NINTH NIXES NAPSTER'S NIFTY NETWORK

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On February 12, 2001, a three judge panel of the U.S. Court of Appeals for the Ninth Circuit affirmed a District Court ruling that Napster had encouraged and assisted widespread copyright infringement of music recordings. A&M Records v. Napster, Inc. (9th Cir. 2001). In its decision, the appeals court directed the trial court to fashion an injunction that requires Napster to stop the exchange of copyrighted works but respects the technological limitations of Napster's system to police activity on its site. The appeals court decision threatens to put Napster out of business, and Napster said it intended to appeal the decision to a full en banc panel of the Ninth Circuit.

In its suit the record companies argued that the Napster system is utilized to trade millions of copyrighted works without the permission of the copyright holders. Napster was started by a college student in 1999. It enables users to exchange MP3 music files stored on their computers by uploading and downloading their files over the Internet through the use of digital technology, employing a process known as "peer?to?peer" file sharing. Napster allows its users to make music files stored on individual computer hard drives available for copying by other Napster users, to search for music files stored on other users' computers, and to transfer exact copies of other users' music files from one computer to another via the Internet.

In its decision, the court affirmed a ruling of Chief Judge Marilyn Patel of the U.S. District Court in San Francisco in July 2000, 114 F. Supp. 2d 896 (N.D. Cal. 2000), which granted the music companies' request for a preliminary injunction against Napster and directed it to prevent users from exchanging copyrighted music. Two days later, a panel of judges from the Ninth Circuit issued an emergency stay of Judge Patel's order, pending a hearing on Napster's appeal.

In its February 12 opinion, the three?judge appeals court panel said that "a preliminary injunction against Napster's participation in copyright infringement is not only warranted, but required." The panel agreed with the district court that the record companies had shown that Napster users had engaged in direct copyright infringement of the record companies' works. "Repeated and exploitative unauthorized copies of copyrighted works were made to save the expense of purchasing authorized copies," the court said.

The court also upheld the district court's conclusion that Napster may be secondarily liable for direct copyright infringement under two theories, contributory copyright infringement and vicarious copyright infringement. As to the contributory copyright infringement claim, the panel concluded that Napster knowingly encourages and assists its users to infringe the record companies' copyrights and Napster materially contributes to the infringing activity. As to the vicarious copyright infringement claim, the panel concluded that Napster has a direct financial interest in its users' infringing activity and retains the ability to police its system for infringing activity.

The appellate court ruled that Judge Patel was correct to find that Napster "knowingly encourages and assists" in the exchange of copyrighted music and that such behavior appears to cut into the record industry's sales and could hinder its ability to tap into the online market. The court also agreed that the judge correctly rejected Napster's affirmative defenses that individuals who exchange music on Napster for their personal use are engaging in "fair use" of the copyrighted works.

While the Copyright Act grants the copyright holder a set of exclusive rights, namely reproduction, distribution, adaptation, and public performance and display, 17 U.S.C. §106, the Act also establishes a number of limitations on the owners exclusive rights, the most important of which is the doctrine of fair use. Section 107 of the Act provides that the "fair use" of a copyrighted work for purposes such as criticism, comment, news reporting, teaching, scholarship or research is not an infringement, and sets out a number of factors for courts to consider on a case?by?case basis:

(1) The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) The nature of the copyrighted work; (3) The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) The effect of the use upon the potential market for or value of the copyrighted work.

In interpreting this section, courts often decide fair use cases on a fact?intensive basis, relying on prior cases and in?depth analysis of the four statutory fair use factors. Here, Napster claimed that its users were engaged in fair use in certain specific ways. One of them was "sampling", where users make temporary copies of a work before purchasing them. The court rejected this defense in part because users do in fact download ?full, free, and permanent cop(ies) of the recording(s)? without seeking permission or making payment to the record companies.

The court also considered Napster's claim that "space-shifting" is a fair use. Space?shifting occurs when a Napster user downloads MP3 music files in order to listen to music he or she already owns on an audio CD. Napster analogized space shifting to the type of ?time-shifting? considered by the U.S. Supreme Court in the Sony Betamax decision, Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984), in which the Supreme Court rejected the claim that video cassette recorder manufacturers were guilty of contributory infringement for producing VCRs that enable individuals to tape copyrighted television programs and movies. There, the Supreme Court found that noncommercial personal copying was a fair use and that Sony was not liable because the VCR could be used for substantial noninfringing activity such as recording public domain and other uncopyrighted material, as well as programs in which the copyright holder did not object to the copying. (Mister Rogers, for example, testified that he was in favor of parents taping his program in the afternoon so that they could view it with their children at a more convenient time later in the day. For more on the technology conflicts of a generation ago, see James Lardner, Fast Forward - Hollywood, the Japanese, and the VCR Wars (1987)).

Here, the appeals court upheld the lower court's conclusion that space-shifting is very different from time-shifting. It agreed that Napster's system did have "commercially significant noninfringing uses," which Napster contended supported its fair use argument under established copyright doctrine intended to encourage development of innovative technologies. However, the court found that the method of shifting in Sony was different from Napster because it did not also simultaneously involve the distribution of copyrighted material to the general public. Instead, time-shifting by a VCR owner produces a copy only for the original user, who typically watches the program privately in his home. Here, on the other hand, once a user lists a copy of music he already owns on the Napster system in order to access the music from another location, the song becomes available to millions of other individuals, not just the original CD owner, thereby permitting wholesale distribution of the material to the public in violation of the copyright holder's rights.

Thus, the court agreed with Judge Patel's findings that Napster users did not engage in fair use and that Napster and its users were infringing the record companies' copyrights. In fashioning a remedy, however, the court found the judge's original injunction "overbroad" because it placed the entire burden on Napster to prevent any exchange of the record companies' copyrighted works on its system. A new injunction, the court ruled, must place a burden on the record companies to provide notice to Napster of which of their works are being infringed. The court said:

The district court correctly recognized that a preliminary injunction against Napster's participation in copyright infringement is not only warranted but required. We believe, however, that the scope of the injunction needs modification in light of our opinion. Specifically, we reiterate that contributory liability may potentially be imposed only to the extent that Napster: (1) receives reasonable knowledge of specific infringing files with copyrighted musical compositions and sound recordings; (2) knows or should know that such files are available on the Napster system; and (3) fails to act to prevent viral distribution of the works. The mere existence of the Napster system, absent actual notice and Napster's demonstrated failure to remove the offending material, is insufficient to impose contributory liability. See Sony, 464 U.S. at 442?43.

The court also noted, however, that Napster may be vicariously liable when it fails to affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index. Napster has both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files. Thus, the appellate court instructed the district court to craft its injunction in a way that takes into account Napster's ability to police its system within the technological limits of its service, noting, for instance, that the lower court should recognize that Napster's system does not appear capable of reading MP3 files stored on the computers of individual users.

So as of February 12, 2001, it looks like Napster is in the bottom of the Ninth with two outs and two strikes against it. Its ace, David Boies, who represented it in the case, is covered with gore. Can someone step up to the plate to save Napster so that it can continue to operate under its current business model? The district court is expected to rule soon unless the Ninth Circuit agrees to hear the case en banc. Stay tuned, fans, for updates.

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