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DISRUPTIVE TECHNOLOGY AND COMMON LAW LAWMAKING: A BRIEF ANALYSIS OF A&M RECORDS, INC. V. NAPSTER, INC.

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My role in this Symposium is to analyze the decisions rendered thus far in A&M Records, Inc. v. Napster.[1] I will focus primarily on the Ninth Circuit's decision and identify some of the implications these decisions will have on copyright law in the Internet context.[2] In particular, I will highlight changes in the law made by the court's treatment of vicarious and contributory copyright infringement. Before turning to the court's opinion let me set the stage.

I. BACKGROUND

A. Copyright Law

1. Legal Responses to New Technologies

In the Twentieth Century, the story of copyright law has been one featuring a series of business-to-business arrangements worked out among industry representatives and enacted by Congress, with a little fine-tuning along the way.[3] As a result, copyright law has become quite complex and much of the Copyright Act of 1976 ("Copyright Act") reads like a very finely detailed contract.[4]

Many of these industry arrangements have been reached after new technologies for reproducing, performing, or distributing copyrighted works have entered the marketplace.[5] When cable television began to expand beyond its role of providing traditional community access television and began importing distant broadcast **<<6>>** signals and attracting

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* Assistant Professor of Law, Villanova University School of Law. This article is an edited, and substantially extended, transcript of my panel presentation, given on March 10, 2001, while I was an attorney in the Washington, D.C. office of Wilmer, Cutler & Pickering. I extend thanks to Colin Rushing for commenting on portions of this article, and to my family for their support in my transition to the academy.

[1] 114 F. Supp. 2d 896 (N.D. Cal. 2000) ("*Napster I*"), *aff'g in part, rev'g in part*, 239 F.3d 1004 (9th Cir. 2001) ("Napster II").

[2] Three weeks prior to the date of this symposium the Ninth Circuit handed down its decision in Napster. *See generally* 239 F.3d 1004.

[3] *See generally* Jessica Litman, *Copyright Legislation and Technological Change*, 68 OR. L. REV. 275 (1989) (exploring process of drafting copyright legislation).

[4] *See id.* at 279.

[5] *See id.* at 328.

investment capital, television broadcasters perceived a potential competitor.[6] As with the recording industry's view of Napster, television broadcasters, movie studios and owners of music copyrights took the view that cable companies were trying to build a business using their intellectual property.[7] These parties looked for a theory of copyright infringement that would give them the right to enjoin cable television's retransmission of their programming.[8]

In copyright terms, a broadcast is a public performance of the copyrighted work, and the copyright owner is given the exclusive right to publicly perform audio-visual works.[9] Copyright owners took the position that when cable television stations retransmitted broadcast programming, they were engaged in new, unauthorized public performances of the works.[10] Cable systems argued that they were merely passing along a performance that had been sent into the airwaves for all to enjoy.[11] The Supreme Court rejected the copyright owners' position.[12] The Supreme Court, however, aware that a major revision of the Copyright Act was gaining momentum on Capitol Hill, invited Congress to revisit the statute to consider whether cable system operators should have to pay a royalty for retransmitting broadcast programming.[13]

The copyright owners persuaded Congress to treat the retransmission of a public performance as a new public performance, which, if unauthorized, would infringe their rights. The price for extending that entitlement, however, was a statutory license codified in section 111 of the Copyright Act.[14] Congress imposed the statutory license to reduce the transaction costs involved in clearing rights to broadcast programming and to deprive television broadcasters of the ability to stifle the development of cable television by **<<7>>** withholding programming.[15] As the cable industry grew, it was television broadcasters who sought protection from Congress, which obliged by imposing "must carry" rules on cable system operators.[16] A similar, though very complicated, combination of litigation and

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[6] *See id.*
[7] *See id.* at 327-28.
[8] *See* Litman, *supra* note 3, at 328.
[9] *See* 17 U.S.C. § 106 (1994 & Supp. V 1999); 17 U.S.C. § 1 (repealed 1976)
[10] *See* Litman, *supra* note 3, at 327.
[11] *See id.* at 327-28.
[12] *See id.* at 329.
[13] *See* Teleprompter Corp. v. CBS, Inc., 415 U.S. 394, 414 (1974) (holding determination of best alternative structure for providing compensation to copyright holders beyond competence of court); *see also* Fortnightly Corp. v. United Artists Television, Inc., 392 U.S. 390, 401 (1968) (holding accommodation of various competing considerations of copyright is for Congress to decide); Litman, *supra* note 3, at 330-31 n.304 (describing disruptive effect of Teleprompter on pending legislative negotiations).
[14] *See* 17 U.S.C. § 111 (1994 & Supp. V 1999) (noting requirements to entitlement of statutory license).
[15] *See* H.R. Rep. No. 94-1476, at 88-98 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5702-13 (providing principal legislative history of 17 U.S.C. § 111); *see also* Litman, *supra* note 3, at 331-32 (describing process that produced § 111).
[16] *See* Turner Broad. Sys., Inc. v. Fed. Comms. Comm'n, 520 U.S. 180, 213 (1997) (discussing and holding constitutional "must-carry" provisions).

legislation has yielded similar results for direct broadcast satellite retransmission of broadcast television programming.[17]

An important point to recall is that the Supreme Court adopted a reading of the Copyright Act of 1909 that favored public access to programming delivered by cable systems.[18] In doing so, the Supreme Court chose not to fashion a judicial compromise and, instead, established a baseline favorable to new technologies for legislative negotiations. In Napster, the Ninth Circuit was offered a similar opportunity, but chose a different course by holding Napster liable under a hybrid theory of vicarious liability and declining to use judicial power to create a compulsory license.[19]

2. Copyrights in Music

Negotiations over copyright rights in music arguably have been as complex as those involving broadcast programming. Indeed, the lengthiest sections of the Copyright Act are those concerning rights in music. These sections of the Copyright Act are lengthy because of the large number of copyright owners and the number of industries with an interest in music rights. The number of copyright owners is a function of the number of composers who retain some interest in their copyrights. The Copyright Act recognizes two copyrights in recorded music. The first is in the underlying musical work, including lyrics, and the second is in the recorded rendition of the musical work.[20] Any arrangement for distributing copies of **<<8>>** recorded music requires a means of acquiring rights from both sets of copyright owners. Aggregating distribution and reproduction rights is administratively difficult, particularly with respect to musical works, because the class of copyright owners is large.

The class of copyright owners in sound recordings is currently small, but has the potential to proliferate. Under current practices, ownership of sound recording copyrights is highly concentrated in companies owned by the five largest record companies, who collectively sell approximately eighty-five percent of the recorded music sold in the United States.[21] These companies are the principal plaintiffs in Napster and it is their ownership of hundreds of thousands of sound recording copyrights that gives them standing to sue for

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[17] *See* 17 U.S.C. § 119 (1994 & Supp. V 1999); *see also* 17 U.S.C. § 122 (1994 & Supp. V 1999) (explaining satellite broadcasters have two statutory licenses to retransmit broadcast programming).

[18] *See* Litman, *supra* note 3, at 330-31 (discussing Supreme Court decision in Teleprompter).

[19] *See* Alfred C. Yen, *A Preliminary Economic Analysis of Napster: Internet Technology, Copyright Liability, and the Possibility of Coasean Bargaining*, 26 U. DAYTON L. REV. 247, 274-77 (2001) (arguing Ninth Circuit should have refrained from enjoining Napster).

[20] *See* 17 U.S.C. § 106 (1994 & Supp. V 1999) (noting musical lyrics can be both part of musical work and independent literary work, and in either case, exclusive rights given to author are same).

[21] *See* Don Clark & Martin Peers, *Can the Record Industry Beat Free Web Music?*, WALL ST. J., June 20, 2000, at B1 (explaining "Big Five" record companies are Sony, Universal Music, Warner Music, EMI and BMG Entertainment).

copyright infringement.[22] The "Big Five" record companies obtain ownership in the sound recording copyrights by forming contracts with the recording artists. The precise copyright status of this contractual transfer is contested by the record companies and recording artists.[23] But practices may change, and if the recording artists' interpretation of the Copyright Act prevails, the class of sound recording copyright owners will grow substantially within the next fifteen years.

