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Situating legal protections for copyright-related technological measures in the broader legal landscape:
ANTI CIRCUMVENTION PROTECTION OUTSIDE COPYRIGHT

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Questionnaire:

1. Types of Circumvention

Are any of the following acts prohibited under some legal regime in your country, and if so, please specify which regime:

- a. Gaining access to a technologically protected computer system or to protected material without authorization?

Yes. The United States has various laws under its Federal and State system which protect confidential documents and material generally and protect computer systems specifically. There also are criminal laws protecting closed computer systems. For example, the state of California Penal Code prohibits unauthorized access to computers, computer systems and computer data. This act is produced at **Tab 12** below. Confidential information and trade secrets are also protected from access or use without authorization under the Uniform Trade Secret Act, which provides for similar state laws which protect confidential information from use or disclosure in violation of a duty or legal obligation to keep the information confidential.

- b. Receiving protected data or material without authorization or without paying the due remuneration?

Yes, although generally receipt of protected data would be unlawful if received with knowledge of its confidential nature or under an obligation to keep it secret. Generally an obligation to pay is separately enforced under a contractual obligation, but in the case of computer information, such as unauthorized access or copying, which access could be gained

by paying, there would be enforceable obligation such that it would be a violation of U.S. law.

- c. Gaining access to a technologically protected computer system or to protected material by supplying a false name or password?

Yes. Similar laws as discussed above would make unauthorized access to a technologically protected computer system a violation of U.S. law, and if such access were gained through the use of a false name or password, there would be a violation of U.S. law. There also may be separate legal violations in supplying false data or information, particularly to a government entity or to obtain goods or services, or under specific laws such as if the false information relates to credit information such as credit card information. The Stored Wire And Electronic Communications and Transactional Records Access Act, produced at [Tab 7](#) makes it illegal to gain unlawful access to stored communications, including intentionally exceeding an authorization to access a facility. There may also be some specific state or federal laws relating to providing false identification, which may be interpreted to apply to giving a false name or password in the context of obtaining access to a technologically protected computer system.

The United States also has several broadly interpreted unfair competition laws in the various states and the federal Lanham Act §43(a) which provide in general civil remedies for false representations, which might also be interpreted to cover the use of a false name or password. There may also be some specific fraud statutes that broadly cover fraud by consumers or users of a computer system and the use of a false name or password to gain access would result in a violation.

- d. Gaining access to a technologically protected computer system or to protected material by supplying a false Internet protocol (i.p.) address?

To the extent that an Internet protocol address would function as a key to provide access to a technologically protected computer system or to protected material, this would be treated the same as in response to the previous question regarding the use of a false name or password. To the extent that the Internet address might be false and represent the trademark of a person or legal entity, that person or legal entity may have a cause of action under trademark law for the use of false Internet address, based upon the address being similar to the use of a trademark. If a false trademark is used for purposes of obtaining access to goods or services, then there may be trademark infringement or unfair competition for the use of the trademark. If the Internet protocol address is the name of a person, particularly a famous person or an officer in the government, then there may also be special laws dealing with the false use of

the name of a famous person, and a person may have a right to prevent the use of his or her name under various state laws, either general unfair competition laws or specifically related to the use of names of famous parties, or under the Lanham Act, which favors the use of a false representation.

Internet protocol addresses are more likely to be communications than for identifying the user of a computer system of a name or a password, but to the extent that an IP address is used as a form of identification, then knowing use of a false one may be a violation of U.S. law.

- e. Gaining access to technologically protected material by supplying false payment information?

Although not expressly foreseen by most of the laws protecting our computers and material information on computer systems, similarly supplying false payment information to obtain such access could result in a violation together with obtaining the illegal access. There also are some specific laws relating to making false payments, such as laws against writing bad checks, or in the case of electronic commerce, providing false information, and there are laws dealing with use of false payment credit card or debit card payment information. The act of supplying false payment information itself may be a legal violation in the United States, if specific laws may be violated.

- f. Decrypting without authorization encrypted content?

Decryption without authorization of encrypted content, is dealt with in U.S. copyright laws in protecting copyrighted materials under recent U.S. laws. Under those laws, lower federal courts in the United States have found the distribution of decrypting codes to be a violation of law based upon the fact that the decrypting codes are used to gain access, in order that copies can be made of copyrighted materials.

There are both state and federal laws that deal with the distribution and sale of “black boxes” which decrypt encrypted information, particularly in the context of home subscription cable television services and broadcast encrypted television. These laws are in addition to copyright, where recent laws have specifically dealt with decryption devices and held the manufacturing and distribution of such devices to be contributory copyright infringement, or in violation of specific state fraud laws. The purpose of decryption may determine whether copyright or other laws are applicable, that is, is it to obtain illegal access or to copy material?

It should be noted that the law in some courts, such as in the Ninth Federal Circuit provide an unofficial defense, such as fair use, to copyright infringement or other technical violations, if the reason for the copyright infringement or the copying, and presumably also the access, is to obtain compatibility with a hardware or software. For example, although it may be illegal to copy a copyrighted video or video game program, the courts may permit intermediate copies or duplication to be made for the purpose of analyzing the copyrighted video game in order to make compatible hardware or software which will work with the copyrighted owner's equipment or video games.

- g. Overriding a limit on the number of simultaneous users allowed access or on the allowed time of access?

Yes, although not expressly foreseen by any of the laws, if overriding a time limit or number of users is a method of obtaining the illegal access, then the laws might be broad enough to prevent the access obtained in this way. In some of the cases dealing with the subscription television cable, the user agreement with a subscriber might allow a single user access to the cable for a single residence and if it were to be connected instead to many residences, such as in an apartment house, the laws preventing unauthorized access to the cable would be violated.

- h. Overriding a limit on the number of copies an authorized user is permitted to make, or a technologically enforced prohibition against making any copies?

Yes, similarly, it is believed that a limitation on the number of copies an authorized user is permitted to make, or a technologically enforced prohibition against making any copies, could be in violation of the laws discussed above. In general, such restrictions would probably be violations of copyright, rather than other laws, because copyright generally gives the owner of the copyright a right to control the number of copies or whether copies can be made. The laws under the copyright law dealing with serial copy management systems, directed toward controlling whether copies can be made or the number of copies that can be made, are generally justified under the copyright laws with the expectation that the works which are to be copied are protected by copyright.

2. General tort law rules of direct or secondary liability:

- a. Under your country's general tort law principles, could a person be held liable for having engaged in an act of circumvention or for having manufactured or distributed a circumvention device? What would be the conditions for liability?

General tort law principles under United States common law allow liability for torts both for the direct commission of the tort, or under a vicarious liability for the tort, if, in general the entity charged with the violation was aware that the acts resulted in a violation of the law, and had the ability to control the acts as to whether or not a violation of the law would take place, and benefited from commission the tort, through a profit or otherwise.

Under statutory law, most of the intellectual property laws of the United States include liability for indirect infringement, usually referred to as contributory infringement, for an entity that contributes to the infringement by, for example, selling an article which is not a staple article of commerce dedicated to performing the infringement, enabling the direct infringement by another party, or similarly encouraging the infringement.

In the case of circumvention or having manufactured or distributed a circumvention device, it is expected that as in the case of copyright law, indirect infringement would be found under the doctrine of contributory infringement. In addition, several of the statutes that deal with the specific facts of circumvention, specifically make it a violation of law to manufacture, or distribute, or traffic in, a circumvention device.

For example, the Audio Home Recording Act provides protection for copyrighted material under a serial copyright management hardware provision, attached at [Tab 1](#). It prohibits the importation into the U.S., the manufacture, or distribution of any circumvention device, or the offering for sale or performance of any service, the primary purpose or effect of which is to avoid, bypass, remove, deactivate, or otherwise circumvent any program or circuit which implements the serial copy management system for regulating the copies made.

- b. Has your country's case law already applied tort law to prohibit or to enjoin the act of circumventing or the manufacture or distribution of a circumvention device? Are knowledge or intent required? How have knowledge or intent been defined? Is the liability of manufacturers and distributors of devices direct, or based on secondary liability (contributory or vicarious)?

Although overlapping with copyright principles, it is believed that the United States case law has already applied tort law to prohibit or enjoin the act of circumvention for the manufacture or distribution of circumvention devices. For example, the author of this report was involved in the United States case of *Sega v. MAPHIA* (the opinions of the court are reproduced at [Tabs 10 and 11](#)), which found the manufacture and sale of circumvention devices dedicated to the unauthorized distribution of duplicating copyrighted video games, were subject to an injunction. It is believed that even without the specific laws more recently enacted to prevent the manufacture and distribution of circumvention devices specifically,

knowledge of the intended use of the circumvention devices for infringement, and a specific intent to distribute or sell the devices would likely be required for a violation under U.S. tort laws. Knowledge and intent have not always been defined, but generally in the case of the circumvention device it would be both knowledge of the likely use of the circumvention device, not just general knowledge of the possibility of such use, and in the case mentioned specific knowledge and direction to the customer for the use of such device for which infringement was found. The liability of manufacturers and distributors of such devices under general tort principles would be secondary liability (contributory or vicarious) since under general tort principles or case law prior to specific statutes prohibiting the manufacture and distribution of circumvention devices, the infringement was from the knowing use of the devices, not from the sale or manufacture of the devices. However, it would be expected that at least the manufacturer of such a device might well be aware of its use for infringement.

- c. If general tort principles may apply in your country to prevent the act of circumventing, or the supplying of circumvention devices, are there exceptions to the scope of the prohibitions?

General tort law principles which prevent the receipt of data or material without authorization depend upon facts showing that the data or material was received without authorization, since general trade secret law principles or principles of unfair competition would apply to prevent the receipt of such information. In general, the U.S. law does allow a party to be a buyer and “holder in due course” or a “bona fide purchaser for value,” in the case of a payment, so if a payment was made, then an innocent buyer might be protected from liability, so that if the buyer were an innocent holder of the material in due course, without knowledge of its illegal or unauthorized character, liability would be unlikely.

Occasionally in the case of innocent acts of circumvention, such as rewiring cable television, to provide television cable access, the courts have occasionally found a de minimis exception for small violations of the laws, particularly in the case of innocence or lack of significant damage to the rights holder.

- d. Under what circumstances might resort to technological measures to block access be considered in your country an “abuse of right”?

It is assumed that the question relates to the use of technological measures to block access by the owner of works, such that the use of copy management devices or encryption might be challenged as being an abuse of right. While the reporter is not aware of such precedent applying to encryption devices, it has been argued that there is a right under the United States Constitution First Amendment, which deals with freedom of the press and the right to

speak, to justify the distribution of cracking or hacking codes to de-encrypt copyrighted works.

It has been raised by some commentators in the United States that the use of laws directed at preventing the use of the encryption devices or the use of encryption, by those whose works are not protected by copyrights, or by parties who do not own the copyrights, is unfair and a violation of the First Amendment. In other words, should a party be allowed to use encryption to prevent duplication of a public domain work. While laws justifying technological protection are based upon an assumption that the works to be protected are copyrighted, many works which may be protected may have expired from the rights of copyright, or be encrypted by an entity that does not own the copyright.

3. Broadcasting law, cable and satellite regulations, protection of encrypted services or broadcasts, protection of conditional access services

- a. Are encrypted services or broadcasts (e.g., pay-TV signals, etc.) legally protected in your country? Is the regulation civil, administrative, criminal or public? What is the rationale for this regulation?

Yes, by civil and criminal laws, and in some cases by administrative regulation. Usually the rationale for this regulation is copyright, in that the works being broadcast or distributed are protected against copying, and it is necessary to protect the encryption in order to preserve the copyright owner's exclusive right to copy and to control the rights of others to copy.

- b. In such legislation, is the decryption, descrambling or any other form of unauthorized interception of encrypted services or broadcasts prohibited? Under what conditions? What are the rationale and purpose for such prohibition? What are the services or programs at issue? Is protection available only if the broadcast or transmission requires payment? (i.e., no protection for free broadcasts or transmissions?) Who may bring a claim? What remedies are available?

Yes, descrambling, decryption, and unauthorized interception of broadcasts or paid TV signals is prohibited. The rationale for such prohibition is generally the copyright law, but in the case where the decryption or descrambling may be done by a party who has a contract with the service or broadcaster, protection may be by contract, and the laws enforcing contracts. The contract may permit access to certain services of a cable transmission, but not to other services, and contain a prohibition against access to other services which are scrambled or encrypted, and the use of descrambling or de-encryption devices by the contract signee may be in violation of the contract. The services or programs at issue which

are protected are generally cable television, or more recently broadcasts, including satellite broadcasts of encrypted services or channels. The programs which are encrypted or scrambled are generally the most valuable services, such as pay per view movies, which have the greatest demand among members of the public. Protection is available regardless of whether the broadcast or transmission requires payment, since, under the laws of the United States, the protection is usually based upon copyright, and a copyright owner has the right to control copying regardless of whether the copyright owner receives payment for authorized copying. However, for free broadcasts, generally there is not a great deal of protection sought under U.S. law because in the United States, free broadcasts are advertising based, and it is assumed that the additional transmission of the broadcast will allow more viewers to view the advertising. However, on certain cables, local television channels may fear loss of advertising revenue if the same program is intercepted or broadcast locally from outside the local cable area, in which case controls are placed upon the local cable broadcast by copyright law which prohibits the rebroadcast of even free transmission through cable or other mechanisms. Claims may generally be brought by copyright owners, or their licensees, which may, in certain cases, allow the local cable companies to bring the action. Remedies include damages and/or injunctions.

The distribution of devices that enable or facilitate circumvention of broadcast and satellite is illegal. At **Tab 2** is 47 U.S.C. § 553 dealing with the unauthorized reception of cable services and the penalties therefor. At **Tab 3** is the Communications Act Satellite Decryption law, 47 U.S.C. 605(e)(4). At **Tab 4** is Article 1707, Protection of Encrypted Program Carrying Satellite Signals of NAFTA, the North American Free Trade Agreement, which required each party country to enact legislation to protect satellite signal encryption. In such legislation the decryption, descrambling or unauthorized interception is prohibited. The law prohibits interception, receiving or assisting in intercepting, or receiving any communication service offered over a cable service unless a party's specifically authorized to do so. Assisting in intercepting, which is a violation, includes the manufacture or distribution of equipment intended by the manufacturer or distributor for unauthorized reception. Generally the rationale for such laws is copyright and the exclusive rights of the copyright owner to the broadcast, the service, and the programs at issue on cable or pay television broadcast or satellite.

- c. Is the distribution of devices that enable or facilitate circumvention illicit? What are the criteria for considering a device to be illicit? For example, is there a requirement of knowledge or intent to engage in or facilitate illicit circumvention? What commercial/private activities related to that device are prohibited (manufacture, distribution,

sale, possession, etc.)? How does the law address devices that potentially have licit and illicit purposes? Who may bring a claim? What remedies are available?

Yes, distribution of devices that enable or facilitate circumvention, including the manufacture or distribution of equipment intended by the manufacturer or distributor for unauthorized reception is illegal. Generally, in the United States, in non-criminal contexts intent is not required, but penalties are available for willful violation with knowledge and intent to facilitate the illegal circumvention. As mentioned above, assisting in interception, receiving communications, which includes manufacture or distribution of equipment, is illegal.

In general U.S. law was developed to address dealing with devices that potentially have both illicit and illegal purposes, as well as legal purposes, by looking at the primary purpose of the device or, in particular, whether the devices have substantial non-infringing purposes. The leading case in the United States under copyright is the suit against the manufacturer of the BetaMax videotape recorder for contributory copyright infringement (see [Tab 16](#)), where the Court found the videotape recorders to have substantial non-infringing uses in that home taping may be done by the viewer for the legal and fair purpose of time shifting particular movies or programs being recorded into a different time period so the viewer could watch the programs at home after work or on the following day. In a more recent case involving Napster, the Internet-based service accused of facilitating copyright infringement, argued that its service could be used for other non-infringing purposes, but the courts at this time have not accepted that argument. In general, civil claims may be brought by the owner of the copyrights, where copyright laws are involved, or by the broadcasting or cable services licensees where the cable services are involved.

- d. Are there circumstances in which circumvention or decryption is authorized or exempted from the prohibition? How have courts in your country applied the prohibitions (or exceptions) to circumventing technological protections for broadcasts and transmissions?

The law does not provide for specific exemptions, but does not apply in all circumstances and provides, for example, in the case of the criminal cable provision, that where the court finds that the violator was not aware of and had no reason to believe that his or her acts constituted a violation of law, the court may reduce the award of damages to a sum of not less than \$100.

- e. Do you consider these legal provisions as adequate and effective?

The reporter considers the legal provisions as adequate and effective under the circumstances.

f. Conditional Access:

In The European Union, a directive of 1997 protects conditional access services, defined as "services provided against remuneration and on the basis of conditional access," whereas "Conditional Access" means "any technical measure and/or arrangement whereby access to the service in an intelligible form is made conditional upon prior individual authorization." Protected services could be television and radio broadcasting services as well as Information Society Services, e.g. video or audio-on-demand, electronic publishing, on-line access to a database and a wide range of other on-line services.

1. Is there a similar protection in your country? In which legal regime (broadcasting law or other)?
2. If yes, what is the rationale of the protection? Which services are covered? What are the requirements for protection? Is conditional access defined on the basis of a requirement of payment for the transmission? Is the circumvention of the conditional access measure and/or the circumvention device prohibited? Which activities related to circumvention devices are prohibited (sale, manufacture, possession, etc...)?
3. The European Directive also covers the so-called "Information Society services", i.e. services provided at distance upon individual request from the recipient of the service. Does your legislation on conditional access concern information society services as well? In other words, could your conditional access legislation be applied to services provided through the Internet or other networks?

It is not believed that there is a similar provision under U.S. law dealing with conditional access, but the laws dealing with cable and cable television and satellite television would appear to apply in this same situation.

4. Telecommunications Law:

- a. Telecommunications law sometimes prohibits unauthorized interception of any wire or electronic communication. This could serve as a basis for a claim against decryption or any other unauthorized means of getting access to data when transmitted over telecommunication networks. Does your country's telecommunications law include such a prohibition? If so,

1. Which acts are concerned (interception, disclosure, unauthorized access, reception, etc.)? Does the law cover interception devices as well?

United States law prohibits the unauthorized interception of wire or electronic communications. At [Tab 7](#) is a copy of the Stored Wire and Electronic Communications and Transactional Records Access Act, 18 U.S.C. §121, which makes unlawful access to stored communications. It makes illegal intentional access, without authorization, to a facility through which an electronic communication service is provided, including obtaining, altering or preventing unauthorized access. There are also various state laws dealing with the unauthorized interception of electronic communications, and telephone and computer devices, both obtaining access and interception. The law generally does not cover the interception devices, which may have other uses as well, but covers their application or use without permission.

2. Does the content have to be encrypted or otherwise protected so as to benefit from protection?

It is not believed that the content has to be encrypted or otherwise protected so as to benefit from protection under the law.

3. What are the circumstances where interception is authorized or where interception devices are legitimate (e.g., when they comply with some technical standards)?

The Stored Wire and Electronic Communications and Transactional Records Access Act does not apply with respect to conduct authorized by the person or entity providing the wire or electronic communication service, or by a user of that service with respect to a communication of, by or intended for, that user.

4. Who may bring a claim? What remedies are available?

There are criminal remedies under which the government may bring a claim under federal law. There are also state laws providing for government and in certain cases, there may be civil remedies available for unfair competition or under specific laws that provide for civil remedies. Usually, as discussed elsewhere, an injured party, or rights holder, may bring a claim.

- b. Telecommunications law might also impose mandatory technical standards to be applied to telecommunication reception devices. This could lead to prohibiting devices enabling the unauthorized reception of communications. What about the telecommunications law in your country?

Yes. In the United States telecommunication laws very often impose particular mandatory standards to be applied to telecommunications reception devices. Often this relates to regulation of the frequencies available for carriers to use. This could lead to prohibiting devices enabling unauthorized reception of communications, and the U.S. law does give consideration to this. U.S. law is also strongly oriented toward protecting the privacy of communications and laws dealing with telecommunications and electronic computer communications often take this into consideration.

5. Computer crime

- a. In your country, is there legislation related to computer crime? Can circumvention of technological measures and/or unauthorized access to computer systems, networks or data be prosecuted under such statutes? What is the rationale of criminalizing such offenses?

Yes. In the United States there is strong legislation relating to computer crime. See [Tab 9](#) for various mail and wire fraud provisions which have been in existence in U.S. laws for some time and have been applied to computer crime. In addition, see [Tab 8](#), the Computer Fraud and Abuse Act, and [Tab 7](#), the Stored Wire and Electronic Communications and Transaction Record Access Act. Also see the Electronic Communications Privacy Act at [Tab 6](#). At [Tab 12](#) is an example of California Penal Code dealing with unauthorized access to computers, computer systems and computer data, specifically. Circumvention of technological measures in unauthorized access to computer systems, networks and stored data can be prosecuted under statutes. The rationale of criminalizing such offenses is in line with the state's concern with protecting U.S. victims, and the belief that criminalizing such offenses will act as a deterrent through the punishment available through the criminal statute.

- b. What is the definition of the offense? Is the way of getting unauthorized access defined: e.g. providing a false password, decrypting, cracking the technical protection, etc.?

The offenses are defined in the attached Tabs. Some of the statutes define the way of getting unauthorized access, but generally they criminalize the computer crime or unauthorized access, not the method of obtaining such access, since technological capabilities for obtaining access continue to change.

- c. Can the manufacture or distribution of devices enabling the carrying out of these offenses be prosecuted as well (such devices are sometimes called 'hacker tools')? If not, could the seller or manufacturer of circumvention devices be prosecuted as an accomplice? What are the penalties for the offense?

In certain cases the manufacture or distribution of the devices can be prosecuted as hacker tools, particularly if the devices are dedicated to such use and do not have a substantial non-infringing use. The laws dealing with tools relating to such crimes have not yet been interpreted to the extent of whether possession of hacker tools can be included, but it is believed that this is likely. The possession of traditional crime tools is, for example, described in [Tab 14](#). The possession or sale of such traditional criminal tools is a misdemeanor under California law. The penalties for distribution of circumvention devices was specifically legislated and is much stronger, substantial monetary fines and jail time for willful violations.

- d. Is knowledge or malicious intent required to constitute the violation?

Most of the time knowledge and intent are required to constitute the violation for computer crime.

- e. Has computer crime legislation already been applied by your country's courts to the unauthorized access to protected information or transmissions, or to the circumvention of technological protection measures?

Yes, computer crime legislation has been applied by United States courts to the unauthorized access to protected information and transmissions and the circumvention of technological measures. The United States is in the forefront of such enforcement.

- f. In the absence of specific provisions on computer crime, could unauthorized access and/or the circumvention of technological measures be considered to violate other penal laws (e.g., offences such as theft, fraud, breaking and entering, forgery, etc.)? Are there some examples in the case law?

Since the United States laws have specifically been passed dealing with computer crime, there is not a lot of experience in the application of prior traditional general penal laws such as theft, fraud, breaking and entering, forgery, to computer crimes, but there have been some examples of this in the criminal laws.

The most well known example in the United States was the prosecution of a student at MIT which the United States government attempted to prosecute under U.S. law, but was unable to do so because the copyright law at the time required that the defendants have made a profit from the crime, and the student was making available unauthorized copies of computer software without charge or profit. The wire fraud statute was not applicable because the violation was copyright infringement, and the copyright law did not provide for a crime in the case of no profit. Subsequently, the copyright law was amended to provide that in the

case of criminal copyright infringement a volume of value of infringing merchandise was all that was required for prosecution of the offense.

6. Unfair Competition law or unfair commercial practices

- a. In your country, in the absence of specific prohibitions on circumvention or unauthorized access, has the distribution of circumvention devices or descramblers been prohibited through the application of unfair competition law? Under what circumstances?

Yes. Unfair competition laws, including State unfair competition laws and false representations or false designations of origin federal laws (e.g., Lanham Act 15 U.S. §1143(a)) have been used to prohibit acts of circumvention or the distribution of circumvention devices or descramblers. The unfair competition laws generally provide a private right of action against a competitor or infringer. See the discussion of the *Sega v. MAPHIA* case, attached at **Tabs 10 and 11**. The case applied the copyright law but found the same remedy available under unfair competition law.

Unfair competition laws also apply in the case of access to trade secrets, so where unauthorized access has been made to files of stored documents or information containing trade secrets, there may be some state unfair competition law violations by those who have obtained the access. A few states, such as California, have criminal unfair competition laws available as well, particularly where documentation was removed.

- b. What are the advantages, disadvantages and boundaries of the recourse to unfair competition law as far as circumvention activities or devices are concerned? Do you consider this protection as sufficient and effective?

The advantages of unfair competition laws are that they are broad and flexible and this may allow the courts to apply existing laws to technological situations even before the laws are changed to specifically cover the new technology. They can bend and, although there are limits to the use of unfair competition laws, remedies have been obtained against the manufacture and distribution of circumvention devices or circumvention activities.

The author does not consider this protection as sufficient and effective, and apparently neither do the legislators in the United States or various states, since specific laws have been enacted to provide for criminal and civil remedies, under the states and the U.S. federal laws.

7. Protection of technological measures as such

Technical means of protection might be in themselves protected by a proprietary right, e.g. by a copyright (for instance if the technological measure consists of software), patent or trade secrets. In such a case, circumventing the software or the technical system or developing circumvention devices could effect an unauthorized reproduction of the software (namely by reverse engineering) or a disclosure of the trade secret.

- a. In your country, what legal regime of exclusive or related rights might apply to the technological measure? Under what conditions? Do you know any case law in that field?

In the United States, indeed, a technical means of protection might itself be protected by a proprietary right. Many technical means of protection, encryption, decryption, scrambling, and security systems are protected by U.S. patent laws, which are government grants of exclusive rights for a limited period of time provided under law to the owner of the patent to allow the patent owner to prevent others from using the patented invention, in this case using the patented technical measures. If the technological measure consists of software, indeed there may also be, perhaps in addition to other proprietary rights, copyright rights involved, such that the use of the technological means of protection, or the descrambling or decoding of encrypted material, might also be copyright infringement of the copyright on the computer program on the technical measure.

In addition, a technological means of protection may be covered by the law governing trade secrets, particularly in the case of encryption, as to some of the computer program algorithms or computer program codes for decryption or unlocking the technological means. Trade secret laws are used when the information can be maintained in confidence and the owner would not necessarily want to disclose the secret in a publicly filed patent application or copyright. In this case, the technological means of protection is subject to protection in the courts by an injunction against disclosure by those who received the trade secrets under a duty to maintain the trade secret information confidential, or against those who may receive the information through a breach of a duty to maintain the information confidential.

The question asks about case law in this field. In the United States, there has been some interesting case law in this area. First, in order to allow interoperability and compatibility, allowing others to use the intellectual property covered by the proprietary right, the courts have sometimes allowed infringement to take place of a copyright or a patent, in order to permit a competitor to be compatible and use the same standards. In other words, an exception to the infringement may be allowed for reverse engineering for the purposes of making a compatible product.

Secondly, there has been some case and administrative law under United States antitrust laws, criticizing companies who have proprietary rights, such as patents on devices or processes, which through the companies' efforts become industry standards. In particular, Dell Computer was once the subject of an antitrust law investigation, critical of Dell's having participated in computer industry standards committees developing a computer standard over which Dell held proprietary patents or copyrights (see [Tab 15](#)). In the case of standards, such as technical means for protection, the courts are likely to believe that the standard should be open and available for others to participate in, and not be proprietary with one company. To avoid such criticism, some companies, such as Philips in the early days of the audio cassette, freely licensed its standard cassette for use by the recording and playback industry at no charge, in order to not be subject to criticism and also to allow the cassette to become an industry standard used by many manufacturers and consumers, because of its free availability of the uniform standard cassette for use by all.

- b. What exceptions related to these legal regimes could be applied to legitimize the circumvention act or device?

Some of the exceptions are discussed above in conjunction with case law. It should be noted that in the United States, one would not be excused from violating statutes directed toward the manufacturer or unauthorized use of technological measures by the fact that the accused party had a copyright or a trademark.

