding of contributory infringement does not, of course, remove the article from the market altogether; it does, however, give the patentee effective control over the sale of that item. Indeed, a finding of contributory infringement is normally the functional equivalent of holding that the disputed article is within the monopoly granted to the patentee.

For that reason, in contributory infringement cases arising under the patent laws the Court has always recognized the critical importance of not allowing the patentee to extend his monopoly beyond the limits of his specific grant. These cases deny the patentee any right to control the distribution of unpatented articles unless they are “unsuited for any commercial noninfringing use.” Unless a commodity “has no use except through practice of the patented method,” the patentee has no right to claim that its distribution constitutes contributory infringement. “To form the basis for contributory infringement the item must almost be uniquely suited as a component of the patented invention.” “[A] sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer. Such a rule would block the wheels of commerce.”

We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible. The staple article of commerce doctrine must strike a balance between a copyright holder’s legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. Accordingly, 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.

### IV

The question is thus whether the Betamax is capable of commercially significant noninfringing uses. In order to resolve that question, we need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement. Rather, we need only consider whether on the basis of the facts as found by the District Court a significant number of them would be noninfringing. Moreover, in order to resolve this case we need not give precise content to the question of how much use is commercially significant. For one potential use of the Betamax plainly satisfies this standard, however it is understood: private, noncommercial time-shifting in the home. It does so both (A) because respondents have no right to prevent other copyright holders from authorizing it for their programs, and (B) because the District Court’s factual findings reveal that even the unauthorized home time-shifting of respondents’ programs is legitimate fair use.

#### A. Authorized Time-Shifting

Each of the respondents owns a large inventory of valuable copyrights, but in the total spectrum of television programming their combined market share is small. The exact percentage is not specified,

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

but it is well below 10%. If they were to prevail, the outcome of this litigation would have a significant impact on both the producers and the viewers of the remaining 90% of the programming in the Nation. No doubt, many other producers share respondents' concern about the possible consequences of unrestricted copying. Nevertheless the findings of the District Court make it clear that time-shifting may enlarge the total viewing audience and that many producers are willing to allow private time-shifting to continue, at least for an experimental time period.

The District Court found:

“Even if it were deemed that home-use recording of copyrighted material constituted infringement, the Betamax could still legally be used to record noncopyrighted material or material whose owners consented to the copying. An injunction would deprive the public of the ability to use the Betamax for this noninfringing off-the-air recording.

“Defendants introduced considerable testimony at trial about the potential for such copying of sports, religious, educational and other programming. This included testimony from representatives of the Offices of the Commissioners of the National Football, Basketball, Baseball and Hockey Leagues and Associations, the Executive Director of National Religious Broadcasters and various educational communications agencies. Plaintiffs attack the weight of the testimony offered and also contend that an injunction is warranted because infringing uses outweigh noninfringing uses.

“Whatever the future percentage of legal versus illegal home-use recording might be, an injunction which seeks to deprive the public of the very tool or article of commerce capable of some noninfringing use would be an extremely harsh remedy, as well as one unprecedented in copyright law.”

Although the District Court made these statements in the context of considering the propriety of injunctive relief, the statements constitute a finding that the evidence concerning “sports, religious, educational and other programming” was sufficient to establish a significant quantity of broadcasting whose copying is now authorized, and a significant potential for future authorized copying. That finding is amply supported by the record. In addition to the religious and sports officials identified explicitly by the District Court, two items in the record deserve specific mention.

First is the testimony of John Kenaston, the station manager of Channel 58, an educational station in Los Angeles affiliated with the Public Broadcasting Service. He explained and authenticated the station's published guide to its programs. For each program, the guide tells whether unlimited home taping is authorized, home taping is authorized subject to certain restrictions (such as erasure within seven days), or home taping is not authorized at all. The Spring 1978 edition of the guide described 107 programs. Sixty-two of those programs or 58% authorize some home taping. Twenty-one of them or almost 20% authorize unrestricted home taping.

Second is the testimony of Fred Rogers, president of the corporation that produces and owns the copyright on Mister Rogers' Neighborhood. The program is carried by more public television stations than any other program. Its audience numbers over 3,000,000 families a day. He testified that he had absolutely no objection to home taping for noncommercial use and expressed the opinion that it is a real service to families to be able to record children's programs and to show them at appropriate times.

If there are millions of owners of VTR's who make copies of televised sports events, religious broadcasts, and educational programs such as Mister Rogers' Neighborhood, and if the proprietors of those programs welcome the practice, the business of supplying the equipment that makes such copying feasible should not be stifled simply because the equipment is used by some individuals to make unauthorized reproductions of respondents' works. The respondents do not represent a class composed of all copyright holders. Yet a finding of contributory infringement would inevitably frustrate the interests of broadcasters in reaching the portion of their audience that is available only through time-shifting.

Of course, the fact that other copyright holders may welcome the practice of time-shifting does not mean that respondents should be deemed to have granted a license to copy their programs. Third-party conduct would be wholly irrelevant in an action for direct infringement of respondents' copyrights. But in an action for *contributory* infringement against the seller of copying equipment, the copyright

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

holder may not prevail unless the relief that he seeks affects only his programs, or unless he speaks for virtually all copyright holders with an interest in the outcome. In this case, the record makes it perfectly clear that there are many important producers of national and local television programs who find nothing objectionable about the enlargement in the size of the television audience that results from the practice of time-shifting for private home use. The seller of the equipment that expands those producers' audiences cannot be a contributory infringer if, as is true in this case, it has had no direct involvement with any infringing activity.

### B. Unauthorized Time-Shifting

Even unauthorized uses of a copyrighted work are not necessarily infringing. An unlicensed use of the copyright is not an infringement unless it conflicts with one of the specific exclusive rights conferred by the copyright statute. Moreover, the definition of exclusive rights in § 106 of the present Act is prefaced by the words "subject to sections 107 through 118." Those sections describe a variety of uses of copyrighted material that "are not infringements of copyright" "notwithstanding the provisions of section 106." The most pertinent in this case is § 107, the legislative endorsement of the doctrine of "fair use."

That section identifies various factors that enable a court to apply an "equitable rule of reason" analysis to particular claims of infringement. Although not conclusive, the first factor requires that "the commercial or nonprofit character of an activity" be weighed in any fair use decision. If the Betamax were used to make copies for a commercial or profit-making purpose, such use would presumptively be unfair. The contrary presumption is appropriate here, however, because the District Court's findings plainly establish that time-shifting for private home use must be characterized as a noncommercial, nonprofit activity. Moreover, when one considers the nature of a televised copyrighted audiovisual work and that time-shifting merely enables a viewer to see such a work which he had been invited to witness in its entirety free of charge, the fact that the entire work is reproduced does not have its ordinary effect of militating against a finding of fair use.

This is not, however, the end of the inquiry because Congress has also directed us to consider "the effect of the use upon the potential market for or value of the copyrighted work." The purpose of copyright is to create incentives for creative effort. Even copying for noncommercial purposes may impair the copyright holder's ability to obtain the rewards that Congress intended him to have. But a use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author's incentive to create. The prohibition of such noncommercial uses would merely inhibit access to ideas without any countervailing benefit.

Thus, although every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright, noncommercial uses are a different matter. A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work. Actual present harm need not be shown; such a requirement would leave the copyright holder with no defense against predictable damage. Nor is it necessary to show with certainty that future harm will result. What is necessary is a showing by a preponderance of the evidence that *some* meaningful likelihood of future harm exists. If the intended use is for commercial gain, that likelihood may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.

In this case, respondents failed to carry their burden with regard to home time-shifting. The District Court described respondents' evidence as follows:

"Plaintiffs' experts admitted at several points in the trial that the time-shifting without librarying would result in 'not a great deal of harm.' Plaintiffs' greatest concern about time-shifting is with 'a point of important philosophy that transcends even commercial

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

judgment.’ They fear that with any Betamax usage, ‘invisible boundaries’ are passed: ‘the copyright owner has lost control over his program.’”

Later in its opinion, the District Court observed:

“Most of plaintiffs’ predictions of harm hinge on speculation about audience viewing patterns and ratings, a measurement system which Sidney Sheinberg, MCA’s president, calls a ‘black art’ because of the significant level of imprecision involved in the calculations.”

There was no need for the District Court to say much about past harm. “Plaintiffs have admitted that no actual harm to their copyrights has occurred to date.”

On the question of potential future harm from time-shifting, the District Court offered a more detailed analysis of the evidence. It rejected respondents’ “fear that persons ‘watching’ the original telecast of a program will not be measured in the live audience and the ratings and revenues will decrease,” by observing that current measurement technology allows the Betamax audience to be reflected. It rejected respondents’ prediction “that live television or movie audiences will decrease as more people watch Betamax tapes as an alternative,” with the observation that “[there] is no factual basis for [the underlying] assumption.” It rejected respondents’ “fear that time-shifting will reduce audiences for telecast reruns,” and concluded instead that “given current market practices, this should aid plaintiffs rather than harm them.” And it declared that respondents’ suggestion that “theater or film rental exhibition of a program will suffer because of time-shift recording of that program” “lacks merit.”

After completing that review, the District Court restated its overall conclusion several times, in several different ways. “Harm from time-shifting is speculative and, at best, minimal.” “The audience benefits from the time-shifting capability have already been discussed. It is not implausible that benefits could also accrue to plaintiffs, broadcasters, and advertisers, as the Betamax makes it possible for more persons to view their broadcasts.” “No likelihood of harm was shown at trial, and plaintiffs admitted that there had been no actual harm to date.” “Testimony at trial suggested that Betamax may require adjustments in marketing strategy, but it did not establish even a likelihood of harm.” “Television production by plaintiffs today is more profitable than it has ever been, and, in five weeks of trial, there was no concrete evidence to suggest that the Betamax will change the studios’ financial picture.”

The District Court’s conclusions are buttressed by the fact that to the extent time-shifting expands public access to freely broadcast television programs, it yields societal benefits. In *Community Television of Southern California v. Gottfried*, we acknowledged the public interest in making television broadcasting more available. Concededly, that interest is not unlimited. But it supports an interpretation of the concept of “fair use” that requires the copyright holder to demonstrate some likelihood of harm before he may condemn a private act of time-shifting as a violation of federal law.

When these factors are all weighed in the “equitable rule of reason” balance, we must conclude that this record amply supports the District Court’s conclusion that home time-shifting is fair use. In light of the findings of the District Court regarding the state of the empirical data, it is clear that the Court of Appeals erred in holding that the statute as presently written bars such conduct.

In summary, the record and findings of the District Court lead us to two conclusions. First, Sony demonstrated a significant likelihood that substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers. And second, respondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works. The Betamax is, therefore, capable of substantial noninfringing uses. Sony’s sale of such equipment to the general public does not constitute contributory infringement of respondents’ copyrights.

V

“The direction of Art. I is that *Congress* shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress.”

One may search the Copyright Act in vain for any sign that the elected representatives of the millions of people who watch television every day have made it unlawful to copy a program for later viewing at home, or have enacted a flat prohibition against the sale of machines that make such copying possible.

It may well be that Congress will take a fresh look at this new technology, just as it so often has examined other innovations in the past. But it is not our job to apply laws that have not yet been written. Applying the copyright statute, as it now reads, to the facts as they have been developed in this case, the judgment of the Court of Appeals must be reversed.

*It is so ordered.*

---

**RIAA v. Diamond Multimedia Systems, Inc., 180 F.3d 1072 (9th Cir. 1999)**

O’SANNLAIN, Circuit Judge:

In this case involving the intersection of computer technology, the Internet, and music listening, we must decide whether the Rio portable music player is a digital audio recording device subject to the restrictions of the Audio Home Recording Act of 1992.

I

This appeal arises from the efforts of the Recording Industry Association of America and the Alliance of Artists and Recording Companies (collectively, “RIAA”) to enjoin the manufacture and distribution by Diamond Multimedia Systems (“Diamond”) of the Rio portable music player. The Rio is a small device (roughly the size of an audio cassette) with headphones that allows a user to download MP3 audio files from a computer and to listen to them elsewhere. The dispute over the Rio’s design and function is difficult to comprehend without an understanding of the revolutionary new method of music distribution made possible by digital recording and the Internet; thus, we will explain in some detail the brave new world of Internet music distribution.

A

The introduction of digital audio recording to the consumer electronics market in the 1980’s is at the root of this litigation. Before then, a person wishing to copy an original music recording—e.g., wishing to make a cassette tape of a record or compact disc—was limited to analog, rather than digital, recording technology. With analog recording, each successive generation of copies suffers from an increasingly pronounced degradation in sound quality. For example, when an analog cassette copy of a record or compact disc is itself copied by analog technology, the resulting “second-generation” copy of the original will most likely suffer from the hiss and lack of clarity characteristic of older recordings. With digital recording, by contrast, there is almost no degradation in sound quality, no matter how many generations of copies are made. Digital copying thus allows thousands of perfect or near perfect copies (and copies of copies) to be made from a single original recording. Music “pirates” use digital recording technology to make and to distribute near perfect copies of commercially prepared recordings for which they have not licensed the copyrights.

