

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

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Copyright owners in the music industry have long feared that technological developments would transform the existing market, effectively eliminating the demand for the product or service upon which they are financially dependent.¹ In balancing the exclusive rights granted to copyright owners with the public interest in access to new technology, courts have largely weighed in favor of allowing new technologies, provided that they are capable of some legitimate use.²

Due to the novelty and complexity of the technology involved, *A&M Records, Inc. v. Napster, Inc.*³ presents new problems for traditional copyright law.⁴ This Note contends that the district court misapplied the substantial noninfringing use defense established by the Supreme Court in *Sony Corporation of America v. Universal City Studios, Inc.*,⁵ and in effect, limited the scope of the original analysis. This Note also examines Napster's defense under the Digital Millennium Copyright Act⁶ ("DMCA"), focusing on Napster's eligibility for protection under the safe harbor provisions. Last, this Note discusses possible implications *Napster* will have on the music industry's current distribution models.

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1. See, e.g., Ariel Berschadsky, *RIAA v. Napster: A Window onto the Future of Copyright Law in the Internet Age*, 18 J. Marshall J. Computer & Info. L. 755, 785 (2000) ("In the 17th century the emergence of lending libraries was seen as the death knell of book stores; in the 20th century, photocopying was seen as the end of the publishing business, and videotape the end of the movie business.").

2. See Jessica Litman, *Napster, Inc., v. A&M Records, Inc.: Amended Brief Amicus Curiae of Copyright Law Professors in Support of Reversal*, 645 PLIPAT 727, 738 (2001).

3. See 239 F.3d 1004 (9th Cir. 2001); 114 F. Supp. 2d 896 (2000); 54 U.S.P.Q.2d 1746 (2000).

4. See generally, Shawn D. Chapman, *Pushing the Limits of Copyright Law and Upping the Ante in the Digital World: The Strange Case of A&M Records, Inc. v. Napster, Inc.*, 89 KY. L.J. 793, 808 (2001) (Noting that in 1999, Napster, Inc. introduced peer-to-peer file sharing, a technology that enables individuals to transfer digital music files directly to one another over the Internet). The music industry feared that Napster would allow widespread Internet-based piracy of their copyrighted works. Napster also threatened the music industry's traditional business paradigms, which have yet to embrace an Internet-based method of music distribution). *Id.*

5. 464 U.S. 417 (1984).

6. 17 U.S.C. § 512 (1998).

I. BACKGROUND

A. The Advent of Digital Audio Recording Technology

MPEG-3 (abbreviated "MP3") technology allows individual computer users to copy an audio compact disc directly onto their hard drive by compressing the information on the disc into the MP3 format.⁷ This technology allows users to copy an original recording with almost no deterioration in sound quality regardless of the number of copies made.⁸ The compressed format of MP3 files also enables users to rapidly transmit digital audio files from one computer to another by electronic mail, or to download files available through the Internet onto individual computer hard drives.⁹ Consequently, MP3 files have become a popular mode for the distribution of digital music through the Internet.¹⁰

B. The Napster Peer-to-Peer File Sharing Technology

Napster, Inc., an Internet service, operates a system allowing the transmission and retention of digital audio files between and among its users.¹¹ Unlike previous systems that allowed transmission through a centralized server, the Napster system allows its users to connect directly to one another via the Internet.¹² In conjunction with Napster's network servers and server-side software, Napster's MusicShare software¹³ allows users to make MP3 files stored on personal computer hard drives available for copying by other Napster users.¹⁴ To transfer a copy of a requested MP3 file, the Napster server-side software directly connects the requesting and host computers and then transmits the MP3 file to the requesting computer.¹⁵ The MP3 files transferred between users do not pass through Nap-

7. See *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1074 (9th Cir. 1999).

8. See *id.*

9. See Ines G. Gonzalez, *Recording Industry Association of America, Inc. v. Diamond Multimedia Systems, Inc.*, 15 BERKELEY TECH. L.J. 67, 70 (2000).

10. *Id.* at 71.

11. See I. Fred Koenigsberg, *Music, The Internet, and the Music Industry*, 616 PLI/PAT 117, 125 (2000).

12. See *id.*

13. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011 (9th Cir. 2001). To access the Napster system, a user must first download the MusicShare software, available free from Napster's Internet site. *Id.*

14. *Id.* at 1011.

15. *Id.* at 1012. (The Napster system facilitates the connection of the users' hard drives by providing the searching user's computer with the Internet Protocol address of the host user. The searching user's computer then uses the address information to create a

ster's servers at any point during the process, and Napster does not obtain copies of the transferred files.¹⁶

C. The Controversy Over MP3 and Peer-to-Peer File Sharing Technology

The music industry has expressed concern over the use of MP3 and peer-to-peer file sharing technology to create unauthorized, high-quality copies of commercially prepared recordings.¹⁷ They fear consumers may stop purchasing commercial recordings if they can conveniently download the same music through the Internet without charge.¹⁸ They are also concerned that these developments will curb their ability to control distribution channels¹⁹ and introduce new artists to the consumer market.²⁰ MP3 and peer-to-peer file sharing technology have substantially reduced the music industry's traditional influence by allowing new artists to promote and distribute their music directly to consumers in the format of a downloadable MP3.²¹ These innovations also expand consumers' choice of music because they can now locate and download music that was largely unavailable through traditional modes of distribution.²²