The number of industries with an interest in music also is substantial. These industries include all those involved in music production and distribution, including radio, television, cable, satellite, live theater, brick-and-mortar retailers, online retailers, bars, restaurants, **<<9>>** and the list goes on. If all the interested parties in these industries had to clear rights with all of the interested copyright owners through individualized negotiations, the transaction costs could potentially thwart the creation of any effective means of distributing music. In response, Congress has crafted a series of statutory licenses related to music that permit the production, performance or distribution of music in certain circumstances without ex ante negotiation.[24] The licenses, on the other hand, require that those using copyrighted music contribute to a copyright "kitty" administered by the U.S. Copyright Office. Rights holders are to negotiate over how the kitty is to be divided and, if the negotiations break down, the Copyright Office oversees an arbitration proceeding.

Although the system has been far from perfect, prior to the rise of the Internet and the MP3 format, the music industry had resolved the more glaring collective action issues and had attained a tenuously stable method of music production and distribution under the Copyright Act of 1976. Rapid technological advances, however, have disrupted traditional arrangements within the industry. The advance that poses the longest-term challenge is the spread of distributed computing technology that partially underlies the Napster system.

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[22] *See* 17 U.S.C. § 501 (1994 & Supp. V 1999) (authorizing owner of exclusive rights to sue for copyright infringement).

[23] *See* Peter J. Strand, *What a Short Strange Trip It's Been: Sound Recordings and the Work Made For Hire Doctrine*, ENTER. & SPORTS LAWYER, Fall 2000, at 12 (describing amendments to definition of work made for hire). In a recent legislative debacle, Congress passed a bill designed to make only "technical corrections" to recent copyright legislation but which also added sound recordings to the list of works that were eligible for treatment as works made for hire under 17 U.S.C. § 101(b). *See id.* The effect was to resolve without debate a contentious issue within the industry over ownership of sound recording copyrights. *See id.* A number of major recording artists responded vociferously, and, within the same session of Congress, the statute was amended again to delete sound recordings from the work-for-hire definition. *See id.*

The issue has periodically popped up on the judicial radar screen. *See* Ballas v. Tedesco, 41 F. Supp. 2d 531, 541 (D.N.J. 1999); Staggers v. Real Authentic Sound, 77 F. Supp. 2d 57, 64 (D.D.C. 1999) (sound recordings not with classes of works set forth in § 101(b)). As of this writing, a group of musicians has filed a motion in Napster *See*king resolution of this issue. *See* Musicians File Brief Supporting Napster, ZDNet News Australia, Nov. 14, 2001, at http://www.zdnet.com.au/newstech/ebusiness/story/0,2000024981,20261852,00.htm.

[24] *See, e.g.,* 17 U.S.C. §§ 112, 114, 115 (1994 & Supp. V 1999).

B. Technological Background

1. Digital Music and the Rise of MP3

Napster is a computer application and related service founded on a technology known as distributed computing or, more fashionably, peer-to-peer ("P2P") communication. The technology is disruptive to distribution schemes dependent on bottlenecks, which almost by definition can be exclusively controlled. Napster operates with one bottleneck, and it is that feature that led the Ninth Circuit to hold Napster liable for the infringing activities of its users.

Although Napster spread across the Internet faster than wildfire, the technological developments that led to Napster's creation were quite gradual compared to other advances in the computing field. Digital audio recording is done through pulse-code modulation ("PCM"), by which a sound wave is sampled in millisecond increments. For most audio compact discs ("CDs"), the sampling rate **<<10>>** is 47,000 times per second.[25] Each sample is encoded with a digital value - a unique set of zeros and ones. The code is stored on magnetic tape and then transferred to any other medium capable of storing digital information, most notably CDs.

PCM was discovered in the late 1930s by an engineer in connection with his work in the growing telecommunications industry.[26] The technology to store digital data on a magnetic drum was developed in the late 1930s to early 1940s and, with the help of captured German magnetophones, was further refined by Engineering Research Associates while working on encryption research for the Navy.[27] Beginning in the 1960s, Philips-Siemens, owner of the Polygram record label (one of the Big Five, now part of the Universal Music Group), experimented with PCM and optical disks. This experimentation led to the production of the first compact disc player in 1979.[28] Sony soon followed introducing its first CD player in 1983.[29]

The key fact about the development of CD technology is that the recording companies relied on the architectural features of the file size and the disk to protect against

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[25] *See* MICHAEL FINK, INSIDE THE MUSIC BUSINESS: MUSIC IN CONTEMPORARY LIFE 73-75 (1989).

[26] *See* Steven E. Schoenherr, *The Digital Revolution: Digital Audio Recording Formats Compared*, at http://history.acusd.edu/gen/recording/digital.html (explaining how Alec H. Reeves, who worked for International Telephone & Telegraph Company in France, disclosed his PCM invention in a French patent in 1938, a British patent in 1939 and U.S. Patent #2,272,070 in 1942).

[27] *See id.* "The magnetic drum designed by ERA would be used in the computers built in the U.S. over the next years by Harvard, IBM, Remington Rand, National Security Administration, National Bureau of Standards." Id.

[28] *See* RUSSELL SANJEK, PENNIES FROM HEAVEN: THE AMERICAN POPULAR MUSIC BUSINESS IN THE TWENTIETH CENTURY 612-13 (1996).

[29] *See id.* at 613.

unauthorized copying. Throughout the 1980s and into the 1990s, limitations in computing power made it seem unlikely to most that the very large amount of data contained on an average compact disc, up to 680 megabytes, could be extracted and copied without expensive equipment. This apparent limitation meant that the threat of unauthorized copying, a threat not any different from the threat of unauthorized reproduction of vinyl long- playing records, would be limited to commercial operations. Moreover, CD players were built to read the data on a compact disc, but they did not have the ability to copy the data.

As we now know, the recording industry's faith in these architectural limitations was misplaced. A group of engineers, the Motion **<<11>>** Picture Experts Group ("MPEG"), working under United Nations' auspices as part of the International Standards Organization, carried out its mission to develop a standard for the compression of video and audio data.[30] For audio compression, MPEG identified certain frequencies that were inaudible to the human ear. Using algorithms based on a psychoacoustic model, MPEG developed a compression standard that would encode sounds in a way that preserves quality to the listener when decoded, while requiring considerably less storage space than used on a compact disc.[31] Of the audio codecs (short for compression/decompression) MPEG developed, the one most familiar is MPEG-1, Audio Layer 3 or MP3.

The development of MP3 was one of a confluence of factors that greatly reduced the architectural barriers to easy, unauthorized reproduction of music files stored on CDs. In addition to the development of the MP3 format and decoding software (MP3 players), personal computers increased in power, CD-ROM drives were deployed in most personal computers and the Internet expanded rapidly. The development of audio extraction software, called rippers, freed the music files from their discs and made it possible for these files to travel the globe. With widespread expenditure of time and effort, many individuals moved large amounts of their music libraries from their CD collection to their personal computers.

2. Arrival of Napster

The growth and expansion of such technological advances led to file swapping by electronic mail, through FTP sites, and the posting of some MP3 files on the Internet. But, the number of files remained limited so that the only remaining barrier to widespread unauthorized copying was the difficulty in finding music files on the Internet. The most common way to make files available on the Internet was to store them on servers linked to

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[30] *See* Moving Picture Experts Group (MPEG), *Who We Are*, at http://mpeg.telecomitalialab.com/who_we_are.htm (describing makeup of MPEG).

[31] *See* D. Thom et. al., MPEG *Audio FAQ Version 9 MPEG-1 and MPBG-2 BC*, at http://mpeg.telecomitalialab.com/faq/mp1-aud/mp1-aud.htm#8 (describing how MPEG works).

the Internet. Many individuals who had ripped music files from their CDs did not have the will or opportunity to publish the files to the Internet in the traditional client-server model.

Then, a student at Northeastern University, named Shawn Fanning, along with some friends, developed an elegantly simple client-side application with back-end server software that allowed anyone **<<12>>** running the client application to search a dynamic directory listing files available on other Napster users' hard drives.[32] The client-side application is called MusicShare, and is freely available for download at http://www.napster.com.[33] To use MusicShare, a user must register with Napster. Once the user has registered, MusicShare permits the user to connect to a dynamic directory hosted on Napster servers. The directory lists music files in the MP3 format available for download from the hard drives of other Napster users who are currently connected to the Napster service. MusicShare allows users to search the directory by file name or by artist. In addition, a user can create a "hotlist," that allows the user to search the files made available by specific Napster users. When a user clicks on a file in the directory to download, the file is copied from one user's computer to the other user's computer over the Internet. Napster does not make copies of the files. Rather, each Napster user acts as both a client and a server. In other words, the machines connected to the Napster service act as peers, bringing distributed computing to the masses. On its website, Napster portrayed its peer-to-peer technology as the basis for creating a new kind of musical community. To the recording industry, that "community" was more like a den of thieves.