8. Other protections

- a. Can you think of any other means of protecting technological measures against circumvention in your country? In which legal areas and by which mechanisms (e.g., privacy law, property right, "trespass", "conversion," ...)?

In the United States, various legal mechanisms might prevent infringement of the underlying work, and if the anticircumvention or antiencryption devices result in allowing copying or another violation, then the courts might well outlaw the use of the technological measure as well. In the *Sega v. MAPHIA* case at [Tabs 10 and 11](#), in conjunction with protecting unfair competition and trademark rights, the court enjoined the indirect infringement or contributory copyright infringement by the manufacturing or sale of the devices for copying the plaintiff's video games.

- b. In particular, do you think that, in your country, contract law can offer an effective prohibition against circumvention?

The undersigned reporter does not believe that contract law can offer an effective prohibition against circumvention, because a contract is only effective against the parties agreeing not to circumvent. Much of the circumvention is by parties who have not agreed to a contract, and are not in a business relationship with a rights holder where a contractual agreement can be obtained.

1. For example, a contract obliging each user not to circumvent can be embedded in the technological measure itself when it enables the on-line licensing of or access to transmissions (including content). Would such a contract be enforceable in your country?

In the United States online contracts, such as “click-through” licenses are enforceable, particularly if the party agreeing to the license or contract is aware and understands the content of it. To the extent that a user might agree not to circumvent technological measures, and understand what he or she agreed to, then the contract would be enforceable. On the other hand, such contracts are difficult and even with “click-through” contracts requiring an assent, most such contracts are often not the subject of much attention by the users.

2. Or contracts might be negotiated between content providers and the computer or consumer electronic manufacture industries in order to oblige them either to design devices that answer to technological measures or not to develop devices that are able to circumvent them. Are such negotiations in progress in your country?

Yes. U.S. law has enforced agreements between computer or electronic manufacturing industries, obligating them to design devices that include technological devices, and they may also agree not to develop devices that are able to circumvent the devices, or at least not to sell such devices in the United States. In a global market this is difficult, and often computers or consumer electronic manufacture devices, such as devices for defeating the serial copy management system of the law at [Tab 1 and 2](#), are available in other countries and imported through the grey market into the United States. Many such negotiations are supported by legislation such as the Serial Copy Management laws and legislation at [Tab 1 and 2](#). If such controls are left up to the industry to do self policing, they may not be effective, particularly when although some manufacturers who agree may lose business to other manufacturers who do not agree, when those who do not agree are able to sell competing products which allow copying by not including the technological measures for protection in their devices.

9. Limitations, exceptions, fundamental rights, third parties' and public interest

- a. Are there any general limiting principles that could apply to the various legal regimes we have addressed in this report (e.g. freedom of expression, freedom of information, public interest, consumer protection, abuse of right, etc.)?
- b. What are the concerns of computer and consumer electronics industries related to prohibitions of circumvention devices? Have these concerns been taken into account in the legal provisions addressed above?

[No responses provided for question 9.]

10. Potential application of the protections surveyed in Questions 1-9 to copyrighted works

- a. In your country, could copyright holders avail themselves of some or all of these extra-copyright legal provisions or mechanisms, either to prevent the act of circumvention of technological measures, or to prohibit trafficking in circumvention devices? If so, which ones?
- b. Could the alternative means of protection for technological measures available in your country be added or used simultaneously with copyright-related anti-circumvention provisions?
- c. What would be the pros and cons of recourse to extra-copyright protections against circumvention of access to copyrighted works or circumvention of technological protections of rights of the author? Do these protections call for reassessment of the need for copyright-specific protections?
- d. If recourse to extra-copyright protections is available, could your country implement the WIPO treaty obligations without copyright-specific anti-circumvention legislation? In your view, would this be a desirable approach? If not, to what discrepancies or failures in the existing law would copyright-related anti-circumvention provisions need to respond?

[No responses provided for question 10.]

Any other observations?

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TAB 1

Audio Home Recording Act: Serial Copyright Management Hardware Provision

UNITED STATES CODE
TITLE 17. COPYRIGHTS
CHAPTER 10--DIGITAL AUDIO RECORDING DEVICES AND MEDIA
SUBCHAPTER B--COPYING CONTROLS

§ 1002. Incorporation of copying controls

(a) Prohibition on Importation, Manufacture, and Distribution.--No person shall import, manufacture, or distribute any digital audio recording device or digital audio interface device that does not conform to--

(1) the Serial Copy Management System;

(2) a system that has the same functional characteristics as the Serial Copy Management System and requires that copyright and generation status information be accurately sent, received, and acted upon between devices using the system's method of serial copying regulation and devices using the Serial Copy Management System; or

(3) any other system certified by the Secretary of Commerce as prohibiting unauthorized serial copying.

(b) Development of Verification Procedure.--The Secretary of Commerce shall establish a procedure to verify, upon the petition of an interested party, that a system meets the standards set forth in subsection (a)(2).

(c) Prohibition on Circumvention of the System.--No person shall import, manufacture, or distribute any device, or offer or perform any service, the primary purpose or effect of which is to avoid, bypass, remove, deactivate, or otherwise circumvent any program or circuit which implements, in whole or in part, a system described in subsection (a).

Audio Home Recording Act: Definitions

UNITED STATES CODE
TITLE 17. COPYRIGHTS
CHAPTER 10--DIGITAL AUDIO RECORDING DEVICES AND MEDIA
SUBCHAPTER A--DEFINITIONS

§ 1001. Definitions

As used in this chapter, the following terms have the following meanings:

(1) A "digital audio copied recording" is a reproduction in a digital recording format of a digital musical recording, whether that reproduction is made directly from another digital musical recording or indirectly from a transmission.

(2) A "digital audio interface device" is any machine or device that is designed specifically to communicate digital audio information and related interface data to a digital audio recording device through a nonprofessional interface.

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

(A) professional model products, and

(B) dictation machines, answering machines, and other audio recording equipment that is designed and marketed primarily for the creation of sound recordings resulting from the fixation of nonmusical sounds.

[Extraneous sections deleted]

(11) The term "serial copying" means the duplication in a digital format of a copyrighted musical work or sound recording from a digital reproduction of a digital musical recording. The term "digital reproduction of a digital musical recording" does not include a digital musical recording as distributed, by authority of the copyright owner, for ultimate sale to consumers.

TAB 2

UNITED STATES CODE
TITLE 47. TELEGRAPHS, TELEPHONES, AND RADIOTELEGRAPHS
CHAPTER 5--WIRE OR RADIO COMMUNICATION
SUBCHAPTER V-A--CABLE COMMUNICATIONS
PART IV--MISCELLANEOUS PROVISIONS

§ 553. Unauthorized reception of cable service

(a) Unauthorized interception or receipt or assistance in intercepting or receiving service; "assist in intercepting or receiving" defined

(1) No person shall intercept or receive or assist in intercepting or receiving any communications service offered over a cable system, unless specifically authorized to do so by a cable operator or as may otherwise be specifically authorized by law.

(2) For the purpose of this section, the term "assist in intercepting or receiving" shall include the manufacture or distribution of equipment intended by the manufacturer or distributor (as the case may be) for unauthorized reception of any communications service offered over a cable system in violation of subparagraph (1).

(b) Penalties for willful violation

(1) Any person who willfully violates subsection (a)(1) of this section shall be fined not more than \$1,000 or imprisoned for not more than 6 months, or both.

(2) Any person who violates subsection (a)(1) of this section willfully and for purposes of commercial advantage or private financial gain shall be fined not more than \$50,000 or imprisoned for not more than 2 years, or both, for the first such offense and shall be fined not more than \$100,000 or imprisoned for not more than 5 years, or both, for any subsequent offense.

(3) For purposes of all penalties and remedies established for violations of subsection (a)(1) of this section, the prohibited activity established herein as it applies to each such device shall be deemed a separate violation.

(c) Civil action in district court; injunctions; damages; attorney's fees and costs; regulation by States or franchising authorities

(1) Any person aggrieved by any violation of subsection (a)(1) of this section may bring a civil action in a United States district court or in any other court of competent jurisdiction.

(2) The court may--

(A) grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain violations of subsection (a)(1) of this section;

(B) award damages as described in paragraph (3); and

(C) direct the recovery of full costs, including awarding reasonable attorneys' fees to an aggrieved party who prevails.

(3)(A) Damages awarded by any court under this section shall be computed in accordance with either of the following clauses:

(i) the party aggrieved may recover the actual damages suffered by him as a result of the violation and any profits of the violator that are attributable to the violation which are not taken into account in computing the actual damages; in determining the violator's profits, the party aggrieved shall be required to prove only the violator's gross revenue, and the violator shall be required to prove his deductible expenses and the elements of profit attributable to factors other than the violation; or

(ii) the party aggrieved may recover an award of statutory damages for all violations involved in the action, in a sum of not less than \$250 or more than \$10,000 as the court considers just.

(B) In any case in which the court finds that the violation was committed willfully and for purposes of commercial advantage or private financial gain, the court in its discretion may increase the award of damages, whether actual or statutory under subparagraph (A), by an amount of not more than \$50,000.

(C) In any case where the court finds that the violator was not aware and had no reason to believe that his acts constituted a violation of this section, the court in its discretion may reduce the award of damages to a sum of not less than \$100.

(D) Nothing in this subchapter shall prevent any State or franchising authority from enacting or enforcing laws, consistent with this section, regarding the unauthorized interception or reception of any cable service or other communications service.

TAB 3

Communication Act: Unauthorized Interception and Publication

UNITED STATES CODE
TITLE 47. TELEGRAPHS, TELEPHONES, AND RADIOTELEGRAPHS
CHAPTER 5--WIRE OR RADIO COMMUNICATION
SUBCHAPTER VI--MISCELLANEOUS PROVISIONS

§ 605. Unauthorized publication or use of communications

(a) Practices prohibited

Except as authorized by chapter 119, Title 18, no person receiving, assisting in receiving, transmitting, or assisting in transmitting, any interstate or foreign communication by wire or radio shall divulge or publish the existence, contents, substance, purport, effect, or meaning thereof, except through authorized channels of transmission or reception, (1) to any person other than the addressee, his agent, or attorney, (2) to a person employed or authorized to forward such communication to its destination, (3) to proper accounting or distributing officers of the various communicating centers over which the communication may be passed, (4) to the master of a ship under whom he is serving, (5) in response to a subpoena issued by a court of competent jurisdiction, or (6) on demand of other lawful authority. **No person not being authorized by the sender shall intercept any radio communication and divulge or publish the existence, contents, substance, purport, effect, or meaning of such intercepted communication to any person. No person not being entitled thereto shall receive or assist in receiving any interstate or foreign communication by radio and use such communication (or any information therein contained) for his own benefit or for the benefit of another not entitled thereto.** No person having received any intercepted radio communication or having become acquainted with the contents, substance, purport, effect, or meaning of such communication (or any part thereof) knowing that such communication was intercepted, shall divulge or publish the existence, contents, substance, purport, effect, or meaning of such communication (or any part thereof) or use such communication (or any information therein contained) for his own benefit or for the benefit of another not entitled thereto. This section shall not apply to the receiving, divulging, publishing, or utilizing the contents of any radio communication which is transmitted by any station for the use of the general public, which relates to ships, aircraft, vehicles, or persons in distress, or which is transmitted by an amateur radio station operator or by a citizens band radio operator.

(b) Exceptions

The provisions of subsection (a) of this section shall not apply to the interception or receipt by any individual, or the assisting (including the manufacture or sale) of such interception or receipt, of any satellite cable programming for private viewing if--

(1) the programming involved is not encrypted; and

(2)(A) a marketing system is not established under which--

(i) an agent or agents have been lawfully designated for the purpose of authorizing private viewing by individuals, and

(ii) such authorization is available to the individual involved from the appropriate agent or agents; or

(B) a marketing system described in subparagraph (A) is established and the individuals receiving such programming has obtained authorization for private viewing under that system.

[Extraneous text deleted]

(d) Definitions

For purposes of this section--

(1) the term "satellite cable programming" means video programming which is transmitted via satellite and which is primarily intended for the direct receipt by cable operators for their retransmission to cable subscribers;

(2) the term "agent", with respect to any person, includes an employee of such person;

(3) the term "encrypt", when used with respect to satellite cable programming, means to transmit such programming in a form whereby the aural and visual characteristics (or both) are modified or altered for the purpose of preventing the unauthorized receipt of such programming by persons without authorized equipment which is designed to eliminate the effects of such modification or alteration;

(4) the term "private viewing" means the viewing for private use in an individual's dwelling unit by means of equipment, owned or operated by such individual, capable of receiving satellite cable programming directly from a satellite;

(5) the term "private financial gain" shall not include the gain resulting to any individual for the private use in such individual's dwelling unit of any programming for which the individual has not obtained authorization for that use; and

(6) the term "any person aggrieved" shall include any person with proprietary rights in the intercepted communication by wire or radio, including wholesale or retail distributors of satellite cable programming, and, in the case of a violation of paragraph (4) of subsection (e) of this section shall also include any person engaged in the lawful manufacture, distribution, or sale of equipment necessary to authorize or receive satellite cable programming.

Communication Act: Satellite Decryption at 47 U.S.C. 605(e)(4)

(e) Penalties; civil actions; remedies; attorney's fees and costs; computation of damages; regulation by State and local authorities

(1) Any person who willfully violates subsection (a) of this section shall be fined not more than \$2,000 or imprisoned for not more than 6 months, or both.

(2) Any person who violates subsection (a) of this section willfully and for purposes of direct or indirect commercial advantage or private financial gain shall be fined not more than \$50,000 or imprisoned for not more than 2 years, or both, for the first such conviction and shall be fined not more than \$100,000 or imprisoned for not more than 5 years, or both, for any subsequent conviction.

(3)(A) Any person aggrieved by any violation of subsection (a) of this section or paragraph (4) of this subsection may bring a civil action in a United States district court or in any other court of competent jurisdiction.

(B) The court--

(i) may grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain violations of subsection (a) of this section;

(ii) may award damages as described in subparagraph (C); and

(iii) shall direct the recovery of full costs, including awarding reasonable attorneys' fees to an aggrieved party who prevails.

(C)(i) Damages awarded by any court under this section shall be computed, at the election of the aggrieved party, in accordance with either of the following subclauses;

(I) the party aggrieved may recover the actual damages suffered by him as a result of the violation and any profits of the violator that are attributable to the violation which are not taken into account in computing the actual damages; in determining the violator's profits, the party aggrieved shall be required to prove only the violator's gross revenue, and the violator shall be required to prove his deductible expenses and the elements of profit attributable to factors other than the violation; or

(II) the party aggrieved may recover an award of statutory damages for each violation of subsection (a) of this section involved in the action in a sum of not less than \$1,000 or more than \$10,000, as the court considers just, and for each violation of paragraph (4) of this subsection involved in the action an aggrieved party may recover statutory damages in a sum not less than \$10,000, or more than \$100,000, as the court considers just.

(ii) In any case in which the court finds that the violation was committed willfully and for purposes of direct or indirect commercial advantage or private financial gain, the court in its discretion may increase the award of damages, whether actual or statutory, by an amount of not more than \$100,000 for each violation of subsection (a) of this section.

(iii) In any case where the court finds that the violator was not aware and had no reason to believe that his acts constituted a violation of this section, the court in its discretion may reduce the award of damages to a sum of not less than \$250.

(4) Any person who manufactures, assembles, modifies, imports, exports, sells, or distributes any electronic, mechanical, or other device or equipment, knowing or having reason to know that the device or equipment is primarily of assistance in the unauthorized decryption of satellite cable programming, or direct-to-home satellite services, or is intended for any other activity prohibited by subsection (a) of this section, shall be fined not more than \$500,000 for each violation, or imprisoned for not more than 5 years for each violation, or both. For purposes of all penalties and remedies established for violations of this paragraph, the prohibited activity established herein as it applies to each such device shall be deemed a separate violation.

(5) The penalties under this subsection shall be in addition to those prescribed under any other provision of this subchapter.

(6) Nothing in this subsection shall prevent any State, or political subdivision thereof, from enacting or enforcing any laws with respect to the importation, sale, manufacture, or distribution of equipment by any person with the intent of its use to assist in the interception or receipt of radio communications prohibited by subsection (a) of this section.

(f) Rights, obligations, and liabilities under other laws unaffected

Nothing in this section shall affect any right, obligation, or liability under Title 17, any rule, regulation, or order thereunder, or any other applicable Federal, State or local law.

[Extraneous text deleted]

TAB 4

[NAFTA] Article 1707: Protection of Encrypted Program-Carrying Satellite Signals Within one year from the date of entry into force of this Agreement, each Party shall make it:

(a) a criminal offense to manufacture, import, sell, lease or otherwise make available a device or system that is primarily of assistance in decoding an encrypted program-carrying satellite signal without the authorization of the lawful distributor of such signal; and

(b) a civil offense to receive, in connection with commercial activities, or further distribute, an encrypted program-carrying satellite signal that has been decoded without the authorization of the lawful distributor of the signal or to engage in any activity prohibited under subparagraph (a).

Each Party shall provide that any civil offense established under subparagraph (b) shall be actionable by any person that holds an interest in the content of such signal.

[There is no TAB 5]

TAB 6

Electronic Communication Privacy Act: Interception and Use Provision

UNITED STATES CODE
TITLE 18. CRIMES AND CRIMINAL PROCEDURE
PART I--CRIMES
CHAPTER 119--WIRE AND ELECTRONIC COMMUNICATIONS INTERCEPTION AND
INTERCEPTION OF ORAL COMMUNICATIONS

§ 2511. Interception and disclosure of wire, oral, or electronic communications prohibited

(1) Except as otherwise specifically provided in this chapter any person who--

(a) intentionally intercepts, endeavors to intercept, or procures any other person to intercept or endeavor to intercept, any wire, oral, or electronic communication;

(b) intentionally uses, endeavors to use, or procures any other person to use or endeavor to use any electronic, mechanical, or other device to intercept any oral communication when--

(i) such device is affixed to, or otherwise transmits a signal through, a wire, cable, or other like connection used in wire communication; or

(ii) such device transmits communications by radio, or interferes with the transmission of such communication; or

(iii) such person knows, or has reason to know, that such device or any component thereof has been sent through the mail or transported in interstate or foreign commerce; or

(iv) such use or endeavor to use (A) takes place on the premises of any business or other commercial establishment the operations of which affect interstate or foreign commerce; or (B) obtains or is for the purpose of obtaining information relating to the operations of any business or other commercial establishment the operations of which affect interstate or foreign commerce; or

(v) such person acts in the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States;

[*Extraneous text deleted*]

(4)(a) Except as provided in paragraph (b) of this subsection or in subsection (5), whoever violates subsection (1) of this section shall be fined under this title or imprisoned not more than five years, or both.

(b) If the offense is a first offense under paragraph (a) of this subsection and is not for a tortious or illegal purpose or for purposes of direct or indirect commercial advantage or private commercial gain, and the wire or electronic communication with respect to which the offense under paragraph (a) is a radio communication that is not scrambled, encrypted, or transmitted using modulation techniques the essential parameters of which have been withheld from the public with the intention of preserving the privacy of such communication, then--

(i) if the communication is not the radio portion of a cellular telephone communication, a cordless telephone communication that is transmitted between the cordless telephone handset and the base unit, a public land mobile radio service communication or a paging service communication, and the conduct is not that described in subsection (5), the offender shall be fined under this title or imprisoned not more than one year, or both; and

(ii) if the communication is the radio portion of a cellular telephone communication, a cordless telephone communication that is transmitted between the cordless telephone handset and the base unit, a public land mobile radio service communication or a paging service communication, the offender shall be fined under this title.

(c) Conduct otherwise an offense under this subsection that consists of or relates to the interception of a satellite transmission that is not encrypted or scrambled and that is transmitted--

(i) to a broadcasting station for purposes of retransmission to the general public; or

(ii) as an audiosubcarrier intended for redistribution to facilities open to the public, but not including data transmissions or telephone calls,

is not an offense under this subsection unless the conduct is for the purposes of direct or indirect commercial advantage or private financial gain.

(5)(a)(i) If the communication is--

(A) a private satellite video communication that is not scrambled or encrypted and the conduct in violation of this chapter is the private viewing of that communication and is not for a tortious or illegal purpose or for purposes of direct or indirect commercial advantage or private commercial gain; or

(B) a radio communication that is transmitted on frequencies allocated under subpart D of part 74 of the rules of the Federal Communications Commission that is not scrambled or encrypted and the conduct in violation of this chapter is not for a tortious or illegal purpose or for purposes of direct or indirect commercial advantage or private commercial gain,

then the person who engages in such conduct shall be subject to suit by the Federal Government in a court of competent jurisdiction.

(ii) In an action under this subsection--

(A) if the violation of this chapter is a first offense for the person under paragraph (a) of subsection (4) and such person has not been found liable in a civil action under section 2520 of this title, the Federal Government shall be entitled to appropriate injunctive relief; and

(B) if the violation of this chapter is a second or subsequent offense under paragraph (a) of subsection (4) or such person has been found liable in any prior civil action under section 2520, the person shall be subject to a mandatory \$500 civil fine.

(b) The court may use any means within its authority to enforce an injunction issued under paragraph (ii)(A), and shall impose a civil fine of not less than \$500 for each violation of such an injunction.

Electronic Communication Privacy Act: Manufacture and Possession, and Advertisement

UNITED STATES CODE
TITLE 18. CRIMES AND CRIMINAL PROCEDURE
PART I--CRIMES
CHAPTER 119--WIRE AND ELECTRONIC COMMUNICATIONS INTERCEPTION AND
INTERCEPTION OF ORAL COMMUNICATIONS

§ 2512. Manufacture, distribution, possession, and advertising of wire, oral, or electronic communication intercepting devices prohibited

(1) Except as otherwise specifically provided in this chapter, any person who intentionally--

[Extraneous text deleted]

(b) manufactures, assembles, possesses, or sells any electronic, mechanical, or other device, knowing or having reason to know that the design of such device renders it primarily useful for the purpose of the surreptitious interception of wire, oral, or electronic communications, and that such device or any component thereof has been or will be sent through the mail or transported in interstate or foreign commerce; or

(c) places in any newspaper, magazine, handbill, or other publication any advertisement of--

(i) any electronic, mechanical, or other device knowing or having reason to know that the design of such device renders it primarily useful for the purpose of the surreptitious interception of wire, oral, or electronic communications; or

(ii) any other electronic, mechanical, or other device, where such advertisement promotes the use of such device for the purpose of the surreptitious interception of wire, oral, or electronic communications,

knowing or having reason to know that such advertisement will be sent through the mail or transported in interstate or foreign commerce,

shall be fined under this title or imprisoned not more than five years, or both.

(2) It shall not be unlawful under this section for--

(a) a provider of wire or electronic communication service or an officer, agent, or employee of, or a person under contract with, such a provider, in the normal course of the business of providing that wire or electronic communication service, or

(b) an officer, agent, or employee of, or a person under contract with, the United States, a State, or a political subdivision thereof, in the normal course of the activities of the United States, a State, or a political subdivision thereof,

to send through the mail, send or carry in interstate or foreign commerce, or manufacture, assemble, possess, or sell any electronic, mechanical, or other device knowing or having reason to know that the design of such device renders it primarily useful for the purpose of the surreptitious interception of wire, oral, or electronic communications.

(3) It shall not be unlawful under this section to advertise for sale a device described in subsection (1) of this section if the advertisement is mailed, sent, or carried in interstate or foreign commerce solely to a domestic provider of wire or electronic communication service or to an agency of the United States, a State, or a political subdivision thereof which is duly authorized to use such device.

TAB 7

UNITED STATES CODE
TITLE 18. CRIMES AND CRIMINAL PROCEDURE
PART I--CRIMES
CHAPTER 121--STORED WIRE AND ELECTRONIC COMMUNICATIONS AND
TRANSACTIONAL RECORDS ACCESS

§ 2701. Unlawful access to stored communications

(a) Offense.--Except as provided in subsection (c) of this section whoever--

(1) intentionally accesses without authorization a facility through which an electronic communication service is provided; or

(2) intentionally exceeds an authorization to access that facility;

and thereby obtains, alters, or prevents authorized access to a wire or electronic communication while it is in electronic storage in such system shall be punished as provided in subsection (b) of this section.

(b) Punishment.--The punishment for an offense under subsection (a) of this section is--

(1) if the offense is committed for purposes of commercial advantage, malicious destruction or damage, or private commercial gain--

(A) a fine under this title or imprisonment for not more than one year, or both, in the case of a first offense under this subparagraph; and

(B) a fine under this title or imprisonment for not more than two years, or both, for any subsequent offense under this subparagraph; and

(2) a fine under this title or imprisonment for not more than six months, or both, in any other case.

(c) Exceptions.--Subsection (a) of this section does not apply with respect to conduct authorized--

(1) by the person or entity providing a wire or electronic communications service;

(2) by a user of that service with respect to a communication of or intended for that user; or

(3) in section 2703, 2704 or 2518 of this title.

TAB 8

“Computer Fraud and Abuse Act”

UNITED STATES CODE
TITLE 18. CRIMES AND CRIMINAL PROCEDURE
PART I--CRIMES
CHAPTER 47--FRAUD AND FALSE STATEMENTS

§ 1030. Fraud and related activity in connection with computers

(a) Whoever--

(1) having knowingly accessed a computer without authorization or exceeding authorized access, and by means of such conduct having obtained information that has been determined by the United States Government pursuant to an Executive order or statute to require protection against unauthorized disclosure for reasons of national defense or foreign relations, or any restricted data, as defined in paragraph y of section 11 of the Atomic Energy Act of 1954, with reason to believe that such information so obtained could be used to the injury of the United States, or to the advantage of any foreign nation willfully communicates, delivers, transmits, or causes to be communicated, delivered, or transmitted, or attempts to communicate, deliver, transmit or cause to be communicated, delivered, or transmitted the same to any person not entitled to receive it, or willfully retains the same and fails to deliver it to the officer or employee of the United States entitled to receive it;

(2) intentionally accesses a computer without authorization or exceeds authorized access, and thereby obtains--

(A) information contained in a financial record of a financial institution, or of a card issuer as defined in section 1602(n) of title 15, or contained in a file of a consumer reporting agency on a consumer, as such terms are defined in the Fair Credit Reporting Act (15 U.S.C. 1681 et seq.);

(B) information from any department or agency of the United States; or

(C) information from any protected computer if the conduct involved an interstate or foreign communication;

(3) intentionally, without authorization to access any nonpublic computer of a department or agency of the United States, accesses such a computer of that department or agency that is exclusively for the use of the Government of the United States or, in the case of a computer not exclusively for such use, is used by or for the Government of the United States and such conduct affects that use by or for the Government of the United States;

(4) knowingly and with intent to defraud, accesses a protected computer without authorization, or exceeds authorized access, and by means of such conduct furthers the intended fraud and obtains anything of value, unless the object of the fraud and the thing obtained consists only of the use of the computer and the value of such use is not more than \$5,000 in any 1-year period;

(5)(A) knowingly causes the transmission of a program, information, code, or command, and as a result of such conduct, intentionally causes damage without authorization, to a protected computer;

(B) intentionally accesses a protected computer without authorization, and as a result of such conduct, recklessly causes damage; or

(C) intentionally accesses a protected computer without authorization, and as a result of such conduct, causes damage;

(6) knowingly and with intent to defraud traffics (as defined in section 1029) in any password or similar information through which a computer may be accessed without authorization, if--

(A) such trafficking affects interstate or foreign commerce; or

(B) such computer is used by or for the Government of the United States;

(7) with intent to extort from any person, firm, association, educational institution, financial institution, government entity, or other legal entity, any money or other thing of value, transmits in interstate or foreign commerce any communication containing any threat to cause damage to a protected computer;

shall be punished as provided in subsection (c) of this section.

(b) Whoever attempts to commit an offense under subsection (a) of this section shall be punished as provided in subsection (c) of this section.