D. Secondary Copyright Infringement

The Internet and related technologies have made it difficult to hold direct infringers liable for copyright infringement.²³ Since Internet systems often obscure individual user identities, copyright owners may not be able to identify infringing users, or distinguish infringers from other users.²⁴

direct connection to the host user's hard drive so that the requested file may be downloaded from the host's hard drive to the searching user's hard drive). *Id.*

16. *Id.*

17. See Chapman, *supra* note 4, at 804.

18. See Gonzalez, *supra* note 9, at 71.

19. See Heather D. Rafter, *Streaming Into the Future: Music and Video Online*, 611 PLI/PAT 395, 398 (2000). (In the past, a small group of large recording companies have dominated the sale of music to consumers. Five recording companies control approximately eighty percent of the popular music industry: BMG Entertainment, Sony Music, Warner Music Group, EMI Recorded Music, and Universal Music Group).

20. See Gonzalez, *supra* note 9, at 71.

21. *Id.*

22. See Note, *Exploitation Publishers, Untrustworthy Systems, and the Dream of a Digital Revolution for Artists*, 114 HARV. L. REV. 2438, 2449 (2001).

23. See Seth D. Greenstein, *Copyright in the Age of Distributed Applications* 9 (2000), available at <http://www.tprc.org/abstracts00/copywriteage.pdf>.

24. *Id.*

Moreover, the vast number of users and market considerations often make litigation against direct infringers an impractical method of enforcement.²⁵

Copyright owners have therefore brought suit against Internet service providers ("ISPs") for assisting a third party to infringe their copyrights.²⁶ A defendant may be secondarily liable for copyright infringement based on the theories of contributory and vicarious infringement.²⁷ A contributory infringer is "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another."²⁸ In contrast, a vicarious infringer has the right and ability to supervise the infringing activity and derives a direct financial benefit from the activity.²⁹

E. Protection Under the DMCA

In 1998, Congress enacted the DMCA in response to the growing concerns of ISPs over their potential liability for the copyright infringement of their users.³⁰ The DMCA strives to adapt concepts of copyright law to emerging technologies that utilize and distribute copyrighted works.³¹ The Act created four safe harbor provisions³² which shelter qualifying ISPs from copyright liability when users of the service engage in infringing activities.³³ These protections extend to direct, contributory, and vicarious copyright infringement.³⁴ Under the safe harbor provisions, ISPs will not

25. *Id.*

26. *Id.*

27. *Id.*

28. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 918 (9th Cir. 2000) (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159 (2d Cir. 1971)).

29. *Id.* at 920.

30. David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. PA. L. REV. 673, 674 (2000).

31. *See id.* at 681.

32. 17 U.S.C. § 512 (1998) (The DMCA provides four non-exclusive safe harbors for qualifying ISPs. Each provision addresses a different ISP function: (a) Transitory digital network communications: Provides protection for an ISP "transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider . . ."; (b) System Caching: Limits the liability of a an ISP for caching, defined as the "temporary storage of material on a system or network"; (c) User storage: Protects an ISP who stores, at the direction of a user, material on a system controlled or operated by the ISP; (d) Information location tools: Protects an ISP for referring or linking users to an on-line location containing infringing material or activity).

33. *See generally* Jonathan A. Friedman, *Using the Digital Millennium Copyright Act to Limit Potential Copyright Liability Online*, 6 RICH. J.L. & TECH. 18 (2000).

34. 17 U.S.C. § 512 (1998).

be held liable for monetary damages and most injunctive relief pertaining to copyright infringement.³⁵

To qualify for protection under the DMCA, a defendant must fit one of two definitions of service provider.³⁶ It must be either “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received,”³⁷ or “a provider of online services or network access, or the operator of facilities therefore. . . .”³⁸ The critical difference between these definitions is that an ISP qualifying under the first definition may invoke any of the four safe harbor provisions, while an ISP that only qualifies under the second definition is restricted to using provisions (b) through (d).

A defendant must also fulfill two additional conditions to qualify for protection.³⁹ First, the ISP must adopt, reasonably implement, and inform its users of a termination policy for users found to be repeat infringers.⁴⁰ Second, it must accommodate “technical measures that are used by copyright owners to identify or protect copyrighted works.”⁴¹

II. CASE SUMMARY

In December 1999, several record companies and music publishers⁴² filed a complaint against Napster, Inc. in the District Court for the Northern District of California alleging, among other claims, contributory and vicarious copyright infringement.⁴³ In response, Napster asserted the affirmative defenses of fair use and substantial noninfringing use.⁴⁴ Napster

35. *Id.*

36. John W. Belknap, *Copyright Law and Napster*, 5 J. SMALL & EMERGING BUS. L. 183, 193 (2001).

37. 17 U.S.C. § 512(k)(1)(A).

38. *Id.* at § 512(k)(1)(B).