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

Until recently, the Internet was of little use for the distribution of music because the average music computer file was simply too big: the digital information on a single compact disc of music required hundreds of computer floppy discs to store, and downloading even a single song from the Internet took hours. However, various compression algorithms (which make an audio file “smaller” by limiting the audio bandwidth) now allow digital audio files to be transferred more quickly and stored more efficiently. MPEG-1 Audio Layer 3 (commonly known as “MP3”) is the most popular digital audio compression algorithm in use on the Internet, and the compression it provides makes an audio file “smaller” by a factor of twelve to one without significantly reducing sound quality. MP3’s popularity is due in large part to the fact that it is a standard, non-proprietary compression algorithm freely available for use by anyone, unlike various proprietary (and copyright-secure) competitor algorithms. Coupled with the use of cable modems, compression algorithms like MP3 may soon allow an hour of music to be downloaded from the Internet to a personal computer in just a few minutes.

These technological advances have occurred, at least in part, to the traditional music industry’s disadvantage. By most accounts, the predominant use of MP3 is the trafficking in illicit audio recordings, presumably because MP3 files do not contain codes identifying whether the compressed audio material is copyright protected. Various pirate websites offer free downloads of copyrighted material, and a single pirate site on the Internet may contain thousands of pirated audio computer files.

RIAA represents the roughly half-dozen major record companies (and the artists on their labels) that control approximately ninety percent of the distribution of recorded music in the United States. RIAA asserts that Internet distribution of serial digital copies of pirated copyrighted material will discourage the purchase of legitimate recordings, and predicts that losses to digital Internet piracy will soon surpass the \$300 million that is allegedly lost annually to other more traditional forms of piracy. RIAA fights a well-nigh constant battle against Internet piracy, monitoring the Internet daily, and routinely shutting down pirate websites by sending cease-and-desist letters and bringing lawsuits. There are conflicting views on RIAA’s success—RIAA asserts that it can barely keep up with the pirate traffic, while others assert that few, if any, pirate sites remain in operation in the United States and illicit files are difficult to find and download from anywhere online.

In contrast to piracy, the Internet also supports a burgeoning traffic in legitimate audio computer files. Independent and wholly Internet record labels routinely sell and provide free samples of their artists’ work online, while many unsigned artists distribute their own material from their own websites. Some free samples are provided for marketing purposes or for simple exposure, while others are teasers intended to entice listeners to purchase either mail order recordings or recordings available for direct download (along with album cover art, lyrics, and artist biographies). Diamond cites a 1998 “Music Industry and the Internet” report by Jupiter Communications which predicts that online sales for pre-recorded music will exceed \$1.4 billion by 2002 in the United States alone.

Prior to the invention of devices like the Rio, MP3 users had little option other than to listen to their downloaded digital audio files through headphones or speakers at their computers, playing them from their hard drives. The Rio renders these files portable. More precisely, once an audio file has been downloaded onto a computer hard drive from the Internet or some other source (such as a compact disc player or digital audio tape machine), separate computer software provided with the Rio (called “Rio Manager”) allows the user further to download the file to the Rio itself via a parallel port cable that plugs the Rio into the computer. The Rio device is incapable of effecting such a transfer, and is incapable of receiving audio files from anything other than a personal computer equipped with Rio Manager.

Generally, the Rio can store approximately one hour of music, or sixteen hours of spoken material (e.g., downloaded newscasts or books on tape). With the addition of flash memory cards, the Rio can store an additional half-hour or hour of music. The Rio’s sole output is an analog audio signal sent to the user via headphones. The Rio cannot make duplicates of any digital audio file it stores, nor can it transfer or upload such a file to a computer, to another device, or to the Internet. However, a flash memory card to which a digital audio file has been downloaded can be removed from one Rio and played back in another.

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

### B

RIAA brought suit to enjoin the manufacture and distribution of the Rio, alleging that the Rio does not meet the requirements for digital audio recording devices under the Audio Home Recording Act of 1992 (the “Act”), because it does not employ a Serial Copyright Management System (“SCMS”) that sends, receives, and acts upon information about the generation and copyright status of the files that it plays. RIAA also sought payment of the royalties owed by Diamond as the manufacturer and distributor of a digital audio recording device.

The district court denied RIAA’s motion for a preliminary injunction, holding that RIAA’s likelihood of success on the merits was mixed and the balance of hardships did not tip in RIAA’s favor.

### II

The initial question presented is whether the Rio falls within the ambit of the Act. The Act does not broadly prohibit digital serial copying of copyright protected audio recordings. Instead, the Act places restrictions only upon a specific type of recording device. Most relevant here, the Act provides that “no person shall import, manufacture, or distribute any *digital audio recording device* . . . that does not conform to the Serial Copy Management System [“SCMS”] [or] a system that has the same functional characteristics.” The Act further provides that “no person shall import into and distribute, or manufacture and distribute, any *digital audio recording device* . . . unless such person records the notice specified by this section and subsequently deposits the statements of account and applicable royalty payments.” Thus, to fall within the SCMS and royalty requirements in question, the Rio must be a “digital audio recording device,” which the Act defines through a set of nested definitions.

The Act defines a “digital audio recording device” as:

any machine or device of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, the digital recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a *digital audio copied recording* for private use . . . .

A “digital audio copied 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 musical recording or indirectly from a transmission.

A “digital musical recording” is defined as:

*a material object—*

- (i) in which are fixed, in a digital recording format, only sounds, and material, statements, or instructions incidental to those fixed sounds, if any, and
- (ii) from which the sounds and material can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

In sum, to be a digital audio recording device, the Rio must be able to reproduce, either “directly” or “from a transmission,” a “digital music recording.”

### III

We first consider whether the Rio is able directly to reproduce a digital music recording—which is a specific type of material object in which only sounds are fixed (or material and instructions incidental to those sounds).

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

A

The typical computer hard drive from which a Rio directly records is, of course, a material object. However, hard drives ordinarily contain much more than “only sounds, and material, statements, or instructions incidental to those fixed sounds.” Indeed, almost all hard drives contain numerous programs (e.g., for word processing, scheduling appointments, etc.) and databases that are not incidental to any sound files that may be stored on the hard drive. Thus, the Rio appears not to make copies from digital music recordings, and thus would not be a digital audio recording device under the Act’s basic definition unless it makes copies from transmissions.

Moreover, the Act expressly provides that the term “digital musical recording” does not include:

*a material object—*

- (i) in which the fixed sounds consist entirely of spoken word recordings, or
- (ii) in which one or more computer programs are fixed, except that a digital recording may contain statements or instructions constituting the fixed sounds and incidental material, and statements or instructions to be used directly or indirectly in order to bring about the perception, reproduction, or communication of the fixed sounds and incidental material.

As noted previously, a hard drive is a material object in which one or more programs are fixed; thus, a hard drive is excluded from the definition of digital music recordings. This provides confirmation that the Rio does not record “directly” from “digital music recordings,” and therefore could not be a digital audio recording device unless it makes copies “from transmissions.”

B

The district court rejected the exclusion of computer hard drives from the definition of digital music recordings under the statute’s plain language (after noting its “superficial appeal”) because it concluded that such exclusion “is ultimately unsupported by the legislative history, and contrary to the spirit and purpose of the [Act].” We need not resort to the legislative history because the statutory language is clear. Nevertheless, we will address the legislative history here, because it is consistent with the statute’s plain meaning and because the parties have briefed it so extensively.

1

The Senate Report states that “if the material object contains computer programs or data bases that are not incidental to the fixed sounds, then the material object would not qualify” under the basic definition of a digital musical recording. The Senate Report further states that the definition “is intended to cover those objects commonly understood to embody sound recordings and their underlying works.” A footnote makes explicit that this definition only extends to the material objects in which songs are normally fixed: “that is recorded compact discs, digital audio tapes, audio cassettes, long-playing albums, digital compact cassettes, and mini-discs.” There are simply no grounds in either the plain language of the definition or in the legislative history for interpreting the term “digital musical recording” to include songs fixed on computer hard drives.

RIAA contends that the legislative history reveals that the Rio does not fall within the specific exemption from the digital musical recording definition of “a material object in which one or more computer programs are fixed.” The House Report describes the exemption as “revisions reflecting exemptions for talking books and *computer programs*.” We first note that limiting the exemption to computer programs is contrary to the plain meaning of the exemption. As Diamond points out, a computer program is not a material object, but rather, a literary work, that can be fixed in a variety of material objects. Thus, the plain language of the exemption at issue does not exclude the copying of programs from coverage by the Act, but instead, excludes copying from various types of material objects.

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

Those objects include hard drives, which indirectly achieve the desired result of excluding copying of programs. But by its plain language, the exemption is not limited to the copying of programs, and instead extends to any copying from a computer hard drive.

Moreover, RIAA's assertion that computer hard drives do not fall within the exemption is irrelevant because, regardless of that portion of the legislative history which addresses the *exemption* from the definition of digital music recording, the Rio does not reproduce files from something that falls within the plain language of the basic *definition* of a digital music recording.

2

The district court concluded that the exemption of hard drives from the definition of digital music recording, and the exemption of computers generally from the Act's ambit, "would effectively eviscerate the [Act]" because "any recording device could evade [] regulation simply by passing the music through a computer and ensuring that the MP3 file resided momentarily on the hard drive." While this may be true, the Act seems to have been expressly designed to create this loophole.

a

Under the plain meaning of the Act's definition of digital audio recording devices, computers (and their hard drives) are not digital audio recording devices because their "primary purpose" is not to make digital audio copied recordings. Unlike digital audio tape machines, for example, whose primary purpose is to make digital audio copied recordings, the primary purpose of a computer is to run various programs and to record the data necessary to run those programs and perform various tasks. The legislative history is consistent with this interpretation of the Act's provisions, stating that "the typical personal computer would not fall within the definition of 'digital audio recording device,'" because a personal computer's "recording function is designed and marketed primarily for the recording of data and computer programs". Another portion of the Senate Report states that "if the 'primary purpose' of the recording function is to make objects other than digital audio copied recordings, then the machine or device is not a 'digital audio recording device,' *even if the machine or device is technically capable of making such recordings.*" The legislative history thus expressly recognizes that computers (and other devices) have recording functions capable of recording digital musical recordings, and thus implicate the home taping and piracy concerns to which the Act is responsive. Nonetheless, the legislative history is consistent with the Act's plain language—computers are *not* digital audio recording devices.

b

In turn, because computers are not digital audio recording devices, they are not required to comply with the SCMS requirement and thus need not send, receive, or act upon information regarding copyright and generation status. And, as the district court found, MP3 files generally do not even carry the codes providing information regarding copyright and generation status. Thus, the Act seems designed to allow files to be "laundered" by passage through a computer, because even a device with SCMS would be able to download MP3 files lacking SCMS codes from a computer hard drive, for the simple reason that there would be no codes to prevent the copying.

Again, the legislative history is consistent with the Act's plain meaning. As the Technical Reference Document that describes the SCMS system explains, "digital audio signals . . . that have no information concerning copyright and/or generation status *shall be recorded* by the [digital audio recording] device so that the digital copy is copyright asserted and original generation status." Thus, the incorporation of SCMS into the Rio would allow the Rio to copy MP3 files lacking SCMS codes so long as it marked the copied files as "original generation status." And such a marking would allow another SCMS device to make unlimited further copies of such "original generation status" files, despite the fact that the Rio does not permit such further copies to be made because it simply cannot download or transmit

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

the files that it stores to any other device. Thus, the Rio without SCMS inherently allows *less* copying than SCMS permits.

c

In fact, the Rio's operation is entirely consistent with the Act's main purpose—the facilitation of personal use. As the Senate Report explains, “the purpose of [the Act] is to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their *private, noncommercial use*.” The Act does so through its home taping exemption, which “protects all noncommercial copying by consumers of digital and analog musical recordings”. The Rio merely makes copies in order to render portable, or “space-shift,” those files that already reside on a user's hard drive. Such copying is paradigmatic noncommercial personal use entirely consistent with the purposes of the Act.

IV

Even though it cannot directly reproduce a digital music recording, the Rio would nevertheless be a digital audio recording device if it could reproduce a digital music recording “from a transmission.”

A

The term “transmission” is not defined in Act, although the use of the term in the Act implies that a transmission is a communication to the public. In the context of copyright law (from which the term appears to have been taken), “to ‘transmit’ a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.” The legislative history confirms that the copyright definition of “transmission” is sufficient for our purposes here. The Act originally (and circularly) provided that “[a] ‘transmission’ is any audio or audiovisual transmission, now known or later developed, whether by a broadcast station, cable system, multipoint distribution service, subscription service, direct broadcast satellite, or other form of analog or digital communication.” The Senate Report provides a radio broadcast as an example of a transmission. The parties do not really dispute the definition of transmission, but rather, whether *indirect* reproduction of a transmission of a digital music recording is covered by the Act.

B

RIAA asserts that indirect reproduction of a transmission is sufficient for the Rio to fall within the Act's ambit as a digital audio recording device. Diamond asserts that the adverb “indirectly” modifies the recording of the underlying “digital music recording,” rather than the recording “from the transmission.” Diamond effectively asserts that the statute should be read as covering devices that are capable of making a reproduction of a digital musical recording, “whether that reproduction is made directly[,], from another digital musical recording[,], or indirectly[,], from a transmission.”

While the Rio can only directly reproduce files from a computer hard drive via a cable linking the two devices (which is obviously not a transmission), the Rio can indirectly reproduce a transmission. For example, if a radio broadcast of a digital audio recording were recorded on a digital audio tape machine or compact disc recorder and then uploaded to a computer hard drive, the Rio could indirectly reproduce the transmission by downloading a copy from the hard drive. Thus, if indirect reproduction of a transmission falls within the statutory definition, the Rio would be a digital audio recording device.