(c) The punishment for an offense under subsection (a) or (b) of this section is--

(1)(A) a fine under this title or imprisonment for not more than ten years, or both, in the case of an offense under subsection (a)(1) of this section which does not occur after a conviction for another offense under this section, or an attempt to commit an offense punishable under this subparagraph; and

(B) a fine under this title or imprisonment for not more than twenty years, or both, in the case of an offense under subsection (a)(1) of this section which occurs after a conviction for another offense under this section, or an attempt to commit an offense punishable under this subparagraph;

(2)(A) a fine under this title or imprisonment for not more than one year, or both, in the case of an offense under subsection (a)(2), (a)(3), (a)(5)(C), or (a)(6) of this section which does not occur after a conviction for another offense under this section, or an attempt to commit an offense punishable under this subparagraph; and

(B) a fine under this title or imprisonment for not more than 5 years, or both, in the case of an offense under subsection (a)(2), if--

(i) the offense was committed for purposes of commercial advantage or private financial gain;

(ii) the offense was committed in furtherance of any criminal or tortious act in violation of the Constitution or laws of the United States or of any State; or

(iii) the value of the information obtained exceeds \$5,000;

(C) a fine under this title or imprisonment for not more than ten years, or both, in the case of an offense under subsection (a)(2), (a)(3) or (a)(6) of this section which occurs after a conviction for another offense under this section, or an attempt to commit an offense punishable under this subparagraph; and

(3)(A) a fine under this title or imprisonment for not more than five years, or both, in the case of an offense under subsection (a)(4), (a)(5)(A), (a)(5)(B), or (a)(7) of this section which does not occur after a conviction for another offense under this section, or an attempt to commit an offense punishable under this subparagraph; and

(B) a fine under this title or imprisonment for not more than ten years, or both, in the case of an offense under subsection (a)(4), (a)(5)(A), (a)(5)(B), (a)(5)(C), or (a)(7) of this section which occurs after a

conviction for another offense under this section, or an attempt to commit an offense punishable under this subparagraph; and

(d) The United States Secret Service shall, in addition to any other agency having such authority, have the authority to investigate offenses under subsections (a)(2)(A), (a)(2)(B), (a)(3), (a)(4), (a)(5), and (a)(6) of this section. Such authority of the United States Secret Service shall be exercised in accordance with an agreement which shall be entered into by the Secretary of the Treasury and the Attorney General.

(e) As used in this section--

(1) the term "computer" means an electronic, magnetic, optical, electrochemical, or other high speed data processing device performing logical, arithmetic, or storage functions, and includes any data storage facility or communications facility directly related to or operating in conjunction with such device, but such term does not include an automated typewriter or typesetter, a portable hand held calculator, or other similar device;

(2) the term "protected computer" means a computer--

(A) exclusively for the use of a financial institution or the United States Government, or, in the case of a computer not exclusively for such use, used by or for a financial institution or the United States Government and the conduct constituting the offense affects that use by or for the financial institution or the Government; or

(B) which is used in interstate or foreign commerce or communication;

(3) the term "State" includes the District of Columbia, the Commonwealth of Puerto Rico, and any other commonwealth, possession or territory of the United States;

(4) the term "financial institution" means--

(A) an institution with deposits insured by the Federal Deposit Insurance Corporation;

(B) the Federal Reserve or a member of the Federal Reserve including any Federal Reserve Bank;

(C) a credit union with accounts insured by the National Credit Union Administration;

(D) a member of the Federal home loan bank system and any home loan bank;

(E) any institution of the Farm Credit System under the Farm Credit Act of 1971;

(F) a broker-dealer registered with the Securities and Exchange Commission pursuant to section 15 of the Securities Exchange Act of 1934;

(G) the Securities Investor Protection Corporation;

(H) a branch or agency of a foreign bank (as such terms are defined in paragraphs (1) and (3) of section 1(b) of the International Banking Act of 1978); and

(I) an organization operating under section 25 or section 25(a) of the Federal Reserve Act.

(5) the term "financial record" means information derived from any record held by a financial institution pertaining to a customer's relationship with the financial institution;

(6) the term "exceeds authorized access" means to access a computer with authorization and to use such access to obtain or alter information in the computer that the accesser is not entitled so to obtain or alter;

(7) the term "department of the United States" means the legislative or judicial branch of the Government or one of the executive departments enumerated in section 101 of title 5; and

(8) the term "damage" means any impairment to the integrity or availability of data, a program, a system, or information, that--

(A) causes loss aggregating at least \$5,000 in value during any 1-year period to one or more individuals;

(B) modifies or impairs, or potentially modifies or impairs, the medical examination, diagnosis, treatment, or care of one or more individuals;

(C) causes physical injury to any person; or

(D) threatens public health or safety; and

(9) the term "government entity" includes the Government of the United States, any State or political subdivision of the United States, any foreign country, and any state, province, municipality, or other political subdivision of a foreign country.

(f) This section does not prohibit any lawfully authorized investigative, protective, or intelligence activity of a law enforcement agency of the United States, a State, or a political subdivision of a State, or of an intelligence agency of the United States.

(g) Any person who suffers damage or loss by reason of a violation of this section may maintain a civil action against the violator to obtain compensatory damages and injunctive relief or other equitable relief. Damages for violations involving damage as defined in subsection (e)(8)(A) are limited to economic damages. No action may be brought under this subsection unless such action is begun within 2 years of the date of the act complained of or the date of the discovery of the damage.

(h) The Attorney General and the Secretary of the Treasury shall report to the Congress annually, during the first 3 years following the date of the enactment of this subsection, concerning investigations and prosecutions under subsection (a)(5).

TAB 9

Various Fraud Provisions: Fraud in Connection with Access Devices

UNITED STATES CODE
TITLE 18. CRIMES AND CRIMINAL PROCEDURE
PART I--CRIMES
CHAPTER 47--FRAUD AND FALSE STATEMENTS

§ 1029. Fraud and related activity in connection with access devices

(a) Whoever--

(1) knowingly and with intent to defraud produces, uses, or traffics in one or more counterfeit access devices;

(2) knowingly and with intent to defraud traffics in or uses one or more unauthorized access devices during any one-year period, and by such conduct obtains anything of value aggregating \$1,000 or more during that period;

(3) knowingly and with intent to defraud possesses fifteen or more devices which are counterfeit or unauthorized access devices;

(4) knowingly, and with intent to defraud, produces, traffics in, has control or custody of, or possesses device-making equipment;

(5) knowingly and with intent to defraud effects transactions, with 1 or more access devices issued to another person or persons, to receive payment or any other thing of value during any 1-year period the aggregate value of which is equal to or greater than \$1,000;

(6) without the authorization of the issuer of the access device, knowingly and with intent to defraud solicits a person for the purpose of--

(A) offering an access device; or

(B) selling information regarding or an application to obtain an access device;

(7) knowingly and with intent to defraud uses, produces, traffics in, has control or custody of, or possesses a telecommunications instrument that has been modified or altered to obtain unauthorized use of telecommunications services;

(8) knowingly and with intent to defraud uses, produces, traffics in, has control or custody of, or possesses a scanning receiver;

(9) knowingly uses, produces, traffics in, has control or custody of, or possesses hardware or software, knowing it has been configured to insert or modify telecommunication identifying information associated with or contained in a telecommunications instrument so that such instrument may be used to obtain telecommunications service without authorization; or

(10) without the authorization of the credit card system member or its agent, knowingly and with intent to defraud causes or arranges for another person to present to the member or its agent, for payment, 1 or more evidences or records of transactions made by an access device;

shall, if the offense affects interstate or foreign commerce, be punished as provided in subsection (c) of this section.

(b)(1) Whoever attempts to commit an offense under subsection (a) of this section shall be subject to the same penalties as those prescribed for the offense attempted.

(2) Whoever is a party to a conspiracy of two or more persons to commit an offense under subsection (a) of this section, if any of the parties engages in any conduct in furtherance of such offense, shall be fined an amount not greater than the amount provided as the maximum fine for such offense under subsection (c) of this section or imprisoned not longer than one-half the period provided as the maximum imprisonment for such offense under subsection (c) of this section, or both.

(c) Penalties.--

(1) Generally.--The punishment for an offense under subsection (a) of this section is--

(A) in the case of an offense that does not occur after a conviction for another offense under this section--

(i) if the offense is under paragraph (1), (2), (3), (6), (7), or (10) of subsection (a), a fine under this title or imprisonment for not more than 10 years, or both; and

(ii) if the offense is under paragraph (4), (5), (8), or (9), of subsection (a), a fine under this title or imprisonment for not more than 15 years, or both;

(B) in the case of an offense that occurs after a conviction for another offense under this section, a fine under this title or imprisonment for not more than 20 years, or both; and

(C) in either case, forfeiture to the United States of any personal property used or intended to be used to commit the offense.

(2) Forfeiture procedure.--The forfeiture of property under this section, including any seizure and disposition of the property and any related administrative and judicial proceeding, shall be governed by section 413 of the Controlled Substances Act, except for subsection (d) of that section.

(d) The United States Secret Service shall, in addition to any other agency having such authority, have the authority to investigate offenses under this section. Such authority of the United States Secret Service shall be exercised in accordance with an agreement which shall be entered into by the Secretary of the Treasury and the Attorney General.

(e) As used in this section--

(1) the term "access device" means any card, plate, code, account number, electronic serial number, mobile identification number, personal identification number, or other telecommunications service, equipment, or instrument identifier, or other means of account access that can be used, alone or in conjunction with another access device, to obtain money, goods, services, or any other thing of value, or that can be used to initiate a transfer of funds (other than a transfer originated solely by paper instrument);

(2) the term "counterfeit access device" means any access device that is counterfeit, fictitious, altered, or forged, or an identifiable component of an access device or a counterfeit access device;

(3) the term "unauthorized access device" means any access device that is lost, stolen, expired, revoked, canceled, or obtained with intent to defraud;

(4) the term "produce" includes design, alter, authenticate, duplicate, or assemble;

(5) the term "traffic" means transfer, or otherwise dispose of, to another, or obtain control of with intent to transfer or dispose of;

(6) the term "device-making equipment" means any equipment, mechanism, or impression designed or primarily used for making an access device or a counterfeit access device;

(7) The term "credit card system member" means a financial institution or other entity that is a member of a credit card system, including an entity, whether affiliated with or identical to the credit card issuer, that is the sole member of a credit card system;

(8) the term "scanning receiver" means a device or apparatus that can be used to intercept a wire or electronic communication in violation of chapter 119 or to intercept an electronic serial number, mobile identification number, or other identifier of any telecommunications service, equipment, or instrument

(9) the term "telecommunications service" has the meaning given such term in section 3 of title I of the Communications Act of 1934 (47 U.S.C. 153);

(10) the term "facilities-based carrier" means an entity that owns communications transmission facilities, is responsible for the operation and maintenance of those facilities, and holds an operating license issued by the Federal Communications Commission under the authority of title III of the Communications Act of 1934; and

(11) the term "telecommunication identifying information" means electronic serial number or any other number or signal that identifies a specific telecommunications instrument or account, or a specific communication transmitted from a telecommunications instrument.

(f) This section does not prohibit any lawfully authorized investigative, protective, or intelligence activity of a law enforcement agency of the United States, a State, or a political subdivision of a State, or of an intelligence agency of the United States, or any activity authorized under chapter 224 of this title. For purposes of this subsection, the term "State" includes a State of the United States, the District of Columbia, and any commonwealth, territory, or possession of the United States.

(g)(1) It is not a violation of subsection (a)(9) for an officer, employee, or agent of, or a person engaged in business with, a facilities-based carrier, to engage in conduct (other than trafficking) otherwise prohibited by that subsection for the purpose of protecting the property or legal rights of that carrier, unless such conduct is for the purpose of obtaining telecommunications service provided by another facilities-based carrier without the authorization of such carrier.

(2) In a prosecution for a violation of subsection (a)(9), (other than a violation consisting of producing or trafficking) it is an affirmative defense (which the defendant must establish by a preponderance of the evidence) that the conduct charged was engaged in for research or development in connection with a lawful purpose.

Various Fraud Provisions: Fraud by Wire, Radio, or Television

UNITED STATES CODE
TITLE 18. CRIMES AND CRIMINAL PROCEDURE
PART I--CRIMES
CHAPTER 63--MAIL FRAUD

§ 1343. Fraud by wire, radio, or television

Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, transmits or causes to be transmitted by means of wire, radio, or television communication in interstate or foreign commerce, any writings, signs, signals, pictures, or sounds for the purpose of executing such scheme or artifice, shall be fined under this title or imprisoned not more than five years, or both. If the violation affects a financial institution, such person shall be fined not more than \$1,000,000 or imprisoned not more than 30 years, or both.

Various Fraud Provisions: Bank Fraud

UNITED STATES CODE
TITLE 18. CRIMES AND CRIMINAL PROCEDURE
PART I--CRIMES
CHAPTER 63--MAIL FRAUD

§ 1344. Bank fraud

Whoever knowingly executes, or attempts to execute, a scheme or artifice--

(1) to defraud a financial institution; or

(2) to obtain any of the moneys, funds, credits, assets, securities, or other property owned by, or under the custody or control of, a financial institution, by means of false or fraudulent pretenses, representations, or promises;

shall be fined not more than \$1,000,000 or imprisoned not more than 30 years, or both.

TAB 10

948 F.Supp. 923 (ND Cal. 1996)

SEGA ENTERPRISES LTD; SEGA OF AMERICA, INC, Plaintiffs,

v.

MAPHIA, a business of unknown structure; PARSAC, a business of unknown structure; PSYCHOSIS, a business of unknown structure; CHAD SCHERMAN aka CHAD SHERMAN aka "BRUJJO DIGITAL," and DOES 2-6 aka "OPERATOR," "FIREHEAD," "LION," "HARD CORE," "CANDYMAN," all individually and d/b/a MAPHIA and PARSAC; HOWARD SILBERG by his mother and next friend Ilene Silberg, aka "CAFFEINE," and DOES 14-18 aka "APACHE," "MAELSTROM," "GAZZER," "PARANOID/CHRYSEIS," "DOOM" all individually and d/b/a PSYCHOSIS and PARSAC; DOES 7-12; DOES 19-25, Defendants.

NO. C 93-04262 CW

ORDER GRANTING SUMMARY ADJUDICATION OF LIABILITY AND A PERMANENT INJUNCTION WITH RESPECT TO DEFENDANT SHERMAN

Plaintiffs Sega Enterprises, Ltd. and Sega of America, Inc., (collectively "Sega") filed this action for copyright infringement under 17 U.S.C. §§101 *et seq.*, federal trademark infringement under 15 U.S.C. §§1051 *et seq.*, federal unfair competition for false designation of origin under 15 U.S.C. §1125 (a), California trade name infringement under California Business and Professions Code §§ 14401 *et seq.* and California unfair competition under California Business and Professions Code §§14210, 17200-17203 against Defendant Chad Sherman and several other individuals operating on-line bulletin boards, and MAPHIA and other bulletin boards as businesses of unknown structure.[\[1\]](#)

This Court has jurisdiction over the causes of action arising under federal law pursuant to 28 U.S.C. §1338 (a), and has jurisdiction over the state causes of action pursuant to 28 U.S.C. §§1338(b). Venue is proper in the federal district court where certain Defendants reside and where the alleged acts of trademark and copyright infringement occurred. 28 U.S.C. §§1391(b) and (c). Venue in the instant suit is proper in the Northern District of California.

After careful consideration of the parties' papers and the record as a whole and good cause appearing, the Court GRANTS summary judgment regarding Sherman's liability for copyright infringement, federal trademark infringement, federal unfair competition for false designation of origin, California trade name infringement and California unfair competition. The Court also GRANTS Sega's request for a permanent injunction prohibiting further copying of SEGA games by way of the MAPHIA electronic bulletin board, or any bulletin board run by Sherman.

STATEMENT OF FACTS

I. Sega's business

Sega [\[2\]](#) is a major manufacturer and distributor of computer video game systems and computer video game programs which are sold under the SEGA logo, its registered trademark. (Federal Registration No. 1,566,116, issued November 14, 1989). As part of its development process, Sega takes care to ensure the quality and reliability of the video game programs and products sold under SEGA trademarks.

Sega also owns the copyright for the game programs that Sega develops and has federal copyright registrations for several video games, including Jurassic Park and Sonic Spinball.

The Sega game system consists of two components, the base unit game console and software stored on video game cartridges which are inserted into the base unit. The base unit contains a microcomputer which, when connected to a cartridge and a television, permits an individual to play a video game stored on the

inserted cartridge. The cartridge format is not susceptible to breakdown or erasure. Defective Sega cartridges are replaced by Sega.

Sega's game system is designed to permit the user only to play video game programs contained in Sega cartridges. The system does not permit the copying of video game programs. Sega does not authorize the copying or distribution of its video game programs on other storage media such as floppy disks or hard disks.

Sega takes steps to keep its methods of developing video game programs, its works-in-progress, and the codes of its released products confidential, and the employees and contractors who work with Sega sign non-disclosure agreements regarding their work. Video game programs which are in development are referred to as "pre-release" programs. During the development period, pre-release software may be stored on cartridges, floppy disks or hard disks for internal use by Sega. Upon completion of the program, however, the program is distributed only on cartridges.

II. MAPHIA Bulletin Board

Sherman is the system operator for MAPHIA, an electronic bulletin board. An electronic bulletin board ("BBS") consists of electronic storage media, such as computer memories or hard disks, which are connected to telephone lines by modem devices, and are controlled by a computer. Users of BBSs can transfer information from their own computers to the storage media on the BBS by a process known as "uploading." Users can also retrieve information from the BBS to their own computer memories by a process known as "downloading." Video game programs, such as Sega's video game programs, are among the kinds of information that can be transferred in these ways.

The software and computer hardware Sherman used to run MAPHIA is owned by him and located at his residence in San Francisco, California. The MAPHIA bulletin board is open to the public and has approximately 400 users who routinely download and upload files from and to the MAPHIA BBS. The users of this BBS are identified by a handle and a password. A handle is a pseudonym by which individuals are known to other users of the system. The password is not displayed to other users and is known only to the system operator and the authorized user.

The evidence shows that "Brujjo Digital" is the alias used by Sherman as the system operator of the MAPHIA BBS, and in communicating with others. For example, Sherman admitted that he was the system operator of the MAPHIA BBS, and the MAPHIA BBS indicates the Brujjo Digital is its operator.

III. Evidence collected from the seizure

This action was initiated after Sega allegedly received an anonymous tip that Sherman was a operating computer BBS which contained and distributed pirated and unauthorized versions of Sega's video game software. Sega collected evidence of these activities by having a Sega employee gain access to the MAPHIA BBS under a pseudonym, using information supplied by an authorized user who was an informant.

Pursuant to the *ex parte* Temporary Restraining Order and Seizure Order issued by Judge Fern M. Smith of this Court on December 9, 1993, a search of Sherman's premises was conducted. Pursuant to the Order, Sherman's computer and memory devices were seized, the memory was copied, and the computers and other seized hardware were returned to Sherman, with the Sega games deleted.

Data from the MAPHIA BBS indicates that it is linked to another BBS called PSYCHOSIS, whose system operator is called Caffeine. This data also indicates that Sherman and the MAPHIA BBS are part of or linked to a network of BBSs, called PARSAC (also spelled "PARSEC" by Sherman), for business purposes. A newsletter displayed on the MAPHIA BBS refers to MAPHIA as the "WorldHeadquarters" for a group called "PARSEC" of which PSYCHOSIS is the "USHQ." Sherman is the "acting world leader" of PARSAC. A message file located on Sherman's computer, authored by Brujjo Digital, states:

NOTES WORTHY OF MENTION:

. . . You probably noticed that I am taking over the World Leader Position and that's because I felt like I pulled alot of this together with ALOT ALOT of help from Caffeine ...

. . .

PARSEC VOICE MAIL BOXES:

I'm setting up a VMB system at my house for PARSEC ONLY! ... the kewl thing about it is that the VMB can page myself and Caffeine when an original game is ready for release or anything important comes up.

. . .

ADVERTISING CAMPAIGN:

As you know we have PARSEC TRADING CO. as our business that sells everything from Copiers to ... I'll have some Advertisements ready by the time I install Caffeine's REXX DOOR to handle Customer's Orders online at the !MAPHIA! like the system Caffeine runs on Psychosis . . .

. . .

NEW MEMBERS:

. . . we are selling ... Super Magic Drivers ... but me and Caffeine will handle all the business side of that ... At the time it was seized, the MAPHIA BBS contained unauthorized copies of 12 Sega games developed by Sega, ten Sega-licensed games, and six Sega pre-release or "beta" version games, developed in-house by Sega. The copies of Sega's programs uploaded to and downloaded from the MAPHIA BBS are substantially similar to Sega's video game programs as stored in the cartridges sold by Sega. Prior to the seizure, each of the Sega-developed and beta version games on the MAPHIA BBS was available for downloading by MAPHIA users who access the board through their own computers by modem telephone connections. Sega had U.S. copyright registration in at least two of the games found on the MAPHIA BBS, namely Jurassic Park and Sonic Spinball.

Sega games are generally listed on the MAPHIA BBS in a file area entitled "<<< !MAPHIA! >>> SEGA CONSOLES <<<" The games are identified by a "file descriptor" which includes the title of the game, the manufacturer, and either the word "SEGA" or "Sega," the same word that is in the SEGA registered trademark. Additionally, the SEGA trademark appears on the screen whenever a Sega game which has been downloaded from the MAPHIA BBS is subsequently played. Sherman acknowledged that the SEGA trademark is displayed when the downloaded games are played.

The directory of video game programs available on MAPHIA also contains numerous references to video game programs containing "patches" or "fixes." These words refer to user to user-introduced changes to problems which may have been introduced in the copying process or which existed in beta version games.

Printouts of the data on Sherman's BBS seized pursuant to this Court's Order and on-line data captured from Sherman's BBS show that the uploading and downloading of unauthorized copies of Sega's copyrighted video games was known to Sherman. Sherman acknowledges that users of the MAPHIA bulletin board were allowed to upload and download Sega games with the authorized password. A screen printout of user uploading and downloading statistics from his MAPHIA BBS shows that Sherman tracked, or at least had the ability to track, user uploads and downloads. Additionally, another message authored by Brujjo Digital and located on Sherman's BBS states:

Please UPLOAD *ALL* the missing CONSOLE Files NOT HERE from the time I closed the !MAPHIA! Oct 17th until up to now!! Time to get some free credits for someone if you get them all in here and get me caught up.

Sherman also sold video game copiers, referred to as "Super Magic Drives" ("copiers"), through the MAPHIA BBS in collaboration with the PSYCHOSIS BBS, collectively known as PARSAC. Sherman's business plan as described by his alias "Brujjo Digital," states:

As you know we have PARSEC TRADING CO. as our business that sells everything from Copiers to Modems to Hard Drives to Calling Cards (off the record, hehe), and even Pentium Chips now. So, the next step is a MEDIA BLITZ! ... I'll have some Advertisements ready ...

Also, we are selling Super Wild Cards, Pro Fighter Q's and Super Magic Drives for AKIRA and that part of PARSEC will be dedicated for him but me and CAFFEINE will handle all the business side of that and paying him the money and dealing with the customers, etc.

According to a data file found on Howard Silberg's computer, Parsec Trading has the following policy:

As You know, if you read the policies of PARSEC TRADING, each customer receives free-downloads up to ten (10) megabytes. This is so you can use your back-up unit and enjoy it! After your ten megabytes has been used up, you can donate \$35 per month for a month of free-downloads, \$200 for a year of free-downloads, or \$500 for unlimited free-downloads.

A copier is necessary to play games which have been downloaded from the BBSs. The Super Magic Drive copier consists of a connector which plugs into the video game console, a receptacle which accepts video game cartridges, a main unit which contains a random access memory (RAM) to store games, and a floppy disk drive. A MAPHIA BBS user can download video programs through his or her computer onto a floppy disk and make copies with his or her computer or play those game programs through the adaptor drive. To play a downloaded game, the user can choose the "run program" option and run the video game program from the floppy disk without a video game cartridge.

The adaptor drive also allows the user to copy the contents of a game cartridge onto a floppy disk. The user plugs the video game copier into the game console and places a video game cartridge into the receptacle of the video game copier. The user then turns on the adaptor drive. Through a menu screen, the user can select the "dump" option which will permit the user to copy the contents of the cartridge to a floppy disk.

Sega has attempted to obtain additional information from Sherman through deposition and discovery. Sherman was deposed on March 1, 1994, at which time he refused to answer substantive questions by invoking his Fifth Amendment privilege.

EVIDENTIARY OBJECTIONS

I. Sega's Motion to Strike Peterson's First Declaration

Sega moves to strike Peterson's Declaration in Support of Opposition to Preliminary Injunction ("First Peterson Decl.") [3] arguing, among other things, that Peterson is not qualified as an expert regarding the subject matter of the declaration. Because Peterson's expertise is limited to computers generally and computer law, [4] the Court will disregard any opinions expressed outside this field. *Lummeta v. U.S. Robotics*, 824 F.2d 768, 771 (9th Cir. 1987) (exclusion of expert testimony is justified where foundational facts demonstrating relevance or qualification are not established.) Further, the Court finds that because the only opinion expressed with respect to computers generally relates to alteration of files on another person's computer which was seized by Sega, and because Sherman has not alleged similar alteration of files in his case, the Court finds this opinion irrelevant. The Court GRANTS Sega's motion to strike Peterson's First Declaration.

II. Sherman's Objections to Sega's Entry into MAPHIA

A. Unclean Hands

Sherman complains that Yang gained access to MAPHIA under a pseudonym, and argues that such access amounts to unclean hands which should prevent summary judgment. The Court disagrees.

Yang's access to MAPHIA under the informant's pseudonym was consistent with all users' anonymous access. Thus, no misrepresentation occurred. Even characterized as misrepresentation, however, such actions do not provide a defense to copyright or trademark infringement. *See, e.g., Reebok Int'l Ltd. v. Jemmett*, 6 U.S.P.Q.2d 1715, 1717 (S.D. Cal. 1988) (no unclean hands where Reebok employee falsely represented name and occupation to get evidence of infringement).

B. Violation of 18 U.S.C. §2701(a)

Sherman argues that Sega's access to the MAPHIA BBS through use of a pseudonym constitutes a violation of the Stored Wire and Electronic Communications and Transactional Records Act, 18 U.S.C. §2701(a). Sherman argues that, because a password in a security system is intended to protect the system itself as well as the user, the use of that password by someone other than the original user will compromise the security of the system and violate the intent of §2701, which is to make systems "more secure." Declaration of Richard Peterson in Support of Defendant Sherman's Opposition to Summary Judgment ("Second Peterson Decl.") ¶ 14.

The Electronic Communications and Transactional Records Act makes it illegal to "intentionally access without authorization a facility through which an electronic communication service is provided." 18 U.S.C. §2701(a). The Act contains an exception for access which is authorized by a user of an electronic service with respect to a communication of or intended for that user. 18 U.S.C. §2701(c)(2).

Because the MAPHIA BBS is open to the public, and normally accessed by use of an alias or pseudonym, it would appear that Sega's employee's pseudonymous access was authorized. Thus, Sega did not violate the statute.

To the extent Sherman argues that the password system is intended to protect the system, this argument is unpersuasive. There is no evidence that the intent of requiring passwords is to protect the system from use by those other than the original user, nor does Sherman cite any support for his argument that all BBSs such as MAPHIA are closed and passwords are not transferable under industry practice. Sherman has also not provided any evidence that users of the MAPHIA system were informed or understood that passwords were not to be used by authorized third parties. Because Sherman has not provided any evidence or authority to support his argument, it must fail.

Furthermore, the Sega employee's access to or communication with the BBS was authorized directly or indirectly by a valid MAPHIA user. As such, it fits the exception carved out in Section 2701(c) and, therefore, no violation of 18 U.S.C. § 2701(a) took place.

C. Violation of 18 U.S.C. § 2702

Sherman also argues that Sega violated 18 U.S.C. § 2702 by accessing the private e-mail of MAPHIA users and publishing parts of the e-mail in the Declaration of Jane Quayle Keene. Section 2702 provides that:

(1) a person or entity providing an electronic communication service to the public shall not knowingly divulge to another person or entity the contents of a communication while in electronic storage by that service; and

(2) a person or entity providing remote computing service to the public shall not knowingly divulge to any person or entity the contents of any communication which is carried or maintained on that service.