39. *Id.* at § 512(i).

40. *Id.* at § 512(i)(1)(A).

41. *Id.* at § 512(i)(1)(B).

42. The plaintiffs include the following recording companies: A&M Records, Geffen Records, Interscope Records, Sony Music Entertainment, MCA Records, Atlantic Recording Corp., Island Records, Motown Records Co., Capital Records, La Face Records, BMG d/b/a The RCA Records Label, Universal Records, Elektra Entertainment Group, Arista Records, Sire Records Group, Polygram Records, Virgin Records America, and Warner Bros. Records. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (9th Cir. 2000).

43. *See id.* at 900.

44. *Id.* at 912.

also argued that the DMCA limited its liability for contributory and vicarious copyright infringement.⁴⁵

The evidence demonstrated that the vast majority of the MP3 music files available on the Napster system were copyrighted.⁴⁶ The plaintiffs may own the copyrights to more than seventy percent of these files.⁴⁷ Napster did not own licenses to distribute, download, or to facilitate others in distributing or downloading any of the copyrighted music.⁴⁸ Consequently, the plaintiffs did not receive royalties or other forms of payment when Napster users uploaded or downloaded MP3 files to which they held the rights.⁴⁹

A. The District Court Decision

In August 2000, the district court granted the plaintiffs' joint motion to preliminarily enjoin 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."⁵⁰ The court held that the plaintiffs had established a prima facie case of direct copyright infringement by Napster users;⁵¹ that the downloading and uploading of MP3 music files by Napster users did not constitute a fair use; and that the plaintiffs had established a likelihood of success on their contributory and vicarious copyright infringement claims.⁵²

The district court rejected Napster's fair use defense, finding that all four fair use factors listed in section 107 of the Copyright Act weighed in favor of the plaintiffs.⁵³ The court also rejected Napster's specific claims

45. *See id.* at 919 n.24

46. *Id.* at 902-903.

47. *Id.*

48. *Id.*

49. *Id.*

50. *Id.* at 927.

51. *Id.* at 911. The district court reasoned that the plaintiffs had sufficiently demonstrated ownership of the allegedly infringing MP3 files, and that Napster users violated two of their exclusive rights as copyright owners: the rights of reproduction and distribution. *Id.*

52. *Id.* at 920, 922.

53. *Id.* at 912. The Copyright Act provides that a fair use inquiry includes consideration of at least four factors: (1) the purpose and character of the use, including whether such use is commercial in 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. 17 U.S.C. § 107 (1994).

of fair use: sampling,⁵⁴ space-shifting,⁵⁵ and the authorized distribution of new artists' work.⁵⁶

After establishing direct infringement by Napster users, the district court turned to the plaintiffs' contributory infringement claim.⁵⁷ First, the court found that Napster had both actual and constructive knowledge of direct infringement by its users.⁵⁸ Under the second element, the court found that Napster materially contributed to the infringing activity by providing support services that allowed its users to conveniently locate and download copyrighted files.⁵⁹

The district court concurred with the plaintiffs' vicarious infringement claim.⁶⁰ The court determined that Napster satisfied the first element of the claim because it had the right and ability to supervise its system and block

54. *Napster*, 114 F. Supp. 2d at 915. The district court reasoned that sampling was not a fair use in this context because it is commercial in nature and will likely have an adverse effect on the market for plaintiffs' copyrighted music. *Id.*

55. *Id.* at 915. Space-shifting occurs when a Napster user makes copies of files she already owns to facilitate their use in another medium. *Id.*

56. *Id.* at 917. The district court rejected Napster's last fair use argument, which claimed that it was engaged in the "authorized promotion of independent artists." *Id.* Instead, the court believed that music by major recording artists was the primary feature of the service, and characterized the New Artist's Program as an afterthought. *Id.*

57. *Id.* at 918. As discussed above, a claim of contributory infringement has two elements: (1) the defendant has knowledge of the direct infringement, and (2) the defendant materially contributes to the infringement. *See supra* Part I.D.

58. *See id.* Plaintiffs demonstrated that Napster had actual knowledge of direct infringement because the RIAA notified it of more than 12,000 infringing files. *Id.* The court also determined that defendant had constructive knowledge of the infringing activity, citing evidence that Napster executives had previously enforced intellectual property rights in other law suits, they had downloaded infringing files to their personal computers using the system, and they had promoted the service using lists of the infringing files available on its system. *Id.*

59. *Id.* at 919. The court analogized the Napster system to the swap meet in *Fonovisa, Inc., v. Cherry Auction, Inc.* *Id.* In *Fonovisa*, the owner of copyrights in musical recordings brought various claims, including a claim for contributory infringement, against the operators of a swap meet based on the sales of counterfeit recordings by independent vendors at the meets. *Id.* The operators materially contributed to the infringing activity by providing support services such as space, utilities, parking, advertising, and clientele to the vendors. *Id.* at 920. In *Napster*, the district court emphasized that "Napster supplies the proprietary software, search engines, servers, and means of establishing a connection between users' computers." *Id.*