1

RIAA's interpretation of the statutory language initially seems plausible, but closer analysis reveals that it is contrary to the statutory language and common sense. The focus of the statutory

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

language seems to be on the two means of reproducing the underlying digital music recording—either directly from that recording, or indirectly, by reproducing the recording from a transmission. RIAA’s interpretation of the Act’s language (in which “indirectly” modifies copying “from a transmission,” rather than the copying of the underlying digital music recording) would only cover the indirect recording of transmissions, and would omit restrictions on the direct recording of transmissions (e.g., recording songs from the radio) from the Act’s ambit. This interpretation would significantly reduce the protection afforded by the Act to transmissions, and neither the statutory language nor structure provides any reason that the Act’s protections should be so limited. Moreover, it makes little sense for the Act to restrict the indirect recording of transmissions, but to allow unrestricted direct recording of transmissions (e.g., to regulate second-hand recording of songs from the radio, but to allow unlimited direct recording of songs from the radio). Thus, the most logical reading of the Act extends protection to direct copying of digital music recordings, and to indirect copying of digital music recordings from transmissions of those recordings.

2

Because of the arguable ambiguity of this passage of the statute, recourse to the legislative history is necessary on this point. The Senate Report states that “a digital audio recording made from a commercially released compact disc or audio cassette, or *from a radio broadcast* of a commercially released compact disc or audio cassette, would be a ‘digital audio copied recording.’” This statement indicates that the recording of a transmission need not be indirect to fall within the scope of the Act’s restrictions, and thus refutes RIAA’s proposed interpretation of the relevant language. Moreover, the statement tracks the statutory definition by providing an example of direct copying of a digital music recording from that recording, and an example of indirect copying of a digital music recording from a transmission of that recording. Thus the legislative history confirms the most logical reading of the statute, which we adopt: “indirectly” modifies the verb “is made”—in other words, modifies the making of the reproduction of the underlying digital music recording. Thus, a device falls within the Act’s provisions if it can indirectly copy a digital music recording by making a copy from a transmission of that recording. Because the Rio cannot make copies from transmissions, but instead, can only make copies from a computer hard drive, it is not a digital audio recording device.

V

For the foregoing reasons, the Rio is not a digital audio recording device subject to the restrictions of the Audio Home Recording Act of 1992. The district court properly denied the motion for a preliminary injunction against the Rio’s manufacture and distribution. Having so determined, we need not consider whether the balance of hardships or the possibility of irreparable harm supports injunctive relief.

AFFIRMED.

---

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

JED S. RAKOFF, U.S.D.J.

The complex marvels of cyberspatial communication may create difficult legal issues; but not in this case. Defendant’s infringement of plaintiff’s copyrights is clear. Accordingly, on April 28, 2000, the Court granted plaintiffs’ motion for partial summary judgment holding defendant liable for copyright infringement. This opinion will state the reasons why.

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

The pertinent facts, either undisputed or, where disputed, taken most favorably to defendant, are as follows:

The technology known as “MP3” permits rapid and efficient conversion of compact disc recordings (“CDs”) to computer files easily accessed over the Internet. Utilizing this technology, defendant MP3.com, on or around January 12, 2000, launched its “My.MP3.com” service, which it advertised as permitting subscribers to store, customize, and listen to the recordings contained on their CDs from any place where they have an internet connection. To make good on this offer, defendant purchased tens of thousands of popular CDs in which plaintiffs held the copyrights, and, without authorization, copied their recordings onto its computer servers so as to be able to replay the recordings for its subscribers.

Specifically, in order to first access such a recording, a subscriber to MP3.com must either “prove” that he already owns the CD version of the recording by inserting his copy of the commercial CD into his computer CD-Rom drive for a few seconds (the “Beam-it Service”) or must purchase the CD from one of defendant’s cooperating online retailers (the “Instant Listening Service”). Thereafter, however, the subscriber can access via the Internet from a computer anywhere in the world the copy of plaintiffs’ recording made by defendant. Thus, although defendant seeks to portray its service as the “functional equivalent” of storing its subscribers’ CDs, in actuality defendant is re-playing for the subscribers converted versions of the recordings it copied, without authorization, from plaintiffs’ copyrighted CDs. On its face, this makes out a presumptive case of infringement under the Copyright Act of 1976 (“Copyright Act”).

Defendant argues, however, that such copying is protected by the affirmative defense of “fair use.” In analyzing such a defense, the Copyright Act specifies four factors that must be considered: “(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.” Other relevant factors may also be considered, since fair use is an “equitable rule of reason” to be applied in light of the overall purposes of the Copyright Act.

Regarding the first factor—“the purpose and character of the use”—defendant does not dispute that its purpose is commercial, for while subscribers to My.MP3.com are not currently charged a fee, defendant seeks to attract a sufficiently large subscription base to draw advertising and otherwise make a profit. Consideration of the first factor, however, also involves inquiring into whether the new use essentially repeats the old or whether, instead, it “transforms” it by infusing it with new meaning, new understanding, or the like. Here, although defendant recites that My.MP3.com provides a transformative “space shift” by which subscribers can enjoy the sound recordings contained on their CDs without lugging around the physical discs themselves, this is simply another way of saying that the unauthorized copies are being retransmitted in another medium—an insufficient basis for any legitimate claim of transformation.

Here, defendant adds no new “new aesthetics, new insights and understandings” to the original music recordings it copies, but simply repackages those recordings to facilitate their transmission through another medium. While such services may be innovative, they are not transformative.

Regarding the second factor—“the nature of the copyrighted work”—the creative recordings here being copied are “close[] to the core of intended copyright protection,” and, conversely, far removed from the more factual or descriptive work more amenable to “fair use”.

Regarding the third factor—“the amount and substantiality of the portion [of the copyrighted work] use [by the copier] in relation to the copyrighted work as a whole”—it is undisputed that defendant copies, and replays, the entirety of the copyrighted works here in issue, thus again negating any claim of fair use.

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

Regarding the fourth factor—“the effect of the use upon the potential market for or value of the copyrighted work”—defendant’s activities on their face invade plaintiffs’ statutory right to license their copyrighted sound recordings to others for reproduction. Defendant, however, argues that, so far as the derivative market here involved is concerned, plaintiffs have not shown that such licensing is “traditional, reasonable, or likely to be development.” Moreover, defendant argues, its activities can only enhance plaintiffs’ sales, since subscribers cannot gain access to particular recordings made available by MP3.com unless they have already “purchased” (actually or purportedly), or agreed to purchase, their own CD copies of those recordings.

Such arguments—though dressed in the garb of an expert’s “opinion” (that, on inspection, consists almost entirely of speculative and conclusory statements)—are unpersuasive. Any allegedly positive impact of defendant’s activities on plaintiffs’ prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs’ copyrighted works. This would be so even if the copyright holder had not yet entered the new market in issue, for a copyright holder’s “exclusive” rights, derived from the Constitution and the Copyright Act, include the right, within broad limits, to curb the development of such a derivative market by refusing to license a copyrighted work or by doing so only on terms the copyright owner finds acceptable. Here, moreover, plaintiffs have adduced substantial evidence that they have in fact taken steps to enter that market by entering into various licensing agreements.

Finally, regarding defendant’s purported reliance on other factors, this essentially reduces to the claim that My.MP3.com provides a useful service to consumers that, in its absence, will be served by “pirates.” Copyright, however, is not designed to afford consumer protection or convenience but, rather, to protect the copyright holders’ property interests. Moreover, as a practical matter, plaintiffs have indicated no objection in principle to licensing their recordings to companies like MP3.com; they simply want to make sure they get the remuneration the law reserves for them as holders of copyrights on creative works. Stripped to its essence, defendant’s “consumer protection” argument amounts to nothing more than a bald claim that defendant should be able to misappropriate plaintiffs’ property simply because there is a consumer demand for it. This hardly appeals to the conscience of equity.

In sum, on any view, defendant’s “fair use” defense is indefensible and must be denied as a matter of law. Defendant’s other affirmative defenses, such as copyright misuse, abandonment, unclean hands, and estoppel, are essentially frivolous and may be disposed of briefly. While defendant contends, under the rubric of copyright misuse, that plaintiffs are misusing their “dominant market position to selectively prosecute only certain online music technology companies,” the admissible evidence of records shows only that plaintiffs have reasonably exercised their right to determine which infringers to pursue, and in which order to pursue them. The abandonment defense must also fall since defendant has failed to adduce any competent evidence of an overt act indicating that plaintiffs, who filed suit against MP3.com shortly after MP3.com launched its infringing MY.MP3.com service, intentionally abandoned their copyrights. Similarly, defendant’s estoppel defense must be rejected because defendant has failed to provide any competent evidence that it relied on any action by plaintiffs with respect to defendant’s My.MP3.com service. Finally, the Court must reject defendant’s unclean hands defense given defendant’s failure to come forth with any admissible evidence showing bad faith or misconduct on the part of plaintiffs.

The Court has also considered defendant’s other points and arguments and finds them sufficiently without merit as not to warrant any further comment.

Accordingly, the Court, for the foregoing reasons, has determined that plaintiffs are entitled to partial summary judgment holding defendant to have infringed plaintiffs’ copyrights.

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

BEEZER, Circuit Judge:

Plaintiffs are engaged in the commercial recording, distribution and sale of copyrighted musical compositions and sound recordings. The complaint alleges that Napster, Inc. (“Napster”) is a contributory and vicarious copyright infringer. On July 26, 2000, the district court granted plaintiffs’ motion for a preliminary injunction. The injunction was slightly modified by written opinion on August 10, 2000. The district court preliminarily 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 federal or state law, without express permission of the rights owner.” *Federal Rule of Civil Procedure 65(c)* requires successful plaintiffs to post a bond for damages incurred by the enjoined party in the event that the injunction was wrongfully issued. The district court set bond in this case at \$5 million.

We entered a temporary stay of the preliminary injunction pending resolution of this appeal. We have jurisdiction pursuant to 28 U.S.C. § 1292(a)(1). We affirm in part, reverse in part and remand.

I

We have examined the papers submitted in support of and in response to the injunction application and it appears that Napster has designed and operates a system which permits the transmission and retention of sound recordings employing digital technology.

In 1987, the Moving Picture Experts Group set a standard file format for the storage of audio recordings in a digital format called MPEG-3, abbreviated as “MP3.” Digital MP3 files are created through a process colloquially called “ripping.” Ripping software allows a computer owner to copy an audio compact disk (“audio CD”) directly onto a computer’s hard drive by compressing the audio information on the CD into the MP3 format. The MP3’s compressed format allows for rapid transmission of digital audio files from one computer to another by electronic mail or any other file transfer protocol.

Napster facilitates the transmission of MP3 files between and among its users. Through a process commonly called “peer-to-peer” file sharing, Napster allows its users to: (1) make MP3 music files stored on individual computer hard drives available for copying by other Napster users; (2) search for MP3 music files stored on other users’ computers; and (3) transfer exact copies of the contents of other users’ MP3 files from one computer to another via the Internet. These functions are made possible by Napster’s MusicShare software, available free of charge from Napster’s Internet site, and Napster’s network servers and server-side software. Napster provides technical support for the indexing and searching of MP3 files, as well as for its other functions, including a “chat room,” where users can meet to discuss music, and a directory where participating artists can provide information about their music.

A. Accessing the System

In order to copy MP3 files through the Napster system, a user must first access Napster’s Internet site and download the MusicShare software to his individual computer. Once the software is installed, the user can access the Napster system. A first-time user is required to register with the Napster system by creating a “user name” and password.

B. Listing Available Files

If a registered user wants to list available files stored in his computer's hard drive on Napster for others to access, he must first create a "user library" directory on his computer's hard drive. The user then saves his MP3 files in the library directory, using self-designated file names. He next must log into the Napster system using his user name and password. His MusicShare software then searches his user library and verifies that the available files are properly formatted. If in the correct MP3 format, the names of the MP3 files will be uploaded from the user's computer to the Napster servers. The content of the MP3 files remains stored in the user's computer.

Once uploaded to the Napster servers, the user's MP3 file names are stored in a server-side "library" under the user's name and become part of a "collective directory" of files available for transfer during the time the user is logged onto the Napster system. The collective directory is fluid; it tracks users who are connected in real time, displaying only file names that are immediately accessible.

C. Searching For Available Files

Napster allows a user to locate other users' MP3 files in two ways: through Napster's search function and through its "hotlist" function.

Software located on the Napster servers maintains a "search index" of Napster's collective directory. To search the files available from Napster users currently connected to the network servers, the individual user accesses a form in the MusicShare software stored in his computer and enters either the name of a song or an artist as the object of the search. The form is then transmitted to a Napster server and automatically compared to the MP3 file names listed in the server's search index. Napster's server compiles a list of all MP3 file names pulled from the search index which include the same search terms entered on the search form and transmits the list to the searching user. The Napster server does not search the contents of any MP3 file; rather, the search is limited to "a text search of the file names indexed in a particular cluster. Those file names may contain typographical errors or otherwise inaccurate descriptions of the content of the files since they are designated by other users."

To use the "hotlist" function, the Napster user creates a list of other users' names from whom he has obtained MP3 files in the past. When logged onto Napster's servers, the system alerts the user if any user on his list (a "hotlisted user") is also logged onto the system. If so, the user can access an index of all MP3 file names in a particular hotlisted user's library and request a file in the library by selecting the file name. The contents of the hotlisted user's MP3 file are not stored on the Napster system.