On its face, the language of the statute does not apply to Sega, because Sega never provided an electronic communication service to the public; it never ran the MAPHIA BBS as a BBS. Additionally, the temporary restraining order did authorize the seizure of documents or correspondence in Sherman's control that relate to the reproduction of the alleged trademarks or copyrighted works, such as the e-mail in question.

STANDARD FOR GRANTING SUMMARY JUDGMENT

Summary judgment is properly granted when no genuine and disputed issues of material fact remain, and when, viewing the evidence most favorably to the non-moving party, the movant is clearly entitled to prevail as a matter of law. Fed. R. Civ. P. 56; *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23 (1986); *Eisenberg v. Insurance Co. of North America*, 815 F.2d 1285, 1288-89 (9th Cir. 1987).

The moving party bears the burden of showing that there is no material factual dispute. Therefore, the Court must regard as true the opposing party's evidence, if supported by affidavits or other evidentiary material. *Celotex*, 477 U.S. at 324; *Eisenberg*, 815 F.2d at 1289. The Court must draw all reasonable inferences in favor of the party against whom summary judgment is sought. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986); *Intel Corp. v. Hartford Accident and Indem. Co.*, 952 F.2d 1551, 1558 (9th Cir. 1991).

Material facts which would preclude entry of summary judgment are those which, under applicable substantive law, may affect the outcome of the case. The substantive law will identify which facts are material. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). If the party moving for summary judgment meets its initial burden of identifying for the Court the portions of materials on file which it believes demonstrate the absence of any genuine issue of material fact, the nonmoving party may not rely on mere allegations in the pleadings in order to preclude summary judgment. *T.W. Electrical Service, Inc. v. Pacific Electrical Contractors Assn.*, 809 F.2d 626, 630 (9th Cir. 1987).

DISCUSSION

I. Copyright Infringement

Sega contends that Sherman is liable for copyright infringement under direct, contributory, and vicarious liability theories. Sherman admits that users of the MAPHIA BBS were allowed to upload and download Sega games with the authorized password, but maintains that this copying fits under the fair use defense because it was nothing more than the use of the games at people's homes, and that any copyright violation was *de minimis*.

A. Direct Infringement

To establish a *prima facie* case of direct copyright infringement, Sega must prove (1) ownership of a valid copyright in the infringed work, and (2) "copying" by the defendant. See *Sid & Marty Kroft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1162 (9th Cir. 1977); [Religious Technology Center v. Netcom On-line Communication Services, Inc.](#), 907 F. Supp. 1361, 1366-67 (N.D. Cal. 1995).

A certificate of copyright registration establishes a presumption that the copyright is valid. 17 U.S.C. § 410(c). Sega has submitted several certificates of copyright registration for its video games, including certificates for Jurassic Park and Sonic Spinball. These certificates establish a presumption that Sega owns a valid copyright in those video game programs. *Apple Computer, Inc. v. Formula Int'l Inc.*, 725 F.2d 521, 523 (9th Cir. 1984).

The Ninth Circuit has held that "copying," for the purposes of copyright law, occurs when a computer program is transferred from a permanent storage device to a computer's random access memory. *Mai Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 529 (9th Cir. 1993), *cert. dismissed*, 501 U.S. 1033 (1994). In this case, copies were made when the Sega game files were uploaded to or downloaded from Sherman's BBS. Thus, copying by someone is established.

This does not end the inquiry, however, because it does not establish whether Sherman, as the BBS operator, is directly liable for the copying. In *Netcom*, the court found that the Internet provider was not directly liable for copyright infringement of a copyrighted work posted and distributed through its system. [Netcom](#), 907 F. Supp. at 1368-70. The *Netcom* court held that "[a]lthough copyright is a strict liability statute, there should be some element of volition or causation which is lacking where a defendant's system

is merely used to create a copy by a third party." *Id.* at 1370. "Where the infringing subscriber is clearly directly liable for the same act, it does not make sense to adopt a rule that could lead to the liability of countless parties whose role in the infringement is nothing more than setting up and operating a system that is necessary for functioning of the Internet," even where the Internet provider has knowledge of potential copyright infringement by its subscribers. *Id.* at 1372-73.

While Sherman's actions in this case are more participatory than those of the defendants in [Netcom](#), the Court finds *Netcom* persuasive. Sega has not shown that Sherman himself uploaded or downloaded the files, or directly caused such uploading or downloading to occur. The most Sega has shown is that Sherman operated his BBS, that he knew infringing activity was occurring, and that he solicited others to upload games. However, whether Sherman knew his BBS users were infringing on Sega's copyright, or encouraged them to do so, has no bearing on whether Sherman directly caused the copying to occur. *Id.* at 1372. Furthermore, Sherman's actions as a BBS operator and copier seller are more appropriately analyzed under contributory or vicarious liability theories. Therefore, because Sega has not shown that Sherman directly caused the copying, Sherman cannot be liable for direct infringement.^[5]

B. Contributory Infringement

Just because Sherman is not liable for direct infringement, however, does not mean that he is free from liability. Although the Copyright Act does not expressly impose liability on anyone other than direct infringers, courts have long recognized that in certain circumstances, liability for contributory infringement will be imposed. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996) (citing *Sony v. Universal City*, 464 U.S. 417, 435 (1984)). Contributory copyright infringement stems from the notion that one who directly contributes to another's infringement should be held liable. *Id.* at 264. Such liability is established where the defendant, "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another." *Id.* (quoting *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2nd Cir. 1971)); see also [Religious Technology Ctr. v. NetcomOn-Line Communication Serv., Inc.](#), 907 F. Supp. 1361, 1372 (N.D. Cal. 1995) (quoting *Gershwin*, 443 F.2d at 1162).

To impose liability on Sherman for contributory infringement, Sega must first establish that the users of Sherman's MAPHIA BBS directly infringed Sega's copyright. Second, Sega must establish that (i) with knowledge of the users' infringing activity, (ii) Sherman induced, caused, or materially contributed to their infringing activity.

1. Direct infringement by MAPHIA BBS users

As discussed above, Sega has established that copies were made when unauthorized copies of Sega game files were downloaded from, or uploaded to, Sherman's BBS users. Therefore, Sega has established direct copyright infringement by Sherman's BBS users.

2. Sherman's knowledge of his users' activities

The standard for the knowledge requirement is objective, and is satisfied where the defendant knows or has reason to know of the infringing activity. *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1997) (quoting *Gershwin*, 443 F.2d at 1162.) Here, it is undisputed that Sherman had knowledge that his users were copying the games. Sherman admits that users were allowed to upload and download Sega games from his MAPHIA BBS. Moreover, evidence of a screen printout of user uploading and downloading statistics from the MAPHIA BBS shows that Sherman tracked, or at least had the ability to track, user uploads and downloads. Thus, Sega has established that Sherman knew of the infringing conduct by MAPHIA BBS users.

3. Sherman's participation in his users' activities

The Ninth Circuit has recently stated that "providing the site and facilities for known infringing activity is sufficient to establish contributory liability," at least in a swap meet context. *Fonovisa*, 76 F.2d at 264. In

this case, Sherman provided the BBS as a central depository site for the unauthorized copies of games, and allowed subsequent distribution of the games by user downloads. He provided the facilities for copying the games by providing, monitoring, and operating the BBS software, hardware, and phone lines necessary for the users to upload and download games.

However, even under an alternative and higher standard of "substantial participation," Sherman is liable. Under this standard, Sherman is only liable if he knew of the users' infringing actions, and yet substantially participated by inducing, causing or materially contributing to the users' infringing conduct. [Netcom](#), 907 F.Supp. at 1382. In this case, Sherman did more than provide the site and facilities for the known infringing conduct. He actively solicited users to upload unauthorized games, and provided a road map on his BBS for easy identification of Sega games available for downloading. Additionally, through the same MAPHIA BBS medium, he offered copiers for sale to facilitate playing the downloaded games. Another court has found that the sale of such copying devices constitutes contributory infringement. *Nintendo of America, Inc. v. Computer and Entertainment, Inc.*, 1996 WL 511619, *4 (W.D. Wash. 1996). Moreover, Sherman's business, Parsec Trading, had a policy of providing limited free downloading of games and thereafter selling downloading privileges to customers who had purchased copiers. Thus, Sherman's role in the copying, including providing facilities, direction, knowledge, encouragement, and seeking profit, amounts to a *prima facie* case of contributory copyright infringement.

Because the Court finds that Sega has established a *prima facie* case of contributory copyright infringement liability, it need not address whether Sherman is also liable under the theory of vicarious liability.

C. Fair Use Defense

Sherman argues that the copying done by the MAPHIA BBS users was fair because there is no evidence that the users went beyond simply playing the games in their own homes, nor any evidence that the users further distributed the games.

Under the fair use defense, there is no infringement, even where a person violates one of the copyright holder's exclusive rights, if that person's use is a fair one. 17 U.S.C. § 107. In determining whether a use is fair, the following four, non-exclusive factors are considered: the purpose and character of the use; the nature of the copyrighted work; the amount and substantiality of the copyrighted work used; and the effect of the use upon the potential market for the copyrighted work. Title 17 U.S.C. § 107; *Campbell v. Acuff-Rose Music, Inc.*, --- U.S. ---, 114 S. Ct. 1164, 1170-71 (1994). Because fair use is an affirmative defense, Sherman carries the burden of demonstrating it. *Acuff-Rose*, 114 S. Ct. at 1177.

In considering this defense, the Court will consider whether Sherman has shown that either his actions or the users' actions constitute fair use. If the users' actions constitute fair use, they will not be considered direct infringers. Then, Sherman cannot be contributorily liable because contributory infringement requires direct infringement by someone. *Fonovisa*, 76 F.3d at 264. If the users' actions do not constitute fair use, Sherman may still avoid liability if his contributing actions qualify as fair use. [Netcom](#), 907 F.Supp. at 1378.

1. Purpose and character of use

With respect to Sherman's activities, the evidence shows that Sherman encouraged uploading and downloading of Sega's games in order to induce sales of copiers. Such a use is clearly commercial. Sherman intended to profit directly from the content of the information made available on his BBS because his copier customers could use the game files to play the games rather than purchase Sega game cartridges. This distinguishes Sherman from the Internet provider in [Netcom](#) who did not gain anything from the content of the information available to subscribers. *Id.* at 1379 (fact that the Internet provider did not directly gain anything from the content of the information available to its subscribers on the Internet helps weigh this factor in its favor despite commercial character of Internet provider's use). This factor weighs against a finding of fair use with respect to Sherman's activities.

The BBS users were encouraged to download games from the BBS in order to avoid having to buy video game cartridges from Sega. Such a purpose weighs against the fair use defense. *See American Geophysical Union v. Texaco, Inc.*, 802 F.Supp. 1, 14-16 (S.D.N.Y. 1992), *aff'd* 60 F.3d 913 (2nd Cir. 1994), *cert. dismissed* 116 S. Ct. 592 (1995) (no fair use where scientists photocopied publication to avoid cost of purchasing additional copies from publisher). Because the BBS users were able to avoid purchasing the Sega cartridges, their copying is distinguished from that in *Lewis Galoob*, where the users did have to purchase an authorized game cartridge. *See Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 964 F.2d 965, 970 (9th Cir. 1992), *cert. denied*, 507 U.S. 985 (1993) (fair use found where users necessarily had to purchase Nintendo's game cartridges in order to use a device called the "Game Genie," which altered features of Nintendo's copyrighted games during home play.)

Furthermore, this case is distinguishable from *Sega Enter., Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992), where the court found reverse engineering to be a fair use, in part because the reverse engineering promoted a growth in creative expression. *Id.* at 1523. In contrast, in this case, there is no evidence of any actual reverse engineering or any intent on the part of the users to do so. Thus, the absence of evidence that the copying was creative weighs against a finding of fair use. *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1336 (9th Cir. 1995), *cert. denied* 116 S. Ct. 1015 (1996).

2. Nature of the copyrighted work

This factor provides that the closer the copyrighted work is to the core of intended copyright protection, the more difficult it is to establish the fair use defense. *Acuff-Rose*, 114 S. Ct. at 1175. In assessing this factor, one consideration is whether the copyrighted work is informational or creative. *Netcom*, 907 F.Supp. at 1379. Because the Sega video games are for entertainment uses and involve fiction and fantasy, which are more creative than informational, consideration of the nature of the copyrighted work weighs against a finding of fair use. *See Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 563 (1985); *Stewart v. Abend*, 495 U.S. 207, 237-38 (1990); *Playboy Enter. Inc. v. Frena*, 839 F.Supp. 1552, 1558 (M.D.Fla. 1993).

3. Extent of the work copied

The third factor concerns both the percentage of the original work that was copied, and whether what was copied constitutes the "heart" of the copyrighted work. *Netcom*, 907 F. Supp. at 1379 (citing *Harper & Row*, 471 U.S. at 564-65). Although not a per se rule, the copying of an entire work will ordinarily militate against a finding of fair use. *Id.* (citing *Sony*, 464 U.S. at 449-450).

Here, Sega has shown that the BBS users copied virtually entire copyrighted works by way of their uploads and downloads of Sega games, and that Sherman made these games available through his BBS. While this does not per se preclude a finding of fair use, Sherman has not shown any public benefit nor explanation for the complete copying. *Cf. Sega Enter., Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1526-27 (9th Cir. 1992) (fair use found despite total copying where total copying was necessary to carry out the defendants' beneficial purpose of reverse engineering software to get at the ideas found in the source code). Therefore, this factor weighs against a finding of fair use.

4. Effect of the use upon the market

The fourth and final statutory factor concerns whether unrestricted and widespread conduct of the sort engaged in by the defendant would result in a substantially adverse impact on the potential market for the copyrighted work. *Campbell*, 114 S. Ct. at 1177. While all factors must be weighed together, *id.* at 1171, the fourth factor is the most important consideration. *Los Angeles News Service v. Tullo*, 973 F.2d 791, 798 (9th Cir. 1992) (citing *Harper & Row*, 471 U.S. at 566).

By utilizing the MAPHIA BBS, users are able to download and distribute one or more copies of Sega video game programs from a single copy of a Sega video game program on the MAPHIA BBS, and thereby obtain unauthorized copies of Sega's copyrighted video game programs.

This unauthorized copying of Sega video game programs works to decrease Sega's sales of video game cartridges. The Super Magic Drives could be used for copying Sega's video game programs onto disks. Sherman admits users were allowed to upload and download Sega games through the MAPHIA BBS onto magnetic media like floppy disks, and that users who had Sega games on disks could play them directly using the copiers. The copiers sold and advertised by Sherman through his business Parsec Trading came with downloading privileges to the purchaser, giving the purchaser the ability to copy Sega copyrighted video game programs from the MAPHIA BBS. Copier purchasers were thus able to duplicate and play the games without purchase of Sega game cartridges. The copiers in conjunction with the MAPHIA BBS supplanted the need to purchase the genuine Sega video games.

While Sherman contends that the copiers have other non-infringing uses, the Court is unpersuaded by this argument. It is unlikely that customers would pay \$350 to back up the Sega game cartridges, which are not susceptible to breakdown and which sell for between \$30 and \$70. The Court finds that the only substantial use of the copiers is to avoid having to buy video game cartridges from Sega by copying the video game program and playing such unauthorized, copied games. *See Nintendo*, 1996 WL 511619 at *4 (finding that there were no substantial non-infringing uses for a game-copying device such as the Super UFO, which copies Nintendo games from cartridges to disk).

Sherman also argues that, because there are only a limited number of BBS users that have copiers, and these users would likely play the games only in their own homes, their use should be considered *de minimis*. He contends that because there is no evidence that these users are further distributing the games, these users' actions cannot be considered to have a tendency to dilute Sega's sales.

The Court finds this argument unpersuasive. Even if the users are only playing the games in their own homes and even if there are currently only a limited number of users that have copiers, unrestricted and widespread conduct of this sort would result in a substantial adverse impact on the market for the Sega games. *Playboy*, 839 F. Supp. at 1558-59 (finding that providing a BBS from which users could and did download Playboy copyrighted pictures would adversely affect the market if the conduct became widespread.) By downloading the games from the BBS, users avoid paying for the games. Sherman's conduct in providing the BBS for uploading and downloading games, and offering for sale the copiers on which to play these unauthorized games, facilitated the users' conduct. This conduct, if widespread, would adversely impact the market for Sega games.

5. Analysis

All of the factors discussed above weigh against the application of the fair use defense. Because the fair use defense does not apply, and Sega has met its burden to show contributory copyright infringement by Sherman, the Court GRANTS Sega's motion with respect to its copyright claim.

D. Willfulness

Sega contends that Sherman's actions show that he willfully infringed upon their copyrights, which would entitle it to greater damages under 17 U.S.C. §504(c)(2).

Infringement is willful if the responsible party acts with knowledge that he or she is infringing a copyright. *Peer Intl. Corp. v. Pausa Records, Inc.*, 909 F.2d 1332, 1335 (9th Cir. 1990), *cert. denied* 498 U.S. 1109 (1991); *Twin Peaks Productions, Inc. v. Publications Intern., Ltd.*, 996 F.2d 1366, 1382 (2nd Cir. 1993). Willfulness may also be found where the defendant's infringing actions are undertaken with reckless disregard for the copyright holder's rights. *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1020-21 (7th Cir. 1991), *cert. denied* 502 U.S. 861 (1991). Such knowledge may be inferred from the defendant's conduct. *N.A.S. Import Corp. v. Chenson Enter., Inc.*, 968 F.2d 250, 252 (2nd Cir. 1991). Generally, a determination as to willfulness requires an assessment of a party's state of mind, a factual issue that is not usually susceptible to summary judgment. *Silverman v. CBS, Inc.*, 632 F.Supp. 1344, 1352-53. n.11 (S.D.N.Y. 1986), *modified* 870 F.2d 40 (2nd Cir. 1989); *see also Frank Music Corp. v. Metro Goldwin-Mayer, Inc.*, 772 F.2d 505, 515 (9th Cir. 1985), *cert. denied* 494 U.S. 1017 (1990) (a finding of willfulness is a factual determination).

Here, however, the evidence shows that Sherman willfully infringed upon Sega's copyright. He used, or knowingly allowed others to use, the Sega mark to identify Sega games on the Maphia BBS. He knowingly allowed others to upload and download the Sega games, and expressly solicited others to upload games to his BBS. He offered for sale copiers that play and copy Sega downloaded games from disks. His business, Parsec Trading, sold or planned to sell copiers. Parsec Trading had a policy of giving customers limited free downloads after they had purchased a copier. This evidence shows that Sherman intentionally contributed to the users' infringement of Sega's copyright, and that he intended to profit in sales of copiers. Sherman has offered nothing to rebut this evidence. Therefore, the Court finds that Sherman's contributory copyright infringement was willful.

II. Federal Trademark Infringement

Sega maintains that the evidence establishes that Sherman has violated federal trademark infringement law under the Lanham Act, 15 U.S.C. §1114. Specifically, Sega maintains that Sherman is liable for trademark counterfeiting because Sherman willfully used Sega's mark in connection with the counterfeit games available on Sherman's BBS. Sherman maintains that neither the use of the name "Sega" for purposes of identifying the contents of a file, nor the incidental appearance of the SEGA trademark when a user plays a game downloaded from his BBS, violates the trademark laws.

A. Prima Facie Case

Under the Lanham Act, 15 U.S.C. §1114, any person is liable for trademark infringement if that person, without the consent of the trademark registrant:

(a) use[s] in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which use is likely to cause confusion, or to cause mistake, or to deceive.
15 U.S.C. §1114.

A *prima facie* case for trademark infringement under the Lanham Act is established by a showing that (1) the mark is owned by or associated with a particular plaintiff, and (2) the defendant's use of the mark is likely to cause confusion or mistake among the public as to the origin of the goods. *New West Corp. v. NYM Co. of California, Inc.*, 595 F.2d 1194, 1201-02 (9th Cir. 1979); *see also Jockey Club, Inc. v. Jockey Club of Las Vegas*, 595 F.2d 1167 (9th Cir. 1979). The latter element can be broken down into two requirements: (a) that use of the mark is likely to cause confusion, and (b) that the defendant used the mark. *See Alchemy II, Inc. v. Yes! Enter. Corp.*, 844 F.Supp. 560, 569 (C.D. Cal. 1994) (citing *HMH Publishing Co. v. Lambert*, 482 F.2d 595, 598 (9th Cir. 1973)).

1. Ownership

Sega owns the SEGA trademark which is the subject of Federal Trademark Registration No. 1,566,116. Sega's federal trademark registration is conclusive evidence of Sega's exclusive right to use the registered mark in commerce. 15 U.S.C. §1115.

2. Likelihood of Confusion

The Ninth Circuit has adopted the following factors to determine whether a likelihood of consumer confusion exists: (1) strength of the mark; (2) proximity of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) type of goods and the degree of care likely to be exercised by the purchaser; (7) defendant's intent in selecting the mark; and (8) likelihood of expansion of product lines. *AMF Inc. v. Sleekcraft*, 599 F.2d 341, 348 (9th Cir. 1979). Because each of these factors is not necessarily relevant to every case, the list functions as a guide and is neither exhaustive nor conclusive. *Metro Pub., Ltd. v. San Jose Mercury News*, 987 F.2d 637, 640 (9th Cir. 1993). Therefore, the Court will only address those factors relevant to this case.

a. Proximity of goods

First, the games downloaded from the MAPHIA BBS are substantially identical to genuine Sega games. The greater the similarity between the two products, the greater the likelihood of confusion. *See Exxon Corp. v. Texas Motor Exchange of Houston, Inc.*, 628 F.2d 500, 505 (5th Cir. 1980).

b. Similarity of marks

Here, there is no issue as to the similarity of the mark. The mark displayed when the unauthorized games are played is identical to Sega's actual trademark. This exact identity constitutes a counterfeit mark. Moreover, the same word, "Sega," the only word in the SEGA trademark, appears as part of the file descriptors used to identify the game files and in the name of the file area on Sherman's BBS that contains the games.

c. Intention in adopting the mark

Evidence suggests that Sherman intentionally used or adopted the mark. He created a file area on his BBS that was entitled "Maphia -- Sega." He used, or knowingly allowed others to use, the word Sega to identify SEGA games on the MAPHIA BBS, and solicited others to upload games to his BBS. He was aware that the Sega trademark appeared when games downloaded from his BBS were played. His business also sold game copiers that played these games, and had a policy of providing free downloads each customer. His knowledge that Sega games were being uploaded and downloaded from his BBS, along with his participation in a business that sold copiers that played these games shows that he intended to profit by using the mark. Such intention amounts to willfulness. In the Ninth Circuit, a defendant's knowing adoption of a mark similar to the plaintiff's raises a presumption of confusion. *Harley-Davidson, Inc. v. Seghieri*, 29 U.S.P.Q.2d 1956 (N.D. Cal. 1993) (citing *Sleekcraft*, 599 F.2d at 341.).

d. Actual confusion

While Sega has not shown any evidence of actual confusion, the Ninth Circuit has held that "neither actual confusion nor intent are necessary to finding a likelihood of confusion under the Lanham Act." *New West Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d at 1201-02. Similarly, Sega need not show that users of the BBS are likely to be confused. Once a product is put into commerce, likelihood of confusion, mistake, or deception occurring at some future time is sufficient to establish liability for trademark infringement. *Rolex Watch, U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 492 (S.D. Fla. 1986).

e. Analysis

Based on the factors discussed above, the Court finds that there is a likelihood of consumer confusion regarding the sponsorship and origin of the game files available on the MAPHIA BBS. The exact mark registered to Sega appears when game files downloaded from Sherman's BBS are played. These game files are identified in their file descriptor with the word Sega, the only word that is used in the Sega trademark, and are virtually identical to Sega's games. These facts are very similar to the facts in [Playboy](#), in which the court held the defendant liable for trademark infringement because files containing Playboy photographic images were loaded on his BBS and were identified in their file descriptions with the Playboy trademark. [Playboy](#), 839 F. Supp. at 1559-61. Any member of the public that logged onto Sherman's BBS was likely to think that the trademark indicated that the games were sponsored by or affiliated with Sega. Additionally, any member of the public who played such a game using a copier, such as those sold by Sherman, was also likely to be confused as to whether the game played with the copier was sponsored by, or affiliated with Sega.

C. Use of the Mark

Here, Sega has established that Sherman used or adopted Sega's mark on his BBS. Sherman knew the word Sega was used to identify game files, he had used the word Sega to identify a file area for the games on his BBS, and he knew that the SEGA logo appeared when the downloaded games were played.

Again, these facts are similar to the facts in [Playboy](#), 839 F.Supp. 1552 (M.D.Fla. 1993). The [Playboy](#) court held that the defendant had infringed the "playboy" mark because he knew that the mark was used to identify copyrighted Playboy photograph files on his BBS, despite the defendant's contention that he himself never placed the word "Playboy" onto his BBS. *Id.* at 1561. In essence, the [Playboy](#) defendant had tacitly authorized the use of the mark on his BBS.

Following the reasoning of [Playboy](#), the Court finds that Sherman adopted the use of the Sega name as file descriptors on his BBS and the SEGA logo within the games, because he knew about the use, and tacitly authorized it. Additionally, Sherman used the mark when he created the file area that used the name Sega to identify the area where the game files would be located.

Sherman's knowing adoption or authorization of use of the Sega mark on his BBS distinguishes this case from *Sega Enterprises, Ltd. v. Sabella*, C93-04260 CW, where the defendant BBS operator declared that she neither knew the mark was being used on her BBS, nor had ever used the mark herself in any of her BBS operations.

D. Conclusion

Sega has shown that it owns the SEGA Mark, that Sherman used, adopted, or authorized the use of the mark on his BBS, and that his use created a likelihood of consumer confusion.

Nonetheless, Sherman argues that: (1) the use of the Sega name in the file descriptors is merely a file identifier; (2) the appearance of the trademark when the games are played is incidental; and (3) the games are genuine games as opposed to counterfeit, and therefore not subject to the Lanham act.

In light of [Playboy](#), however, the Court finds unpersuasive Sherman's assertion that the Sega name was merely a file identifier. Furthermore, Sherman's contention that the copying of the SEGA trademark is incidental to the copying of the game is irrelevant to determine whether the trademark causes a likelihood of consumer confusion. Finally, the game files available on Sherman's BBS cannot be considered "genuine" for the purposes of the Lanham Act because they were distributed in an unauthorized manner and were not subject to Sega quality controls. *Hunting World, Inc. v. Reboans, Inc.*, 24 U.S.P.Q.2d 1844, 1849 (N.D. Cal. 1992).

The Court holds that the use of the Sega name to identify the game files and the use of the SEGA mark in the unauthorized, virtually identical games creates a likelihood of consumer confusion as to whether Sega endorsed or sponsored the games appearing on or downloaded from MAPHIA. Accordingly, Sega has established a *prima facie* case the Sherman's use of Sega's trademark on virtually identical Sega game programs constitutes counterfeiting. Furthermore, the court holds that the evidence shows that Sherman's adoption of the mark was willful. Upon such a *prima facie* showing, Sherman must come forward with "specific facts" showing there is a genuine issue regarding Sega's trademark infringement claim. Sherman has failed to do so. Sega is entitled to summary judgment of trademark infringement.

III. False Designation of Origin

15 U.S.C. §1125(a) provides:

Any person who, on or in connection with any goods or services, uses in commerce any word, term, name, symbol ... or any combination thereof, or any false designation of origin ... which ... is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person ... as to the origin, sponsorship, or approval of his or her goods ... shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such an act.

To prevail on its false designation claim under the Lanham Act, Sega must similarly establish that the public is likely to be deceived or confused by the similarity of the marks. *Id.* For the same reasons set forth regarding Sega's trademark infringement claim, Sherman's use of the Sega trademark is likely to be confusing and to cause damage to Sega and, therefore, Sega is entitled to summary judgment regarding Sherman's liability under 15 U.S.C. §1125(a).

IV. State Law Trade Name Infringement Claim.

Sega claims that Sherman is liable for California trade name infringement under Cal. Bus. & Prof. Code §§14401 *et seq.* Section 14402 provides that "[a]ny court of competent jurisdiction may restrain, by injunction, any use of trade names in violation of the rights defined in this chapter." Cal. Bus. & Prof. Code §14402. Section 14415 provides that the filing of articles of incorporation creates a rebuttable presumption that the corporation has the exclusive right to use its corporate name as a trade name. Cal. Bus. & Prof. Code §14415.