60. As previously discussed, a claim of vicarious infringement has two elements: (1) the defendant has the right and ability to supervise the infringing activity, and (2) the defendant obtains a direct financial benefit from the infringing activity. *See supra* Part I.D.

those users accused of repeat infringement.⁶¹ However, Napster failed to exercise this ability to prevent infringing activities.⁶² The court found for the plaintiffs on the second element because Napster received a direct financial benefit from the availability of copyrighted music files on its system.⁶³ The infringing files acted as a “draw” for users, thereby increasing the userbase and securing Napster’s potential future revenues.⁶⁴

The district court then addressed Napster’s argument for protection under the DMCA in two separate opinions.⁶⁵ In the first opinion, the court denied Napster’s motion for summary judgment based on the section 512(a) safe harbor provision of the DMCA.⁶⁶ For purposes of summary judgment, the court assumed, but did not hold, that Napster was an ISP under the first, broader definition of service provider.⁶⁷ However, the court determined that Napster failed to satisfy the additional requirements for protection under the DMCA.⁶⁸ First, Napster did not qualify as an ISP under section 512(a) because it did not “transmit, route, or provide connections through its system.”⁶⁹ Rather, the Internet provided the connection between system users.⁷⁰ Second, the court noted that even if Napster had qualified as an ISP under section 512(a), genuine issues of material fact existed concerning Napster’s compliance with section 512(i), which imposes additional requirements for protection under any of the DMCA safe harbor provisions.⁷¹

In the second opinion, the district court rejected Napster’s argument for protection under the section 512(d) safe harbor provision.⁷² The court stated that section 512(d) excludes from protection any defendant with ac-

61. *Napster*, 114 F. Supp. 2d at 920.

62. *Id.*

63. *Id.* at 921.

64. *See id.* (relying on the Ninth Circuit’s vicarious liability analysis in *Fonovisa*, where the court determined that a financial benefit exists when the availability of infringing material acts as a draw for customers).

65. *See Napster*, 54 U.S.P.Q.2d 1746 (2000) (Napster’s motion for summary judgment); *Napster*, 114 F. Supp. 2d 896 (2000) (district court opinion).

66. *Napster*, 54 U.S.P.Q.2d 1746.

67. *Id.* at 1749 n.5 (This definition provides that the term service provider as used in section 512(a) of the DMCA “means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received”).

68. *See id.* at 1752.

69. *Id.*

70. *Id.*

71. *See id.*

72. *See Napster*, 114 F. Supp. 2d at 919 n.24.

tual or constructive knowledge of the infringing works or activity, and, therefore, does not shelter contributory infringers.⁷³ Since Napster had both actual and constructive knowledge of its users' infringing activities, the court held that it did not qualify for protection under this safe harbor provision.⁷⁴

B. The Ninth Circuit Decision

Napster appealed the preliminary injunction to the Court of Appeals for the Ninth Circuit.⁷⁵ Although the Ninth Circuit largely affirmed the district court's rulings,⁷⁶ it diverged from the lower court's reasoning on several important issues.

Under the contributory liability analysis, the Ninth Circuit emphasized that Napster may be "capable of commercially significant noninfringing uses."⁷⁷ It reasoned that the district court improperly focused the analysis on the system's current uses, disregarding its capabilities and future uses.⁷⁸ Regarding the vicarious liability analysis, the Ninth Circuit agreed that Napster financially benefited from the availability of infringing files on its system and that it had the right and ability to supervise its system.⁷⁹ However, the Ninth Circuit noted that the architecture of the system might limit the defendant's ability to police the system since Napster does not examine the files for content.⁸⁰ Despite this limitation, it emphasized that Napster maintains the duty of policing the file name indices for infringing works.⁸¹

On the issue of Napster's defense under the DMCA, the Ninth Circuit concluded that the balance of hardships weighed in favor of the plaintiffs, supporting the issuance of a preliminary injunction.⁸² However, it disagreed with the district court in finding that Napster's potential liability for secondary copyright infringement renders the DMCA inapplicable.⁸³ It

73. *Id.*

74. *Id.*

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

76. *Id.* at 1027. The Ninth Circuit agreed that the plaintiffs would likely succeed on their contributory and vicarious copyright infringement claims, but remanded the case with instructions to reduce the scope of the preliminary injunction, which it determined was too broad. *Id.*

77. *Id.* at 1021.

78. *Id.*

79. *See id.* at 1024.

80. *Id.*

81. *Id.*

82. *Id.* at 1025.

83. *Id.*

ultimately concluded that this issue would develop more fully at trial and that significant questions remained as to the applicability of the DMCA to Napster.⁸⁴

The Ninth Circuit remanded the case with instructions to modify the injunction.⁸⁵ The preliminary injunction was overbroad because Napster had to bear the entire burden of preventing infringing activity on its system.⁸⁶ Instead, the Ninth Circuit instructed the district court to place the burden of notification on the plaintiffs.⁸⁷ Accordingly, the plaintiffs must notify Napster of the presence of specific infringing files on its system before Napster has the duty to discontinue access to the infringing materials.⁸⁸ Napster is also required to police its system to the extent technologically possible.⁸⁹

III. DISCUSSION

This Note discusses Napster's substantial noninfringing use defense to contributory copyright infringement. In effect, the *Napster* decision modified and limited the original *Sony* analysis⁹⁰ by applying an inappropriately narrow view of the defense, and by imposing a lack of knowledge requirement into the analysis. This Note also considers Napster's defense under the DMCA, and analyzes the scope of the protections afforded by the DMCA safe harbor provisions against contributory and vicarious copyright infringement. It examines whether Napster has complied with the DMCA's copyright compliance policy and notification requirement. Finally, this Note discusses the impact Napster may have on the direction of the music industry, which may drive music companies to alter their traditional business paradigms to accommodate an online form of distribution.