D. Transferring Copies of an MP3 file

To transfer a copy of the contents of a requested MP3 file, the Napster server software obtains the Internet address of the requesting user and the Internet address of the "host user" (the user with the available files). The Napster servers then communicate the host user's Internet address to the requesting user. The requesting user's computer uses this information to establish a connection with the host user and downloads a copy of the contents of the MP3 file from one computer to the other over the Internet, "peer-to-peer." A downloaded MP3 file can be played directly from the user's hard drive using Napster's Music-Share program or other software. The file may also be transferred back onto an audio CD if the user has access to equipment designed for that purpose. In both cases, the quality of the original sound recording is slightly diminished by transfer to the MP3 format.

This architecture is described in some detail to promote an understanding of transmission mechanics as opposed to the content of the transmissions. The content is the subject of our copyright infringement analysis.

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

### II

We review a grant or denial of a preliminary injunction for abuse of discretion. Application of erroneous legal principles represents an abuse of discretion by the district court. If the district court is claimed to have relied on an erroneous legal premise in reaching its decision to grant or deny a preliminary injunction, we will review the underlying issue of law de novo.

On review, we are required to determine, “whether the court employed the appropriate legal standards governing the issuance of a preliminary injunction and whether the district court correctly apprehended the law with respect to the underlying issues in the case.” “As long as the district court got the law right, ‘it will not be reversed simply because the appellate court would have arrived at a different result if it had applied the law to the facts of the case.’”

Preliminary injunctive relief is available to a party who demonstrates either: (1) a combination of probable success on the merits and the possibility of irreparable harm; or (2) that serious questions are raised and the balance of hardships tips in its favor. “These two formulations represent two points on a sliding scale in which the required degree of irreparable harm increases as the probability of success decreases.”

### III

Plaintiffs claim Napster users are engaged in the wholesale reproduction and distribution of copyrighted works, all constituting direct infringement. The district court agreed. We note that the district court’s conclusion that plaintiffs have presented a prima facie case of direct infringement by Napster users is not presently appealed by Napster. We only need briefly address the threshold requirements.

#### A. Infringement

Plaintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106. Plaintiffs have sufficiently demonstrated ownership. The record supports the district court’s determination that “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.”

The district court further determined that plaintiffs’ exclusive rights under § 106 were violated: “here the evidence establishes that a majority of Napster users use the service to download and upload copyrighted music. . . . And by doing that, it constitutes—the uses constitute direct infringement of plaintiffs’ musical compositions, recordings.” The district court also noted that “it is pretty much acknowledged . . . by Napster that this is infringement.” We agree that plaintiffs have shown that Napster users infringe at least two of the copyright holders’ exclusive rights: the rights of reproduction and distribution. Napster users who upload file names to the search index for others to copy violate plaintiffs’ distribution rights. Napster users who download files containing copyrighted music violate plaintiffs’ reproduction rights.

Napster asserts an affirmative defense to the charge that its users directly infringe plaintiffs’ copyrighted musical compositions and sound recordings.

#### B. Fair Use

Napster contends that its users do not directly infringe plaintiffs’ copyrights because the users are engaged in fair use of the material. Napster identifies three specific alleged fair uses: sampling, where users make temporary copies of a work before purchasing; space-shifting, where users access a sound

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

recording through the Napster system that they already own in audio CD format; and permissive distribution of recordings by both new and established artists.

The district court considered factors listed in 17 U.S.C. § 107, which guide a court's fair use determination. These factors are: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the "amount and substantiality of the portion used" in relation to the work as a whole; and (4) the effect of the use upon the potential market for the work or the value of the work. The district court first conducted a general analysis of Napster system uses under § 107, and then applied its reasoning to the alleged fair uses identified by Napster. The district court concluded that Napster users are not fair users. We agree. We first address the court's overall fair use analysis.

### 1. Purpose and Character of the Use

This factor focuses on whether the new work merely replaces the object of the original creation or instead adds a further purpose or different character. In other words, this factor asks "whether and to what extent the new work is 'transformative.'"

The district court first concluded that downloading MP3 files does not transform the copyrighted work. This conclusion is supportable. Courts have been reluctant to find fair use when an original work is merely retransmitted in a different medium.

This "purpose and character" element also requires the district court to determine whether the allegedly infringing use is commercial or noncommercial. A commercial use weighs against a finding of fair use but is not conclusive on the issue. The district court determined that Napster users engage in commercial use of the copyrighted materials largely because (1) "a host user sending a file cannot be said to engage in a personal use when distributing that file to an anonymous requester" and (2) "Napster users get for free something they would ordinarily have to buy." The district court's findings are not clearly erroneous.

Direct economic benefit is not required to demonstrate a commercial use. Rather, repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute a commercial use. In the record before us, commercial use is demonstrated by a showing that repeated and exploitative unauthorized copies of copyrighted works were made to save the expense of purchasing authorized copies. Plaintiffs made such a showing before the district court.

We also note that the definition of a financially motivated transaction for the purposes of criminal copyright actions includes trading infringing copies of a work for other items, "including the receipt of other copyrighted works."

### 2. The Nature of the Use

Works that are creative in nature are "closer to the core of intended copyright protection" than are more fact-based works. The district court determined that plaintiffs' "copyrighted musical compositions and sound recordings are creative in nature . . . which cuts against a finding of fair use under the second factor." We find no error in the district court's conclusion.

### 3. The Portion Used

"While 'wholesale copying does not preclude fair use per se, 'copying an entire work 'militates against a finding of fair use.'" The district court determined that Napster users engage in "wholesale copying" of copyrighted work because file transfer necessarily "involves copying the entirety of the copyrighted work." We agree. We note, however, that under certain circumstances, a court will conclude that a use is fair even when the protected work is copied in its entirety.

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

### 4. Effect of Use on Market

“Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied.” “The importance of this [fourth] factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors.” The proof required to demonstrate present or future market harm varies with the purpose and character of the use:

A challenge to a noncommercial use of a copy-righted work requires proof either that the particular use is harmful, or that if it should become wide-spread, it would adversely affect the potential market for the copyrighted work. . . . *If the intended use is for commercial gain, that likelihood [of market harm] may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.*

Addressing this factor, the district court concluded that Napster harms the market in “at least” two ways: it reduces audio CD sales among college students and it “raises barriers to plaintiffs’ entry into the market for the digital downloading of music.” The district court relied on evidence plaintiffs submitted to show that Napster use harms the market for their copyrighted musical compositions and sound recordings. In a separate memorandum and order regarding the parties’ objections to the expert reports, the district court examined each report, finding some more appropriate and probative than others. Notably, plaintiffs’ expert, Dr. E. Deborah Jay, conducted a survey (the “Jay Report”) using a random sample of college and university students to track their reasons for using Napster and the impact Napster had on their music purchases. The court recognized that the Jay Report focused on just one segment of the Napster user population and found “evidence of lost sales attributable to college use to be probative of irreparable harm for purposes of the preliminary injunction motion.”

Plaintiffs also offered a study conducted by Michael Fine, Chief Executive Officer of Soundscan, (the “Fine Report”) to determine the effect of online sharing of MP3 files in order to show irreparable harm. Fine found that online file sharing had resulted in a loss of “album” sales within college markets. After reviewing defendant’s objections to the Fine Report and expressing some concerns regarding the methodology and findings, the district court refused to exclude the Fine Report insofar as plaintiffs offered it to show irreparable harm.

Plaintiffs’ expert Dr. David J. Teece studied several issues (“Teece Report”), including whether plaintiffs had suffered or were likely to suffer harm in their existing and planned businesses due to Napster use. Napster objected that the report had not undergone peer review. The district court noted that such reports generally are not subject to such scrutiny and overruled defendant’s objections.

As for defendant’s experts, plaintiffs objected to the report of Dr. Peter S. Fader, in which the expert concluded that Napster is *beneficial* to the music industry because MP3 music file-sharing stimulates more audio CD sales than it displaces. The district court found problems in Dr. Fader’s minimal role in overseeing the administration of the survey and the lack of objective data in his report. The court decided the generality of the report rendered it “of dubious reliability and value.” The court did not exclude the report, however, but chose “not to rely on Fader’s findings in determining the issues of fair use and irreparable harm.”

The district court cited both the Jay and Fine Reports in support of its finding that Napster use harms the market for plaintiffs’ copyrighted musical compositions and sound recordings by reducing CD sales among college students. The district court cited the Teece Report to show the harm Napster use caused in raising barriers to plaintiffs’ entry into the market for digital downloading of music. The district court’s careful consideration of defendant’s objections to these reports and decision to rely on the reports for specific issues demonstrates a proper exercise of discretion in addition to a correct application of the fair use doctrine. Defendant has failed to show any basis for disturbing the district court’s findings.

We, therefore, conclude that the district court made sound findings related to Napster’s deleterious effect on the present and future digital download market. Moreover, lack of harm to an

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

established market cannot deprive the copyright holder of the right to develop alternative markets for the works. Here, similar to *L.A. Times* and *UMG Recordings*, the record supports the district court's finding that the "record company plaintiffs have already expended considerable funds and effort to commence Internet sales and licensing for digital downloads." Having digital downloads available for free on the Napster system necessarily harms the copyright holders' attempts to charge for the same downloads.

Judge Patel did not abuse her discretion in reaching the above fair use conclusions, nor were the findings of fact with respect to fair use considerations clearly erroneous. We next address Napster's identified uses of sampling and space-shifting.

### 5. Identified Uses

Napster maintains that its identified uses of sampling and space-shifting were wrongly excluded as fair uses by the district court.

#### a. Sampling

Napster contends that its users download MP3 files to "sample" the music in order to decide whether to purchase the recording. Napster argues that the district court: (1) erred in concluding that sampling is a commercial use because it conflated a noncommercial use with a personal use; (2) erred in determining that sampling adversely affects the market for plaintiffs' copyrighted music, a requirement if the use is non-commercial; and (3) erroneously concluded that sampling is not a fair use because it determined that samplers may also engage in other infringing activity.

The district court determined that sampling remains a commercial use even if some users eventually purchase the music. We find no error in the district court's determination. Plaintiffs have established that they are likely to succeed in proving that even authorized temporary downloading of individual songs for sampling purposes is commercial in nature. The record supports a finding that free promotional downloads are highly regulated by the record company plaintiffs and that the companies collect royalties for song samples available on retail Internet sites. Evidence relied on by the district court demonstrates that the free downloads provided by the record companies consist of thirty-to-sixty second samples or are full songs programmed to "time out," that is, exist only for a short time on the downloader's computer. In comparison, Napster users download a full, free and permanent copy of the recording. The determination by the district court as to the commercial purpose and character of sampling is not clearly erroneous.

The district court further found that both the market for audio CDs and market for online distribution are adversely affected by Napster's service. As stated in our discussion of the district court's general fair use analysis: the court did not abuse its discretion when it found that, overall, Napster has an adverse impact on the audio CD and digital download markets. Contrary to Napster's assertion that the district court failed to specifically address the market impact of sampling, the district court determined that "even if the type of sampling supposedly done on Napster were a non-commercial use, plaintiffs have demonstrated a substantial likelihood that it would adversely affect the potential market for their copyrighted works if it became widespread." The record supports the district court's preliminary determinations that: (1) the more music that sampling users download, the less likely they are to eventually purchase the recordings on audio CD; and (2) even if the audio CD market is not harmed, Napster has adverse effects on the developing digital download market.

Napster further argues that the district court erred in rejecting its evidence that the users' downloading of "samples" increases or tends to increase audio CD sales. The district court, however, correctly noted that "any potential enhancement of plaintiffs' sales . . . would not tip the fair use analysis conclusively in favor of defendant." We agree that increased sales of copyrighted material attributable to unauthorized use should not deprive the copyright holder of the right to license the material. Nor does

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

positive impact in one market, here the audio CD market, deprive the copyright holder of the right to develop identified alternative markets, here the digital download market.

We find no error in the district court's factual findings or abuse of discretion in the court's conclusion that plaintiffs will likely prevail in establishing that sampling does not constitute a fair use.

### b. Space-Shifting

Napster also maintains that space-shifting is a fair use. Space-shifting occurs when a Napster user downloads MP3 music files in order to listen to music he already owns on audio CD. Napster asserts that we have already held that space-shifting of musical compositions and sound recordings is a fair use.

We conclude that the district court did not err when it refused to apply the "shifting" analyses of *Sony* and *Diamond*. Both *Diamond* and *Sony* are inapposite because the methods of shifting in these cases did not also simultaneously involve distribution of the copyrighted material to the general public; the time or space-shifting of copyrighted material exposed the material only to the original user. In *Diamond*, for example, the copyrighted music was transferred from the user's computer hard drive to the user's portable MP3 player. So too *Sony*, where "the majority of VCR purchasers . . . did not distribute taped television broadcasts, but merely enjoyed them at home." Conversely, it is obvious that once a user lists a copy of music he already owns on the Napster system in order to access the music from another location, the song becomes "available to millions of other individuals," not just the original CD owner.

### c. Other Uses

Permissive reproduction by either independent or established artists is the final fair use claim made by Napster. The district court noted that plaintiffs did not seek to enjoin this and any other noninfringing use of the Napster system, including: chat rooms, message boards and Napster's New Artist Program. Plaintiffs do not challenge these uses on appeal.

We find no error in the district court's determination that plaintiffs will likely succeed in establishing that Napster users do not have a fair use defense. Accordingly, we next address whether Napster is secondarily liable for the direct infringement under two doctrines of copyright law: contributory copyright infringement and vicarious copyright infringement.

## IV

We first address plaintiffs' claim that Napster is liable for contributory copyright infringement. Traditionally, "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." Put differently, liability exists if the defendant engages in "personal conduct that encourages or assists the infringement."