"In both trademark and trade name cases, the test of infringement is whether a likelihood of confusion exists." *Jockey Club, Inc. v. Jockey Club of Las Vegas, Inc.*, 595 F.2d 1167, 1168 (9th Cir. 1979). For the reasons set forth above, Sega has established that a likelihood of confusion exists with the use of Sega's trade name on Sherman's BBS. The Court GRANTS Sega's motion with respect to this claim.

V. State Unfair Competition Claim.

Sega is also entitled to summary judgment regarding Sherman's liability for unfair competition under California Business and Professions Code §17200, *et seq.* Section 17200 defines unfair competition as any unlawful, unfair, or fraudulent business practice and unfair, deceptive, untrue or misleading advertising. Cal. Bus. & Prof. Code §17200.

Unfair competition claims made pursuant to Cal. Bus. & Prof. Code §17200 are substantially congruent to claims made under the Lanham Act. *Clearly v. News Corp.*, 30 F.3d 1255, 1262-63 (9th Cir. 1994). Therefore, for all the reasons set forth above, the Court GRANTS Sega's motion with respect to this claim.

VI. REMEDIES

A. Injunctive Relief

Sega is entitled to injunctive relief under copyright, trademark, and state trade name law.

A court may order a permanent injunction "to prevent or restrain infringement of [the owner's] copyright." 17 U.S.C. §502. Generally, a showing of copyright infringement liability and the threat of future violations is sufficient to warrant permanent injunction. *MAI Systems*, 991 F.2d at 520. Here, Sherman's contributory infringement of Sega's copyright, combined with the return of Sherman's computer equipment to him, constitutes a threat of continued violations absent an injunction. Specifically, because Sherman maintains the computer and other equipment necessary to run his BBS and may continue in the facilitation of the uploading and downloading of Sega game programs, there is a threat of continued violation. Therefore, Sega is entitled to permanent injunctive relief. This relief applies with respect to all of its copyrighted video games. See *Encyclopedia Britannica Educational Corp. v. Crooks*, 542 F.Supp. 1156, 1187-88 (W.D.N.Y. 1982).

Additionally, pursuant to 15 U.S.C. §1116, Sega is entitled to a permanent injunction to prevent the violation of its trademark rights. Finally, Sega is also entitled to a permanent injunction enjoining Sherman from using its Sega trade name on his BBS. Cal. Bus. & Prof. Code §14402. When judgment is entered in this case, the preliminary injunction presently in place will be entered as a permanent injunction.

B. Monetary Damages For Copyright Infringement

1. Statutory damages

The Copyright Act, 17 U.S.C. §504, provides that the copyright holder may elect either actual damages or statutory damages as a remedy for copyright infringement. *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1335 (9th Cir. 1984). Sega has elected to seek a statutory damage award under 17 U.S.C. §504(c)(2).

The Copyright Act provides that where the infringement was committed "willfully," as is the case here, the court in its discretion may award statutory damages in a sum of not more than \$100,000 for the infringement of each particular work. 17 U.S.C. §504(c)(2). The court has wide discretion in determining the amount of statutory damages to be awarded. *Nintendo of America, Inc. v. Dragon Pacific Intl.*, 40 F.3d 1007, 1010 (9th Cir. 1994), *cert. denied* --- U.S. ---, 115 S.Ct. 2256 (1995).

In *Dragon Pacific*, the court found that a statutory damage award of \$5000 for the defendant's willful infringement of one of Nintendo's video games was appropriate. *Id.* Because this case is similar to *Dragon Pacific* in that they both involve the willful infringement of similar types of video games, the Court finds that a statutory award of \$5000 per infringed work is appropriate. Here, Sega has established that at least two of its copyrighted video games were infringed, namely Jurassic Park, and Sonic Spinball. Therefore, the Court awards statutory damages in the amount of \$10,000.

2. Attorneys' fees and costs

Under 17 U.S.C. §505, the Court may in its discretion award the prevailing party reasonable attorneys' fees and costs. In determining whether to grant attorneys' fees, the Court may consider the degree of success obtained by the prevailing party; frivolousness; motivation; objective unreasonableness in both the factual and legal arguments of the case; the need in the particular circumstances to advance considerations of compensation and deterrence; and promotion of the Copyright Act's objectives. *Jackson v. Axton*, 25 F.3d 884, 890 (9th Cir. 1994). Exceptional circumstances are not a prerequisite to such an award. *Historical Research v. Cabral*, 80 F.3d 377, 378 (9th Cir. 1996). Additionally, while willful infringement is an important factor favoring an award of fees, it does not, in itself, compel an award. *Id.* at 379.

In this case, the factors weigh in favor of granting costs and attorneys' fees. Sega is the prevailing party in its copyright claim. Several of Sherman's arguments for denying copyright infringement liability and for objecting to the evidence are weak or irrelevant. He had knowledge of the infringing activity, and willfully encouraged it. He also participated in the sale of copiers that did not have any substantial non-infringing uses. All of these factors weigh in favor of an award of attorneys' fees.

Moreover, the award of attorneys' fees may help prevent future copyright infringements like the one at issue here. Active BBS operators like Sherman who (1) know that unauthorized copies of copyrighted software are being uploaded to and downloaded from their BBSs, (2) are also selling products whose only substantial use is to run such software, and (3) have linked their sale of such products to downloading privileges where users may get unauthorized copies of the software, should be held accountable. Unchecked, this type of activity could quickly cause widespread, unauthorized distribution of a copyright holder's software and adversely impact the market for the work. The Copyright Act's objective of encouraging production of such work is better served in this case by discouraging Sherman's actions to the fullest extent possible.

The Court GRANTS Sega's request for an award of attorneys' fees with respect to its copyright infringement claim. Sega may file a post-judgment motion for fees in accordance with Local Rule 54-5.

C. Monetary Recovery For Trademark Infringement, False Designation Of Origin And Unfair Competition. The Ninth Circuit has held that where trademark infringement is deliberate and willful both the trademark owner and the buying public are slighted if a court provides no greater remedy than injunctive relief. *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 123-24 (9th Cir. 1968) *cert. denied*, 391 U.S. 966 (1968); *see also Lindy Pen Co., Inc. v. Bic Pen Corp.*, 982 F.2d 1400, 1405 (9th Cir. 1993), *cert. denied* 501 U.S. 815 (1993). Under 15 U.S.C. §1117(a), monetary remedies in trademark infringement cases include (1) an award of the defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. *Intel Corp. v. Terabyte Intl., Inc.*, 6 F.3d 614, 620 (9th Cir. 1993) (citing *Lindy Pen Co.*, 982 F.2d at 1405). In counterfeiting cases, the Court is required, absent extenuating circumstances, to award treble damages or profits, whichever is greater, along with reasonable attorneys' fees. 15 U.S.C. §1117(b).

As discussed previously, the evidence shows that Sherman willfully infringed Sega's trademark and that the infringement was willfully calculated to exploit the advantages of Sega's mark in order to increase Sherman's copier sales. In such cases an award of damages or profits is appropriate. *Lindy Pen. Co.*, 982 F.2d at 1405. Additionally, the evidence shows that Sherman's infringement amounted to counterfeiting. As no extenuating circumstances have been offered or are evident, the Court holds that Sega is entitled to treble damages or profits, plus reasonable attorneys' fees.

Sega has presented no evidence regarding its damages or profits. If Sega wishes to prove actual damages or lost profits, the matter will be referred to the Chief Magistrate Judge or his designee to hold a hearing on this issue. Sega shall inform the Court and Sherman of its intentions in this regard within one week of the date of this order. If Sega does not so respond, the Court will enter judgment.

CONCLUSION

For the reasons previously stated, the Court GRANTS Sega's motion for summary adjudication of liability on all of its claims. The Court also GRANTS Sega's request for a permanent injunction prohibiting further copying of Sega games by way of a BBS run by Sherman.

IT IS SO ORDERED.

Dated Dec 16 1996

CLAUDIA WILKEN
UNITED STATES DISTRICT JUDGE

FOOTNOTES:

FN1. Sega's complaint names as Defendants MAPHIA and PSYCHOSIS, bulletin boards run by Chad Sherman and Howard Silberg, respectively, PARSAC, a computer bulletin board network operated by Sherman and Silberg through the MAPHIA and PSYCHOSIS bulletin boards, as well as twenty-three Does. Sega's motion for summary judgment, however, refers only to Sherman and Silberg. The Court therefore makes no judgment with regard to the remaining Defendants. Unless Sega evidences an intent to prosecute the case against them, they will be dismissed when judgment enters in this case. With respect to Silberg, the Court notes that because he has filed for bankruptcy, this litigation with respect to him is stayed.

FN2. Sega Enterprises, Ltd. is a corporation organized and existing under the laws of Japan. Sega of America, Inc. is a California corporation.

FN3. Peterson's First Declaration is a narrative which mixes assertions of facts regarding Sherman's actions, opinions about the general state of computer games, bulletin boards, and the 25 cyberpunk subculture, opinions about video game copiers, legal opinions on issues and interpretations of the statutes involved in this case, expert opinions about alleged tampering with seized electronic evidence in a similar case, and finally, a statement of "alarm" that a Japanese company is "taking advantage of the United States Constitution on the one hand, and abusing it on the other." First Peterson Decl. p. 8.

FN4. The legal opinions are, of course, an improper subject of expert testimony, and are stricken. *See United States v. Brodie*, 858 F.2d 492, 496-97 (9th Cir. 1988).

FN5. This holding is consistent with this Court's earlier order, *Sega Enter., Ltd. v. Maphia*, 857 F.Supp. 679 (N.D. Cal. 1994), which granted preliminary injunctive relief to Sega. In that order, the Court noted that Sega had shown direct copying of its games by someone, and that Sherman knew, facilitated, and encouraged the copying. *Id.* at 686. The Court specifically found that this activity amounted to contributory copyright infringement. *Id.* at 687. It did not make a similar, specific conclusion of law with respect to direct copyright infringement. To the extent that order can be read to suggest that Sherman may be liable for direct copyright infringement, it is clarified and superseded by this order.

TAB 11

857 F.Supp. 679 (ND Cal. 1994)

SEGA ENTERPRISES LTD. and Sega of America, Inc., Plaintiffs,
v.

MAPHIA, a business of unknown structure; Parsac, a business of unknown structure; Psychosis, a business of unknown structure; Chad Scherman aka Chad Sherman aka "Brujjo Digital," and Does 2-6 aka "Operator," "Firehead," "Lion," "Hard Core," "Candyman," all individually and d/b/a Maphia and Parsac; Howard Silberg by his mother and next friend Ilene Silberg, aka "Caffeine," and Does 14-18 aka "Apache," "Maelstrom," "Gazzer," "Paranoid/Chryseis," "Doom" all individually and d/b/a Psychosis and Parsac; Does 7-12; Does 19-25, Defendants.

No. C 93-4262 CW.
857 F.Supp. 679

United States District Court, N.D. California.
March 28, 1994.

Marilyn C. Siegel, Siegel and Siegel, Baltimore, MA, for defendants.
Neil A. Smith, Limbach & Limbach, San Francisco, CA, for plaintiffs.

**FINDINGS OF FACT AND CONCLUSIONS OF LAW IN SUPPORT OF PRELIMINARY
INJUNCTION, AND CONFIRMATION OF SEIZURE**

WILKEN, District Judge.

This is an action for copyright infringement (under 17 U.S.C. Section 101 *et seq.*), federal trademark infringement (under 15 U.S.C. Section 1051 *et seq.*), federal unfair competition/false designation of origin (under 15 U.S.C. Section 1125(a)), California trade name infringement (under California Business & Professions Code Section 14400 *et seq.*), and California unfair competition law (under California Business and Professions Code Section 14210, 17200-17203) against Defendant Chad Scherman and several other individuals operating on-line computer bulletin boards, and the MAPHIA and other bulletin boards as businesses of unknown origin. On December 9, 1993, the Court, the Honorable Fern M. Smith presiding, issued an *ex parte* Temporary Restraining Order, Seizure Order, and Order to Show Cause Re Why a Preliminary Injunction Should Not Issue enjoining Defendants' use of Plaintiffs' SEGA trademark and the direct and/or contributory infringement of Plaintiffs' copyrights.

A hearing was held before Judge Smith on December 17, 1993, on Plaintiffs' motion for a preliminary injunction, pursuant to the order to show cause. At that hearing, Judge Smith continued the temporary restraining order in effect until further order of the Court. Thereafter, Defendant Paolo Rizzi, individually, filed a written stipulation to a preliminary injunction and confirmation of the seizure. Defendants Scherman and MAPHIA filed an opposition.

Following reassignment of this action to the undersigned, a further hearing was held on February 25, 1994. The Court now determines, having considered the pleadings, all papers filed by the parties, and the parties' oral arguments, that a preliminary injunction should issue against Defendants Scherman and MAPHIA as ordered separately. Pursuant to F.R.C.P. 65(d), the Court makes the following Findings of Fact and Conclusions of Law in support of the preliminary injunction and confirmation of the seizure order:

FINDINGS OF FACT

I. FINDINGS SUPPORTING PRELIMINARY INJUNCTIVE RELIEF

A. The parties and their activities

1. Plaintiff Sega Enterprises, Ltd. ("SEL"), is a corporation organized and existing under the laws of Japan. Compl. P 1.

2. Plaintiff Sega of America, Inc. ("SOA"), is a California corporation with a principal place of business in this district in San Mateo, California. SOA is a wholly-owned subsidiary of SEL. SOA and SEL are hereinafter sometimes collectively referred to as "Sega" or "Plaintiffs." Compl. P 2.

3. Defendant MAPHIA is a business of unknown structure doing business and located in San Francisco, California, within this District, engaged in the business of running a computer bulletin board and related activities. Yang Decl. P 12.

4. Defendant Chad Scherman (aka Chad Sherman, aka "Brujjo Digital") is an individual residing in this district in San Francisco, California. Chad Scherman is in possession and/or control of the MAPHIA Bulletin Board, which is run from his residence where the computer and memory comprising the bulletin board are located, and does business as MAPHIA or Maphia Trading Company on such bulletin board. He is also one of the "system operators" of the MAPHIA bulletin board. Keene Decl. PP 2, 11.

B. The Business of Plaintiffs

5. Sega is a major manufacturer and distributor of computer video game systems and computer video games which are sold under the SEGA trademark, a registered trademark of Sega Enterprises, Ltd. (Federal Registration No. 1,566,116, issued November 14, 1989) owned by Sega. Yang Decl. P 3, Exh. A.

6. Sega's computer video game programs are the subject of copyright under the laws of the United States. Yang Decl. P 5; Compl. Exh. B.

7. Sega creates and develops its games and ensures the quality and reliability of the video game programs and products sold under SEGA trademarks. Yang Decl. P 4.

8. The Sega game system consists of two major components sold by Sega: the game console and software programs stored on video game cartridges which are inserted into the base unit. Each cartridge contains a single game program. The base unit contains a microcomputer which, when connected to a television, permits individuals to play the video game stored on the inserted cartridge. Yang Decl. P 6.

9. The computer programs for the Sega video games are stored on a cartridge in a Read-Only Memory ("ROM") chip. Sega's video games cannot be copied using the game console. However, as noted below, running devices, called "copiers," are designed to copy the video game programs from a Sega game cartridge onto other magnetic media such as hard and floppy disks. Yang Decl. PP 6, 21, 23.

C. Defendants' Activities on the MAPHIA Bulletin Board

10. An electronic bulletin board consists of electronic storage media, such as computer memories or hard disks, which is attached to telephone lines via modem devices, and controlled by a computer. Yang Decl. P 12.

11. Third parties, known as "users," of electronic bulletin boards can transfer information over the telephone lines from their own computers to the storage media on the bulletin board by a process known as "uploading." Uploaded information is thereby recorded on the storage media. Third party users can also retrieve information from the electronic bulletin board to their own computer memories by a process known as "downloading." Video game programs, such as Sega's video game programs, are one kind of computer programs or information which can be transferred by means of electronic bulletin boards. Yang Decl. PP 18-19.

12. Defendants MAPHIA and Chad Scherman operate an electronic bulletin board called MAPHIA (hereinafter "the MAPHIA bulletin board"). The MAPHIA bulletin board is open to the public and, according to Defendant Scherman's Opposition Memorandum, has approximately 400 users. Users of the MAPHIA bulletin board communicate using aliases or pseudonyms. "Brujjo Digital" appears as the alias

used by Defendant Chad Scherman as the system operator of the MAPHIA bulletin board, and in communicating with others. Keene Decl. PP 2, 11; Yang Decl. P 33.

13. Data from the MAPHIA bulletin board indicates that the MAPHIA bulletin board is economically linked to another electronic bulletin board called PSYCHOSIS. This data also indicates that Defendant Scherman and the MAPHIA bulletin board are part of or linked to a network of bulletin boards, called PARSEC, for business purposes. Keene Decl. PP 12-16, Exh. 5A.

14. The evidence establishes that Sega's copyrighted video games are available on and transferred to and from the MAPHIA bulletin board by users who upload and download games. Once a game is uploaded to the MAPHIA bulletin board it may be downloaded in its entirety by an unlimited number of users: Keene Decl. PP 7, 9; Yang Decl. PP 18, 24.

15. It appears that the copies of Sega's video game programs on Defendants' bulletin board are unauthorized copies of Sega's copyrighted video games, having been uploaded there by users of Defendant's bulletin board. Keene Decl. P 9.

16. It has been shown by evidence in the form of printouts from the data on Defendant's bulletin board which was seized pursuant to this Court's Order and on-line data captured from Defendant's bulletin board, that the uploading and downloading of unauthorized copies of Sega's copyrighted video games is particularly known to Defendant Scherman and the MAPHIA bulletin board. This evidence also indicates that Defendant specifically solicited this copying and expressed the desire that these video game programs be placed on the MAPHIA bulletin board for downloading purposes. Keene Decl. PP 7-16.

17. Notwithstanding contrary assertions of Defendant Scherman, there is evidence that MAPHIA directly or through an affiliate sometimes charges a direct fee for downloading privileges, or barter for the privilege of downloading Sega's games. Information on the MAPHIA bulletin board includes the following passage: Thank you for purchasing a Console Back Up Unit [copier] from PARSEC TRADING. As a free bonus for ordering from Dark Age, you receive a COMPLEMENTARY Free Download Ratio on our Customer Support BBS. This is if you cannot get a hold of SuperNintendo or Sega Genesis games. You can download up to 10 megabytes, which is equal to approximately 20 normal-sized SuperNintendo or Genesis games. After your 10 megabytes is used, you can purchase full months of credit for only \$35/month. You can also prepay and order either 1 year of free downloads for \$200/year, or a lifetime of free downloads for only \$500. Keene Decl. Exh. 5B at 2.

18. Defendant thus provides downloading privileges for Sega games to users in exchange for the uploading of Sega games or other programs or information or in exchange for payment for other goods, such as copiers, or services, such as the provision of credit card numbers to users. *See* Keene Decl. PP 7-21.

19. By utilizing the MAPHIA bulletin board, users are able to make and distribute one or more copies of Sega video game programs from a single copy of a Sega video game program, and thereby obtain unauthorized copies of Sega's copyrighted video game programs. Yang Decl. P 24.

20. This unauthorized copying of Sega video game programs works to decrease Sega's sales of video game cartridges. This unauthorized copying and distribution further deprives Sega of control over the quality of video games bearing its SEGA and other trademarks. The effect on Sega's reputation and market for video game cartridges may be substantial and immeasurable. *See* Yang Decl. PP 4-6, 17, 30-32.

21. Defendant has challenged the preliminary injunction on the basis that he has not profited from the distribution of Sega's programs. However, it appears Defendant profits from the operation of the MAPHIA bulletin board through direct payment and/or barter. There are also several ways Defendant indirectly profits. First, the existence of this distribution network for Sega video game programs increases the prestige of the MAPHIA bulletin board, and Defendant's distribution of Sega games naturally leads to an increased market for the video game copiers and other goods or services sold by Defendant. Keene Decl. P 9.

22. Defendant further profits from the distribution of Sega programs on the MAPHIA bulletin board because the bulletin board gives rise to a need for telephone communications which naturally leads to an

increased market for telephone calling card numbers sold by the Defendant Scherman. Keene Decl. PP 10-21.

23. The copies of Sega's programs uploaded to and downloaded from the MAPHIA Bulletin board are substantially similar to Sega's video game programs as stored in the cartridges sold by Sega. Yang Decl. P 17.

24. Plaintiffs' SEGA trademark appears on the screen whenever a Sega game which has been downloaded from the MAPHIA bulletin board is subsequently played, and Sega's trademark is used on the file descriptors by the MAPHIA bulletin board with the knowledge and consent of Defendant Scherman. Yang Decl. PP 18-19, 29.

25. The copies of Sega's video game programs downloaded by users from the MAPHIA bulletin board, according to instructions and facilitated by Defendant Scherman, are further unauthorized copies of Sega's copyrighted video games, which, in addition bear unauthorized use of Sega's registered trademarks.

26. The Sega game programs maintained and distributed through the MAPHIA bulletin board include "pre-release" versions of games which are not available to the public. Yang Decl. P 30.

27. The directory of video game programs available on MAPHIA also contain numerous references to video game programs containing "patches," "fixes," and problems which may have been introduced in the copying process. Yang Decl. P 31.

28. Bulletin board users and/or parties who may receive copies of Sega games from bulletin board users are likely to confuse the unauthorized copies downloaded and transferred from the MAPHIA bulletin board with genuine Sega video game programs.

29. Because Sega is unable to control the quality of the games distributed under its trademarks on the MAPHIA bulletin board as the MAPHIA has altered or may have the opportunity to alter such game programs, and the copies distributed by the MAPHIA bulletin board do not contain the packaging and instruction used by Sega, the Defendants' operation of the MAPHIA bulletin board is likely to damage Sega's reputation and the substantial goodwill which Sega has built up in its trademarks.

D. Infringing Sales and Distribution of "Copiers"

30. There is substantial evidence that Defendant Scherman and the MAPHIA bulletin board are engaged in advertising, distribution and selling video game copiers, such as the so-called "Super Magic Drive" and/or "Multi Game Hunter." *See generally*, Keene Decl.

31. Defendant's business plan as described by Defendant Scherman's alias "Bruijo Digital," states: As you know we have PARSEC TRADING CO. as our business that sells everything from Copiers to Modems to Hard Drives to Calling Cards (off the record, hehe), and even Pentium Chips now. So, the next step is a MEDIA BLITZ! Time to post advertisements ASCIIIS on every bbs you log onto! I'll have some Advertisements ready ... Also, we are selling Super Wild Cards, Pro Fighter Q's and Super Magic Drives for AKIRA and that part of PARSEC will be dedicated for him but me and CAFFEINE will handle all the business side of that and paying him the money and dealing with the customers, etc. Keene Decl. P 15, Exh. 5A at 3.

32. These copiers by Defendant's own admission are used for the making of unauthorized copies of Sega's video game programs and some purchasers thereof use them so as to avoid purchasing Sega's game cartridges from Sega. *See generally*, Def.'s Mem. in Opp. to Prelim. Injunction. Users or others who receive copies of the Sega video games on disk do not need to purchase any genuine Sega games, but can play the games directly from the disks using the copiers.

33. The copiers sold and advertised by Defendant come with downloading privileges to the purchaser, giving the purchaser free Sega video game copyrighted programs, so as to be able to duplicate, distribute and play the games without purchase of Sega game cartridges. Keene Decl. Exh. 5B.

34. The copiers thus supplant the need to purchase the genuine Sega video games.

35. Defendant states without support that the copiers are also capable of being used for other purposes, such as game development or making back-up copies, but such incidental capabilities have not been shown to be the primary use of such copiers.

36. There is no need to make archival copies of ROM game cartridges. This is because the ROM cartridge format is not susceptible to breakdown and because defective cartridges are replaced by Sega. Yang Decl. 25-28.

37. The copiers are advertised and sold by Defendant's MAPHIA bulletin board for \$350. Keene Decl. Exh. 3. The video game programs advertised by Sega sell for between \$30 and \$70. Compl. P 15. It is unlikely that customers would purchase a copier to back-up games, which are on reliable cartridges, for this price.

38. The only substantial use of video game copiers is to avoid having to buy video game cartridges from Sega by copying the video game program.

II. FINDINGS SUPPORTING COLLECTION AND SEIZURE OF EVIDENCE

39. Sega undertook to collect evidence of the above activities by having a Sega employee gain access the MAPHIA bulletin board under a pseudonym, as individuals generally do on the bulletin board, using information supplied by an authorized user who was an informant. Yang Decl. PP 11-13.

40. Pursuant to the *ex parte* Temporary Restraining Order and Seizure Order issued by Judge Smith on December 9, 1993, a search of Defendant Scherman's premises, where the computer and memory were located, was conducted. Pursuant to the Order, Defendant Scherman's computer and memory devices were seized, the memory copied and returned to Defendant Scherman, with the Sega games deleted. Keene Decl. PP 1-6.

41. The Court made substantial findings in its Order of December 9, 1993, in support of the restraining and seizure order, which appear to have been verified by the program copies and evidence obtained from the memory devices comprising the "MAPHIA" bulletin board, thus confirming the seizure of such evidence. Keene Decl. PP 7-21.

CONCLUSIONS OF LAW

1. To the extent facts are included in this portion of the order, they are also deemed the Court's findings of fact, and visa versa.

2. This Court has jurisdiction of the causes of action arising under copyright law (under 17 U.S.C. Section 101 *et seq.*), federal trademark law (under 15 U.S.C. Section 1051 *et seq.*), and federal claims for unfair competition/false designation of origin (under 15 U.S.C. Section 1125(a)) pursuant to 28 U.S.C. Section 1338(a).

3. This Court has jurisdiction of the causes of action arising under California trade name law (under California Business & Professions Code Section 14400 *et seq.*), and California unfair competition law (under California Business and Professions Code Section 14210, 17200-17203) pursuant to 28 U.S.C. 1338(b).

4. Venue is proper in the federal district court where certain Defendants reside and where acts of trademark and copyright infringement occur. 28 U.S.C. 1391(b) and (c). Venue in the instant suit is proper in the Northern District of California.

I. PRELIMINARY INJUNCTION

A. Legal standard

5. Plaintiffs must demonstrate the following to be entitled to preliminary injunctive relief: (1) a combination of probable success on the merits and the possibility of irreparable harm, or (2) that there exist serious questions regarding the merits and the balance of hardships tips sharply in their favor. *Rodeo Collection, Ltd. v. West Seventh*, 812 F.2d 1215, 1217 (9th Cir. 1987); *Apple Computer, Inc. v. Formula Intern., Inc.*, 725 F.2d 521, 523 (9th Cir. 1984).

B. Probable Success on the Merits

Copyright Infringement

6. To establish a *prima facie* case of copyright infringement, Plaintiffs must prove (1) ownership of a valid copyright in the infringed work, and (2) "copying" by the Defendants. *See Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1162 (9th Cir. 1977); *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 824 (11th Cir. 1982); 3 Nimmer on Copyright, Section 13.01 (1985).

7. Sega's certificates of registration establish a *prima facie* valid copyright in its video game programs. 17 U.S.C. Section 410(c); *Apple Computer, Inc. v. Formula Int'l Inc.*, 725 F.2d 521, 523 (9th Cir. 1984). Although the complaint and declaration of Jack Yang list specific copyrights infringed by Defendants, Plaintiffs seek and are entitled to an order with respect to all of their copyrighted video games. *See Encyclopaedia Britannica Educational Corp. v. Crooks*, 542 F.Supp. 1156, 1187-88 & n. 2 (W.D.N.Y. 1982).

8. The unauthorized copying of copyrighted computer programs is *prima facie* an infringement of the copyright. *See MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993), *cert. dismissed*, --- U.S. ---, 114 S.Ct. 671, 126 L.Ed.2d 640 (1994).

9. Sega has established a *prima facie* case of direct copyright infringement under 17 U.S.C. Section 501. Sega has established that unauthorized copies of its games are made when such games are uploaded to the MAPHIA bulletin board, here with the knowledge of Defendant Scherman. These copied games are thereby placed on the storage media of the electronic bulletin board by unknown users.