3. Prelude to a Lawsuit

While certain members of the entertainment industry sought to portray Napster, Inc. and its founders as evil incarnate, a number of other musicians and copyright owners had a more ambivalent, or even positive, reaction to the rampant file sharing that had taken the Internet by storm. Some bands, for example, were gaining unprecedented notoriety.[34] Songs that were on out-of-print records resurfaced. Counter to those who claimed that file sharing would destroy record sales, CD sales had increased over pre-Napster levels. Indeed, a compilation of hits from the Beatles was released in November 2000, and promptly shot to number one on the Billboard **<<13>>** charts and sold 2.5 million copies in its first month,

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[32] *See* Giacario Varanini, *Q&A: Napster Creator Shawn Fanning*, ZDNet News, Mar. 3, 2000, at http:// www.zdnet.com/zdnn/stories/news/0,4586,2455495,00.html (interviewing Shawn Fanning, whose nickname was "Napster").

[33] *See* OldVersion.com, at http://www.oldversion.com/napster.shtml (providing prior versions of MusicShare because, as of this writing, MusicShare no longer is available for download from Napster site).

[34] *See* Richard Menta, Did Napster Take Radiohead's New Album to Number 1?, MP3 Newswire.net, Oct. 28, 2000, at http:// www.mp3newswire.net/stories/2000/radiohead.html (noting that Radiohead, which makes intelligent, non-standard pop music that does not generally top charts, saw its album Kid A, released on Napster prior to its official release, shoot to number one).

notwithstanding the fact that all of the songs on the album were readily available on Napster before the album's release.[35]

But, without a doubt, file sharing on Napster has resulted in some displaced sales. And, as more people purchase CD burners or portable MP3 players, devices that make digital music increasingly portable, the prospect for a greater diminution of sales seems almost certain. Thus, as was widely expected, Napster got sued . . . and sued . . . and sued. Metallica, Dr. Dre and all of the major recording labels sued Napster. Virtually all the major players in the recording industry sued Napster. Although a few artists sued Napster, the principal plaintiffs were those who own interests in the sound recording copyrights in recorded music. Yet, the people engaged in the copying and distribution of the music files are individual Napster users. Napster, Inc. does not host copies of any music files on its servers, which means that it does not directly infringe any of the copyright owners' exclusive rights. But the copyright owners did not want to sue individual users, who also were fans and customers, even though it has been individual users who have been directly responsible for the unauthorized reproduction and distribution of copyrighted music.

Therefore, just as broadcasters and other copyright owners had done with cable television, record labels began to inquire into which legal theories could de used to shut down the service. Interestingly, notwithstanding the highly political nature of copyright law and the numerous amendments that copyright owners have obtained to strengthen their respective hands in litigation, no provision in the Copyright Act specifically provides a cause of action against third parties who facilitate copyright infringement. For years, however, courts have recognized third-party liability for copyright infringement.[36] Over time, these theories have been described doctrinally as "contributory infringement" and "vicarious infringement."[37] To prevail on either of these theories, the plaintiff must first prove that the defendant is aiding aparty that has, or is, **<<14>>** engaged in direct copyright infringement. In Napster, for example, the record labels had to prove that individual users were infringers, and thus the rights of millions of Napster users were decided in abstentia.

The absence of individual defendants from the lawsuit is problematic for two reasons. First, the people who were directly responsible for the alleged wrong were not called upon to account for their conduct. This failure to hold individuals accountable is problematic in terms of the interaction between legal norms and social norms and the

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[35] *See* David Basham, *Beatles Get Back to #1*, MTV NEWS, Dec. 13, 2000, at http://www.mtv.com/news/articles/1424531/20001213/story.jhtml (explaining Beatles rise to top of Billboard charts).

[36] *See* Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 435 (1984) (recognizing third-party liability for copyright infringement). As a formal matter, the theories of third-party liability arguably reflect interpretation of 17 U.S.C. § 501(a)'s imposition of liability on "anyone who violates any of the exclusive rights of the copyright owner," but as a practical matter, the theories are better understood as federal common law. *Id.* at 433.

[37] *See* Demetriades v. Kaufmann, 690 F. Supp. 289, 292 (S.D.N.Y. 1988).

ongoing negotiation over intellectual property rights and responsibilities in the digital era. Second, had individual Napster users been present and had they advanced their own fair use claims, the courts would have been forced to engage in a more nuanced analysis. Overall, however, the outcome would not have been much different had any individual users been sued. Individual Napster users could have participated as amici or could have volunteered to be joined as defendants (an unlikely proposition), and Napster had considerable incentives to assert the rights of its users because a defendant to a claim of third party liability is entitled to assert any defenses available to the alleged direct infringer.

II. A&M RECORDS, INC. V. NAPSTER, INC.

A. Summary

The Ninth Circuit's analysis tracked the parties' arguments.[38] Adjudicating the rights of the absent Napster users, the court first held that users of the Napster system who upload and download copies of music files infringe the copyrights owned by music publishers and record companies.[39] Second, using Napster either to "sample" new music or to "space- shift" music from their CDs to their computers is not protected by the Copyright Act's fair use provision.[40] These holdings rely, in part, on a finding that the massive scale of file exchange enabled by Napster constitutes a "commercial" use of the copyrighted works, notwithstanding the fact that no money changes hands among users of the Napster service.[41]

In Napster, the court held that Napster is not legally responsible for the infringing activities of its users merely because it has supplied software and operates a computer system that is capable of **<<15>>** facilitating the unauthorized copying of copyrighted works.[42] In reaffirming and extending the Supreme Court's holding in Sony Corp. v. Universal Studios, Inc., the Ninth Circuit held that when a software or computer system is capable of "substantial non-infringing uses," the distributor or operator of such a system must have specific knowledge that the software or system is being used for infringing purposes before the distributor or operator can be held liable.[43] The court affirmed the district court's finding that Napster had sufficient actual knowledge of infringement such that it is likely to be found liable.[44]

The court further held that, because Napster had reserved the right to deny users access to the service and had the ability to search its directory of file names, Napster had an

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[38] *See generally Napster II*, 239 F. 3d 1004 (9th Cir. 2001).
[39] *See id.* at 1018-19.
[40] *See id.*
[41] *See id.* at 1021.
[42] *See id*
[43] *See Napster II*, 239 F.3d at 1021.
[44] *See id.* at 1020.

obligation to police its system.[45] Because Napster users name their own files,[46] Napster's duty to police is limited to searching its index of file names to detect titles of copyrighted music.[47] The court implied that Napster's obligation is to block access to all the files of a user who posts copyrighted music rather than just access to the files containing copyrighted music.

Finally, the court rejected two of Napster's statutory defenses. First, the court held inapplicable a provision of the Audio Home Recording Act.[48] The Audio Home Recording Act immunizes the manufacturer of a "digital audio recording device" or a "digital audio recording medium" to the extent that such device or medium is used noncommercially by consumers to make copies.[49] Second, the court declined to decide whether Napster was eligible for a safe harbor from monetary liability for search engines set forth in the Online Copyright Infringement Liability Limitation Act.[50]

<<16>> B. Direct Infringement

The Ninth Circuit had little difficulty upholding the district court's finding that individual Napster users were engaged in direct copyright infringement of the plaintiffs' rights of public distribution and reproduction.[51] According to the court, users who sign on to Napster and invite anyone to copy files are publicly distributing or authorizing the public distribution of that work.[52] Additionally, when a user asks (in binary code) to copy a song

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[45] *See id.* at 1023-24

[46] *See id.* at 1024.

[47] *See id.*

[48] *See Napster II*, 239 F.3d at 1024; *see also* 17 U.S.C. § 1008 (1994 & Supp. V 1999) ("We agree with the district court that the Audio Home Recording Act does not cover the downloading of MP3 files to computer hard drives.").

[49] *See id.*

[50] *See id.* at 1024; *see also* 17 U.S.C. § 512(d) (1994 & Supp. V 1999). This section was enacted as part of the Digital Millennium Copyright Act ("DMCA") in 1998. *See* 17 U.S.C. § 512 (1994 & Supp. V 1999).