The district court determined that plaintiffs in all likelihood would establish Napster's liability as a contributory infringer. The district court did not err; Napster, by its conduct, knowingly encourages and assists the infringement of plaintiffs' copyrights.

### A. Knowledge

Contributory liability requires that the secondary infringer "know or have reason to know" of direct infringement. The district court found that Napster had both actual and constructive knowledge that its users exchanged copyrighted music. The district court also concluded that the law does not require knowledge of "specific acts of infringement" and rejected Napster's contention that because the company cannot distinguish infringing from noninfringing files, it does not "know" of the direct infringement.

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

It is apparent from the record that Napster has knowledge, both actual and constructive, of direct infringement. Napster claims that it is nevertheless protected from contributory liability by the teaching of *Sony Corp. v. Universal City Studios, Inc.* We disagree. We observe that Napster's actual, specific knowledge of direct infringement renders *Sony's* holding of limited assistance to Napster. We are compelled to make a clear distinction between the architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system.

The *Sony* Court refused to hold the manufacturer and retailers of video tape recorders liable for contributory infringement despite evidence that such machines could be and were used to infringe plaintiffs' copyrighted television shows. *Sony* stated that if 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 copy-righted material.*" 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 uses."

We are bound to follow *Sony*, and will not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs' copyrights. We depart from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant noninfringing uses. The district court improperly confined the use analysis to current uses, ignoring the system's capabilities. Consequently, the district court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use. Nonetheless, whether we might arrive at a different result is not the issue here. The instant appeal occurs at an early point in the proceedings and "the fully developed factual record may be materially different from that initially before the district court. . . ." Regardless of the number of Napster's infringing versus noninfringing uses, the evidentiary record here supported the district court's finding that plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users' infringement of plaintiffs' copyrights.

This analysis is similar to that of *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, which suggests that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement. *Netcom* considered the potential contributory copyright liability of a computer bulletin board operator whose system supported the posting of infringing material. The court, in denying *Netcom's* motion for summary judgment of noninfringement and plaintiff's motion for judgment on the pleadings, found that a disputed issue of fact existed as to whether the operator had sufficient knowledge of infringing activity.

The court determined that for the operator to have sufficient knowledge, the copyright holder must "provide the necessary documentation to show there is likely infringement." If such documentation was provided, the court reasoned that *Netcom* would be liable for contributory infringement because its failure to remove the material "and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation" in distribution of copyrighted material.

We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement. Conversely, absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material. To enjoin simply because a computer network allows for infringing use would, in our opinion, violate *Sony* and potentially restrict activity unrelated to infringing use.

We nevertheless conclude that sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system. The record supports the district court's finding that Napster has *actual* knowledge that *specific* infringing material is available using its system,

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material.

### B. Material Contribution

Under the facts as found by the district court, Napster materially contributes to the infringing activity. Relying on *Fonovisa*, the district court concluded that “without the support services defendant provides, Napster users could not find and download the music they want with the ease of which defendant boasts.” We agree that Napster provides “the site and facilities” for direct infringement. The district court correctly applied the reasoning in *Fonovisa*, and properly found that Napster materially contributes to direct infringement.

We affirm the district court’s conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the contributory copyright infringement claim. We will address the scope of the injunction in part VIII of this opinion.

## V

We turn to the question whether Napster engages in vicarious copyright infringement. Vicarious copyright liability is an “outgrowth” of respondeat superior. In the context of copyright law, vicarious liability extends beyond an employer/employee relationship to cases in which a defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”

Before moving into this discussion, we note that *Sony*’s “staple article of commerce” analysis has no application to Napster’s potential liability for vicarious copyright infringement. The issues of *Sony*’s liability under the “doctrines of ‘direct infringement’ and ‘vicarious liability’” “were not before the Supreme Court, although the Court recognized that the “lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn.” Consequently, when the *Sony* Court used the term “vicarious liability,” it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement.

### A. Financial Benefit

The district court determined that plaintiffs had demonstrated they would likely succeed in establishing that Napster has a direct financial interest in the infringing activity. We agree. Financial benefit exists where the availability of infringing material “acts as a ‘draw’ for customers.” Ample evidence supports the district court’s finding that Napster’s future revenue is directly dependent upon “increases in user-base.” More users register with the Napster system as the “quality and quantity of available music increases.” We conclude that the district court did not err in determining that Napster financially benefits from the availability of protected works on its system.

### B. Supervision

The district court determined that Napster has the right and ability to supervise its users’ conduct. We agree in part.

The ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise. Here, plaintiffs have demonstrated that Napster retains the right to control access to its system. Napster has an express reservation of rights policy, stating on its website that it expressly 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.”

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

To escape imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent. Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability.

The district court correctly determined that Napster had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material. The district court, however, failed to recognize that the boundaries of the premises that Napster “controls and patrols” are limited. Put differently, Napster’s reserved “right and ability” to police is cabined by the system’s current architecture. As shown by the record, the Napster system does not “read” the content of indexed files, other than to check that they are in the proper MP3 format.

Napster, however, has the ability to locate infringing material listed on its search indices, and the right to terminate users’ access to the system. The file name indices, therefore, are within the “premises” that Napster has the ability to police. We recognize that the files are user-named and may not match copyrighted material exactly (for example, the artist or song could be spelled wrong). For Napster to function effectively, however, file names must reasonably or roughly correspond to the material contained in the files, otherwise no user could ever locate any desired music. As a practical matter, Napster, its users and the record company plaintiffs have equal access to infringing material by employing Napster’s “search function.”

Our review of the record requires us to accept the district court’s conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the vicarious copyright infringement claim. Napster’s failure to police the system’s “premises,” combined with a showing that Napster financially benefits from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability. We address the scope of the injunction in part VIII of this opinion.

### VI

We next address whether Napster has asserted defenses which would preclude the entry of a preliminary injunction.

Napster alleges that two statutes insulate it from liability. First, Napster asserts that its users engage in actions protected by § 1008 of the Audio Home Recording Act of 1992. Second, Napster argues that its liability for contributory and vicarious infringement is limited by the Digital Millennium Copyright Act. We address the application of each statute in turn.

#### A. Audio Home Recording Act

The statute states in part:

*No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.*

Napster contends that MP3 file exchange is the type of “noncommercial use” protected from infringement actions by the statute. Napster asserts it cannot be secondarily liable for users’ nonactionable exchange of copyrighted musical recordings.

The district court rejected Napster’s argument, stating that the Audio Home Recording Act is “irrelevant” to the action because: (1) plaintiffs did not bring claims under the Audio Home Recording Act; and (2) the Audio Home Recording Act does not cover the downloading of MP3 files.

We agree with the district court that the Audio Home Recording Act does not cover the downloading of MP3 files to computer hard drives. First, “under the plain meaning of the Act’s definition of digital audio recording devices, computers (and their hard drives) are not digital audio

*COPYRIGHT WARS AND THE MUSIC INDUSTRY*

recording devices because their ‘primary purpose’ is not to make digital audio copied recordings.” Second, notwithstanding Napster’s claim that computers are “digital audio recording devices,” computers do not make “digital music recordings” as defined by the Audio Home Recording Act.

B. Digital Millennium Copyright Act

Napster also interposes a statutory limitation on liability by asserting the protections of the “safe harbor” from copyright infringement suits for “Internet service providers” contained in the Digital Millennium Copyright Act. The district court did not give this statutory limitation any weight favoring a denial of temporary injunctive relief. The court concluded that Napster “has failed to persuade this court that subsection 512(d) shelters contributory infringers.”

We need not accept a blanket conclusion that § 512 of the Digital Millennium Copyright Act will never protect secondary infringers.

We do not agree that Napster’s potential liability for contributory and vicarious infringement renders the Digital Millennium Copyright Act inapplicable per se. We instead recognize that this issue will be more fully developed at trial. At this stage of the litigation, plaintiffs raise serious questions regarding Napster’s ability to obtain shelter under § 512, and plaintiffs also demonstrate that the balance of hardships tips in their favor.

Plaintiffs have raised and continue to raise significant questions under this statute, including: (1) whether Napster is an Internet service provider as defined by 17 U.S.C. § 512(d); (2) whether copyright owners must give a service provider “official” notice of infringing activity in order for it to have knowledge or awareness of infringing activity on its system; and (3) whether Napster complies with § 512(i), which requires a service provider to timely establish a detailed copyright compliance policy.

The district court considered ample evidence to support its determination that the balance of hardships tips in plaintiffs’ favor:

Any destruction of Napster, Inc. by a preliminary injunction is speculative compared to the statistical evidence of massive, unauthorized downloading and uploading of plaintiffs’ copyrighted works—as many as 10,000 files per second by defendant’s own admission. The court has every reason to believe that, without a preliminary injunction, these numbers will mushroom as Napster users, and newcomers attracted by the publicity, scramble to obtain as much free music as possible before trial.

....

X

We affirm in part, reverse in part and remand.

We direct that the preliminary injunction fashioned by the district court prior to this appeal shall remain stayed until it is modified by the district court to conform to the requirements of this opinion. We order a partial remand of this case on the date of the filing of this opinion for the limited purpose of permitting the district court to proceed with the settlement and entry of the modified preliminary injunction.

Even though the preliminary injunction requires modification, appellees have substantially and primarily prevailed on appeal. Appellees shall recover their statutory costs on appeal.

AFFIRMED IN PART, REVERSED IN PART AND REMANDED.

***In re Aimster Copyright Litigation, 334 F.3d 643 (7th Cir. 2003)***

POSNER, *Circuit Judge*. Owners of copyrighted popular music filed a number of closely related suits, which were consolidated and transferred to the Northern District of Illinois by the Multi-district Litigation Panel, against John Deep and corporations that are controlled by him and need not be discussed separately. The numerous plaintiffs, who among them appear to own most subsisting copyrights on American popular music, claim that Deep's "Aimster" Internet service (recently renamed "Madster") is a contributory and vicarious infringer of these copyrights. The district judge entered a broad preliminary injunction, which had the effect of shutting down the Aimster service until the merits of the suit are finally resolved, from which Deep appeals. Aimster is one of a number of enterprises (the former Napster is the best known) that have been sued for facilitating the swapping of digital copies of popular music, most of it copyrighted, over the Internet. To simplify exposition, we refer to the appellant as "Aimster" and to the appellees (the plaintiffs) as the recording industry.

Teenagers and young adults who have access to the Internet like to swap computer files containing popular music. If the music is copyrighted, such swapping, which involves making and transmitting a digital copy of the music, infringes copyright. The swappers, who are ignorant or more commonly disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement, are the direct infringers. But firms that facilitate their infringement, even if they are not themselves infringers because they are not making copies of the music that is shared, may be liable to the copyright owners as contributory infringers. Recognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers ("chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem," the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor. Another analogy is to the tort of intentional interference with contract, that is, inducing a breach of contract. If a breach of contract (and a copyright license is just a type of contract) can be prevented most effectively by actions taken by a third party, it makes sense to have a legal mechanism for placing liability for the consequences of the breach on him as well as on the party that broke the contract.

The district judge ruled that the recording industry had demonstrated a likelihood of prevailing on the merits should the case proceed to trial. He so ruled with respect to vicarious as well as contributory infringement; we begin with the latter, the more familiar charge.

The Aimster system has the following essential components: proprietary software that can be downloaded free of charge from Aimster's Web site; Aimster's server (a server is a computer that provides services to other computers, in this case personal computers owned or accessed by Aimster's users, over a network), which hosts the Web site and collects and organizes information obtained from the users but does not make copies of the swapped files themselves and that also provides the matching service described below; computerized tutorials instructing users of the software on how to use it for swapping computer files; and "Club Aimster," a related Internet service owned by Deep that users of Aimster's software can join for a fee and use to download the "top 40" popular-music files more easily than by using the basic, free service. The "AIM" in "Aimster" stands for AOL instant-messaging service. Aimster is available only to users of such services (of which AOL's is the most popular) because Aimster users can swap files only when both are online and connected in a chat room enabled by an instant-messaging service.

Someone who wants to use Aimster's basic service for the first time to swap files downloads the software from Aimster's Web site and then registers on the system by entering a user name (it doesn't have to be his real name) and a password at the Web site. Having done so, he can designate any other registrant as a "buddy" and can communicate directly with all his buddies when he and they are online, attaching to his communications (which are really just emails) any files that he wants to share with the

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

buddies. All communications back and forth are encrypted by the sender by means of encryption software furnished by Aimster as part of the software package downloadable at no charge from the Web site, and are decrypted by the recipient using the same Aimster-furnished software package. If the user does not designate a buddy or buddies, then *all* the users of the Aimster system become his buddies; that is, he can send or receive from any of them.

Users list on their computers the computer files they are willing to share. (They needn't list them separately, but can merely designate a folder in their computer that contains the files they are willing to share.) A user who wants to make a copy of a file goes online and types the name of the file he wants in his "Search For" field. Aimster's server searches the computers of those users of its software who are online and so are available to be searched for files they are willing to share, and if it finds the file that has been requested it instructs the computer in which it is housed to transmit the file to the recipient via the Internet for him to download into his computer. Once he has done this he can if he wants make the file available for sharing with other users of the Aimster system by listing it as explained above. In principle, therefore, the purchase of a single CD could be levered into the distribution within days or even hours of millions of identical, near-perfect (depending on the compression format used) copies of the music recorded on the CD—hence the recording industry's anxiety about file-sharing services oriented toward consumers of popular music. But because copies of the songs reside on the computers of the users and not on Aimster's own server, Aimster is not a direct infringer of the copyrights on those songs. Its function is similar to that of a stock exchange, which is a facility for matching offers rather than a repository of the things being exchanged (shares of stock). But unlike transactions on a stock exchange, the consummated "transaction" in music files does not take place in the facility, that is, in Aimster's server.