84. *Id.*

85. *Id.* at 1027.

86. *Id.*

87. *Id.*

88. *Id.*

89. *Id.*

90. *Sony*, 464 U.S. 417 (In *Sony*, the Court decided that the manufacturers of video-cassette recorders could not be held liable for contributory copyright infringement, even if they knew some consumers would use the equipment for infringing purposes, as long as the equipment also had substantial noninfringing uses.).

A. The Substantial Noninfringing Use Defense

The Supreme Court first applied the staple article of commerce doctrine⁹¹ to copyright law in the landmark *Sony* decision.⁹² In *Sony*, the owners of television program copyrights argued that the manufacturers and suppliers of home videocassette recorders (“VCRs”) should be held liable for consumers’ unauthorized copying of their broadcasted programs.⁹³ The Court refused to impose liability, despite evidence demonstrating that the VCRs were capable of being used to infringe copyrighted television programs.⁹⁴ It primarily relied on a modified staple article of commerce doctrine from the Patent Code in reaching this conclusion.⁹⁵ As applied to copyright law, when a new technology functions as an instrument for infringement but is also capable of substantial noninfringing uses, the act of providing the technology to consumers does not constitute contributory copyright infringement.⁹⁶ The defendants in *Sony* satisfied this standard by demonstrating that the VCR was capable of “private, non-commercial time-shifting in the home.”⁹⁷

1. Narrow View of the Substantial Noninfringing Use Defense

In *Napster*, the district court improperly restricted the *Sony* analysis to the infringing primary uses of the system, discounting the system’s noninfringing capabilities.⁹⁸ The court refused to apply *Sony* to this case because the principal role of the Napster system was to facilitate the unauthorized copying and distribution of established artists’ music, and was not widely used for noninfringing purposes.⁹⁹ It reasoned that the Napster system’s infringing uses outweighed its noninfringing uses.¹⁰⁰ The court seems to have misstated the inquiry under *Sony*, which asks only whether the technology is capable of commercially significant noninfringing uses.¹⁰¹ Although the Court in *Sony* did not identify what percentage of

91. *Id.* at 440 (The Patent Code explicitly states that the sale of “a staple article or commodity of commerce suitable for substantial noninfringing use is not contributory infringement.”).

92. *See Sony*, 464 U.S. 417.

93. *Id.*

94. *Id.*

95. *See supra* note 91.

96. *Id.* at 442.

97. *Id.* A user is “time-shifting” when she uses a VCR to record a program in order to watch it later. *Id.*

98. *Napster*, 239 F.3d at 1021.

99. *Napster*, 114 F. Supp. 2d at 917.

100. *See id.*

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

noninfringing uses must be found commercially significant to avoid liability, the language used by the Court suggests a low threshold.¹⁰²

In accord with *Sony*, the appropriate use analysis considers not only principal uses, but all current and future capabilities of the technology.¹⁰³ As with the VCR, Napster is capable of being used for the legitimate purpose of copying and distributing authorized recordings.¹⁰⁴ Making non-commercial copies of copyrighted recordings for personal use also constitutes a noninfringing fair use.¹⁰⁵ Although these uses may comprise a relatively small percentage of the system's actual uses, they nonetheless require consideration under the *Sony* analysis.

The district court reasoned that the injunction was consistent with the Court's holding in *Sony* because it permitted Napster to continue operating for only noninfringing uses.¹⁰⁶ The court emphasized that noninfringing uses of the system, such as "chat rooms or message boards, the New Artist Program or any distribution authorized by rights holders" were not covered by the injunction.¹⁰⁷ Again, the district court seems to have misapplied the holding in the *Sony* decision, which established that new technologies with legitimate uses should not be enjoined, even though they are capable of infringing uses.¹⁰⁸ As one commentator observed, "the district court's analysis is tantamount to a holding that Sony could market VCRs only if it could ensure that the VCRs were never used to commit infringement."¹⁰⁹ Accordingly, if on remand, the district court determines that the Napster system is capable of significant noninfringing uses, Napster should not have the burden of ensuring that its system is only used for noninfringing purposes.

2. *Lack of Knowledge Requirement*

In *Sony*, the Court refused to impute knowledge for purposes of contributory liability merely because the defendant produced equipment capa-

102. See *Sony*, 464 U.S. at 444 (The Court in *Sony* emphasized, "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.).

103. See *id.*

104. *Napster*, 114 F. Supp. 2d at 917.

105. *Id.* at 915.