[51] *See Napster II*, 239 F.3d at 1014.

[52] *See id.* The Ninth Circuit's holding on infringement of the distribution right requires greater explication in light of the text of the Copyright Act. According to the Act, "the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: ... (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106. The Court held simply that, "Napster users who upload file names to the search index for others to copy violate plaintiff's distribution rights." *Napster II,* 239 F.3d at 1014 (emphasis added). Uploading a file name is not a distribution of a phonorecord by sale or other transfer of ownership. And, as the court acknowledges, the copy that is "distributed" is made by the Napster user requesting the file.

Perhaps the court meant that those Napster users who permit others to request copies of data from their hard drives are distributing phonorecords without authorization. Such distributions, however, may not involve a "sale or other transfer of ownership" because, arguably, the alleged distributor never had an ownership interest in the copy received by the requesting user. *See* David L. Hayes, *Advanced Copyright Issues on the Internet*, 7 TEX. INT. PROP. L.J. 1, 37 (1998). If this understanding of digital mitosis is correct, then the copyright owner's right to authorize "rental, lease, or lending" also would not be infringed because the three uses are defined by retention of an ownership interest in the copy.

file, the user infringes the copyright owner's right of reproduction. Having found a prima facie case of direct infringement, the court addressed **<<17>>** whether Napster users were engaged in fair use of the plaintiffs' copyrighted works.[53]

C. Fair Use

Napster argued that its users were making fair use of the music available on its system.[54] Its first asserted fair use was "sampling."[55] In essence Napster argued, Look . . . what are people doing? They're not really replacing sales; they just want to see what's out there, right? This is the most exciting new development in music distribution in all time. Suddenly all the music in the world, practically, is available at your fingertips. No more rifling through the bins in the used record store to find this out of print music, it's right there, push a button and you've got it. So people are sampling music. They're just downloading it to listen to it, then they're going to go out and buy it. No harm to the market, it's fair use.[56]

Napster also argued that its users were merely space-shifting music they already owned.[57] In particular, Napster argued that people who owned CDs, but did not have the hardware and software necessary to convert the files on their CDs into the MP3 format, used the Napster service as a means to do so.[58]

Numerous other courts have held that one who exposes a file to the Internet or to subscribers of a bulletin board system is liable for distributing any infringing copies made by those requesting the file. *See, e.g.*, Marobie- FL, Inc. v. Nat'l Ass'n of Fire Equip., 983 F. Supp. 1167, 1173 (N.D. Ill. 1997)*;* Playboy Enters., Inc. v. Webbworld, Inc., 991 F. Supp. 543, 550-53 (N.D. Tex. 1997); Playboy Enters., Inc. v. Frena, 839 F. Supp. 1552, 1555- 59 (M.D. Fla. 1993). But the most thoughtful early decision was skeptical. *See* Religious Tech. Ctr. v. Netcom Online Comm. Serv., 907 F. Supp. 1361, 1371-72 (N.D. Cal. 1995) ("[O]nly the subscriber should be liable for causing the distribution of plaintiffs' work, as the contributing actions of the BBS provider are automatic and indiscriminate.").

Like these courts, the Ninth Circuit stretched the definition of the distribution right to keep the right meaningful in the digital age. The courts could have accepted the fact that because digital technology operates by making multiple copies, the reproduction right has displaced the distribution right in many contexts. In Napster, as in the cases just cited, the court could have, and perhaps should have, held that one who exposes a file to the Internet, so that others may make infringing copies of the file, is liable as a contributory infringer of the copyright owner's right of reproduction. The Napster users who make files available know or should know that others will copy the files and exposing the files to other Napster users for such purpose is a material contribution to the making of such copies.

[53] *See Napster II,* 239 F.3d at 1014.

[54] *See id.*

[55] *See id.* at 1018.

[56] *See id.*

[57] *See id.* at 1019 ("Napster also maintains that space-shifting is a fair use.").

[58] *See Napster II*, 239 F.3d at 1019. Napster also advanced as a third fair use the authorized distribution of new artists' music through the Napster service that the plaintiffs did not *See*k to enjoin. *See id.* As a matter of clarification, if the distribution is authorized, it is not a fair use, it is a non-infringing use because it is not even prima facie infringing. *See id.*

Fair use analysis turns on a number of factors: (1) the purpose and character of the use, (2) the nature of the use, (3) the portion of the copyrighted work used and (4) the effect on the market for the copyrighted work.[59] Normally, courts address how an asserted use fares under these factors. In this case, neither the district court nor the appellate court began by addressing the asserted uses under these factors.[60] Rather, the mode of analysis employed by both courts reflects the problematic aspects of having allowed Napster **<<18>>** to act as a proxy for all of its users with regard to their fair use rights. Both courts applied the four factors to the Napster service in the aggregate and then to the specific asserted fair uses of sampling and space-shifting.[61]

Under the first factor, the Ninth Circuit found that the purpose and character of file sharing was commercial notwithstanding the fact that no money changes hands among Napster users. [62] The court observed that "[d]irect 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."[63] Under the second factor, the court found that because the copyrighted works were creative, the copyrights were thick and entitled to robust protection.[64] Under the third factor, the court held that the portion of the copyrighted works generally copied by users were the whole works.[65] Under the fourth factor, both courts held that Napster's use, in the aggregate, harmed the market for CD sales among college students and acted as a barrier to entry into the new market for digital downloads.[66]

Turning to the asserted fair uses, the district court and the Ninth Circuit used their respective analyses of aggregate Napster use to color their respective analyses of the asserted fair uses. "Sampling" appears to have been understood to mean any download made with the intent to consider the purchase of a song, either as a single or bundled with other songs on a CD. Both courts understood "sampling" use to include a user's retaining a copy of an MP3 file even after the user has decided not to purchase the song.[67] With that understanding, the Ninth Circuit upheld Judge Patel's determination that sampling was a commercial use presumed to harm the market because record companies regulate the

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[59] *See* 17 U.S.C. § 107 (1994 & Supp. V 1999) (listing factors used in fair use analysis).
[60] *See Napster II,* 239 F.3d at 1015-17*; Napster I,* 114 F. Supp. 2d at 912-13.
[61] *See Napster II*, 239 F.3d at 1015-17; *Napster I*, 114 F. Supp. 2d at 912-13
[62] *See Napster II*, 239 F.3d at 1018.
[63] *Id.*; *cf.* 17 U.S.C. § 101 (1994 & Supp. V 1999) (defining "financial gain" to "include[ ] receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works").
[64] *See Napster II*, 239 F.3d at 1016 (citing *Napster I*, 114 F. Supp. 2d at 913).
[65] *See id.*
[66] *See id.* at 1016-17 (citing *Napster I*, 114 F. Supp. 2d at 913-15).
[67] *See id.* at 1018 ("Napster users download a full, free and permanent copy of the recording."); *Napster I,* 114 F. Supp. 2d at 913 ("[S]ampling on Napster amounts to obtaining permanent copies of songs that users would otherwise have to purchase ....").

availability of promotional free copies and charge Internet sites for use of promotional **<<19>>** samples.[68] In the alternative, the court held that even if sampling is non-commercial, the fact that users could retain a "sampled" copy of music permanently harmed the markets for CDs and for digital downloads.[69] Finally, the court brushed aside Napster's argument that it did not harm the market because Napster use actually increased CD sales. Specifically, the court held that even if CD sales increased, the copyright holder is entitled to determine how to increase sales.[70]

The Ninth Circuit also quickly dismissed space-shifting as a fair use.[71] The court appeared to understand "space-shifting" as involving two different activities, but did not clarify how each was not a fair use. At first, the court said "[s]pace-shifting occurs when a Napster user downloads MP3 music files in order to listen to music he already owns on audio CD."[72] Presumably, this description means downloading an MP3 file from another Napster user's computer. The court also appeared to understand space- shifting to involve a Napster user making his or her own ripped files available on Napster so that he or she could access the files from another machine.[73] This understanding is an unlikely understanding of space-shifting because it would require the user to have his or her home machine turned on and connected to Napster when he or she tried to access the files from a remote machine. In either case, the court held this use to be infringement because the use involved making the files available to the world and permitting other users to copy the files.[74]

Both courts' analyses of fair use could have been more careful. Neither court started by addressing how Napster users use the service.[75] The evidence appears to show that Napster is many things to many people. In the context of this case, Napster raised the fair use defenses of its users that it thought might best shield it from liability. This approach, however, left some uses by some users unanalyzed. Even with the asserted fair uses, both courts should have begun by analyzing whether the uses were fair on their own terms and then analyzed the proportion of Napster use that could be characterized as sampling or space-shifting. Had the district court and the appellate court used this approach, the ruling may **<<20>>** have better articulated the balance between the rights of copyright owners and users that section 107 is intended to strike.