What we have described so far is a type of Internet file-sharing system that might be created for innocuous purposes such as the expeditious exchange of confidential business data among employees of a business firm. The fact that copyrighted materials might sometimes be shared between users of such a system without the authorization of the copyright owner or a fair-use privilege would not make the firm a contributory infringer. Otherwise AOL's instant-messaging system, which Aimster piggybacks on, might be deemed a contributory infringer. For there is no doubt that some of the attachments that AOL's multitudinous subscribers transfer are copyrighted, and such distribution is an infringement unless authorized by the owner of the copyright. The Supreme Court made clear in the *Sony* decision that the producer of a product that has substantial non-infringing uses is not a contributory infringer merely because some of the uses actually made of the product (in that case a machine, the predecessor of today's videocassette recorders, for recording television programs on tape) are infringing. How much more the Court held is the principal issue that divides the parties; and let us try to resolve it, recognizing of course that the Court must have the last word.

Sony's Betamax video recorder was used for three principal purposes, as Sony was well aware (a fourth, playing home movies, involved no copying). The first, which the majority opinion emphasized, was time shifting, that is, recording a television program that was being shown at a time inconvenient for the owner of the Betamax for later watching at a convenient time. The second was "library building," that is, making copies of programs to retain permanently. The third was skipping commercials by taping a program before watching it and then, while watching the tape, using the fast-forward button on the recorder to skip over the commercials. The first use the Court held was a fair use (and hence not infringing) because it enlarged the audience for the program. The copying involved in the second and third uses was unquestionably infringing to the extent that the programs copied were under copyright and the taping of them was not authorized by the copyright owners—but not all fell in either category. Subject to this qualification, building a library of taped programs was infringing because it was the equivalent of borrowing a copyrighted book from a public library, making a copy of it for one's personal library, then returning the original to the public library. The third use, commercial-skipping, amounted to creating an unauthorized derivative work, namely a commercial-free copy that would reduce the

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

copyright owner's income from his original program, since "free" television programs are financed by the purchase of commercials by advertisers.

Thus the video recorder was being used for a mixture of infringing and noninfringing uses and the Court thought that Sony could not demix them because once Sony sold the recorder it lost all control over its use. The court ruled 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. The question is thus whether the Betamax is capable of commercially significant noninfringing uses. In order to resolve that question, we need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement. Rather, we need only consider whether on the basis of the facts as found by the district court a significant number of them would be non-infringing. Moreover, in order to resolve this case we need not give precise content to the question of how much use is commercially significant. For one potential use of the Betamax plainly satisfies this standard, however it is understood: private, noncommercial time-shifting in the home."

In our case the recording industry, emphasizing the reference to "articles of commerce" in the passage just quoted and elsewhere in the Court's opinion, and emphasizing as well the Court's evident concern that the copyright holders were trying to lever their copyright monopolies into a monopoly over video recorders, and also remarking Sony's helplessness to prevent infringing uses of its recorders once it sold them, argues that *Sony* is inapplicable to services. With regard to services, the industry argues, the test is merely whether the provider knows it's being used to infringe copyright. The industry points out that the provider of a service, unlike the seller of a product, has a continuing relation with its customers and therefore should be able to prevent, or at least limit, their infringing copyright by monitoring their use of the service and terminating them when it is discovered that they are infringing. Although Sony could have engineered its video recorder in a way that would have reduced the likelihood of infringement, as by eliminating the fast-forward capability, or, as suggested by the dissent, by enabling broadcasters by scrambling their signal to disable the Betamax from recording their programs (for that matter, it could have been engineered to have only a play, not a recording, capability), the majority did not discuss these possibilities and we agree with the recording industry that the ability of a service provider to prevent its customers from infringing is a factor to be considered in determining whether the provider is a contributory infringer. Congress so recognized in the Digital Millennium Copyright Act, which we discuss later in this opinion.

It is not necessarily a controlling factor, however, as the recording industry believes. If a service facilitates both infringing and noninfringing uses, as in the case of AOL's instant-messaging service, and the detection and prevention of the infringing uses would be highly burdensome, the rule for which the recording industry is contending could result in the shutting down of the service or its annexation by the copyright owners (contrary to the clear import of the *Sony* decision), because the provider might find it impossible to estimate its potential damages liability to the copyright holders and would anyway face the risk of being enjoined. The fact that the recording industry's argument if accepted might endanger AOL's instant-messaging service (though the service might find shelter under the Digital Millennium Copyright Act—a question complicated, however, by AOL's intention, of which more later, of offering an encryption option to the visitors to its chat rooms) is not only alarming; it is paradoxical, since subsidiaries of AOL's parent company (AOL Time Warner), such as Warner Brothers Records and Atlantic Recording Corporation, are among the plaintiffs in this case and music chat rooms are among the facilities offered by AOL's instant-messaging service.

We also reject the industry's argument that *Sony* provides no defense to a charge of contributory infringement when, in the words of the industry's brief, there is anything "more than a mere showing that a product may be used for infringing purposes." Although the fact was downplayed in the majority opinion, it was apparent that the Betamax was being used for infringing as well as noninfringing purposes—even the majority acknowledged that 25 percent of Betamax users were fast forwarding through commercials—yet Sony was held not to be a contributory infringer. The Court was unwilling to

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying noninfringing consumers the benefit of the technology. We therefore agree with Professor Goldstein that the Ninth Circuit erred in *A&M Records, Inc. v. Napster, Inc.*, in suggesting that actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer.

The recording industry's hostility to the *Sony* decision is both understandable, given the amount of Internet-enabled infringement of music copyrights, and manifest—the industry in its brief offers five reasons for confining its holding to its specific facts. But it is being articulated in the wrong forum.

Equally, however, we reject Aimster's argument that to prevail the recording industry must prove it has actually lost money as a result of the copying that its service facilitates. It is true that the Court in *Sony* emphasized that the plaintiffs had failed to show that they had sustained substantial harm from the Betamax. But the Court did so in the context of assessing the argument that time shifting of television programs was fair use rather than infringement. One reason time shifting was fair use, the Court believed, was that it wasn't hurting the copyright owners because it was enlarging the audience for their programs. But a copyright owner who can prove infringement need not show that the infringement caused him a financial loss. Granted, without such a showing he cannot obtain compensatory damages; but he can obtain statutory damages, or an injunction, just as the owner of physical property can obtain an injunction against a trespasser without proving that the trespass has caused him a financial loss.

What is true is that when a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement. The Court's action in striking the cost-benefit trade-off in favor of Sony came to seem prescient when it later turned out that the principal use of video recorders was to allow people to watch at home movies that they bought or rented rather than to tape television programs. (In 1984, when *Sony* was decided, the industry was unsure how great the demand would be for prerecorded tapes compared to time shifting. The original Betamax played one-hour tapes, long enough for most television broadcasts but too short for a feature film. Sony's competitors used the VHS format, which came to market later but with a longer playing time; this contributed to VHS's eventual displacement of Betamax.) An enormous new market thus opened for the movie industry—which by the way gives point to the Court's emphasis on potential as well as actual noninfringing uses. But the balancing of costs and benefits is necessary only in a case in which substantial noninfringing uses, present or prospective, are demonstrated.

We also reject Aimster's argument that because the Court said in *Sony* that mere "constructive knowledge" of infringing uses is not enough for contributory infringement, and the encryption feature of Aimster's service prevented Deep from knowing what songs were being copied by the users of his system, he lacked the knowledge of infringing uses that liability for contributory infringement requires. Willful blindness is knowledge, in copyright law (where indeed it may be enough that the defendant *should* have known of the direct infringement, as it is in the law generally. One who, knowing or strongly suspecting that he is involved in shady dealings, takes steps to make sure that he does not acquire full or exact knowledge of the nature and extent of those dealings is held to have a criminal intent, because a deliberate effort to avoid guilty knowledge is all that the law requires to establish a guilty state of mind. In *United States v. Diaz*, the defendant, a drug trafficker, sought "to insulate himself from the actual drug transaction so that he could deny knowledge of it," which he did sometimes by absenting himself from the scene of the actual delivery and sometimes by pretending to be fussing under the hood of his car. He did not escape liability by this maneuver; no more can Deep by using encryption software to prevent himself from learning what surely he strongly suspects to be the case: that the users of his service—maybe *all* the users of his service—are copyright infringers.

This is not to say that the provider of an encrypted instant-messaging service or encryption software is ipso facto a contributory infringer should his buyers use the service to infringe copyright, merely because encryption, like secrecy generally, facilitates unlawful transactions. ("Encryption" comes from the Greek word for concealment.) Encryption fosters privacy, and privacy is a social benefit though

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

also a source of social costs. “AOL has begun testing an encrypted version of AIM [AOL Instant Messaging]. Encryption is considered critical for widespread adoption of IM in some industries and federal agencies.” Our point is only that a service provider that would otherwise be a contributory infringer does not obtain immunity by using encryption to shield itself from actual knowledge of the unlawful purposes for which the service is being used.

We also do not buy Aimster’s argument that since the Supreme Court distinguished, in the long passage from the *Sony* opinion that we quoted earlier, between actual and potential noninfringing uses, all Aimster has to show in order to escape liability for contributory infringement is that its file-sharing system *could* be used in noninfringing ways, which obviously it could be. Were that the law, the seller of a product or service used *solely* to facilitate copyright infringement, though it was capable in principle of noninfringing uses, would be immune from liability for contributory infringement. That would be an extreme result, and one not envisaged by the *Sony* majority. Otherwise its opinion would have had no occasion to emphasize the fact (at least the majority thought it a fact—the dissent disagreed) that Sony had not in its advertising encouraged the use of the Betamax to infringe copyright. Nor would the Court have thought it important to say that the Betamax was used “principally” for time shifting, which as we recall the Court deemed a fair use, or to remark that the plaintiffs owned only a small percentage of the total amount of copyrighted television programming and it was unclear how many of the other owners objected to home taping.

There are analogies in the law of aiding and abetting, the criminal counterpart to contributory infringement. A retailer of slinky dresses is not guilty of aiding and abetting prostitution even if he knows that some of his customers are prostitutes—he may even know which ones are. The extent to which his activities and those of similar sellers actually promote prostitution is likely to be slight relative to the social costs of imposing a risk of prosecution on him. But the owner of a massage parlor who employs women who are capable of giving massages, but in fact as he knows sell only sex and never massages to their customers, is an aider and abettor of prostitution (as well as being guilty of pimping or operating a brothel). The slinky-dress case corresponds to *Sony*, and, like *Sony*, is not inconsistent with imposing liability on the seller of a product or service that, as in the massage-parlor case, is capable of noninfringing uses but in fact is used only to infringe. To the recording industry, a single known infringing use brands the facilitator as a contributory infringer. To the Aimsters of this world, a single noninfringing use provides complete immunity from liability. Neither is correct.

To situate Aimster’s service between these unacceptable poles, we need to say just a bit more about it. In explaining how to use the Aimster software, the tutorial gives as its *only* examples of file sharing the sharing of copyrighted music, including copyrighted music that the recording industry had notified Aimster was being infringed by Aimster’s users. The tutorial is the invitation to infringement that the Supreme Court found was missing in *Sony*. In addition, membership in Club Aimster enables the member for a fee of \$4.95 a month to download with a single click the music most often shared by Aimster users, which turns out to be music copyrighted by the plaintiffs. Because Aimster’s software is made available free of charge and Aimster does not sell paid advertising on its Web site, Club Aimster’s monthly fee is the only means by which Aimster is financed and so the club cannot be separated from the provision of the free software. When a member of the club clicks on “play” next to the name of a song on the club’s Web site, Aimster’s server searches through the computers of the Aimster users who are online until it finds one who has listed the song as available for sharing, and it then effects the transmission of the file to the computer of the club member who selected it. Club Aimster lists only the 40 songs that are currently most popular among its members; invariably these are under copyright.

The evidence that we have summarized does not exclude the *possibility* of substantial noninfringing uses of the Aimster system, but the evidence is sufficient, especially in a preliminary-injunction proceeding, which is summary in character, to shift the burden of production to Aimster to demonstrate that its service has substantial noninfringing uses. (On burden-shifting in preliminary injunction proceedings.) As it might:

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

1. Not all popular music is copyrighted. Apart from music on which the copyright has expired (not much of which, however, is of interest to the teenagers and young adults interested in swapping music), startup bands and performers may waive copyright in the hope that it will encourage the playing of their music and create a following that they can convert to customers of their subsequent works.
2. A music file-swapping service might increase the value of a recording by enabling it to be used as currency in the music-sharing community, since someone who only downloads and never uploads, thus acting as a pure free rider, will not be very popular.
3. Users of Aimster's software might form select (as distinct from all-comers) "buddy" groups to exchange non-copyrighted information about popular music, or for that matter to exchange ideas and opinions about wholly unrelated matters as the buddies became friendlier. Some of the chat-room messages that accompany the listing of music files offered or requested contain information or opinions concerning the music; to that extent, though unremarked by the parties, some noninfringing use is made of Aimster's service, though it is incidental to the infringement.
4. Aimster's users might appreciate the encryption feature because as their friendship deepened they might decide that they wanted to exchange off-color, but not copyrighted, photographs, or dirty jokes, or other forms of expression that people like to keep private, rather than just copyrighted music.
5. Someone might own a popular-music CD that he was particularly fond of, but he had not downloaded it into his computer and now he finds himself out of town but with his laptop and he wants to listen to the CD, so he uses Aimster's service to download a copy. This might be a fair use rather than a copyright infringement, by analogy to the time shifting approved as fair use in the *Sony* case. The analogy was sidestepped in *A&M Records, Inc. v. Napster, Inc.*, because Napster's system did not limit downloading to music on CDs owned by the downloader. The analogy was rejected in *UMG Recordings v. MP3.com, Inc.* on the ground that the copy on the defendant's server was an unauthorized derivative work; a solid ground, in light of *Sony's* rejection of the parallel argument with respect to time shifting, would have been that the defendant's method for requiring that its customers "prove" that they owned the CDs containing the music they wanted to download was too lax.