106. *Id.* at 917.

107. *Id.*

108. See *Sony*, 464 U.S. at 442.

109. Litman, *supra* note 2, at 749.

ble of both infringing and substantial, noninfringing uses.¹¹⁰ The Court held that general knowledge of infringing uses would not support a claim of contributory infringement.¹¹¹ Under this standard, most ISPs and peer-to-peer file sharing operators lack the requisite level of knowledge, since it is nearly impossible for them to monitor all the file content located on their systems.¹¹² MP3 files are particularly difficult to filter since they generally lack indicators distinguishing between legitimate and infringing uses.¹¹³ Further, even if an MP3 file does contain infringing works, a system user can easily conceal its content by assigning alternative names to the file.¹¹⁴ Due to these architectural difficulties, ISPs and Napster-like systems generally do not have knowledge of specific acts of copyright infringement.

The Ninth Circuit determined that *Sony's* holding is of "limited assistance" to Napster because it had actual and constructive knowledge of direct infringement by its users.¹¹⁵ It concluded that "sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system."¹¹⁶ However, under the *Sony* analysis, the defendant's knowledge of infringement is irrelevant if the defendant's equipment is capable of commercially significant noninfringing uses.¹¹⁷ In effect, the Ninth Circuit diverged from the original analysis by inserting a lack of knowledge requirement.¹¹⁸ This modification fails to acknowledge that the substantial noninfringing use doctrine establishes more than a rebuttable presumption of a lack of knowledge; rather, it is an affirmative defense to contributory infringement.¹¹⁹ The Ninth Circuit's holding ultimately reduces the scope of the original *Sony* defense by requiring that ISPs demonstrate both that their systems are capable of substantial noninfringing uses, and that they lack knowledge of direct infringement by their users.

110. *Sony*, 464 U.S. at 436.

111. *Id.*

112. *See Greenstein, supra* note 23, at 20.

113. *Id.*

114. *Id.*

115. *Napster*, 114 F. Supp. 2d at 918 (The district court held that Napster had actual notice of direct infringement because the RIAA had informed it of more than 12,000 infringing files.).

116. *Id.*

117. *Sony*, 464 U.S. at 442.

118. *See Napster*, 114 F.Supp.2d at 918.

119. *See Chapman, supra* note 4, at 821.

3. *New Technological Developments*

The decision in *Sony* suggests that courts should be cautious when using copyright law to stifle new technological developments. While peer-to-peer file-sharing technology is still in its infancy, a ruling that would suppress this development would be inconsistent with the fundamental objective of copyright law, which strives to “stimulate artistic creativity for the public good.”¹²⁰ Since technology is often the means of bringing copyrighted works to the public, the public interest extends to the progress and exploitation of emerging technologies. Because one technological development generally serves as the building block for the next, a ruling that bars innovative technologies such as Napster could have far-reaching effects outside the scope of the immediate case. Moreover, copyright owners who initially view technological developments as a threat to their viability may eventually discover ways to exploit them. Although the plaintiffs in *Sony* once predicted that VCRs would destroy the market for motion pictures, the movie industry has since found ways to profit from the VCR through videocassette rentals and sales.¹²¹ Similarly, further developments in peer-to-peer file sharing technology may enable the music industry to benefit from Napster-like systems.

B. Protection Under the DMCA

When the district court ruled on Napster’s motion for summary judgment, Napster argued, and the plaintiffs agreed, that Napster qualified as an ISP under the first, broader definition of the term.¹²² This finding allowed Napster to use any of the four safe harbor provisions.¹²³ However, to qualify for protection under the DMCA, Napster must have complied with the two preliminary requirements of the statute, and must have met each element of the relevant safe harbor provision.¹²⁴ In denying Napster’s motion for summary judgment, the district court concluded that section 512(a) of the DMCA did not apply to Napster.¹²⁵ Since the safe harbor provisions are nonexclusive, whether an ISP qualifies for one safe harbor provision does not affect a determination of whether that ISP qualifies under any other provision.¹²⁶ Alternatively, Napster argued for protection

120. *Sony*, 464 U.S. at 432 (quoting *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975)).

121. See Berschadsky, *supra* note 1, at 785.

122. *Napster*, 54 U.S.P.Q.2d at 1749.

123. See 17 U.S.C. § 512(k)(1)(A).

124. Belknap, *supra* note 36, at 193.

125. *Napster*, 54 U.S.P.Q.2d at 1753.