The discussion of sampling by both courts shares two flaws. First, the definition of sampling appears to have been overinclusive, sweeping in permanent downloads that do not

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[68] *See Napster II*, 239 F.3d at 1018.
[69] *See id.*
[70] *See id.*
[71] *See id.* at 1019.
[72] *Id.* (citing *Napster I*, 114 F. Supp. 2d at 915-16).
[73] *See Napster II*, 239 F.3d at 1019.
[74] *See id.*
[75] *See id.* at 1015-17; Napster I, 114 F. Supp. 2d at 912-13.

result in a sale.[76] This definition suited Napster's needs because without it, Napster would not have had a plausible argument that it was not liable for its users' activities. But the definition gave short shrift to the rights of conscientious Napster users who may have deleted files after deciding not to purchase the music contained therein. Had sampling been limited to those downloads that a user either keeps because he or she has purchased the song(s) or deletes after having, within a reasonable time, decided not to purchase the music, a strong argument can be made under the four factors of section 107 that such use is a non-commercial use which does not harm the market for music sales.[77]

Similarly, in its brief discussion of space-shifting, the Ninth Circuit did not squarely address whether it is a fair use to copy from a remote source a music file containing recorded music that one owns in another format.[78] Had discussion of space-shifting focused on that issue, the answer again might have been that such copying is fair. If either court had followed this suggested analytical framework, Napster would not have been held immune from liability. Almost certainly the asserted fair uses do not characterize the majority of downloads that have taken place on Napster. The district court, for example, came to this conclusion with respect to space-shifting.[79] The courts could have held that even though Napster facilitates some fair uses of recorded music, most users turn to Napster's service for copyright infringement. Such a holding would **<<21>>** have recognized the beneficial aspects of the technology while still requiring analysis of whether Napster could be held liable for contributory or vicarious infringement.

D. Third-Party Liability

The Ninth Circuit's analysis of contributory and vicarious liability is interesting and problematic on a number of levels. The court's analysis, for example, could be seen as an attempt to address the concerns of two important constituencies. As is well known, the Ninth Circuit covers a number of western states, predominantly California. Two California constituencies had keen interests in this case: (1) technology companies based in Northern California, and (2) the entertainment industry based in Southern California. In its discussion

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[76] *See Napster II*, 239 F.3d at 1018.

[77] The recording industry would likely counter that such use would still harm the market for distribution of promotional copies and the still- undeveloped market for rentals of digital music. *Cf. Napster II,* 239 F.3d at 1018 ("[E]ven authorized temporary downloading of individual songs is commercial in nature."). The proper resolution of this dispute depends upon one's view of the harm-to-a-potential-market analysis under the fourth fair use factor.

[78] The question of whether a user who requests a music file from remote source is engaged in fair use is distinct from whether a service that makes and distributes unauthorized copies for the purpose of serving as such a remote location is engaged in fair use. *See* UMG Recordings, Inc. v. MP3.Com, Inc., 92 F. Supp. 2d 349, 351-52 (S.D.N.Y. 2000) (asking whether service that makes and distributes unauthorized copies for purpose of serving remote location is engaged in fair use and rejecting fair use defense of such service).

[79] *See Napster I*, 114 F. Supp. 2d at 916 (holding "[d]efendant fails to show that space-shifting constitutes commercially significant use of Napster").

of contributory infringement, the Ninth Circuit went out of its way to give some comfort to the manufacturers of new technologies.[80] But any sense of comfort quickly evaporated after the court announced its expansive understanding of vicarious liability.[81] As a result, the Ninth Circuit muddled the law.

1. Contributory Infringement

Liability under the doctrine of "contributory infringement" requires that a third party have actual or constructive knowledge that another is engaged in copyright infringement and that the third party has induced, caused, or materially contributed to the other's infringing conduct.[82] The Ninth Circuit had little difficulty finding that Napster materially contributed to the infringing activity of its users by connecting its users through the distribution of MusicShare and by the operation of the directory of users' files.[83] Of greater consequence, is the court's discussion of the knowledge requirement. The plaintiffs provided evidence that Napster executives knew that users were engaged in copyright infringement.[84] Accordingly, the plaintiffs argued that because MusicShare was designed to facilitate copying of music files in the MP3 format, Napster should be held to know that users would use, and were using, its software to make infringing copies of copyrighted music.[85] In response to the plaintiffs, the Ninth Circuit upheld the finding that **<<22>>** Napster had actual knowledge of infringement; but it also analyzed whether Napster had constructive knowledge of infringement.[86]

In attempting to deny constructive knowledge, Napster relied on *Sony Corp. v. Universal City Studios, Inc.*,[87] which held that a manufacturer of a videocassette recorder does not have constructive knowledge that its product is used for copyright infringement if the product is capable of substantial non- infringing uses.[88] Extending the Supreme Court's holding in Sony, the Ninth Circuit held that "[w]e . . . 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."[89] More importantly, the Ninth Circuit held that Sony immunity from constructive knowledge is based on a "system's capabilities," which in turn requires analysis of current use and potential non-infringing uses.[90]

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[80] *See Napster II*, 239 F.3d at 1021-22.
[81] *See id.* at 1023-24.
[82] *See id.* at 1019-20.
[83] *See id.* at 1022.
[84] *See Napster II*, 239 F.3d at 1022 (citing Napster I, 114 F. Supp. 2d at 918, 920-21 n.6).
[85] *See id.* at 1021.
[86] *See id.* at 1021-22.
[87] 464 U.S. 417 (1984).
[88] *See id.* at 418.
[89] *Napster II*, 239 F.3d at 1020-21 (citing *Sony*, 464 U.S. at 436).
[90] *See id.* at 1021.

In an interesting move, the Ninth Circuit supported its holding with analysis of Religious Technology Center v. Netcom On-Line Communication Services, Inc.,[91] an earlier case involving the potential liability of an Internet service provider and a bulletin board system operator.[92] The Ninth Circuit then restated and expanded its holding by declaring that "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."[93]

In the first iteration of its holding, the Ninth Circuit extended Sony immunity to "peer-to-peer file sharing technology."[94] Presumably, this holding includes MusicShare, on the theory that the court looked at a computer application as a software device similar to a VCR. In its second iteration, however, the court's holding extended beyond a computer application to a complete system over which infringing activity may take place.[95] This extension by the Ninth Circuit favors one who constructs such a system; operating such a system, however, is risky business indeed.

<<23>>2. Vicarious Liability

The court's treatment of vicarious liability is the more important aspect of the holding and the more worrisome piece for Internet clients. Vicarious liability for copyright infringement is imposed when a third party has the right and ability to supervise an infringer's conduct and the third party receives a financial benefit from the infringing conduct.[96] Because this is a judicial doctrine, the standards for vicarious liability have been articulated through a common law process. Vicarious liability in the common law tradition starts with the employer/employee relationship.[97] It is a basic form of respondeat superior.[98] It is based on the notion that if one owns a business and employees acting within the scope of their employment are engaged in infringement, the owner will be held liable.

The courts, however, split on the scope of vicarious liability in other contexts. On one hand, a line of cases developed which said that absentee landlords who rent property where infringement occurs, such as a record store selling infringing phonorecords, will not be held liable.[99] In immunizing this type of absentee landlord from liability, courts reasoned that even though the landlord might have theoretical control over what is going on and

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[91] 907 F. Supp. 1361 (N.D. Cal. 1998).
[92] *See id.* at 1374.
[93] *Napster II*, 239 F.3d at 1021 (citing *Sony*, 464 U.S. at 436, 442-43).
[94] *Id. at 1020-21.*
[95] *See id.* at 1021-22.
[96] *See id.* at 1022.
[97] *See*, e.g., Sword v. NKC Hosps., Inc., 714 N.E.2d 142, 148 (Ind. 1999).
[98] *See Napster II*, 239 F.3d at 1022 (citing Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996), which discusses vicarious liability for copyright infringement).
[99] *See* Fonovisa, 76 F.3d at 262 (discussing background cases on vicarious liability for copyright infringement).

might be getting some benefit from the sales of infringing records (because it helps keep the tenant solvent), such control and benefit is too tenuous to impose liability.[100] On the other hand, a separate line of cases, the so-called "dance hall" cases, also developed.[101] Under these cases, the operator of a dance hall would hire a band that would play copyrighted songs without a license. Courts viewed the "dance hall" cases as similar to the employer/employee relationship because the dance hall owner can control the band and the owner receives a financial benefit from the band playing the latest hits and drawing people in to spend money at the club.