All five of our examples of actually or arguably noninfringing uses of Aimster's service are possibilities, but as should be evident from our earlier discussion the question is how probable they are. It is not enough, as we have said, that a product or service be physically capable, as it were, of a noninfringing use. Aimster has failed to produce any evidence that its service has ever been used for a noninfringing use, let alone evidence concerning the frequency of such uses. In the words of the district judge, "defendants here have provided no evidence whatsoever (besides the unsupported declaration of Deep) that Aimster is *actually* used for any of the stated non-infringing purposes. Absent is any indication from real-life Aimster users that their primary use of the system is to transfer non-copyrighted files to their friends or identify users of similar interests and share information. Absent is any indication that even a single business without a network administrator uses Aimster to exchange business records as Deep suggests." We have to assume for purposes of deciding this appeal that no such evidence exists; its absence, in combination with the evidence presented by the recording industry, justified the district judge in concluding that the industry would be likely to prevail in a full trial on the issue of contributory infringement. Because Aimster failed to show that its service is ever used for any purpose other than to infringe the plaintiffs' copyrights, the question (as yet unsettled) of the net effect of Napster-like services on the music industry's income is irrelevant to this case. If the *only* effect of a service challenged as contributory infringement is to enable copyrights to be infringed, the magnitude of the resulting loss, even whether there is a net loss, becomes irrelevant to liability.

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

Even when there are noninfringing uses of an Internet file-sharing service, moreover, if the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses. Aimster failed to make that showing too, by failing to present evidence that the provision of an encryption capability *effective against the service provider itself* added important value to the service or saved significant cost. Aimster blinded itself in the hope that by doing so it might come within the rule of the *Sony* decision.

It complains about the district judge's refusal to hold an evidentiary hearing. But his refusal was consistent with our decision in *Ty, Inc. v. GMA Accessories, Inc.*, where we explained that "if genuine issues of material fact are created by the response to a motion for a preliminary injunction, an evidentiary hearing is indeed required. But as in any case in which a party seeks an evidentiary hearing, he must be able to persuade the court that the issue is indeed genuine and material and so a hearing would be productive—he must show in other words that he has and intends to introduce evidence that if believed will so weaken the moving party's case as to affect the judge's decision on whether to issue an injunction." Aimster hampered its search for evidence by providing encryption. It must take responsibility for that self-inflicted wound.

Turning to the second issue presented by the appeal, we are less confident than the district judge was that the recording industry would also be likely to prevail on the issue of vicarious infringement should the case be tried, though we shall not have to resolve our doubts in order to decide the appeal. "Vicarious liability" generally refers to the liability of a principal, such as an employer, for the torts committed by his agent, an employee for example, in the course of the agent's employment. The teenagers and young adults who use Aimster's system to infringe copyright are of course not Aimster's agents. But one of the principal rationales of vicarious liability, namely the difficulty of obtaining effective relief against an agent, who is likely to be impecunious, has been extended in the copyright area to cases in which the only effective relief is obtainable from someone who bears a relation to the direct infringers that is analogous to the relation of a principal to an agent. The canonical illustration is the owner of a dance hall who hires dance bands that sometimes play copyrighted music without authorization. The bands are not the dance hall's agents, but it may be impossible as a practical matter for the copyright holders to identify and obtain a legal remedy against the infringing bands yet quite feasible for the dance hall to prevent or at least limit infringing performances. And so the dance hall that fails to make reasonable efforts to do this is liable as a vicarious infringer. The dance hall could perhaps be described as a contributory infringer. But one thinks of a contributory infringer as someone who benefits directly from the infringement that he encourages, and that does not seem an apt description of the dance hall, though it does benefit to the extent that competition will force the dance band to charge the dance hall a smaller fee for performing if the band doesn't pay copyright royalties and so has lower costs than it would otherwise have.

How far the doctrine of vicarious liability extends is uncertain. It could conceivably have been applied in the *Sony* case itself, on the theory that while it was infeasible for the producers of copyrighted television fare to sue the viewers who used the fast-forward button on Sony's video recorder to delete the commercials and thus reduce the copyright holders' income, Sony could have reduced the likelihood of infringement, as we noted earlier, by a design change. But the Court, treating vicarious and contributory infringement interchangeably, held that Sony was not a vicarious infringer either. By eliminating the encryption feature and monitoring the use being made of its system, Aimster could like Sony have limited the amount of infringement. Whether failure to do so made it a vicarious infringer notwithstanding the outcome in *Sony* is academic, however; its ostrich-like refusal to discover the extent to which its system was being used to infringe copyright is merely another piece of evidence that it was a contributory infringer.

We turn now to Aimster's defenses under the *Online Copyright Infringement Liability Limitation Act*, Title II of the Digital Millennium Copyright Act (DMCA). The DMCA is an attempt to deal with special problems created by the so-called digital revolution. One of these is the vulnerability of Internet

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

service providers such as AOL to liability for copyright infringement as a result of file swapping among their subscribers. Although the Act was not passed with Napster-type services in mind, the definition of Internet service provider is broad (“a provider of online services or network access, or the operator of facilities therefor,” and, as the district judge ruled, Aimster fits it. The Act provides a series of safe harbors for Internet service providers and related entities, but none in which Aimster can moor. The Act does not abolish contributory infringement. The common element of its safe harbors is that the service provider must do what it can reasonably be asked to do to prevent the use of its service by “repeat infringers.” Far from doing anything to discourage repeat infringers of the plaintiffs’ copyrights, Aimster invited them to do so, showed them how they could do so with ease using its system, and by teaching its users how to encrypt their unlawful distribution of copyrighted materials disabled itself from doing anything to prevent infringement.

This completes our discussion of the merits of Aimster’s appeal. But the fact that the recording industry is likely to win this case if it is ever tried is not by itself a sufficient basis for the issuance of a preliminary injunction. A court asked to issue such an injunction must also consider which party will suffer the greater harm as a result of a ruling for or against issuance. Aimster points out that the preliminary injunction has put it out of business; the recording industry ripostes that until it was put out of business Aimster, with an estimated 2 to 3 million users, undoubtedly was facilitating a substantial infringement of music copyrights—and remember that Aimster has presented no evidence of offsetting noninfringing uses. On this record, therefore, the harm to Aimster from the grant of the injunction must be reckoned comparable to the harm that the recording industry would suffer from denial of the preliminary injunction.

The only harm that is relevant to the decision to grant a preliminary injunction is irreparable harm, since if it is repairable by an award of damages at the end of trial there is no need for preliminary relief. The recording industry’s harm should the preliminary injunction be dissolved would undoubtedly be irreparable. The industry’s damages from Aimster’s contributory infringement cannot be reliably estimated and Aimster would in any event be unlikely ever to have the resources to pay them. Aimster’s irreparable harm from the grant of the injunction is, if anything, less, because of the injunction bond of \$500,000 that the industry was required to post and that Aimster does not contend is inadequate. (Even without the bond, the recording industry would undoubtedly be good for any damages that Aimster may have sustained from being temporarily shut down, though, bond or no bond, there is still the measurement problem.) Even if the irreparable harms are deemed the same, since the plaintiffs have a stronger case on the merits than Aimster does the judge was right to grant the injunction.

Aimster objects to the injunction’s breadth. But having failed to suggest alternative language either in the district court or in this court, it has waived the objection. We cannot find a case that makes this point expressly, but it is implicit in the general principle that arguments made but not developed do not preserve issues for appellate review. We are not impressed by Aimster’s argument that the district court had an independent duty, rooted in the free-speech clause of the *First Amendment*, to make sure that the impact of the injunction on communications over the Internet is no greater than is absolutely necessary to provide the recording industry with the legal protection to which it is entitled while the case wends its way to a conclusion. Copyright law and the principles of equitable relief are quite complicated enough without the superimposition of *First Amendment* case law on them; and we have been told recently by the Supreme Court not only that “copyright law contains built-in *First Amendment* accommodations” but also that, in any event, the *First Amendment* “bears less heavily when speakers assert the right to make other people’s speeches.” Or, we add, to copy, or enable the copying of, other people’s music.

AFFIRMED.

**MGM Studios, Inc. v. Grokster, Ltd., 545 U.S. 913 (2005)**

Justice SOUTER delivered the opinion of the Court.

The question is under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product. We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

I

A

Respondents, Grokster, Ltd., and StreamCast Networks, Inc., defendants in the trial court, distribute free software products that allow computer users to share electronic files through peer-to-peer networks, so called because users' computers communicate directly with each other, not through central servers. The advantage of peer-to-peer networks over information networks of other types shows up in their substantial and growing popularity. Because they need no central computer server to mediate the exchange of information or files among users, the high-bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated. Since copies of a file (particularly a popular one) are available on many users' computers, file requests and retrievals may be faster than on other types of networks, and since file exchanges do not travel through a server, communications can take place between any computers that remain connected to the network without risk that a glitch in the server will disable the network in its entirety. Given these benefits in security, cost, and efficiency, peer-to-peer networks are employed to store and distribute electronic files by universities, government agencies, corporations, and libraries, among others.

Other users of peer-to-peer networks include individual recipients of Grokster's and StreamCast's software, and although the networks that they enjoy through using the software can be used to share any type of digital file, they have prominently employed those networks in sharing copyrighted music and video files without authorization. A group of copyright holders (MGM for short, but including motion picture studios, recording companies, songwriters, and music publishers) sued Grokster and StreamCast for their users' copyright infringements, alleging that they knowingly and intentionally distributed their software to enable users to reproduce and distribute the copyrighted works in violation of the Copyright Act. MGM sought damages and an injunction.

Discovery during the litigation revealed the way the software worked, the business aims of each defendant company, and the predilections of the users. Grokster's eponymous software employs what is known as FastTrack technology, a protocol developed by others and licensed to Grokster. StreamCast distributes a very similar product except that its software, called Morpheus, relies on what is known as Gnutella technology. A user who downloads and installs either software possesses the protocol to send requests for files directly to the computers of others using software compatible with FastTrack or Gnutella. On the FastTrack network opened by the Grokster software, the user's request goes to a computer given an indexing capacity by the software and designated a supernode, or to some other computer with comparable power and capacity to collect temporary indexes of the files available on the computers of users connected to it. The supernode (or indexing computer) searches its own index and may communicate the search request to other supernodes. If the file is found, the supernode discloses its location to the computer requesting it, and the requesting user can download the file directly from the

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

computer located. The copied file is placed in a designated sharing folder on the requesting user's computer, where it is available for other users to download in turn, along with any other file in that folder.

In the Gnutella network made available by Morpheus, the process is mostly the same, except that in some versions of the Gnutella protocol there are no supernodes. In these versions, peer computers using the protocol communicate directly with each other. When a user enters a search request into the Morpheus software, it sends the request to computers connected with it, which in turn pass the request along to other connected peers. The search results are communicated to the requesting computer, and the user can download desired files directly from peers' computers. As this description indicates, Grokster and StreamCast use no servers to intercept the content of the search requests or to mediate the file transfers conducted by users of the software, there being no central point through which the substance of the communications passes in either direction.

Although Grokster and StreamCast do not therefore know when particular files are copied, a few searches using their software would show what is available on the networks the software reaches. MGM commissioned a statistician to conduct a systematic search, and his study showed that nearly 90% of the files available for download on the FastTrack system were copyrighted works. Grokster and StreamCast dispute this figure, raising methodological problems and arguing that free copying even of copyrighted works may be authorized by the rightholders. They also argue that potential noninfringing uses of their software are significant in kind, even if infrequent in practice. Some musical performers, for example, have gained new audiences by distributing their copyrighted works for free across peer-to-peer networks, and some distributors of unprotected content have used peer-to-peer networks to disseminate files, Shakespeare being an example. Indeed, StreamCast has given Morpheus users the opportunity to download the briefs in this very case, though their popularity has not been quantified.

As for quantification, the parties' anecdotal and statistical evidence entered thus far to show the content available on the FastTrack and Gnutella networks does not say much about which files are actually downloaded by users, and no one can say how often the software is used to obtain copies of unprotected material. But MGM's evidence gives reason to think that the vast majority of users' downloads are acts of infringement, and because well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the FastTrack and Gnutella networks each month, the probable scope of copyright infringement is staggering.

Grokster and StreamCast concede the infringement in most downloads, Brief for Respondents 10, and it is uncontested that they are aware that users employ their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks fail to reveal which files are being copied, and when. From time to time, moreover, the companies have learned about their users' infringement directly, as from users who have sent e-mail to each company with questions about playing copyrighted movies they had downloaded, to whom the companies have responded with guidance. And MGM notified the companies of 8 million copyrighted files that could be obtained using their software.