10. Sega has established that unauthorized copies of these games are also made when they are downloaded to make additional copies by users, which copying is facilitated and encouraged by the MAPHIA bulletin board. *See MAI Systems, supra*, 991 F.2d at 519.

11. "[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another," may be held liable as a contributory infringer. *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987) (*quoting Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

12. Even if Defendants do not know exactly when games will be uploaded to or downloaded from the MAPHIA bulletin board, their role in the copying, including provision of facilities, direction, knowledge and encouragement, amounts to contributory copyright infringement. *Id.*; *see also Playboy Enterprises, Inc. v. Frena*, 839 F.Supp. 1552, 1555-56 (M.D.Fla. 1993).

13. Sega has established a likelihood of success on the merits of showing a *prima facie* case of direct and contributory infringement by Defendants' operation of the MAPHIA bulletin board.

14. Sega has also established a strong likelihood of success on the merits of showing a *prima facie* case of contributory infringement by Defendants' advertising, sale and distribution, directly or through its affiliated PARSEC bulletin board network, of video game copiers. *See Atari, Inc. v. JS & A Group, Inc.*, 597 F.Supp. 5 (N.D.Ill. 1983).

15. Because of the large number of users of the MAPHIA bulletin board, and the potential of each user to download an unknown number of copies of Sega video game programs through the MAPHIA bulletin board, Defendants' infringement cannot be viewed as a *de minimus* circumstance. See *Fisher v. Dees*, 794 F.2d 432, 434-35 (9th Cir. 1986); *Playboy v. Frena*, *supra*, 839 F.Supp. at 1557- 58.

16. Defendants raise fair use as a defense to copyright infringement. 17 U.S.C. Section 107 states: Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified in that section, for purposes such as criticism, comment, news reporting, teaching ..., scholarship, or research is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include-- (1) the purpose and character of the use ...; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or the value of the copyrighted work.

17. "To invoke the fair use exception, an individual must possess an authorized copy of a literary work." *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992). Defendant Scherman has stated that he does not own any Sega game cartridges. Scherman Decl. at 1.

18. When copying is for the purpose of making multiple copies of the original, and thereby saving users the expense of purchasing additional authorized copies, this militates against a finding of fair use under the purpose of the use factor. *American Geophysical Union v. Texaco, Inc.*, 802 F.Supp. 1, 14-16 (S.D.N.Y. 1992).

19. Because users of the MAPHIA bulletin board are likely and encouraged to download Sega games therefrom to avoid having to buy video game cartridges from Sega, by which avoidance such users and Defendants both profit, the commercial purpose and character of the unauthorized copying weighs against a finding of fair use. See *Atari, Inc. v. JS & A Group, Inc.*, 597 F.Supp. 5, 8 (N.D.Ill. 1983); *c.f. Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 964 F.2d 965, 971 (9th Cir. 1992), *cert. denied*, --- U.S. ----, 113 S.Ct. 1582, 123 L.Ed.2d 149 (1993).

20. Because Sega video game programs are for entertainment uses and involve fiction and fantasy, consideration of the nature of the copyrighted work weighs against a finding of fair use. *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 563, 105 S.Ct. 2218, 2232, 85 L.Ed.2d 588 (1985); *Playboy*, *supra*, 839 F.Supp. at 1556-57.

21. Because it appears that the entire game programs are copied when Sega video game programs are transferred over the MAPHIA bulletin board, consideration of the amount and substantiality of the portion copied weighs against a finding of fair use. *Id.* at 1557-58; 3 Nimmer Section 13.05[A][3]; see also *American Geophysical Union*, *supra*, 802 F.Supp. at 17.

22. "The fourth factor, the effect of the use upon the market for or value of the copyrighted work, 'is undoubtedly the single most important element of fair use.'" *Los Angeles News Service v. Tullo*, 973 F.2d 791, 798 (9th Cir. 1992) (*quoting Harper & Row*, *supra*, 471 U.S. at 566, 105 S.Ct. at 2233).

23. "[T]o negate fair use one need only show that if the challenged use 'should become widespread, it would adversely affect the potential market for the copyrighted work.'" *Harper & Row*, *supra*, 471 U.S. at 568, 105 S.Ct. at 2234 (*quoting Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 451, 104 S.Ct. 774, 793, 78 L.Ed.2d 574 (1984)) (emphasis in original); *Playboy*, *supra*, 839 F.Supp. at 1557-58; *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 831 F.Supp. 223, 243 (D.Mass. 1993).

24. Based on Defendants' own statement that 45,000 bulletin boards like MAPHIA operate in this country, it is obvious that should the unauthorized copying of Sega's video games by Defendants and others become widespread, there would be a substantial and immeasurable adverse effect on the market for Sega's copyrighted video game programs. Consideration of the effect on the market for Sega's copyrighted works weighs heavily against a finding of fair use. See Def.'s Opp. at 7.

25. Accordingly, it is unlikely that Defendants will be able to establish a fair use defense at trial, and Sega is likely to succeed in establishing that Defendant's MAPHIA bulletin board activities represent direct and contributory infringement under the Copyright Law.

Federal Trademark Infringement

26. A *prima facie* case for trademark infringement under the Lanham Act is established by a showing that (1) the mark is owned by or associated with a particular plaintiff and (2) that the Defendants' use of the mark is likely to cause confusion or mistake among the public. See *Jockey Club, Inc. v. Jockey Club of Las Vegas*, 595 F.2d 1167 (9th Cir. 1979).

27. There is no question that the trademarks at issue are owned by Sega. See Compl.Exhs. A, F. Sega's federal trademark registration is conclusive evidence of Sega's exclusive right to use the registered marks in commerce. 15 U.S.C. Section 1115(a).

28. Plaintiffs need not prove that any person actually has been mistaken because of Defendants' use; all that is required is "likelihood" of confusion, mistake or deception. *New West Corp. v. NYM Co. of California, Inc.*, 595 F.2d 1194, 1201-02 (9th Cir. 1979). Plaintiffs need not show that users of the bulletin boards are likely to be confused. Once a product is put into commerce, confusion, mistake, or deception occurring at some future time is sufficient to establish liability for trademark infringement. *Rolex Watch, U.S.A., Inc. v. Canner*, 645 F.Supp. 484, 492 (S.D.Fla. 1986).

29. When a game copied from Defendants' bulletin board is played, that game begins with a screen showing the federally registered SEGA trademark and the Sega logo. Confusion, if not on the part of bulletin board users, is inevitable on the part of third parties who may see the copied games after they enter the stream of commerce.

30. Accordingly, Sega is likely to prevail on the merits in establishing that Defendant's use of Sega's trademark on its files sections and file descriptors, and on programs made available and encouraged for downloading from Defendant's MAPHIA bulletin board, constitutes trademark infringement under the Lanham Act.

False Designation of Origin

31. To prevail on its unfair competition claims under the Lanham Act, Sega must similarly establish that the public is likely to be deceived or confused by the similarity of the marks. *New West Corp.*, *supra*, 595 F.2d at 1201.

32. Sega has established a *prima facie* case of federal unfair competition and false designation of origin. 15 U.S.C. Section 1125(a).

C. Irreparable Harm

33. A showing of reasonable likelihood of success on the merits of a copyright infringement claim raises a presumption of irreparable harm. *Apple Computer*, *supra*, 725 F.2d at 525.

34. Damages occasioned by trademark infringement are by their very nature irreparable and not susceptible of adequate measurement for remedy at law. *International Jensen, Inc. v. Metrosound U.S.A., Inc.*, 4 F.3d 819, 827 (9th Cir. 1993); *Processed Plastic Co. v. Warner Communications*, 675 F.2d 852, 858 (7th Cir. 1982).

35. Accordingly, Plaintiffs need not make a detailed showing of irreparable injury since they have demonstrated a *prima facie* case of copyright and trademark infringement. *Apple Computer*, *supra*, 725 F.2d at 525; *Processed Plastic*, *supra*, 675 F.2d at 858.

36. It is clear that Defendants' activities subject Sega to the possibility of irreparable harm. Each illegal copy of a Sega game which Defendants distribute deprives Sega of revenue. Moreover, distribution of altered, inferior copies of Sega games and of confidential, pre-release unperfected games subjects Sega to damage to its business and reputation. *See Franklin Mint, Inc. v. Franklin Mint, Ltd.*, 331 F.Supp. 827, 830 (E.D.Pa. 1971); *Consumers Union of U.S., Inc. v. Theodore Hamm Brewing Co.*, 314 F.Supp. 697, 700 (D.Conn. 1970).

37. Accordingly, Sega has established that Defendants' operation of the MAPHIA bulletin board and sale of video game copiers as above described have caused and are likely to continue to cause irreparable harm to Sega.

D. Conclusion

38. Sega has shown a high probability of success on the merits at trial, and a likelihood of irreparable injury to Plaintiffs, Plaintiffs' market and reputation.

39. Accordingly, Sega has established that it is entitled to preliminary injunctive relief under 15 U.S.C. Section 1116 and under principles of equity.

II. COLLECTION AND SEIZURE OF EVIDENCE

40. Defendants allege that Sega's access to the MAPHIA bulletin board through use of a pseudonym constituted a violation of the Electronic Communications and Transactional Records Act, and maintains that the Seizure Order was thereby inappropriate. The Electronic Communications and Transactional Records Act makes it illegal to "intentionally access without authorization a facility through which an electronic communication service is provided." 18 U.S.C. Section 2701(a).

41. Because the MAPHIA bulletin board is open to the public, and normally accessed by use of an alias or pseudonym, it would appear that Sega's employee's pseudonymous access was authorized. Furthermore, the Act contains an exception for access which is authorized by a user of an electronic service with respect to a communication for that user. 18 U.S.C. 2701(c)(2). The Sega employee's access appears to have been authorized directly or indirectly by a MAPHIA user whose authorized status is not disputed. Therefore, no violation of 18 U.S.C. Section 2701(a) took place.

42. Moreover, the fact that a plaintiff's employee, in the course of investigating a copyright or trademark infringement, fails to identify herself as such to the defendant does not provide a defense to the infringement when such identification would have defeated the investigation. *Reebok International Ltd. v. Jemmett*, 6 USPQ2d 1715, 1988 WL 106933 (S.D.Cal. 1988); *Olan Mills, Inc. v. Linn Photo Co.*, 795 F.Supp. 1423 (N.D.Iowa 1991).

43. Defendant Scherman challenges the description of his copies of Sega's programs as "counterfeit" and maintains that the Seizure Order is thereby inappropriate.

44. There is support for the characterization of the Sega games transferred over the MAPHIA bulletin board as "counterfeit" under the Lanham Act. See 15 U.S.C. Section 1127.

45. As stated by Judge Smith at the hearing on December 17, 1993, the temporary restraining and seizure order was issued on December 9, 1993 in compliance with the Lanham Act and not in violation of the *Fourth Amendment*. *Dealer Advertising Development, Inc. v. Barbara Allan Financial Advertising*, 197 USPQ 611, 614, 1977 WL 22753 (W.D.Mich. 1977).

46. The *ex parte* temporary restraining order and seizure order issued by Judge Smith on December 9, 1993, is confirmed as appropriate procedure here for Defendant's computer bulletin board. The counterfeit and unauthorized copies of Sega's video game programs were believed to be, and found to be, located on Defendant Scherman's premises, and such items were found on that Defendant's computer and memory.

PRELIMINARY INJUNCTION AND ORDER CONFIRMING SEIZURE

The Court hereby enters an Order confirming seizure and for Preliminary Injunction as follows:

1. The seizure executed on December 11, 1993, at Defendant Chad Scherman's address, pursuant to the Court's Order dated December 9, 1993, is hereby confirmed. During the pendency of this action, the software, programs, data, memory, duplicating and decoding and computing machines, and other infringing merchandise seized pursuant to the provisions of that Order shall be impounded in the custody of Plaintiffs' counsel, a Special Master or other substitute custodian to be agreed upon by the parties. If the parties cannot agree upon a custodian, they shall bring an appropriate motion before Magistrate Judge Woodruff;

2. Defendants Chad Scherman and the computer bulletin board Maphia and d/b/a MAPHIA, MAPHIA TRADING COMPANY, their directors, principals, officers, agents, servants, employees, systems operators, successors and assigns, and all those in active concert or participation with them, are hereby enjoined, during the pendency of this action, from engaging in any of the following: (a)(i) imitating, copying or making unauthorized use of Plaintiffs' registered and unregistered trademarks, including but not limited to the SEGA trademark or the works protected by Plaintiffs' copyrights or which are confidential and proprietary to Plaintiffs; (ii) manufacturing, producing, distributing, circulating, selling or bartering, offering for sale, advertising, promoting, displaying or transferring or facilitating the transfer of, any computer video games bearing any simulation, reproduction, counterfeit, copy or colorable imitation of Plaintiffs' SEGA trademark or Plaintiffs' copyrighted works, including Sega's video game titles, or video game copiers which are designed to copy computer video games bearing the SEGA trademark or Plaintiff's copyrighted works; (iii) using any simulation, reproduction, counterfeit, copy or colorable imitation of Plaintiffs' trademarks or of Plaintiffs' copyrighted works in connection with the promotion, advertisement, display, barter, sale, offering for sale or barter, manufacture, production, circulation, transfer or distribution, by any electronic, computer, or other means, of any product or computer game; (iv) engaging in any other activity constituting an infringement of Plaintiffs' trademarks or copyrights, or any other activity causing unfair competition with Plaintiffs; (v) using any false designation of origin or false description or representation which is likely to lead the public erroneously to believe that computer video games or other products maintained, distributed, transferred, made available for transfer, offered for sale, sold, displayed or advertised by Defendants or made accessible in any manner to users of The Sewer Line, MAPHIA, PSYCHOSIS, or other computer bulletin boards, is in any manner associated or connected with Plaintiffs or Plaintiffs' genuine products, or is sold, manufactured, licensed, sponsored, approved, or authorized by Plaintiffs, when such is not true; (vi) otherwise displaying, transferring or making available for downloading or transfer any computer video games or other software or data products containing unauthorized duplications or copies of Plaintiffs' copyrighted computer video games or bearing Plaintiffs' registered SEGA or other trademarks; (vii) assisting, aiding or abetting any other person or business entity in engaging in or performing any of the activities referred to in subparagraphs (i) through (vi) above; and (viii) maintaining, retaining or allowing others to maintain or retain in any file or other format accessible to users or subscribers of MAPHIA, PSYCHOSIS, or any bulletin board, any version of Plaintiffs' trademarks or Plaintiffs' copyrighted works, whether in any computer, computer memory, magnetic storage device, disk, tape, or otherwise--including without limitation, retention in any manner that can be accessed, copied, distributed or counterfeited by others;

(b) moving, (except to deliver to Plaintiffs' counsel or the substitute custodian), destroying, erasing or otherwise disposing of, any video games, data or indexes or directories embodying any unauthorized duplications of Plaintiffs' copyrighted video games or any video games, tapes, memory media, or other merchandise or data, games, indexes or directories, bearing Plaintiff's trademarks or trade names;

(c) removing (except to deliver to Plaintiff's counsel or the substitute custodian), erasing, destroying, or otherwise disposing of any manufacturing, copying or duplicating or decoding apparatus or any databases, directories or business records or documents relating in any way to MAPHIA or any other bulletin boards operated by Defendants, or the manufacture, duplication, acquisition, transfer, downloading, uploading, purchase, distribution, renting, or sale of copiers or computer video games embodying duplications of Plaintiffs' copyrighted game programs and/or bearing Plaintiffs' SEGA or other trademarks or trade names;

3. Defendants shall deliver up to Plaintiffs' counsel, Neil A. Smith, Limbach & Limbach, 2001 Ferry Building, San Francisco, California 94111, or to the substitute custodian, for impoundment any unauthorized copies of Plaintiffs' copyrighted video games or video games bearing the SEGA trademark and video game copiers, remaining in their possession, custody or control;

4. Plaintiffs shall maintain the bond surety previously posted in the amount of \$50,000.00 for this Preliminary Injunction as security determined adequate for this Preliminary Injunction.

IT IS SO ORDERED.

TAB 12

CALIFORNIA PENAL CODE
PART 1. OF CRIMES AND PUNISHMENTS
TITLE 13. OF CRIMES AGAINST PROPERTY
CHAPTER 5. LARCENY [THEFT]

§ 502. Unauthorized access to computers, computer systems and computer data

(a) It is the intent of the Legislature in enacting this section to expand the degree of protection afforded to individuals, businesses, and governmental agencies from tampering, interference, damage, and unauthorized access to lawfully created computer data and computer systems. The Legislature finds and declares that the proliferation of **computer** technology has resulted in a concomitant proliferation of **computer crime** and other forms of unauthorized access to **computers, computer** systems, and **computer** data.

The Legislature further finds and declares that protection of the integrity of all types and forms of lawfully created computers, computer systems, and computer data is vital to the protection of the privacy of individuals as well as to the well-being of financial institutions, business concerns, governmental agencies, and others within this state that lawfully utilize those computers, computer systems, and data.

(b) For the purposes of this section, the following terms have the following meanings:

(1) "Access" means to gain entry to, instruct, or communicate with the logical, arithmetical, or memory function resources of a computer, computer system, or computer network.

(2) "Computer network" means any system that provides communications between one or more computer systems and input/output devices including, but not limited to, display terminals and printers connected by telecommunication facilities.

(3) "Computer program or software" means a set of instructions or statements, and related data, that when executed in actual or modified form, cause a computer, computer system, or computer network to perform specified functions.

(4) "Computer services" includes, but is not limited to, computer time, data processing, or storage functions, or other uses of a computer, computer system, or computer network.

(5) "Computer system" means a device or collection of devices, including support devices and excluding calculators that are not programmable and capable of being used in conjunction with external files, one or more of which contain computer programs, electronic instructions, input data, and output data, that performs functions including, but not limited to, logic, arithmetic, data storage and retrieval, communication, and control.

(6) "Data" means a representation of information, knowledge, facts, concepts, computer software, computer programs or instructions. Data may be in any form, in storage media, or as stored in the memory of the computer or in transit or presented on a display device.

(7) "Supporting documentation" includes, but is not limited to, all information, in any form, pertaining to the design, construction, classification, implementation, use, or modification of a computer, computer system, computer network, computer program, or computer software, which information is not generally available to the public and is necessary for the operation of a computer, computer system, computer network, computer program, or computer software.

(8) "Injury" means any alteration, deletion, damage, or destruction of a computer system, computer network, computer program, or data caused by the access, or the denial of access to legitimate users of a computer system, network, or program.

(9) "Victim expenditure" means any expenditure reasonably and necessarily incurred by the owner or lessee to verify that a computer system, computer network, computer program, or data was or was not altered, deleted, damaged, or destroyed by the access.

(10) "Computer contaminant" means any set of computer instructions that are designed to modify, damage, destroy, record, or transmit information within a computer, computer system, or computer network without the intent or permission of the owner of the information. They include, but are not limited to, a group of computer instructions commonly called viruses or worms, that are self-replicating or self-propagating and are designed to contaminate other computer programs or computer data, consume computer resources, modify, destroy, record, or transmit data, or in some other fashion usurp the normal operation of the computer, computer system, or computer network.

(11) "Internet domain name" means a globally unique, hierarchical reference to an Internet host or service, assigned through centralized Internet naming authorities, comprising a series of character strings separated by periods, with the rightmost character string specifying the top of the hierarchy.

(c) Except as provided in subdivision (h), any person who commits any of the following acts is guilty of a public offense:

(1) Knowingly accesses and without permission alters, damages, deletes, destroys, or otherwise uses any data, computer, computer system, or computer network in order to either (A) devise or execute any scheme or artifice to defraud, deceive, or extort, or (B) wrongfully control or obtain money, property, or data.

(2) Knowingly accesses and without permission takes, copies, or makes use of any data from a computer, computer system, or computer network, or takes or copies any supporting documentation, whether existing or residing internal or external to a computer, computer system, or computer network.

(3) Knowingly and without permission uses or causes to be used computer services.

(4) Knowingly accesses and without permission adds, alters, damages, deletes, or destroys any data, computer software, or computer programs which reside or exist internal or external to a computer, computer system, or computer network.

(5) Knowingly and without permission disrupts or causes the disruption of computer services or denies or causes the denial of computer services to an authorized user of a computer, computer system, or computer network.

(6) Knowingly and without permission provides or assists in providing a means of accessing a computer, computer system, or computer network in violation of this section.

(7) Knowingly and without permission accesses or causes to be accessed any computer, computer system, or computer network.

(8) Knowingly introduces any computer contaminant into any computer, computer system, or computer network.

(9) Knowingly and without permission uses the Internet domain name of another individual, corporation, or entity in connection with the sending of one or more electronic mail messages, and thereby damages or causes damage to a computer, computer system, or computer network.

(d)(1) Any person who violates any of the provisions of paragraph (1), (2), (4), or (5) of subdivision (c) is punishable by a fine not exceeding ten thousand dollars (\$10,000), or by imprisonment in the state prison

for 16 months, or two or three years, or by both that fine and imprisonment, or by a fine not exceeding five thousand dollars (\$5,000), or by imprisonment in a county jail not exceeding one year, or by both that fine and imprisonment.

(2) Any person who violates paragraph (3) of subdivision (c) is punishable as follows:

(A) For the first violation that does not result in injury, and where the value of the computer services used does not exceed four hundred dollars (\$400), by a fine not exceeding five thousand dollars (\$5,000), or by imprisonment in a county jail not exceeding one year, or by both that fine and imprisonment.

(B) For any violation that results in a victim expenditure in an amount greater than five thousand dollars (\$5,000) or in an injury, or if the value of the computer services used exceeds four hundred dollars (\$400), or for any second or subsequent violation, by a fine not exceeding ten thousand dollars (\$10,000), or by imprisonment in the state prison for 16 months, or two or three years, or by both that fine and imprisonment, or by a fine not exceeding five thousand dollars (\$5,000), or by imprisonment in a county jail not exceeding one year, or by both that fine and imprisonment.

(3) Any person who violates paragraph (6) or (7) of subdivision (c) is punishable as follows:

(A) For a first violation that does not result in injury, an infraction punishable by a fine not exceeding one thousand dollars (\$1,000).

(B) For any violation that results in a victim expenditure in an amount not greater than five thousand dollars (\$5,000), or for a second or subsequent violation, by a fine not exceeding five thousand dollars (\$5,000), or by imprisonment in a county jail not exceeding one year, or by both that fine and imprisonment.

(C) For any violation that results in a victim expenditure in an amount greater than five thousand dollars (\$5,000), by a fine not exceeding ten thousand dollars (\$10,000), or by imprisonment in the state prison for 16 months, or two or three years, or by both that fine and imprisonment, or by a fine not exceeding five thousand dollars (\$5,000), or by imprisonment in a county jail not exceeding one year, or by both that fine and imprisonment.

(4) Any person who violates paragraph (8) of subdivision (c) is punishable as follows:

(A) For a first violation that does not result in injury, a misdemeanor punishable by a fine not exceeding five thousand dollars (\$5,000), or by imprisonment in a county jail not exceeding one year, or by both that fine and imprisonment.

(B) For any violation that results in injury, or for a second or subsequent violation, by a fine not exceeding ten thousand dollars (\$10,000), or by imprisonment in a county jail not exceeding one year, or in the state prison, or by both that fine and imprisonment.

(5) Any person who violates paragraph (9) of subdivision (c) is punishable as follows:

(A) For a first violation that does not result in injury, an infraction punishable by a fine not one thousand dollars.

(B) For any violation that results in injury, or for a second or subsequent violation, by a fine not exceeding five thousand dollars (\$5,000), or by imprisonment in a county jail not exceeding one year, or by both that fine and imprisonment.

(e)(1) In addition to any other civil remedy available, the owner or lessee of the computer, computer system, computer network, computer program, or data who suffers damage or loss by reason of a violation of any of the provisions of subdivision (c) may bring a civil action against the violator for compensatory damages and injunctive relief or other equitable relief. Compensatory damages shall include any

expenditure reasonably and necessarily incurred by the owner or lessee to verify that a computer system, computer network, computer program, or data was or was not altered, damaged, or deleted by the access. For the purposes of actions authorized by this subdivision, the conduct of an unemancipated minor shall be imputed to the parent or legal guardian having control or custody of the minor, pursuant to the provisions of Section 1714.1 of the Civil Code.

(2) In any action brought pursuant to this subdivision the court may award reasonable attorney's fees.

(3) A community college, state university, or academic institution accredited in this state is required to include **computer-related crimes** as a specific violation of college or university student conduct policies and regulations that may subject a student to disciplinary sanctions up to and including dismissal from the academic institution. This paragraph shall not apply to the University of California unless the Board of Regents adopts a resolution to that effect.

(4) In any action brought pursuant to this subdivision for a willful violation of the provisions of subdivision (c), where it is proved by clear and convincing evidence that a defendant has been guilty of oppression, fraud, or malice as defined in subdivision (c) of Section 3294 of the Civil Code, the court may additionally award punitive or exemplary damages.

(5) No action may be brought pursuant to this subdivision unless it is initiated within three years of the date of the act complained of, or the date of the discovery of the damage, whichever is later.

(f) This section shall not be construed to preclude the applicability of any other provision of the criminal law of this state which applies or may apply to any transaction, nor shall it make illegal any employee labor relations activities that are within the scope and protection of state or federal labor laws.

(g) Any computer, computer system, computer network, or any software or data, owned by the defendant, that is used during the commission of any public offense described in subdivision (c) or any computer, owned by the defendant, which is used as a repository for the storage of software or data illegally obtained in violation of subdivision (c) shall be subject to forfeiture, as specified in Section 502.01.

(h)(1) Subdivision (c) does not apply to punish any acts which are committed by a person within the scope of his or her lawful employment. For purposes of this section, a person acts within the scope of his or her employment when he or she performs acts which are reasonably necessary to the performance of his or her work assignment.

(2) Paragraph (3) of subdivision (c) does not apply to penalize any acts committed by a person acting outside of his or her lawful employment, provided that the employee's activities do not cause an injury, as defined in paragraph (8) of subdivision (b), to the employer or another, or provided that the value of supplies or computer services, as defined in paragraph (4) of subdivision (b), which are used does not exceed an accumulated total of one hundred dollars (\$100).

(i) No activity exempted from prosecution under paragraph (2) of subdivision (h) which incidentally violates paragraph (2), (4), or (7) of subdivision (c) shall be prosecuted under those paragraphs.

(j) For purposes of bringing a civil or a criminal action under this section, a person who causes, by any means, the access of a computer, computer system, or computer network in one jurisdiction from another jurisdiction is deemed to have personally accessed the computer, computer system, or computer network in each jurisdiction.

(k) In determining the terms and conditions applicable to a person convicted of a violation of this section the court shall consider the following:

(1) The court shall consider prohibitions on access to and use of computers.

(2) Except as otherwise required by law, the court shall consider alternate sentencing, including community service, if the defendant shows remorse and recognition of the wrongdoing, and an inclination not to repeat the offense.

[There is no TAB 13]

TAB 14

CALIFORNIA PENAL CODE
PART 1. OF CRIMES AND PUNISHMENTS
TITLE 13. OF CRIMES AGAINST PROPERTY
CHAPTER 3. BURGLARIOUS AND LARCENOUS INSTRUMENTS AND DEADLY WEAPONS

§ 466. Burglars' tools; possession; intent; making or altering key; making, altering, or repairing thing for use in committing offense; building defined

Every person having upon him or her in his or her possession a picklock, crow, keybit, crowbar, screwdriver, vice grip pliers, water-pump pliers, slidehammer, slim jim, tension bar, lock pick gun, tubular lock pick, floor-safe door puller, master key, or other instrument or tool with intent feloniously to break or enter into any building, railroad car, aircraft, or vessel, trailer coach, or vehicle as defined in the Vehicle Code, or who shall knowingly make or alter, or shall attempt to make or alter, any key or other instrument above named so that the same will fit or open the lock of a building, railroad car, aircraft, or vessel, trailer coach, or vehicle as defined in the Vehicle Code, without being requested so to do by some person having the right to open the same, or who shall make, alter, or repair any instrument or thing, knowing or having reason to believe that it is intended to be used in committing a misdemeanor or felony, is guilty of misdemeanor. Any of the structures mentioned in Section 459 shall be deemed to be a building within the meaning of this section.