Any lawyer should understand the importance of analogies in common law lawmaking. It may have been that the Ninth Circuit **<<24>>** would have had to reach back to some of these older cases to decide whether Napster is more like an absentee landlord or like a dance hall operator. Had these been the only available analogies, Napster quite likely would have fallen on the "dance hall" side of the divide; but the Ninth Circuit might also have explained what the operator of a computer system must do to be treated as a mere landlord. Instead, the Ninth Circuit relied heavily on Fonovisa, Inc. v. Cherry Auction, Inc.,[102] a recent case in which the Ninth Circuit had held that the plaintiffs stated a claim for vicarious infringement against the operator of a flea market at which bootlegged recordings were sold.[103] Because of the procedural posture in that case, the court was obliged to assume the worst about the flea market operator. After reviewing the precedents just mentioned, the Ninth Circuit held in Fonovisa that the flea market operator supervised the distribution of infringing recordings because it had the right to "control and patrol" its premises, along with a contractual right to evict the vendors for any reason.[104] Further, the operator received a financial benefit because it received revenue from the vendors and patrons involved in the infringing distributions.[105] To the Ninth Circuit, Napster looked a lot like a flea market involving barter, rather than a cash exchange.[106]

In examining the supervision prong of vicarious liability, the Ninth Circuit adopted a formalist stance. The court concluded that Napster had the right to supervise its users because, in its MusicShare license agreement, Napster had retained a right to refuse service or terminate a user's account for any reason, including a belief that a user is violating applicable law.[107] The court held that "[t]o escape imposition of vicarious liability, the

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[100] *See id.*
[101] *See* Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 437 n.18 (1984).
[102] 76 F.3d 259 (9th Cir. 1996).
[103] *See id.* at 264.
[104] *See id.* at 262-63.
[105] *See id.* at 263.
[106] The analogy may have *See*med particularly apt given that the author of Fonovisa, then Circuit Judge Schroeder, was also a member of the *Napster II* panel. *See generally, Napster II,* 239 F.3d 1004 (9th Cir. 2001); *Napster I*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).
[107] *See Napster II*, 239 F.3d at 1023-24; *see also* Charles S. Wright, Comment, *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement Into The Digital Millennium Copyright Act of 1998*, 75 WASH. L. REV. 1005,

reserved right to police must be exercised to its fullest extent."[108] The only silver lining for **<<25>>** the technology community is that the court limited Napster's duty to supervising user activity within the given architecture of the Napster system.[109] The Ninth Circuit determined that Napster's "right to police" extended to searching the contents of its file directory and terminating user accounts.[110] The court, however, did not explain how Napster was to police its file directory. Rather, the Ninth Circuit left this matter to the district court.

With regard to the financial benefit prong, it is fair to ask: "How does Napster make its money?" Right now Napster does not. In fact, there are people who say: "Hey, look it's the Soviet Union . . . it's going to collapse under its own weight - the business model doesn't make sense." But in our attention economy, getting the attention of fifty million registered users is something that you probably can convert into money either through advertising or subscriptions. In the short run, Napster had received substantial investment capital. Thus, the Ninth Circuit had little difficulty finding that the availability of copyrighted music drew users to Napster and that Napster received a financial benefit from such increases in its userbase.[111]

3. Analysis

The Ninth Circuit's contributory infringement analysis is in some tension with its vicarious liability analysis. It is possible to build a system that enables infringing activity without being liable, but as soon as you operate such a system, you must exercise your supervisory authority to the "fullest extent" or you will be held liable.

Without fanfare, the Ninth Circuit appears to have fashioned new law under the doctrine of vicarious liability. The court held that "[t]o 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."[112] These statements are doctrinally incoherent. As the court had recognized, vicarious liability is an "outgrowth" of the doctrine of respondeat superior.[113] Like respondeat superior, vicarious liability for copyright infringement turns on the relationship between **<<26>>** the

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1013-18 (2000) (discussing conflicting lines of authority concerning interpretation of control prong of vicarious liability standard).

[108] *Napster II*, 239 F.3d at 1023. But *See* Artists Music v. Reed Publ'g, 31 U.S.P.Q. 2d (BNA) 1623, 1627 (S.D.N.Y. 1994) (holding "mere fact that [trade show organizer of show where infringing records were sold] could have policed exhibitors at great expense is insufficient to impose vicarious liability").

[109] *See Napster II*, 239 F.3d at 1023-24.

[110] *See id.* at 1024.

[111] *See id.* at 1023.

[112] *Id.*

[113] *See id.* at 1022 (citing Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996)).

defendant and the direct infringer.[114] Liability is strict and no exception applies to the supervisory party who tries hard.[115] In the employer/employee relationship, for example, the employer is strictly liable for the employee's infringing conduct regardless of how carefully the employer supervises the employee. It is the power, or exercise of the power, to supervise that gives rise to the imposition of strict liability.[116]

The policy for imposing strict liability for copyright infringement on supervisory parties is twofold. First, strict liability is to provide potential plaintiffs with greater assurance of receiving a remedy by making the supervisory party the insurer of its supervisees' infringing acts.[117] The plaintiff may not recover doubly from the supervisor and the supervisee for the supervisee's infringements, but the plaintiff may choose from which defendant she may recover.[118]

Second, the aim of vicarious liability is to provide an incentive to supervisory parties to exercise their supervisory power responsibly. At first blush, the imposition of strict liability is a disincentive to careful supervision because the costs of careful supervision do not yield the benefit of a defense to liability. In practice, however, the specter of strict liability provides an incentive for the supervisory party to exercise its power to reduce the incidence of infringing acts for which it will be held strictly liable.[119] The incentive **<<27>>** justification for vicarious liability makes sense only when the supervisory party's power to control the infringing behavior is such that it can meaningfully reduce the incidence rate of infringing acts committed by its supervisees.

The purpose of vicarious liability, therefore, is to provide an incentive for the supervisory party to police its supervisees "to the fullest extent" that the supervisor deems

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[114] *See* EZ-Tixz, Inc. v. Hit-Tix, Inc., 919 F. Supp. 728, 732-33 (S.D.N.Y. 1996) (discussing various elements of liability).

[115] *See id.* at 733 ("[T]here are only two elements of vicarious liability: (1) the ability to control the infringer and (2) a financial interest in the infringing activities.").

[116] *But see* Banff Ltd. v. Ltd., Inc., 869 F. Supp. 1103, 1109-10 (S.D.N.Y. 1994) (requiring in addition to evidence of power to control some evidence of actual control). "Given that the actual exercise of control cannot be presumed from the mere power to control, it is logical to require evidence of actual control and supervision before holding the parent [corporation] liable [for the infringing acts of its subsidiary]." *See id.*

[117] *See* Am. Tel. & Tel. Co. v. Winback & Conserve Program, Inc., 42 F.3d 1421, 1440-41 n.21 (3d Cir. 1994) ("The purpose of the doctrine [of vicarious liability] is to prevent an entity that profits from infringement from hiding behind undercapitalized 'dummy' operations when the copyright owner eventually sues."); Shapiro, Bernstein & Co. v. H. L. Green Co., 316 F. Supp. 304, 309 (2d Cir. 1963) (stating that purpose of copyright advanced by placing risk of direct infringer's insolvency on the supervisory party rather than copyright owner); Polygram Int'l Pub., Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1325 (D. Mass. 1994) (stating in dicta that vicarious liability is a matter of judicial risk allocation of costs of infringement liability).

[118] *See 3* MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[C][4] n.172.