Grokster and StreamCast are not, however, merely passive recipients of information about infringing use. The record is replete with evidence that from the moment Grokster and StreamCast began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement.

After the notorious file-sharing service, StreamCast gave away a software program of a kind known as OpenNap, designed as compatible with the Napster program and open to Napster users for downloading files from other Napster and OpenNap users' computers. Evidence indicates that "[i]t was always [StreamCast's] intent to use [its OpenNap network] to be able to capture email addresses of [its] initial target market so that [it] could promote [its] StreamCast Morpheus interface to them"; indeed, the OpenNap program was engineered "'to leverage Napster's 50 million user base'".

StreamCast monitored both the number of users downloading its OpenNap program and the number of music files they downloaded. It also used the resulting OpenNap network to distribute copies of the Morpheus software and to encourage users to adopt it. Internal company documents indicate that

## *COPYRIGHT WARS AND THE MUSIC INDUSTRY*

StreamCast hoped to attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster. A kit developed by StreamCast to be delivered to advertisers, for example, contained press articles about StreamCast's potential to capture former Napster users, and it introduced itself to some potential advertisers as a company "which is similar to what Napster was". It broadcast banner advertisements to users of other Napster-compatible software, urging them to adopt its OpenNap. An internal e-mail from a company executive stated: "We have put this network in place so that when Napster pulls the plug on their free service . . . or if the Court orders them shut down prior to that . . . we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative."

Thus, StreamCast developed promotional materials to market its service as the best Napster alternative. One proposed advertisement read: "Napster Inc. has announced that it will soon begin charging you a fee. That's if the courts don't order it shut down first. What will you do to get around it?" Another proposed ad touted StreamCast's software as the "#1 alternative to Napster" and asked "[w]hen the lights went off at Napster . . . where did the users go?" StreamCast even planned to flaunt the illegal uses of its software; when it launched the OpenNap network, the chief technology officer of the company averred that "[t]he goal is to get in trouble with the law and get sued. It's the best way to get in the new[s]."

The evidence that Grokster sought to capture the market of former Napster users is sparser but revealing, for Grokster launched its own OpenNap system called Swaptor and inserted digital codes into its Web site so that computer users using Web search engines to look for "Napster" or "[f]ree filesharing" would be directed to the Grokster Web site, where they could download the Grokster software. And Grokster's name is an apparent derivative of Napster.

StreamCast's executives monitored the number of songs by certain commercial artists available on their networks, and an internal communication indicates they aimed to have a larger number of copyrighted songs available on their networks than other file-sharing networks. The point, of course, would be to attract users of a mind to infringe, just as it would be with their promotional materials developed showing copyrighted songs as examples of the kinds of files available through Morpheus. Morpheus in fact allowed users to search specifically for "Top 40" songs, which were inevitably copyrighted. Similarly, Grokster sent users a newsletter promoting its ability to provide particular, popular copyrighted materials.

In addition to this evidence of express promotion, marketing, and intent to promote further, the business models employed by Grokster and StreamCast confirm that their principal object was use of their software to download copyrighted works. Grokster and StreamCast receive no revenue from users, who obtain the software itself for nothing. Instead, both companies generate income by selling advertising space, and they stream the advertising to Grokster and Morpheus users while they are employing the programs. As the number of users of each program increases, advertising opportunities become worth more. While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking a free Decameron, and Grokster and StreamCast translated that demand into dollars.

Finally, there is no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impede the sharing of copyrighted files. Although Grokster appears to have sent e-mails warning users about infringing content when it received threatening notice from the copyright holders, it never blocked anyone from continuing to use its software to share copyrighted files. StreamCast not only rejected another company's offer of help to monitor infringement, but blocked the Internet Protocol addresses of entities it believed were trying to engage in such monitoring on its networks.

B

After discovery, the parties on each side of the case cross-moved for summary judgment. The District Court limited its consideration to the asserted liability of Grokster and StreamCast for distributing the current versions of their software, leaving aside whether either was liable “for damages arising from *past* versions of their software, or from other past activities.” The District Court held that those who used the Grokster and Morpheus software to download copyrighted media files directly infringed MGM’s copyrights, a conclusion not contested on appeal, but the court nonetheless granted summary judgment in favor of Grokster and StreamCast as to any liability arising from distribution of the then current versions of their software. Distributing that software gave rise to no liability in the court’s view, because its use did not provide the distributors with actual knowledge of specific acts of infringement.

The Court of Appeals affirmed. In the court’s analysis, a defendant was liable as a contributory infringer when it had knowledge of direct infringement and materially contributed to the infringement. But the court read *Sony Corp. of America v. Universal City Studios, Inc.*, as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. The fact that the software was capable of substantial noninfringing uses in the Ninth Circuit’s view meant that Grokster and StreamCast were not liable, because they had no such actual knowledge, owing to the decentralized architecture of their software. The court also held that Grokster and StreamCast did not materially contribute to their users’ infringement because it was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place.

The Ninth Circuit also considered whether Grokster and StreamCast could be liable under a theory of vicarious infringement. The court held against liability because the defendants did not monitor or control the use of the software, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement. We granted certiorari.

II

A

MGM and many of the *amici* fault the Court of Appeals’s holding for upsetting a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement. The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the tradeoff.

The tension between the two values is the subject of this case, with its claim that digital distribution of copyrighted material threatens copyright holders as never before, because every copy is identical to the original, copying is easy, and many people (especially the young) use file-sharing software to download copyrighted works. This very breadth of the software’s use may well draw the public directly into the debate over copyright policy, and the indications are that the ease of copying songs or movies using software like Grokster’s and Napster’s is fostering disdain for copyright protection. As the case has been presented to us, these fears are said to be offset by the different concern that imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies.

The argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day using StreamCast’s and Grokster’s software. When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.

One infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it. Although “[t]he Copyright Act does not expressly render anyone liable for infringement committed by another,” these doctrines of secondary liability emerged from common law principles and are well established in the law.

### B

Despite the currency of these principles of secondary liability, this Court has dealt with secondary copyright infringement in only one recent case, and because MGM has tailored its principal claim to our opinion there, a look at our earlier holding is in order. In *Sony Corp. v. Universal City Studios*, this Court addressed a claim that secondary liability for infringement can arise from the very distribution of a commercial product. There, the product, novel at the time, was what we know today as the videocassette recorder or VCR. Copyright holders sued Sony as the manufacturer, claiming it was contributorily liable for infringement that occurred when VCR owners taped copyrighted programs because it supplied the means used to infringe, and it had constructive knowledge that infringement would occur. At the trial on the merits, the evidence showed that the principal use of the VCR was for “§ ‘time-shifting,’” or taping a program for later viewing at a more convenient time, which the Court found to be a fair, not an infringing, use. There was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping. Although Sony’s advertisements urged consumers to buy the VCR to “‘record favorite shows’” or “‘build a library’” of recorded programs, neither of these uses was necessarily infringing.

On those facts, with no evidence of stated or indicated intent to promote infringing uses, the only conceivable basis for imposing liability was on a theory of contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe. But because the VCR was “capable of commercially significant noninfringing uses,” we held the manufacturer could not be faulted solely on the basis of its distribution.

This analysis reflected patent law’s traditional staple article of commerce doctrine, now codified, that distribution of a component of a patented device will not violate the patent if it is suitable for use in other ways. The doctrine was devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another’s patent, and so may justly be held liable for that infringement. “One who makes and sells articles which are only adapted to be used in a patented combination will be presumed to intend the natural consequences of his acts; he will be presumed to intend that they shall be used in the combination of the patent.”

In sum, where an article is “good for nothing else” but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe. Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one’s products will be misused. It leaves breathing room for innovation and a vigorous commerce.

The parties and many of the *amici* in this case think the key to resolving it is the *Sony* rule and, in particular, what it means for a product to be “capable of commercially significant noninfringing uses.” MGM advances the argument that granting summary judgment to Grokster and StreamCast as to their current activities gave too much weight to the value of innovative technology, and too little to the copyrights infringed by users of their software, given that 90% of works available on one of the networks was shown to be copyrighted. Assuming the remaining 10% to be its noninfringing use, MGM says this should not qualify as “substantial,” and the Court should quantify *Sony* to the extent of holding that a product used “principally” for infringement does not qualify. See Brief for Motion Picture Studio and

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

Recording Company Petitioners 31. As mentioned before, Grokster and StreamCast reply by citing evidence that their software can be used to reproduce public domain works, and they point to copyright holders who actually encourage copying. Even if infringement is the principal practice with their software today, they argue, the noninfringing uses are significant and will grow.

We agree with MGM that the Court of Appeals misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied. *Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. The Ninth Circuit has read *Sony*'s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it; it read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had "specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information." Because the Circuit found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of *Sony* that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

This view of *Sony*, however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory. Because *Sony* did not displace other theories of secondary liability, and because we find below that it was error to grant summary judgment to the companies on MGM's inducement claim, we do not revisit *Sony* further, as MGM requests, to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur. It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and to leave further consideration of the *Sony* rule for a day when that may be required.

### C

*Sony*'s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law. Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability.

The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or "entic[es] or persuad[es] another" to infringe, Black's Law Dictionary 790 (8th ed. 2004), as by advertising. Thus at common law a copyright or patent defendant who "not only expected but invoked [infringing use] by advertisement" was liable for infringement "on principles recognized in every part of the law."

The rule on inducement of infringement as developed in the early cases is no different today. Evidence of "active steps . . . taken to encourage direct infringement," such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.

For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

### III

#### A

The only apparent question about treating MGM's evidence as sufficient to withstand summary judgment under the theory of inducement goes to the need on MGM's part to adduce evidence that StreamCast and Grokster communicated an inducing message to their software users. The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations. MGM claims that such a message is shown here. It is undisputed that StreamCast beamed onto the computer screens of users of Napster-compatible programs ads urging the adoption of its OpenNap program, which was designed, as its name implied, to invite the custom of patrons of Napster, then under attack in the courts for facilitating massive infringement. Those who accepted StreamCast's OpenNap program were offered software to perform the same services, which a factfinder could conclude would readily have been understood in the Napster market as the ability to download copyrighted music files. Grokster distributed an electronic newsletter containing links to articles promoting its software's ability to access popular copyrighted music. And anyone whose Napster or free file-sharing searches turned up a link to Grokster would have understood Grokster to be offering the same file-sharing ability as Napster, and to the same people who probably used Napster for infringing downloads; that would also have been the understanding of anyone offered Grokster's suggestively named Swaptor software, its version of OpenNap. And both companies communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials.

In StreamCast's case, of course, the evidence just described was supplemented by other unequivocal indications of unlawful purpose in the internal communications and advertising designs aimed at Napster users ("When the lights went off at Napster . . . where did the users go?" Whether the messages were communicated is not to the point on this record. The function of the message in the theory of inducement is to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection (and incidentally to point to actual violators likely to be found among those who hear or read the message). Proving that a message was sent out, then, is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed. Here, the summary judgment record is replete with other evidence that Grokster and StreamCast, unlike the manufacturer and distributor in *Sony*, acted with a purpose to cause copyright violations by use of software suitable for illegal use.

Three features of this evidence of intent are particularly notable. First, each company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users. StreamCast's internal documents made constant reference to Napster, it initially distributed its Morpheus software through an OpenNap program compatible with Napster, it advertised its OpenNap program to Napster users, and its Morpheus software functions as Napster did except that it could be used to distribute more kinds of files, including copyrighted movies and software programs. Grokster's name is apparently derived from Napster, it too initially offered an OpenNap program, its software's function is likewise comparable to Napster's, and it attempted to divert queries for Napster onto its own Web site. Grokster and StreamCast's efforts to supply services to former Napster

## COPYRIGHT WARS AND THE MUSIC INDUSTRY

users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.

Second, this evidence of unlawful objective is given added significance by MGM's showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. While the Ninth Circuit treated the defendants' failure to develop such tools as irrelevant because they lacked an independent duty to monitor their users' activity, we think this evidence underscores Grokster's and StreamCast's intentional facilitation of their users' infringement.<sup>12</sup>

Third, there is a further complement to the direct evidence of unlawful objective. It is useful to recall that StreamCast and Grokster make money by selling advertising space, by directing ads to the screens of computers employing their software. As the record shows, the more the software is used, the more ads are sent out and the greater the advertising revenue becomes. Since the extent of the software's use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing. This evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear.

The unlawful objective is unmistakable.

### B

In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement by recipients of the device, the software in this case. As the account of the facts indicates, there is evidence of infringement on a gigantic scale, and there is no serious issue of the adequacy of MGM's showing on this point in order to survive the companies' summary judgment requests. Although an exact calculation of infringing use, as a basis for a claim of damages, is subject to dispute, there is no question that the summary judgment evidence is at least adequate to entitle MGM to go forward with claims for damages and equitable relief.

\* \* \*

In sum, this case is significantly different from *Sony* and reliance on that case to rule in favor of StreamCast and Grokster was error. *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product's capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.

MGM's evidence in this case most obviously addresses a different basis of liability for distributing a product open to alternative uses. Here, evidence of the distributors' words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.

There is substantial evidence in MGM's favor on all elements of inducement, and summary judgment in favor of Grokster and StreamCast was error. On remand, reconsideration of MGM's motion for summary judgment will be in order.

The judgment of the Court of Appeals is vacated, and the case is remanded for further proceedings consistent with this opinion.

---

<sup>12</sup> Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.

*COPYRIGHT WARS AND THE MUSIC INDUSTRY*

It is so ordered.