126. 17 U.S.C. § 512(n).

under section 512(d), which applies to information location tools, including directories, indexes, references, pointers, or hypertext links.¹²⁷ As noted by the district court, section 512(d) imposes more rigorous eligibility requirements than section 512(a).¹²⁸

1. DMCA Protection Against Secondary Copyright Liability

The district court gave Napster's defense under section 512(d) nominal consideration in precluding the issuance of a preliminary injunction.¹²⁹ Since this section excludes qualifying ISPs with actual or constructive knowledge of the infringing activity from protection, the district court broadly concluded that section 512(d) did not shelter contributory infringers.¹³⁰ The Ninth Circuit disagreed with this per se rule, noting that Napster's eligibility for protection under the DMCA would be developed more at trial.¹³¹

a) Contributory Liability

Although the DMCA purportedly protects against direct, contributory, and vicarious liability, the protections afforded to ISPs by section 512(d) are, in effect, limited against claims of contributory and vicarious copyright infringement.¹³² Contributory infringement requires two elements: that the defendant knows or has reason to know of direct infringement, and that the defendant materially contributes to the infringing activity.¹³³ However, an ISP is ineligible for protection under section 512(d) if it has actual or constructive knowledge of infringing activity and fails to promptly remove or disable access to the infringing material.¹³⁴ Consequently, if an ISP possesses the requisite knowledge to impose contributory liability, it is ineligible for protection under section 512(d). Napster may have originally chosen to classify itself under section 512(a) in order to avoid the knowledge prong of this provision. In effect, the more demanding eligibility requirements under this safe harbor provision create a disincentive for ISPs to characterize themselves under this provision.

127. *Id.* at § 512(d).

128. *Napster*, 54 U.S.P.Q.2d at 1750.

129. *See Napster*, 114 F. Supp. 2d at 919 n.24.

130. *Id.*

131. *Id.*

132. *See* 17 U.S.C. § 512(d).

133. *Id.* at 918.

134. 17 U.S.C. § 512(d)(2).

b) Vicarious Liability

Vicarious liability exists if the defendant has a financial interest in the infringing activity, and the right and ability to supervise that activity.¹³⁵ The district court and the Ninth Circuit both found that Napster had an explicit reservation of rights policy, thereby demonstrating that it had the right and ability to control the activities of its users.¹³⁶ They also determined that Napster financially benefited from the infringing activity.¹³⁷

According to the DMCA, an ISP does not qualify for the section 512(d) safe harbor provision if it receives "a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity."¹³⁸ These elements are essentially identical to those required for the imposition of vicarious liability. Since Napster was found to satisfy both elements of vicarious infringement, this finding effectively rendered Napster ineligible for protection under section 512(d).

2. *The Copyright Compliance Policy*

Assuming that Napster qualifies as an ISP for the purposes of the DMCA, it must also demonstrate compliance with the requirements under section 512(i).¹³⁹ This section requires that ISPs adopt and implement a termination policy for users found to be repeat infringers.¹⁴⁰ Napster did not adopt a written copyright compliance policy until February 2000, approximately two months after the lawsuit was filed.¹⁴¹ Napster, however, argued that section 512(i) does not specify when the policy must be enacted.¹⁴²

The issue of when an ISP must adopt and implement a termination policy in order to qualify for protection under the DMCA remains unclear. As the district court noted, "Congress did not intend to require a service provider to investigate possible infringements, monitor its service or make difficult judgments as to whether conduct is or is not infringing."¹⁴³ This suggests that an ISP only loses protection if it becomes aware of and ig-

135. *Napster*, 239 F.3d at 1022.

136. *Id.* at 1023.

137. *Id.*

138. 17 U.S.C. § 512(d).

139. *Id.* at § 512(i).

140. *Id.*

141. *Napster*, 54 U.S.P.Q.2d at 1752.

142. *Id.*

143. *Id.*

nores “red flags” indicating blatant copyright infringement.¹⁴⁴ Since Congress has expressly stated that an ISP does not have to search its system for infringing users,¹⁴⁵ an ISP may not know or have reason to know that its users are engaged in infringement. In Napster’s case, employing a termination policy after litigation begins is most likely insufficient proof of compliance with section 512(i). In contrast, it may be overly harsh to disallow an ISP any protection if it does not enact a termination policy at the outset of its operation. A more equitable standard may be to require ISPs to adopt and implement a termination policy only upon notification of specific infringing uses.

Section 512(i) also requires that the termination policy be “reasonable.”¹⁴⁶ Napster had a policy of blocking an infringer’s password so she could not use that password to access the system.¹⁴⁷ Since this policy did not bar the infringer’s IP address from the system, a blocked user could access the system by changing her username and password.¹⁴⁸

The plaintiffs argued that Napster should have blocked the IP addresses of known infringers.¹⁴⁹ This method may prove ineffective, however, since IP addresses are generally assigned at random when a user logs onto her ISP.¹⁵⁰ To block a user by her IP address would require blocking everyone who uses her ISP.¹⁵¹ Further, a blocked user may circumvent this policy by signing up through another ISP.¹⁵² Regardless, given that the legislature has not mandated how access should be terminated or how reasonable the policy must be to qualify for protection, Napster should not be disqualified from DMCA protection if there proves to be a more effective means of terminating repeat infringers. Therefore, Napster should be able to satisfy this requirement by blocking a user’s password upon receiving proper notification.

144. Jennifer E. Markiewicz, *Seeking Shelter from the MP3 Storm: How Far Does the Digital Millennium Copyright Act Online Service Provider Liability Limitation Reach?*, 7 COMMLAW CONSPPECTUS 423, 439 (1999).

145. *See Napster*, 54 U.S.P.Q.2d at 1752.

146. 17 U.S.C. § 512(i).