[119] *See* Shapiro, Bernstein & Co., 316 F. Supp. at 308-09 ("Green has the power to police carefully the conduct of its concessionaire Jalen; our judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised.").

efficient in light of its potential liability for copyright infringement, but the insurance rationale provides that such policing does not immunize the supervisory party from liability in the event that infringement occurs. Yet, the Ninth Circuit appears to have announced that such immunity would be available where a court determines that the supervisory party has policed its supervisees to the "fullest extent."[120]

Adding confusion to its vicarious liability analysis is the court's statement that "[t]urning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability."[121] Under traditional vicarious liability analysis, the act of "turning a blind eye" would be of no moment because it relates to the defendant's knowledge. Constructive knowledge closes the loophole that would encourage willful ignorance were liability to turn on actual knowledge. Constructive knowledge, however, applies to contributory infringement, not vicarious liability. The courts that have drawn a clear doctrinal distinction between vicarious and contributory infringement have made clear that the supervisory party's lack of knowledge of its supervisees' infringing activities, whether caused by the supervisor's willful blindness or by the surreptitious actions of crafty supervisees, is immaterial to the imposition of vicarious liability.[122]

The Ninth Circuit's opinion poses a quandary for attorneys advising Internet-based clients about the risks of vicarious liability for their users' infringing activities. Attorney and client should proceed cautiously if they intend to rely on the new safe harbor from vicarious liability that the Ninth Circuit appears to have created. It is possible that the court did not intend to create a safe harbor at all. In subsequent cases, the court may choose to characterize its **<<28>>** offer of immunity to the supervisory party who fully supervises as errant dicta. But there is some reason to believe that the court meant what it said. The tone of the opinion, and the court's choice to extend Sony's protections, evidence an attempt to fashion a compromise between the interests of the technology community and the entertainment industry. In the spirit of compromise, the court chose to cast the specter of vicarious liability quite wide across the Internet by applying the doctrine to any system operator that retains in its Terms of Service or other statement of policy a right to exclude users from communicating with its servers. To offset the sizable costs imposed by allocating the risks of liability so broadly, the Ninth Circuit appears to have created a new exception to the doctrine of vicarious liability available to third parties that exercise the power to exclude copyright infringers to the fullest extent.

Finally, there is an interesting subtext involving doctrines of real property, intellectual property and privacy in the evolution of vicarious liability. In the traditional landlord-tenant

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[120] *See Napster II*, 239 F.3d 1004, 1023-24 (9th Cir. 2001).

[121] Id. at 1023.

[122] *See, e.g.,* Shapiro Bernstein & Co., 316 F.2d at 308 ("The imposition of liability upon the Green Company, even in the absence of an intention to infringe or knowledge of infringement, is not unusual."); *see also* 3 NIMMER *supra*, note 118, at § 12.04[A][1] & n.20 (collecting cases).

case, courts have held the landlord immune based, in part, on an understanding of the relationship between landlords and tenants.[123] A leasehold is more than a contractual right; it is an interest in the real property, an exclusive right to possess. That exclusive right provides the tenant with certain expectations of privacy, notwithstanding a landlord's contractual right to enter the premises. Implicitly, courts appeared to have recognized that imposing vicarious liability on landlords would be undesirable both because most landlords do not meddle in their tenants' business, and because imposing such liability would effectively require landlords to so meddle. In Fonovisa, the district court accepted, and the Ninth Circuit rejected, a view of the flea market vendors as tenants, with certain rights to conduct their business as they saw fit within their assigned plot. The Ninth Circuit was not persuaded by the analogy because the swap meet operator, unlike a commercial landlord, retained a unilateral right to evict for any reason, and, unlike many commercial landlords, it actively patrolled its premises. Conceivably, the result may have been different had the operator extended certain "property" rights to the vendors. Such a different result may have developed because the rights in real property help establish an expectation of privacy that is in conflict with the desire of the owners **<<29>>** of intellectual property who seek to impose liability on the landlord.

The result in Napster I and Napster II would probably not have been different had Napster constrained itself contractually from terminating user accounts, or perhaps given users a role in managing the system. Such a result can be attributed to the disruption in intellectual property markets caused by Napster's technology and because real property metaphors are culturally less compelling when the property involved is access to, and space on, computers. But it may be that web hosts would have better luck analogizing themselves to traditional landlords, particularly if the tenants obtain property-like rights analogous to a traditional tenant's.

E. Statutory Defenses

Napster also asserted statutory defenses under the Audio Home Recording Act and the Digital Millennium Copyright Act.

1. Audio Home Recording Act

First, Napster asserted the Audio Home Recording Act as a statutory defense. The Ninth Circuit held that § 1008, a provision of a 1992 amendment to the Copyright Act that governs digital audiotape, did not shield Napster.[124] This provision immunizes the manufacturer of a "digital audio recording device" or a "digital audio recording medium" to the extent that such device or medium is used noncommercially by consumers to make

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[123] *See, e.g.*, 3 NIMMER *supra* note 118, at § 12.04[A][1] & n.23 ("[T]he lessor of a theater is not liable merely by virtue of that status for infringing performances that may occur in the theater.").
[124] *See Napster II*, 239 F.3d at 1024.

copies.[125] Relying on its prior holding in *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*,[126] the Ninth Circuit held that personal computers are not "digital music recording devices" and that computers do not make "digital music recordings."[127]

2. Digital Millennium Copyright Act

Napster's final statutory argument relied on Title II of the Digital Millennium Copyright Act ("DMCA").[128] Section 512 provides limitations on monetary liability ("safe harbors") that are defined in relation to the function performed by an online service provider in **<<30>>** connection with the infringing activities.[129] Rather than relying on the safe harbor established for service providers acting as search engines, Napster argued that it was like a general backbone Internet Service Provider who only makes copies by sending information from point A to B and does not really pay attention to what is happening.[130] The district court rejected this argument, and the Ninth Circuit did not address it.[131]

The DMCA also provides a safe harbor for search engines. Section 512(d) immunizes from monetary liability a "service provider" that "links users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link."[132] That is precisely what Napster's MusicShare software does. Given the facial applicability of the statute, one may ask why Napster did not press, and the court did not decide, whether section 512(d) applied to Napster. Moreover, section 512 is an Act of Congress, fashioned through business-to-business negotiations, that was supposed to serve as the blueprint for determining the rights and responsibilities of information intermediaries in the networked, digital era. And, if the section had been found to apply, the Ninth Circuit's discretion in instructing the trial court regarding injunctive relief would have been greatly circumscribed.[133] Notwithstanding

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[125] 17 U.S.C. § 1008 (1994 & Supp. V 1999).
[126] 180 F.3d 1072 (9th Cir. 1999).
[127] *See Napster II*, 239 F.3d at 1024-25 (citing Diamond Multimedia, 180 F.3d at 1077).
[128] *See* 17 U.S.C. § 512 (1994 & Supp. V 1999).
[129] *See id.*
[130] *See Napster II*, 239 F.3d at 1025.
[131] *See* A&M Records, Inc. v. Napster, Inc., 2000 WL 573136 at *8 (N.D. Cal. May 12, 2000) ("Because Napster does not transmit, route, or provide connections through its system, it has failed to demonstrate that it qualifies for the 512(a) safe harbor."). *See generally*, *Napster II*, 239 F.3d 1004 (9th Cir. 2001).
[132] *See* 17 U.S.C. § 512(d). Section 512 defines "service provider" differently depending upon which safe harbor subsection is at stake. For purposes of the search engine safe harbor in subsection (d), a "service provider" is "a provider of online services or network access, or the operator of facilities therefore." 17 U.S.C. § 512(k)(1)(B) (1994 & Supp. V 1999).
[133] If a service provider qualifies for the § 512(d) safe harbor from monetary liability, the court may grant injunctive relief with respect to a service provider only in one or more of the following forms: (i) An order restraining the service provider from providing access to infringing material or activity residing at a particular online site on the provider's system or network; (ii) An order restraining the service provider from providing access to a subscriber or account holder of the service provider's system or network who is engaging in

<<31>> the potentially outcome-determinative effect of section 512(d), and the apparent intent of Congress to anticipate and legislate the outcomes of cases such as this, the Ninth Circuit chose to defer interpretation of Congress's resolution of issues such as those raised in Napster and chose instead to rely on its common law approach to the case.[134]

What is even more perplexing is that the decision regarding section 512 would not have been particularly difficult - at least on the surface. To qualify for section 512(d) protection, a service provider must act expeditiously to remove access to an online location if the service provider has actual knowledge that the target material is infringing or if the service provider becomes "aware of facts or circumstances from which infringing activity is apparent."[135] Had the Ninth Circuit acknowledged the potential applicability of section 512(d) when discussing contributory infringement, the court would have held the safe harbor inapplicable for the same reason that the court found contributory infringement - Napster had actual knowledge of infringing activity.[136]

By avoiding adjudication of the section 512(d) issue, however, the Ninth Circuit avoided a number of troubling interpretive issues lurking in section 512, and this seems to have been the court's motivation for leaving section 512 jurisprudence undeveloped. The source of much of the trouble is that the section 512 safe harbors are limitations on liability, but it is not clear what theory of service provider liability is being limited. For example, section 512(d) provides a limitation on liability arising when the service provider "links users to an online location containing infringing material or infringing activity, by using information location tools, including a **<<32>>** directory, index, reference, pointer or hypertext link."[137] It is highly doubtful that a service provider could be held liable as a direct

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infringing activity and is identified in the order, by terminating the accounts of the subscriber or account holder that are specified in the order; (iii) Such other injunctive relief as the court may consider necessary to prevent or restrain infringement of copyrighted material specified in the order of the court at a particular online location, if such relief is the least burdensome to the service provider among the forms of relief comparably effective for that purpose. *See* 17 U.S.C. § 512(j)(1)(A) (1994 & Supp. V 1999).