CALIFORNIA PENAL CODE
PART 1. OF CRIMES AND PUNISHMENTS
TITLE 13. OF CRIMES AGAINST PROPERTY
CHAPTER 3. BURGLARIOUS AND LARCENOUS INSTRUMENTS AND DEADLY WEAPONS

§ 466.1. Sale or provision of lock pick, tension bar, lock pick gun, tubular lock pick, or floor-safe door puller; information on purchaser or person to whom provided on bill of sale or receipt; inspection; violation

Any person who knowingly and willfully sells or provides a lock pick, a tension bar, a lock pick gun, a tubular lock pick, or a floor-safe door puller, to another, whether or not for compensation, shall obtain the name, address, telephone number, if any, date of birth, and driver's license number or identification number, if any, of the person to whom the device is sold or provided. This information, together with the date the device was sold or provided and the signature of the person to whom the device was sold or provided, shall be set forth on a bill of sale or receipt. A copy of each bill of sale or receipt shall be retained for one year and shall be open to inspection by any peace officer during business hours.

Any person who violates any provision of this section is guilty of a misdemeanor.

TAB 15

*Federal Register: November 22, 1995 (Volume 60, Number 225)
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FEDERAL TRADE COMMISSION

[File No. 931-0097]

Dell Computer Corp.; Consent Agreement With Analysis To Aid Public Comment

AGENCY: Federal Trade Commission.

ACTION: Consent agreement.

SUMMARY: In settlement of alleged violations of federal law prohibiting unfair acts and practices and unfair methods of competition, this consent agreement, accepted subject to final Commission approval, would require Dell not to enforce patent rights against computer manufacturers using the VL-bus, a mechanism to transfer instructions between a computer's central processing unit and peripherals such as a video monitor, which had been accepted by the Video Electronics Standards Association (VESA) as the industry standard. The Commission had alleged that Dell, as a member of the VESA, did not disclose to other VESA members that it held patent rights to the VL-bus technology at the time the VESA standard for such technology was adopted and then later attempted to enforce those patent rights against certain VESA members, in an effort to unilaterally impose costs on its rivals.

DATES: Comments must be received on or before January 22, 1996.

ADDRESSES: Comments should be directed to: FTC/Office of the Secretary, Room 159, 6th Street and Pennsylvania Avenue NW., Washington, DC 20580.

FOR FURTHER INFORMATION CONTACT:

William J. Baer, Bureau of Competition, Federal Trade Commission, H-374, 6th Street and Pennsylvania Avenue NW., Washington, DC 20580. (202) 326-2932.

SUPPLEMENTARY INFORMATION: Pursuant to section 6(f) of the Federal Trade Commission Act, 38 Stat. 721, 15 U.S.C. 46 and Sec. 2.34 of the Commission's rules of practice (16 CFR 2.34), notice is hereby given that the following consent agreement containing a consent order to cease and desist, having been filed with and accepted, subject to final approval, by the Commission, has been placed on the public record for a period of sixty (60) days. Public comment is invited. Such comments or views will be considered by the Commission and will be available for inspection and copying at its principal office in accordance with Sec. 4.9(b)(6)(ii) of the Commission's rules of practice (16 CFR 4.9(b)(6)(ii)).

Agreement Containing Consent Order To Cease and Desist

The Federal Trade Commission ("Commission") having initiated an investigation of certain acts and practices of the Dell Computer Corporation ("Dell"), and it now appearing that Dell Computer Corporation, hereinafter sometimes referred to as proposed respondent, is willing to enter into an agreement containing an order to cease and desist from engaging in the acts and practices being investigated, and providing for other relief, it is hereby agreed by and between the proposed respondent, by its duly authorized officer and its attorney and counsel for the Commission that:

1. Proposed respondent Dell is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its offices and principal place of business located at 2214 West Braker Lane, Austin, Texas 78758.
2. Proposed respondent admits all the jurisdictional facts set forth in the draft of complaint.
3. Proposed respondent waives:
 - (a) Any further procedural steps;
 - (b) The requirement that the Commission's decision contain a statement of findings of fact and conclusions of law;
 - (c) All rights to seek judicial review or otherwise to challenge or contest the validity of the order entered pursuant to this agreement; and
 - (d) Any claim under the Equal Access to Justice Act.
4. Proposed respondent shall submit with this agreement an initial report signed by the proposed respondent setting forth in precise detail the manner in which the proposed respondent will comply with Paragraph IV of the order when and if entered. Such report will not become part of the public record unless and until the accompanying agreement and order are accepted by the Commission. At the time such report is submitted, proposed respondent may request confidentiality for any portion thereof with a precise showing of justification therefore.
5. This agreement shall not become part of the public record of the proceeding unless and until it is accepted by the Commission. If this agreement is accepted by the Commission it, together with the draft of complaint contemplated thereby, will be placed on the public record for a period of sixty (60) days and information in respect thereto publicly released. The Commission thereafter may either withdraw its acceptance of this agreement and so notify the proposed respondent, in which event it will take such action as it may consider appropriate, or issue and serve its complaint (in such form as the circumstances may require) and decision, in disposition of the proceeding.
6. This agreement is for settlement purposes only and does not constitute an admission by proposed respondent that the law has been violated as alleged in the draft of complaint, or that the facts as alleged in the draft complaint, other than jurisdictional facts, are true.
7. This agreement contemplates that, if it is accepted by the Commission, and if such acceptance is not subsequently withdrawn by the Commission pursuant to the provisions of Sec. 2.34 of the Commission's rules of practice, the Commission may, without further notice to the proposed respondent, (1) issue its complaint corresponding in form and substance with the draft complaint and its decision containing the following order to cease and desist in disposition of the proceeding, and (2) make information public in respect thereto. When so entered, the order to cease and desist shall have the same force and effect and may be altered, modified, or set aside in the same manner and within the same time provided by statute for other orders. The order shall become final upon service. Delivery by the U.S.

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Postal Service of the complaint and decision containing the agreed-to order to proposed respondent's address as stated in this agreement shall constitute service. Proposed respondent waives any right it may have to any other manner of service. The complaint may be used in construing the terms of the order, and no agreement, understanding, representation, or interpretation not contained in the order or agreement may be used to vary or contradict the terms of the order.

8. Proposed respondent has read the proposed complaint and order contemplated hereby. Proposed respondent understands that once the order has been issued, it will be required to file one or more compliance reports showing that it has fully complied with the order. Proposed respondent further understands that it may be liable for civil penalties in the amount provided by law for each violation of the order after it becomes final.

Order

I

It is ordered that, as used in this order, the following definitions shall apply:

A. ``Respondent" or ``Dell" means Dell Computer Corporation, its predecessors, subsidiaries, divisions, groups, and affiliates controlled by Dell Computer Corporation, their successors and assigns, and their directors, officers, employees, agents and representatives.

B. ``Designated representative" means the person appointed by Dell to the standard-setting organization who communicates respondent's position regarding respondent's patent rights related to any standard under consideration by the standard-setting organization.

C. ``VESA" means the Video Electronics Standards Association, located at 2150 North First Street, Suite 440, San Jose, California, 95131.

D. ``VL-bus" means the computer local bus design standard VESA established in August 1992 for the transmission of computer information between a computer's central processing unit and certain computer peripheral devices. E. ``'481 patent" means United States patent number 5,036,481.

F. ``Commission" means the Federal Trade Commission.

II

It is further ordered that, within thirty (30) days after the date of this order becomes final, and until July 31, 2008, respondent shall cease and desist all efforts it has undertaken by any means, including without limitation the threat, prosecution or defense of any suits or other actions, whether legal, equitable, or administrative, as well as any arbitrations, mediations, or any other form of private dispute resolution, through or in which respondent has asserted that any person or entity, by using or applying VL-bus in its manufacture of computer equipment, has infringed the '481 patent.

III

It is further ordered that, until July 31, 2008, respondent shall not undertake any new efforts to enforce the '481 patent by threatening, prosecuting or defending any suit or other action, whether legal, equitable, or administrative, as well as any arbitration, mediation, or other form of private dispute resolution, through or in which respondent claims that any person or entity, by using or applying VL-bus in its manufacture of computer equipment, has infringed the '481 patent.

IV

It is further ordered that, for a period of ten (10) years after the date this order becomes final, respondent shall cease and desist from enforcing or threatening to enforce any patent rights by asserting or alleging that any person's or entity's use or implementation of an industry design standard infringes such patent rights, if, in response to a written inquiry from the standard-setting organization to respondent's designated representative, respondent intentionally failed to disclose such patent rights while such industry standard was under consideration.

V

It is further ordered that, for a period of ten (10) years after this order becomes final, respondent shall maintain the procedure for assuring compliance with Paragraph IV of this order, as accepted by the Commission pursuant to Paragraph 4 of the Agreement Containing Consent Order to Cease and Desist.

VI

It is further ordered that respondent shall:

A. Within thirty (30) days after the date this order becomes final, distribute a copy of this order, complaint and the announcement shown in Appendix A to this order to VESA, to those members of VESA that Dell contacted regarding possible infringement of the '481 patent, and to any other person or entity to whom respondent has sent notice regarding its claim that the implementation of the VL-bus standard conflicts with or infringes the '481 patent.

B. Within thirty (30) days after the date this order becomes final, distribute a copy of this order, complaint and the announcement shown in Appendix A to this order to every officer and director of respondent, and to every employee of respondent whose responsibilities include acting as respondent's designated

representative to any standard-setting organization, group or similar body of which respondent is a member.

C. For a period of five (5) years after the date this order becomes final, furnish a copy of this order and complaint to each new officer and director of respondent and to every new employee of respondent whose responsibilities will or do include acting as respondent's designated representative to any standard-setting organization, group or similar body of which respondent is a member. Such copies must be furnished within thirty (30) days after any such persons assume their position as an officer, director or employee. For purposes of this paragraph VI.C., "new employee" shall include without limitation any of respondent's employees whose duties change during their employment to include acting as respondent's designated representative to any standards-setting organization, group or similar body of which respondent is a member.

D. For a period of ten (10) years after the date this order becomes final, respondent shall furnish each standard-setting organization of which it is a member and which it joins a copy of the order and respondent shall identify to each such organization the name of the person who will serve as respondent's designated representative to the standard-setting organization.

VII

It is further ordered that respondent shall:

A. Within ninety (90) days after the date this order becomes final, and annually thereafter for five (5) years on the anniversary of the date this order becomes final, and at such other times as the Commission may, by written notice to the respondent, require, file a verified written report with the Commission setting forth in detail the manner and form in which the respondent has complied and is complying with this order.

B. For a period of ten (10) years after the date this order becomes final, maintain and make available to

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Commission staff, for inspection and copying upon reasonable notice, records adequate to describe in detail any action taken in connection with the activities covered by Paragraphs V and VI of this order.

C. Notify the Commission at least thirty (30) days prior to any proposed change in respondent such as dissolution, assignment or sale resulting in the emergence of a successor corporation, the creation or dissolution of subsidiaries, or any other change in respondent that may affect compliance obligations arising out of this order.

Appendix A

Announcement

Dell Computer Corporation has entered into a consent agreement with the Federal Trade Commission. Pursuant to this consent agreement, the Commission issued an order on [Date] that prohibits Dell from enforcing its United States patent number 5,036,481 against any company for such company's use of the Video Electronics Standards Association's VL-bus standard.

For more specific information, please refer to the FTC order itself, a copy of which is attached for your information.

General Counsel,
Dell Computer Corporation.

Dell Computer Corporation, Analysis of Proposed Consent Order To Aid Public Comment

The Federal Trade Commission has accepted an agreement to a proposed consent order from Dell Computer Corporation ("Dell"), which is located in Austin, Texas. The agreement would settle charges by the Commission that the proposed respondent violated Section 5 of the Federal Trade Commission Act by engaging in practices that restricted competition related to VL-bus design standards for personal computing systems.

The proposed consent order has been placed on the public record for sixty (60) days for reception of comments by interested persons. Comments received during this period will become part of the public

record. After sixty (60) days, the Commission will again review the agreement and decide whether it should withdraw from the agreement or make final the agreement's proposed order.

The Complaint

The complaint prepared for issuance by the Commission along with the proposed order alleged that Dell has engaged in acts and practices that have unreasonably restrained competition to use the VL-bus design for personal computers. The complaint alleges that in February 1992 Dell became a member of the Video Electronics Standards Association ("VESA"), a non-profit standards-setting association composed of virtually all major U.S. computer hardware and software manufacturers. At or about the same time, VESA began the process of setting a design standard for a computer bus design, later to be known as the VESA Local Bus or "VL-bus". Like all computer buses, the VL-bus carries information or instructions between the computer's central processing unit and the computer's peripheral devices such as a hard disk drive, a video display terminal, or a modem.

According to the complaint, by June 1992 VESA's Local Bus Committee, with Dell representatives sitting as members, approved the VL-bus design standard, which improved upon then-existing technology by more quickly and efficiently meeting the transmission needs of new, video-intensive software. One year earlier, in July 1991, Dell had received United States patent number 5,036,481 (the "'481 patent"), which, according to Dell, gives it "exclusive rights to the mechanical slot configuration used on the motherboard to receive the VL-bus card."

The complaint states that on July 20, 1992, Dell voted to approve the preliminary proposal for the VL-bus standard. As part of this approval, a Dell representative certified in writing that, to the best of his knowledge, "this proposal does not infringe on any trademarks, copyrights, or patents" that Dell possessed. After committee approval of the VL-bus design standard, VESA sought the approval of the VL-bus design standard by all of its voting members. On August 6, 1992, Dell's representative approved the final VL-bus design standard. As part of its approval, a Dell representative again certified in writing that, to the best of his knowledge, "this proposal does not infringe on any trademarks, copyrights, or patents" that Dell possessed. At no time during the standard-setting process did Dell disclose to VESA's Local Bus Committee the existence of the '481 patent.

The complaint alleges that after VESA's VL-bus design standard became very successful, having been included in over 1.4 million computers sold in the eight months immediately following its adoption, Dell informed certain VESA members who were manufacturing computers using the new design standard that their "implementation of the VL-bus is a violation of Dell's exclusive rights." Dell demanded that these companies meet with its representatives to "determine * * * the manner in which Dell's exclusive rights will be recognized * * *." Dell followed up its initial demands by meeting with several companies, and it has never renounced the claimed infringement.

The complaint also alleges that the purpose or effects of the challenged acts or practices have been to restrain competition unreasonably in the following ways:

(a) Industry acceptance of the VL-bus design standard was hindered because some computer manufacturers delayed their use of the design standard until the patent issue was clarified.

(b) Systems utilizing the VL-bus design standard were avoided due to concerns that patent issues would affect the VL-bus' success as an industry design standard.

(c) The uncertainty concerning the acceptance of the VL-bus design standard raised the costs of implementing the VL-bus design as well as the costs of developing competing bus designs.

(d) Willingness to participate in industry standard-setting efforts have been chilled. If a company misrepresents its patent rights to a standard-setting-organization, thereby leading the organization to adopt a particular standard that may infringe on the company's patent rights, the company's later efforts to take advantage of market power resulting from the standard, rather than from some inherent value of the patent, constitutes a violation of Section 5. Cf. *Potter Instrument Co. v. Storage Technology Corp.*, 641 F.2d 190 (4th Cir.) (court would estop enforcement of patent where patent holder participated in a standard-setting process, intentionally failed to disclose the existence of its patent, and waited six years until the standard was widely adopted before seeking to enforce the patent), cert. denied 454 U.S. 832 (1981); *III P. Areeda*, *Antitrust Law* para.707h at 141-42 (1978) (negligent misrepresentation to patent office can constitute exclusionary act for equitable antitrust purposes).

The Proposed Consent Order

Part I of the order covers definitions. These definitions make clear that the consent order applies to the directors, officers, employees, agents and representatives of Dell. The order also defines the terms VL-bus, VESA, and "designated representative," which means the person appointed by Dell to the standard-setting organization who communicates Dell's position regarding its patent rights related to any standard under consideration by the standard-setting organization.

Part II of the order requires Dell to cease and desist from all enforcement efforts where it has asserted that any person or entity, by using or applying VL-bus in its manufacture of computer equipment, has infringed Dell's '481 patent.

Part III of the order prohibits Dell from undertaking any new efforts to enforce the '481 patent in which Dell would claim that any person or entity, by using or applying VL-bus in its manufacture of computer equipment, has infringed the '481 patent.

Part IV of the order requires that for a period of ten (10) years after the date the order becomes final, Dell shall cease and desist from enforcing or threatening to enforce any patent rights by asserting or alleging that any person's or entity's use or implementation of an industry design standard infringes such patent rights if, in response to a written inquiry from the standard-setting organization to respondent's designated representative, Dell intentionally failed to disclose such patent rights while such industry standard was under consideration.

Part V of the order requires that for a period of ten (10) years after this order becomes final, Dell shall maintain the procedure for assuring compliance with Paragraph IV of the order consistent with a compliance procedure Dell has submitted to the Commission.

Part VI of the order requires Dell to distribute a copy of this order, complaint and an announcement to VESA, to those members of VESA that Dell contacted regarding possible infringement of the '481 patent, and to other persons respondent has sent notice regarding the '481 patent claim.

Part VI also requires that Dell distribute a copy of this order, complaint and the

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announcement to new officers and directors of Dell; to every employee of Dell whose responsibilities include acting as Dell's designated representative to any standard-setting organization, group or similar body of which respondent is a member; and to each standard-setting organization of which Dell is a member. Dell must also identify to each standard-setting organization it joins the name of the person who will serve as its designated representative to the standard-setting organization.

Part VII requires Dell to file compliance reports for five years.

Donald S. Clark,
Secretary.

Dissenting Statement of Commissioner Mary L. Azcuenaga in Deli Computer Corp.

[File No. 931-0097]

Today, the Commission accepts for public comment a consent order that prohibits Dell Computer Corp. ("Dell") from attempting to enforce its "'481 patent" against anyone "using or applying VL-bus in its manufacture of computer equipment," because Dell failed to warn the Video Electronics Standards Association ("VESA") of Dell's intellectual property rights when VESA adopted its computer local bus design standard ("VL-bus"). Because the complain does not allege and the evidence does not support a violation of Section 5 of the FTC Act under any established theory of law, and because under any novel theory the competitive implications of the conduct alleged remain unclear, I dissent.

VESA is a private standard-setting association, the members of which include both computer hardware and software manufacturers. In early 1992, a VESA committee developed a proposed standard for a computer bus to carry information between the central processing unit and the peripheral devices of a computer. In August 1992, VESA members, including Dell, voted to approve the proposed standard. The trade association's ballot required each member's authorized representative to VESA to sign a statement that "to the best of my knowledge," the proposal did not infringe the member company's intellectual property rights. Dell subsequently asserted that implementation of the VL-bus by others infringed Dell's patent rights.

One antitrust theory might be that Dell intentionally mislead VESA regarding the scope of its patent rights; that VESA, relying on Dell's misrepresentations, adopted a standard that conflicted with Dell's rights; and that as a result of the standard, Dell acquired market power. No evidence supports a finding of such intentional conduct, and the allegations in the complaint do not seem sufficient to support a finding of liability on the basis of this theory. I welcome comment on the factual showing that would be necessary and appropriate under this theory. Another Section 5 theory might be that by participating in a private trade association's standard-setting activities, a firm assumes an affirmative duty to identify the boundaries of its intellectual property rights and to warn the association of any potential conflicts. Alternatively, the Commission might impose such a duty only if a firm returns a ballot with a certification like VESA's, so that a firm could escape antitrust exposure by simply not voting.

Adoption of this novel theory of liability may affect a range of standard-setting organizations. In creating a new antitrust-based duty of care for participants in the voluntary standard setting process, a host of questions need to be resolved. I welcome public comment on the appropriate nature and scope of any such duty, and I look forward to reassessing the case at the end of the comment period.

[FR Doc. 95-28459 Filed 11-21-95; 8:45 am]
BILLING CODE 6750-01-M

TAB 16

Supreme Court of the United States

SONY CORPORATION OF AMERICA, et al., Petitioners

v.

UNIVERSAL CITY STUDIOS, INC., etc., et al.

464 U.S. 417 (1984)

Owners of copyrights on television programs brought copyright infringement action against manufacturers of home videotape recorders. The United States District Court for the Central District of California, 480 F.Supp. 429, denied all relief sought by copyright owners and entered judgment for manufacturers, and owners appealed. The United States Court of Appeals for the Ninth Circuit, 659 F.2d 963, reversed district court's judgment on copyright claim, and manufacturers petitioned for writ of certiorari. The Supreme Court, Justice Stevens, held that manufacturers of home videotape recorders demonstrated a significant likelihood that substantial numbers of copyright holders who licensed their works for broadcast on free television would not object to having their broadcasts time shifted by private viewers and owners of copyrights on television programs failed to demonstrate that time shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works and therefore home videotape recorder was capable of substantial noninfringing uses; thus, manufacturers' sale of such equipment to general public did not constitute contributory infringement of respondents' copyrights.

Reversed.

Justice Blackmun filed dissenting opinion in which Justice Marshall, Justice Powell and Justice Rehnquist joined.

**417 Syllabus* [FN*]

FN* The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Lumber Co.*, 200 U.S. 321, 337, 26 S.Ct. 282, 287, 50 L.Ed. 499.

Petitioner Sony Corp. manufactures home video tape recorders (VTR's), and markets them through retail establishments, some of which are also petitioners. Respondents own the copyrights on some of the television programs that are broadcast on the public airwaves. Respondents brought an action against petitioners in Federal District Court, alleging that VTR consumers had been recording some of respondents' copyrighted works that had been exhibited on commercially sponsored television and thereby infringed respondents' copyrights, and further that petitioners were liable for such copyright infringement because of their marketing of the VTR's. Respondents sought money damages, an equitable accounting of profits, and an injunction against the manufacture and marketing of the VTR's. The District Court denied respondents all relief, holding that noncommercial home use recording of material broadcast over the public airwaves was a fair use of copyrighted works and did not constitute copyright infringement, and that petitioners could not be held liable as contributory infringers even if the home use of a VTR was considered an infringing use. The Court of Appeals reversed, holding petitioners liable for contributory infringement and ordering the District Court to fashion appropriate relief.

Held: The sale of the VTR's to the general public does not constitute contributory infringement of respondents' copyrights. Pp. 782 - 796.

(a) The protection given to copyrights is wholly statutory, and, in a case like this, in which Congress has not plainly marked the course to be followed by the judiciary, this Court must be circumspect in construing

the scope of rights created by a statute that never contemplated such a calculus of interests. Any individual may reproduce a copyrighted work for a "fair use"; the copyright owner does not possess the exclusive right to such a use. Pp. 782 - 785.

(b) *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 32 S.Ct. 20, 56 L.Ed. 92, does not support respondents' novel theory that supplying the "means" to accomplish an infringing activity and encouraging that activity through advertisement are sufficient to establish liability for copyright infringement. This case does not fall in the category of those in which it is manifestly just to *418 impose vicarious liability because the "contributory" infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner. Here, the only contact between petitioners and the users of the VTR's occurred at the moment of sale. And there is no precedent for imposing vicarious liability on the theory that petitioners sold the VTR's with constructive knowledge that their customers might use the equipment to make unauthorized copies of copyrighted material. The sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes, or, indeed, is merely capable of substantial noninfringing uses. Pp. 785 - 788.

(c) The record and the District Court's findings show (1) that there is a significant likelihood that substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcast time-shifted by private viewers (*i.e.*, recorded at a time when the VTR owner cannot view the broadcast so that it can be watched at a later time); and (2) that there is no likelihood that time-shifting would cause nonminimal harm to the potential market for, or the value of, respondents' copyrighted works. The VTR's are therefore capable of substantial noninfringing uses. Private, noncommercial time-shifting in the home satisfies this standard of noninfringing uses both because respondents have no right to prevent other copyright holders from authorizing such time-shifting for their programs, and because the District Court's findings reveal that even the unauthorized home time-shifting of respondents' programs is legitimate fair use. Pp. 789 - 795.

659 F.2d 963, reversed.

Dean C. Dunlavey reargued the cause for petitioners. With him on the briefs were *Donald E. Sloan* and *Marshall Rutter*.

Stephen A. Kroft reargued the cause for respondents. With him on the brief was *Sondra E. Berchin*.*

* Briefs of *amici curiae* urging reversal were filed for the Virginia Citizens' Consumer Council, Inc., et al. by *William A. Dobrovir*; for the American Library Association by *Newton N. Minow*; for the Consumer Electronics Group by *J. Edward Day*; for the Educators Ad Hoc Committee on Copyright Law by *Michael H. Cardozo*, *August W. Steinhilber*, and *Gwendolyn H. Gregory*; for General Electric Co. et al. by *Alfred B. Engelberg*, *Morton Amster*, *Jesse Rothstein*, and *Joel E. Lutzker*; for Hitachi, Ltd., et al. by *John W. Armagost* and *Craig B. Jorgensen*; for McCann-Erickson, Inc., et al. by *John A. Donovan*, *A. Howard Matz*, and *David Fleischer*; for Minnesota Mining and Manufacturing Co. et. al. by *Sidney A. Diamond* and *Grier Curran Raclin*; for the National Retail Merchants Association by *Peter R. Stern*, *Theodore S. Steingut*, and *Robert A. Weiner*; for Sanyo Electric, Inc., by *Anthony Liebig*; for Sears, Roebuck and Co. by *Max L. Gillam* and *Mary E. Woytek*; for TDK Electronics Co., Ltd., by *Ko- Yung Tung* and *Adam Yarmolinsky*; for Toshiba Corp. et al. by *Donald J. Zoeller* and *Herve Gouraige*; for Pfizer Inc. by *Steven C. Kany*; and for Viare Publishing by *Peter F. Marvin*.

Briefs of *amici curiae* urging affirmance were filed for the Association of American Publishers, Inc., et al. by *Charles H. Lieb* and *Jon A. Baumgarten*; for the Authors League of America, Inc., by *Irwin Karp*; for CBS Inc. by *Lloyd N. Cutler*, *Louis R. Cohen*, and *George Vradenburg III*; for Creators and Distributors of Programs by *Stuart Robinowitz* and *Andrew J. Peck*; for the International Alliance of Theatrical Stage Employees and Moving Picture Machine Operators of the United States and Canada, AFL-CIO, by *Leo Geffner*; for the Motion Picture Association of America, Inc., by *Richard M. Cooper*, *Ellen S. Huvelle*, and *William Nix*; for the National Music Publishers' Association, Inc., by *Jon A. Baumgarten*; for the Recording Industry Association of America, Inc., by *James F. Fitzpatrick*, *Cary H. Sherman*, and *Ernest S.*

Meyers; for Volunteer Lawyers for the Arts, Inc., by *I. Fred Koenigsberg*; and for the Writers Guild of America, West, Inc., et al. by *Paul P. Selvin, Jerome B. Lurie, and Paul S. Berger*.

Briefs of *amici curiae* were filed for the State of Missouri et al. by *John Ashcroft*, Attorney General of Missouri, and by the Attorneys General for their respective States as follows: *Charles A. Graddick* of Alabama, *John Steven Clark* of Arkansas, *Michael J. Bowers* of Georgia, *Tany S. Hong* of Hawaii, *Tyrone C. Fahner* of Illinois, *Thomas J. Miller* of Iowa, *William J. Guste, Jr.*, of Louisiana, *William A. Allain* of Mississippi, *Michael T. Greely* of Montana, *Rufus L. Edmisten* of North Carolina, *William J. Brown* of Ohio, *Jan Eric Cartwright* of Oklahoma, *Dennis J. Roberts II* of Rhode Island, *John J. Easton* of Vermont, *Gerald L. Baliles* of Virginia, and *Bronson C. La Follette* of Wisconsin; and for the Committee on Copyright and Literary Property of the Association of the Bar of the City of New York by *Michael S. Oberman* and *David H. Marks*.

*419 Justice STEVENS delivered the opinion of the Court.

Petitioners manufacture and sell home video tape recorders. Respondents own the copyrights on some of the television *420 programs that are broadcast on the public airwaves. Some members of the general public use video tape recorders sold by petitioners to record some of these broadcasts, as well as a large number of other broadcasts. The question presented is whether the sale of petitioners' copying equipment to the general public violates any of the rights conferred upon respondents by the Copyright Act.