147. *Napster*, 54 U.S.P.Q.2d at 1753.

148. *Id.*

149. *See Anne Hiaring, Copyright Infringement Issues on the Internet*, 617 PLI/PAT 455, 531 (2000).

150. *See Berschadsky, supra* note 1, at 780.

151. *Id.*

152. *Id.*

3. *The Notification Requirement*

In order to remedy the district court's broad preliminary injunction, the Ninth Circuit required the plaintiffs to give Napster notice of copyrighted works available on its system before Napster has the duty to disable access to the infringing content.¹⁵³ Although the plaintiffs retain the burden of notification, Napster has the burden of policing its system within the limits of the system's architecture.¹⁵⁴ Napster not only has the duty to remove infringing works upon receiving an explicit request to do so, but it also has the burden of monitoring its system to ensure that no additional copies of the infringing works appear.

In effect, the Ninth Circuit's decision requires ISPs to expend substantial resources to continuously monitor their systems for infringing material. This decision may have a particularly damaging effect on peer-to-peer file-sharing services, since individual users have control over the material they post and transmit over the Internet.¹⁵⁵ For example, users of Napster-like systems have the ability to alter the file names of copyrighted works, making the infringing files difficult to identify and subsequently remove.¹⁵⁶ Further, MP3 files are difficult to screen since they generally lack indicia differentiating between authorized and infringing uses.¹⁵⁷ The competing efforts of users and the ISP will lead to an almost endless series of policing efforts and evasive responses. Ultimately, if ISPs who maintain directories in peer-to-peer systems are assigned the responsibility of policing the use of available files and are held legally accountable for these uses, the overwhelming burden of such liability may render peer-to-peer technology infeasible.

C. **Implications for the Future**

While technological advances will make copyright infringement and piracy a continuing concern for the music industry,¹⁵⁸ one possible solution to these problems may be to adopt a new business model. Instead of challenging new technology with legal action, a more effective response may be to develop business paradigms that exploit these innovations. The music industry may be slowly moving in this direction, as evidenced by

153. *Napster*, 239 F.3d at 1027.

154. *Id.*

155. Greenstein, *supra* note 23, at 20.

156. *Id.*

157. *Id.*

158. See Amy Kover, *Napster: The Hot Idea of the Year*, FORTUNE (June 26, 2000), at <http://www.fortune.com> (Several other peer-to-peer file sharing services, such as Gnutella and Freenet, have surfaced in the wake of the Napster litigation).

on-going negotiations between Napster and plaintiff Bertelsman Music Group ("BMG").¹⁵⁹

In October 2000, Napster and BMG agreed to develop a new business model using the peer-to-peer network.¹⁶⁰ This model would amount to a "pay-for-play" service, wherein users would be able to access music files for a monthly subscription fee and owners of the copyrighted works would receive royalties for this use.¹⁶¹ Although the current agreement would only allow users to access music files owned by BMG, if the other four major recording companies¹⁶² followed in this direction, subscribers will have much of the same selection as they once did on the Napster system. Regardless of whether other major recording companies choose to participate in an agreement with Napster, they will ultimately have to devise a more attractive distribution method than the one currently in place.

IV. CONCLUSION

In spite of its relative youth, the Internet has posed significant challenges for copyright law. As *Napster* illustrates, copyright owners confronted with Internet-related technological innovations have become increasingly concerned about the protection of their intellectual property rights. In addressing these concerns, courts must formulate an approach to copyright law that reflects the reality of constant technological development.

The *Napster* decision severely limited the *Sony* substantial noninfringing use defense to contributory copyright infringement. This result is inconsistent with the Court's holding in *Sony*, where an injunction is precluded if the technology at issue is capable of legitimate uses.¹⁶³ When new technology may be used for both legitimate and infringing purposes, the balance should weigh in favor of allowing the new technology.¹⁶⁴ By issuing a broad injunction, the *Napster* courts failed to recognize current

159. Maggie A. Lange, *Digital Music Distribution Technologies Challenge Copyright Law*, 45 APR. B. B.J. 14, 31 (2001).

160. *Id.*

161. See Ryan C. Edwards, *Who Said Nothing in this World is Free? A&M Records, Inc., v. Napster, Inc.: Problems Presented, Solutions Explored, and Answers Posed*, 89 KY. L.J. 835, 877 (2001).

162. See Rafter, *supra* note 19, at 398 (The five major recording companies include: BMG Entertainment, Sony Music, Warner Music Group, EMI Recorded Music, and Universal Music Group.).

163. *Sony*, 464 U.S. 417.

164. See Litman, *supra* note 2, at 744.

and future capabilities of the system, effectively allowing the suppression of this new technology.

The applicability of the DMCA safe harbors to Napster and qualifying ISPs remains unclear. Although the DMCA allegedly protects qualifying ISPs against direct, contributory, and vicarious copyright liability, uncertainties remain as to the scope of the protection offered by the DMCA against these claims. The DMCA is also vague in other critical areas, such as the copyright compliance policy and notification requirement. The ultimate decision in *Napster* may help to clarify ambiguities in the law by establishing appropriate standards for these provisions.