Section 512(j) does not distinguish between the scope of preliminary and permanent injunctions. *See* 17 U.S.C. § 512(j) (1994 & Supp. V 1999). One could argue that the subsection (j) limitations do not apply to preliminary injunctions because the subsection limits relief only after the court has determined that the "service provider is not subject to monetary remedies under this section." Id. If that is the proper interpretation of subsection (j), then the Ninth Circuit was free to leave for another day whether Napster would qualify for the § 512(d) limitation on monetary liability.

[134] *See Napster II*, 239 F.3d at 1025.

[135] 17 U.S.C. § 512(d)(1)(A)-(C) (1994 & Supp. V 1999).

[136] *See Napster II*, 239 F.3d at 1020. Knowing that it was vulnerable to proof of actual knowledge, Napster had urged that it fit within the § 512(a) safe harbor, which applies even if the service provider has knowledge of infringement. *See id.* at 1025. Section 512(a) protects against monetary liability for infringement "by reason of the provider's transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider." 17 U.S.C. § 512(a) (1994 & Supp. V 1999). In a separate opinion, the district court had denied Napster's motion for summary judgment on its § 512(a) defense. *See* A&M Records, Inc. v. Napster, Inc., 2000 WL 573136 (N.D. Cal. May 12, 2000).

[137] 17 U.S.C. § 512(d) (1994 & Supp. V 1999).

infringer for most linking activities.[138] The more likely interpretation is that Congress intended to limit liability for contributory infringement. The language Congress chose, however, is in tension with that intent. Section 512(d) is unavailable to a service provider that has actual or constructive knowledge of infringing activity at the target "online location."[139] The knowledge provision poses the possibility that section 512(d) is mere surplusage. If the only viable theory of infringement that section 512(d) might limit is contributory infringement, then the plaintiff will have shown that a service provider had actual or constructive knowledge of infringement. But, if the plaintiff has made that showing, section 512(d) is unavailable, so it provides no limit at all.[140] Alternatively, there is one level of knowledge applicable in order to make the service provider contributorily liable, and another level of knowledge to limit that liability under section 512(d).[141] Understandably, given the record before the Ninth Circuit, the court chose not to engage in nuanced analysis of issues such as these.

One last point on the Ninth Circuit's treatment of section 512: The court made a very curious statement that plaintiffs had raised a "serious question" as to "whether Napster is an Internet service provider as defined by 17 U.S.C. § 512(d)."[142] The term "service provider" is not defined in section 512(d); the definition is in section 512(k)(1)(B).[143] And, it is hard to see what the "serious question" is on this point. Under any reasonable interpretation, Napster undoubtedly provides "online services."[144]

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[138] *See* 3 NIMMER, *supra* note 118, at § 12B.05[A][2] ("As to direct infringement, by contrast, it is not facially applicable."). *But cf.* Kelly v. Arriba Soft Corp., 280 F.3d 940, 947 (9th Cir. 2002) (holding liable a graphic search engine that provided in-line links to plaintiff's copyrighted photographs).

[139] *See* 17 U.S.C. § 512(d)(1).

[140] *Cf.* CoStar Group, Inc. v. LoopNet, Inc., 164 F. Supp.2d 688, 704 (D. Md. 2001) (stating that "the DMCA provides no safe harbor for vicarious infringement because it codifies both elements of vicarious liability"). But cf. *Napster II*, 239 F.3d at 1025 ("We do not agree that Napster's potential liability for contributory and vicarious infringement renders the Digital Millennium Copyright Act inapplicable per se.").

[141] *See* CoStar, 164 F. Supp. 2d at 705 ("The determination of contributory infringement liability turns on a different issue of knowledge than the standard used to determine LoopNet's eligibility for the [§ 512(d)] safe harbor.").

[142] *Napster II*, 239 F.3d at 1025.

[143] For the text of § 512(k)(1)(B), *See supra* note 132.

[144] *See* ALS Scan, Inc. v. RemarQ Comtys, Inc., 239 F.3d 619, 623 (4th Cir.2001) (interpreting "service provider" in § 512(k)(1)(B) broadly); CoStar, 164 F. Supp. 2d at 701; Hendrickson v. Ebay, Inc., 165 F. Supp. 2d 1082, 1087 (C.D. Cal. 2001) (same). Indeed, in the district court, the parties appear to have stipulated that Napster was a "service provider" within the more limited definition of 17 U.S.C. § 512(k)(1)(A), although the court expressed some doubt upon this score. *See* A&M Records, Inc. v. Napster, Inc., 2000 WL 573136 *3 & n.5 (N.D. Cal. May 12, 2000).

<<33>>III. Questions from the Audience

Attendee: Mike, what is the liability of the venture capitalists that backed Napster?

Carroll: Good question. At this point, the venture capitalists haven't been sued, but, conceivably, under a theory of contributory infringement you could say that supplying the money is a material contribution to the infringement that's going on, and if you have knowledge that you are funding infringing activity, you are liable. Or, if the VC takes a control stake in the company, then the corporate form is no shield, and there's potential liability under a vicarious infringement theory. There's a question in the back.

Attendee: [What about a Napster-like program that spreads like] any virus that's out there, [if it is released by] somebody who is obviously [not trying to] make money on the program?

Carroll: Well, that's one of the things, that's an interesting question, and it depends on what the software does. Napster keeps an ongoing relationship with you, so the court was able to find control in the terms of that relationship. But if you create software in such a way that you just put it out there, and you have no ongoing relationship with people who use the software, or at least no relationship that gives you control over users' infringing activities, then the copyright owners will not be able to meet the control prong of that standard. And again, the direct financial benefit - even under the broad reading of that standard in this case - you're right. It's possible that a copyright owner could not meet this standard if the programmer has adopted this "information wants to be free" approach to the program. Which is why there's going to have to be some kind of solution, because even with the precedent established in Napster, the recording industry has very slippery control over digital distribution of music at this point.

Attendee: Mike I think I can add further to that ... you're asking the question about you know if it doesn't make money - why is it bad? Well, it's not just that ... that's only part of it. Maybe Napster or companies like it don't make money by distributing music, but who loses money are my clients and Ken's companies and his artists **<<34>>** who make our livings by controlling distribution of this property which we own.

Attendee: [What about the benefits of increased notoriety and no reduction in] their sales [under Napster]?

Attendee: [Sales] should have gone up more ... they were diluted severely by someone like Napster.

Carroll: Let me just jump in and say, I think one of the problems is that we don't really know the full economic story of what the effect of Napster is. There's evidence going a

lot of different ways. Clearly there is sampling use, there's testimony to the effect that people who sample music on Napster now get hooked on new music and are spending more on music than they would have otherwise. Or they're going out to see bands that they would not have gone to see, or they're buying T-shirts ... so there are a lot of increases in revenue from other revenue streams. On the other hand, there's pretty good evidence that some people are downloading and not buying music that they might have otherwise bought.

And again you've got the Metallicas out there in the world. Even if you don't give them much sympathy, you've got the independent musicians who are trying to self-publish, who see this new cheap distribution channel becoming potentially useless to them because all the music may get swept away immediately. So it's a very complex economic story in terms of figuring out who wins and who loses with Napster, and I think that's one of the problems, and one of the things the court's opinion really wasn't as sensitive to as it should have been. There's no recognition about how exciting this technology is from the consumer's perspective in the opinion. It's a very bare bones, dry application of legal doctrine to a very complex new social and economic development.