Respondents commenced this copyright infringement action against petitioners in the United States District Court for the Central District of California in 1976. Respondents alleged that some individuals had used Betamax video tape recorders (VTR's) to record some of respondents' copyrighted works which had been exhibited on commercially sponsored television and contended that these individuals had thereby infringed respondents' copyrights. Respondents further maintained that petitioners were liable for the copyright infringement allegedly committed by Betamax consumers because of petitioners' marketing of the Betamax VTR's. [FN1] Respondents sought no relief against any Betamax consumer. Instead, they sought money damages and an equitable accounting of profits from petitioners, as well as an injunction against the manufacture and marketing of Betamax VTR's.

[FN1] The respondents also asserted causes of action under state law and § 43(a) of the Trademark Act of 1946, 60 Stat. 441, 15 U.S.C. § 1125(a). These claims are not before this Court.

After a lengthy trial, the District Court denied respondents all the relief they sought and entered judgment for petitioners. 480 F.Supp. 429 (1979). The United States Court of Appeals for the Ninth Circuit reversed the District Court's judgment on respondent's copyright claim, holding petitioners liable for contributory infringement and ordering the District Court to fashion appropriate relief. *421659 F.2d 963 (1981). We granted certiorari, 457 U.S. 1116, 102 S.Ct. 2926, 73 L.Ed.2d 1328 (1982); since we had not completed our study of the case last Term, we ordered reargument, 463 U.S. 1226, 103 S.Ct. 3568, 77 L.Ed.2d 1409 (1983). We now reverse.

An explanation of our rejection of respondents' unprecedented attempt to impose copyright liability upon the distributors of copying equipment requires a quite detailed recitation of the findings of the District Court. In summary, those findings reveal that the average member of the public uses a VTR principally to record a program he cannot view as it is being televised and then to watch it once at a later time. This practice, known as "time-shifting," enlarges the television viewing audience. For that reason, a significant amount of television programming may be used in this manner without objection from the owners of the copyrights on the programs. For the same reason, even the two respondents in this case, who do assert objections to time-shifting in this litigation, were unable to prove that the practice has impaired the commercial value of their copyrights or has created any likelihood of future harm. Given these findings, there is no basis in the Copyright Act upon which respondents can hold petitioners liable for distributing

VTR's to the general public. The Court of Appeals' holding that respondents are entitled to enjoin the distribution of VTR's, to collect royalties on the sale of such equipment, or to obtain other relief, if affirmed, would enlarge the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection. Such an expansion of the copyright privilege is beyond the limits of the grants authorized by Congress.

I

The two respondents in this action, Universal Studios, Inc. and Walt Disney Productions, produce and hold the copyrights on a substantial number of motion pictures and other audiovisual works. In the current marketplace, they can exploit their rights in these works in a number of ways: *422 by authorizing theatrical exhibitions, by licensing limited showings on cable and network television, by selling syndication rights for repeated airings on local television stations, and by marketing programs on prerecorded videotapes or videodiscs. Some works are suitable for exploitation through all of these avenues, while the market for other works is more limited.

Petitioner Sony manufactures millions of Betamax video tape recorders and markets these devices through numerous retail establishments, some of which are also petitioners in this action. [FN2] Sony's Betamax VTR is a mechanism consisting of three basic components: (1) a tuner, which receives electromagnetic signals transmitted over the television band of the public airwaves and separates them into audio and visual signals; (2) a recorder, which records such signals on a magnetic tape; and (3) an adapter, which converts the audio and visual signals on the tape into a composite signal that can be received by a television set.

FN2. The four retailers are Carter, Hawley, Hales, Stores, Inc.; Associated Dry Goods Corp.; Federated Department Stores, Inc.; and Henry's Camera Corp. The principal defendants are Sony Corporation, the manufacturer of the equipment, and its wholly owned subsidiary, Sony Corporation of America. The advertising agency of Doyle, Dane, Burnbock, Inc., also involved in marketing the Betamax, is also a petitioner. An individual VTR user, Willis Griffiths, was named as a defendant in the District Court, but respondent sought no relief against him. Griffiths is not a petitioner. For convenience, we shall refer to petitioners collectively as Sony.

Several capabilities of the machine are noteworthy. The separate tuner in the Betamax enables it to record a broadcast off one station while the television set is tuned to another channel, permitting the viewer, for example, to watch two simultaneous news broadcasts by watching one "live" and recording the other for later viewing. Tapes may be reused, and programs that have been recorded may be erased either before or after viewing. A timer in the Betamax can be used to activate and deactivate the equipment at predetermined *423 times, enabling an intended viewer to record programs that are transmitted when he or she is not at home. Thus a person may watch a program at home in the evening even though it was broadcast while the viewer was at work during the afternoon. The Betamax is also equipped with a pause button and a fast-forward control. The pause button, when depressed, deactivates the recorder until it is released, thus enabling a viewer to omit a commercial advertisement from the recording, provided, of course, that the viewer is present when the program is recorded. The fast forward control enables the viewer of a previously recorded program to run the tape rapidly when a segment he or she does not desire to see is being played back on the television screen.

The respondents and Sony both conducted surveys of the way the Betamax machine was used by several hundred owners during a sample period in 1978. Although there were some differences in the surveys, they both showed that the primary use of the machine for most owners was "time-shifting,"--the practice of recording a program to view it once at a later time, and thereafter erasing it. Time-shifting enables viewers to see programs they otherwise would miss because they are not at home, are occupied with other tasks, or are viewing a program on another station at the time of a broadcast that they desire to watch. Both surveys also showed, however, that a substantial number of interviewees had accumulated libraries of tapes. [FN3] Sony's survey indicated *424 that over 80% of the interviewees watched at least as much regular television

as they had before owning a Betamax. [FN4] Respondents offered no evidence of decreased television viewing by Betamax owners. [FN5]

FN3. As evidence of how a VTR may be used, respondents offered the testimony of William Griffiths. Griffiths, although named as an individual defendant, was a client of plaintiffs' law firm. The District Court summarized his testimony as follows:

"He owns approximately 100 tapes. When Griffiths bought his Betamax, he intended not only to time-shift (record, play-back and then erase) but also to build a library of cassettes. Maintaining a library, however, proved too expensive, and he is now erasing some earlier tapes and reusing them.

"Griffiths copied about 20 minutes of a Universal motion picture called 'Never Give An Inch,' and two episodes from Universal television series entitled 'Baa Baa Black Sheep' and 'Holmes and Yo Yo.' He would have erased each of these but for the request of plaintiffs' counsel that it be kept. Griffiths also testified that he had copied but already erased Universal films called 'Alpha Caper' (erased before anyone saw it) and 'Amelia Earhart.' At the time of his deposition Griffiths did not intend to keep any Universal film in his library.

"Griffiths has also recorded documentaries, news broadcasts, sporting events and political programs such as a rerun of the Nixon/Kennedy debate." 480 F.Supp., at 436-437.

Four other witnesses testified to having engaged in similar activity.

FN4. The District Court summarized some of the findings in these surveys as follows:

"According to plaintiffs' survey, 75.4% of the VTR owners use their machines to record for time-shifting purposes half or most of the time. Defendants' survey showed that 96% of the Betamax owners had used the machine to record programs they otherwise would have missed.

"When plaintiffs asked interviewees how many cassettes were in their library, 55.8% said there were 10 or fewer. In defendants' survey, of the total programs viewed by interviewees in the past month, 70.4% had been viewed only that one time and for 57.9%, there were no plans for further viewing." 480 F.Supp., at 438.

FN5. "81.9% of the defendants' interviewees watched the same amount or more of regular television as they did before owning a Betamax. 83.2% reported their frequency of movie going was unaffected by Betamax." 480 F.Supp., at 439.

Sony introduced considerable evidence describing television programs that could be copied without objection from any copyright holder, with special emphasis on sports, religious, and educational programming. For example, their survey indicated that 7.3% of all Betamax use is to record sports events, and representatives of professional baseball, football, basketball, and hockey testified that they had no objection to the recording of their televised events for home use. [FN6]

FN6. See Def.Exh. OT, Table 20; Tr. 2447-2450, 2480, 2486-2487, 2515-2516, 2530-2534.

***425** Respondents offered opinion evidence concerning the future impact of the unrestricted sale of VTR's on the commercial value of their copyrights. The District Court found, however, that they had failed to prove any likelihood of future harm from the use of VTR's for time-shifting. Id., at 469.

The District Court's Decision

The lengthy trial of the case in the District Court concerned the private, home use of VTR's for recording programs broadcast on the public airwaves without charge to the viewer. [FN7] No issue concerning the transfer of tapes to other persons, the use of home-recorded tapes for public performances, or the copying

of programs transmitted on pay or cable television systems was raised. See 480 F.Supp. 429, 432-433, 442 (1979).

FN7. The trial also briefly touched upon demonstrations of the Betamax by the retailer petitioners which were alleged to be infringements by respondents. The District Court held against respondents on this claim, 480 F.Supp., at 456-457, the Court of Appeals affirmed this holding, 659 F.2d, at 976, and respondents did not cross-petition on this issue.

The District Court concluded that noncommercial home use recording of material broadcast over the public airwaves was a fair use of copyrighted works and did not constitute copyright infringement. It emphasized the fact that the material was broadcast free to the public at large, the noncommercial character of the use, and the private character of the activity conducted entirely within the home. Moreover, the court found that the purpose of this use served the public interest in increasing access to television programming, an interest that "is consistent with the First Amendment policy of providing the fullest possible access to information through the public airwaves. Columbia Broadcasting System, Inc. v. Democratic National Committee, 412 U.S. 94, 102 [93 S.Ct. 2080, 2086, 36 L.Ed.2d 772]." 480 F.Supp., at 454. [FN8] Even when an entire copyrighted work was recorded, *426 the District Court regarded the copying as fair use "because there is no accompanying reduction in the market for 'plaintiff's original work.'" *Ibid*.

FN8. The court also found that this "access is not just a matter of convenience, as plaintiffs have suggested. Access has been limited not simply by inconvenience but by the basic need to work. Access to the better program has also been limited by the competitive practice of counterprogramming." 480 F.Supp., at 454.

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

"Television programs, films, videotapes and other materials may be copyrighted. Unauthorized recording of such material may be contrary to the provisions of the United States copyright laws." *Id.*, at 436.

The District Court assumed that Sony had constructive knowledge of the probability that the Betamax machine would be used to record copyrighted programs, but found that Sony merely sold a "product capable of a variety of uses, some of them allegedly infringing." *Id.*, at 461. It reasoned:

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

"Commerce would indeed be hampered if manufacturers of staple items were held liable as contributory infringers whenever they 'constructively' knew that some purchasers on some occasions would use their product *427 for a purpose which a court later deemed, as a matter of first impression, to be an infringement." *Ibid*.

Finally, the District Court discussed the respondents' prayer for injunctive relief, noting that they had asked for an injunction either preventing the future sale of Betamax machines, or requiring that the machines be rendered incapable of recording copyrighted works off the air. The court stated that it had "found no case in which the manufacturers, distributors, retailers, and advertisers of the instrument enabling the infringement were sued by the copyright holders," and that the request for relief in this case "is unique." 480 F.Supp., at 465.

It concluded that an injunction was wholly inappropriate because any possible harm to respondents was outweighed by the fact that "the Betamax could still legally be used to record noncopyrighted material or

material whose owners consented to the copying. An injunction would deprive the public of the ability to use the Betamax for this noninfringing off-the-air recording." 480 F.Supp., at 468.

The Court of Appeals' Decision

The Court of Appeals reversed the District Court's judgment on respondents' copyright claim. It did not set aside any of the District Court's findings of fact. Rather, it concluded as a matter of law that the home use of a VTR was not a fair use because it was not a "productive use." [FN9] It therefore held that it was unnecessary for plaintiffs to prove any harm to the potential market for the copyrighted works, but then observed that it seemed clear that the cumulative effect of mass reproduction made possible by VTR's would tend to diminish the potential market for respondents' works. 659 F.2d, at 974.

FN9. "Without a 'productive use', *i.e.* when copyrighted material is reproduced for its intrinsic use, the mass copying of the sort involved in this case precludes an application of fair use." 659 F.2d, at 971-972.

***428** On the issue of contributory infringement, the Court of Appeals first rejected the analogy to staple articles of commerce such as tape recorders or photocopying machines. It noted that such machines "may have substantial benefit for some purposes" and do not "even remotely raise copyright problems." Id., at 975. VTR's, however, are sold "for the primary purpose of reproducing television programming" and "virtually all" such programming is copyrighted material. *Ibid.* The Court of Appeals concluded, therefore, that VTR's were not suitable for any substantial noninfringing use even if some copyright owners elect not to enforce their rights.

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

On the matter of relief, the Court of Appeals concluded that "statutory damages may be appropriate," that the District Court should reconsider its determination that an injunction would not be an appropriate remedy; and, referring to "the analogous photocopying area," suggested that a continuing royalty pursuant to a judicially created compulsory license may very well be an acceptable resolution of the relief issue. 659 F.2d, at 976.

II

Article I, Sec. 8 of the Constitution provides that:

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

[1] *429 The monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.

"The copyright law, like the patent statute, makes reward to the owner a secondary consideration. In *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 [52 S.Ct. 546, 547, 76 L.Ed. 1010], Chief Justice Hughes spoke as follows respecting the copyright monopoly granted by Congress, 'The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.' It is said that reward to the author or artist serves to induce release to the public of the

products of his creative genius." United States v. Paramount Pictures, 334 U.S. 131, 158, 68 S.Ct. 915, 929, 92 L.Ed. 1260.

As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product. Because this task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand, our patent and copyright statutes have been amended repeatedly. [FN10]

[FN10] In its report accompanying the comprehensive revision of the Copyright Act in 1909, the Judiciary Committee of the House of Representatives explained this balance:

"The enactment of copyright legislation by Congress under the terms of the Constitution is not based upon any natural right that the author has in his writings, ... but upon the ground that the welfare of the public will be served and progress of science and useful arts will be promoted by securing to authors for limited periods the exclusive rights to their writings.

* * *

"In enacting a copyright law Congress must consider ... two questions: First, how much will the legislation stimulate the producer and so benefit the public, and, second, how much will the monopoly granted be detrimental to the public? The granting of such exclusive rights, under the proper terms and conditions, confers a benefit upon the public that outweighs the evils of the temporary monopoly." H.R.Rep. No. 2222, 60th Cong., 2d Sess. 7 (1909).

[2] *430 From its beginning, the law of copyright has developed in response to significant changes in technology. [FN11] Indeed, it was the invention of a new form of copying equipment--the printing press--that gave rise to the original need for copyright protection. [FN12] Repeatedly, as new developments have *431 occurred in this country, it has been the Congress that has fashioned the new rules that new technology made necessary. Thus, long before the enactment of the Copyright Act of 1909, 35 Stat. 1075, it was settled that the protection given to copyrights is wholly statutory. Wheaton v. Peters, 33 U.S. (8 Peters) 591, 661-662, 8 L.Ed. 1055 (1834). The remedies for infringement "are only those prescribed by Congress." Thompson v. Hubbard, 131 U.S. 123, 151, 9 S.Ct. 710, 720, 33 L.Ed. 76 (1889).

[FN11] Thus, for example, the development and marketing of player pianos and perforated roles of music, see White-Smith Music Publishing Co. v. Apollo Co., 209 U.S. 1, 28 S.Ct. 319, 52 L.Ed. 655 (1908), preceded the enactment of the Copyright Act of 1909; innovations in copying techniques gave rise to the statutory exemption for library copying embodied in § 108 of the 1976 revision of the Copyright law; the development of the technology that made it possible to retransmit television programs by cable or by microwave systems, see Fortnightly Corp. v. United Artists, 392 U.S. 390, 88 S.Ct. 2084, 20 L.Ed.2d 1176 (1968), and Teleprompter Corp. v. CBS, 415 U.S. 394, 94 S.Ct. 1129, 39 L.Ed.2d 415 (1974), prompted the enactment of the complex provisions set forth in 17 U.S.C. § 111(d)(2)(B) and § 111(d)(5) after years of detailed congressional study, see Eastern Microwave, Inc. v. Doubleday Sports, Inc., 691 F.2d 125, 129 (CA2 1982). By enacting the Sound Recording Amendment of 1971, 85 Stat. 391, Congress also provided the solution to the "record piracy" problems that had been created by the development of the audio tape recorder. Sony argues that the legislative history of that Act, see especially H.Rep. No. 487, 92nd Cong., 1st Sess., p. 7, indicates that Congress did not intend to prohibit the private home use of either audio or video tape recording equipment. In view of our disposition of the contributory infringement issue, we express no opinion on that question.

[FN12] "Copyright protection became necessary with the invention of the printing press and had its early beginnings in the British censorship laws. The fortunes of the law of copyright have always been closely

connected with freedom of expression, on the one hand, and with technological improvements in means of dissemination, on the other. Successive ages have drawn different balances among the interest of the writer in the control and exploitation of his intellectual property, the related interest of the publisher, and the competing interest of society in the untrammelled dissemination of ideas." Foreword to B. Kaplan, *An Unhurried View of Copyright* vii-viii (1967).

The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. See, e.g., *Teleprompter Corp. v. CBS*, 415 U.S. 394, 94 S.Ct. 1129, 39 L.Ed.2d 415 (1974); *Fortnightly Corp. v. United Artists*, 392 U.S. 390, 88 S.Ct. 2084, 20 L.Ed.2d 1176 (1968); *White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1, 28 S.Ct. 319, 52 L.Ed. 655 (1908); *Williams and Wilkins v. United States*, 487 F.2d 1345, 203 Ct.Cl. 74 (1973), affirmed by an equally divided court, 420 U.S. 376, 95 S.Ct. 1344, 43 L.Ed.2d 264 (1975). Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.

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

"The limited scope of the copyright holder's statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be *432 encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good. 'The sole interest of the United States and the primary object in conferring the monopoly,' this Court has said, 'lie in the general benefits derived by the public from the labors of authors.' *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 [52 S.Ct. 546, 547, 76 L.Ed. 1010]. See *Kendall v. Winsor*, 21 How. 322, 327-328 [16 L.Ed. 165]; *Grant v. Raymond*, 6 Pet. 218, 241-242 [8 L.Ed. 376]. When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 95 S.Ct. 2040, 2043, 45 L.Ed.2d 84 (footnotes omitted).

[3][4][5] Copyright protection "subsists ... in original works of authorship fixed in any tangible medium of expression." 17 U.S.C. § 102(a). This protection has never accorded the copyright owner complete control over all possible uses of his work. [FN13] Rather, the Copyright Act grants the *433 copyright holder "exclusive" rights to use and to authorize the use of his work in five qualified ways, including reproduction of the copyrighted work in copies. *Id.*, § 106. [FN14] All reproductions of the work, however, are not within the exclusive domain of the copyright owner; some are in the public domain. Any individual may reproduce a copyrighted work for a "fair use;" the copyright owner does not possess the exclusive right to such a use. Compare *id.*, § 106 with *id.*, § 107.

FN13. See, e.g., *White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1, 19, 28 S.Ct. 319, 323, 52 L.Ed. 655 (1908); cf. *Deep South Packing Co. v. Lathram Corp.*, 406 U.S. 518, 530-531, 92 S.Ct. 1700, 1707-1708, 32 L.Ed.2d 273 (1972). While the law has never recognized an author's right to absolute control of his work, the natural tendency of legal rights to express themselves in absolute terms to the exclusion of all else is particularly pronounced in the history of the constitutionally sanctioned monopolies of the copyright and the patent. See e.g., *United States v. Paramount Pictures*, 334 U.S. 131, 156-158, 68 S.Ct. 915, 928-929, 92 L.Ed. 1260 (1948) (copyright owners claiming right to tie license of one film to license of another under copyright law); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 52 S.Ct. 546, 76 L.Ed. 1010 (1932) (copyright owner claiming copyright renders it immune from state taxation of copyright royalties); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 349-351, 28 S.Ct. 722, 725-726, 52 L.Ed. 1086 (1908) (copyright owner claiming that a right to fix resale price of his works within the scope of his

copyright); International Business Machines v. United States, 298 U.S. 131, 56 S.Ct. 701, 80 L.Ed. 1085 (1936) (patentees claiming right to tie sale of unpatented article to lease of patented device).

FN14. Section 106 of the Act provides:

"Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (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;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly."

[6] "Anyone who violates any of the exclusive rights of the copyright owner," that is, anyone who trespasses into his exclusive domain by using or authorizing the use of the copyrighted work in one of the five ways set forth in the statute, "is an infringer of the copyright." *Id.*, § 501(a). Conversely, anyone who is authorized by the copyright owner to use the copyrighted work in a way specified in the statute or who makes a fair use of the work is not an infringer of the copyright with respect to such use.

[7][8] The Copyright Act provides the owner of a copyright with a potent arsenal of remedies against an infringer of his work, including an injunction to restrain the infringer from violating *434 his rights, the impoundment and destruction of all reproductions of his work made in violation of his rights, a recovery of his actual damages and any additional profits realized by the infringer or a recovery of statutory damages, and attorneys fees. *Id.*, § § 502-505. [FN15]

FN15. Moreover, anyone who willfully infringes the copyright to reproduce a motion picture for purposes of commercial advantage or private financial gain is subject to criminal penalties of one year imprisonment and a \$25,000 fine for the first offense and two years imprisonment and a \$50,000 fine for each subsequent offense, 17 U.S.C. § 506(a), and the fruits and instrumentalities of the crime are forfeited upon conviction, *id.*, § 506(b).

The two respondents in this case do not seek relief against the Betamax users who have allegedly infringed their copyrights. Moreover, this is not a class action on behalf of all copyright owners who license their works for television broadcast, and respondents have no right to invoke whatever rights other copyright holders may have to bring infringement actions based on Betamax copying of their works. [FN16] As was made clear by their own evidence, the copying of the respondents' programs represents a small portion of the total use of VTR's. It is, however, the taping of respondents' own copyrighted programs that provides them with standing to charge Sony with contributory infringement. To prevail, they have the burden of proving that users of the Betamax have infringed their copyrights and that Sony should be held responsible for that infringement.

FN16. In this regard, we reject respondent's attempt to cast this action as comparable to a class action because of the positions taken by *amici* with copyright interests and their attempt to treat the statements made by *amici* as evidence in this case. See Brief for Respondent, at 1, and n. 1, 6, 52, 53 and n. 116. The stated desires of *amici* concerning the outcome of this or any litigation are no substitute for a class action, are not evidence in the case, and do not influence our decision; we examine an *amicus curiae* brief solely for whatever aid it provides in analyzing the legal questions before us.

III

The Copyright Act does not expressly render anyone liable for infringement committed by another. In contrast, the *435 Patent Act expressly brands anyone who "actively induces infringement of a patent" as an infringer, 35 U.S.C. § 271(b), and further imposes liability on certain individuals labeled "contributory" infringers, *id.*, § 271(c). The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity. [FN17] For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.

FN17. As the District Court correctly observed, however, "the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn...." 480 F.Supp. 457-458. The lack of clarity in this area may, in part, be attributable to the fact that an infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner.

We note the parties' statements that the questions of petitioners' liability under the "doctrines" of "direct infringement" and "vicarious liability" are not nominally before this Court. Compare Respondents' Brief, at 9, n. 22, 41, n. 90 with Petitioners' Reply Brief, at 1, n. 2. We also observe, however, that reasoned analysis of respondents' unprecedented contributory infringement claim necessarily entails consideration of arguments and case law which may also be forwarded under the other labels, and indeed the parties to a large extent rely upon such arguments and authority in support of their respective positions on the issue of contributory infringement.

[9] Such circumstances were plainly present in *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 32 S.Ct. 20, 56 L.Ed. 92 (1911), the copyright decision of this Court on which respondents place their principal reliance. In *Kalem*, the Court held that the producer of an unauthorized film dramatization of the copyrighted book *Ben Hur* was liable for his sale of the motion picture to jobbers, who in turn arranged for the commercial exhibition of the film. Justice Holmes, writing for the Court, explained:

"The defendant not only expected but invoked by advertisement the use of its films for dramatic reproduction *436 of the story. That was the most conspicuous purpose for which they could be used, and the one for which especially they were made. If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law." 222 U.S., at 63, 32 S.Ct., at 22.

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

Respondents argue that *Kalem* stands for the proposition that supplying the "means" to accomplish an infringing activity and encouraging that activity through advertisement are sufficient to establish liability for copyright infringement. This argument rests on a gross generalization that cannot withstand scrutiny. The producer in *Kalem* did not merely provide the "means" to accomplish an infringing activity; the producer supplied the work itself, albeit in a new medium of expression. Petitioners in the instant case do not supply Betamax consumers with respondents' works; respondents do. Petitioners supply a piece of equipment that is generally capable of copying the entire range of programs that may be televised: those that are uncopyrighted, those that are copyrighted but may be copied without objection from the copyright holder, and those that the copyright holder would prefer not to have copied. The Betamax can be used to *437 make authorized or unauthorized uses of copyrighted works, but the range of its potential use is much

broader than the particular infringing use of the film *Ben Hur* involved in *Kalem*. *Kalem* does not support respondents' novel theory of liability.

Justice Holmes stated that the producer had "contributed" to the infringement of the copyright, and the label "contributory infringement" has been applied in a number of lower court copyright cases involving an ongoing relationship between the direct infringer and the contributory infringer at the time the infringing conduct occurred. In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the "contributory" infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner. [FN18] This case, however, plainly does not fall *438 in that category. The only contact between Sony and the users of the Betamax that is disclosed by this record occurred at the moment of sale. The District Court expressly found that "no employee of Sony, Sonam or DDBI had either direct involvement with the allegedly infringing activity or direct contact with purchasers of Betamax who recorded copyrighted works off-the-air." 480 F.Supp., at 460. And it further found that "there was no evidence that any of the copies made by Griffiths or the other individual witnesses in this suit were influenced or encouraged by [Sony's] advertisements." *Ibid*.

FN18. The so-called "dance hall cases," *Famous Music Corp. v. Bay State Harness Horse Racing and Breeding Ass'n*, 554 F.2d 1213 (CA1 1977) (racetrack retained infringer to supply music to paying customers); *KECA MUSIC, Inc. v. Dingus McGee's Co.*, 432 F.Supp. 72 (W.D.Mo.1977) (cocktail lounge hired musicians to supply music to paying customers); *Dreamland Ball Room v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (CA7 1929) (dance hall hired orchestra to supply music to paying customers) are often contrasted with the so-called landlord-tenant cases, in which landlords who leased premises to a direct infringer for a fixed rental and did not participate directly in any infringing activity were found not to be liable for contributory infringement. *E.g.*, *Deutsch v. Arnold*, 98 F.2d 686 (CA2 1938). In *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (CA2 1963) the owner of twenty-three chain stores retained the direct infringer to run its record departments. The relationship was structured as a licensing arrangement, so that the defendant bore none of the business risk of running the department. Instead, it received 10% or 12% of the direct infringer's gross receipts. The Court of Appeals concluded:

"[The dance-hall cases] and this one lie closer on the spectrum to the employer-employee model, than to the landlord-tenant model. On the particular facts before us, ... Green's relationship to its infringing licensee, as well as its strong concern for the financial success of the phonograph record concession, renders it liable for the unauthorized sales of the 'bootleg' records.

"[T]he imposition of *vicarious* liability in the case before us cannot be deemed unduly harsh or unfair. Green has the power to police carefully the conduct of its concessionaire; our judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised." *Id.*, at 308 (emphasis in original). In *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159 (CA2 1971), the direct infringers retained the contributory infringer to manage their performances. The contributory infringer would contact each direct infringer, obtain the titles of the musical compositions to be performed, print the programs, and then sell the programs to its own local organizations for distribution at the time of the direct infringement. *Id.*, at 1161. The Court of Appeals emphasized that the contributory infringer had actual knowledge that the artists it was managing were performing copyrighted works, was in a position to police the infringing conduct of the artists, and derived substantial benefit from the actions of the primary infringers. *Id.*, at 1163.

In *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F.Supp. 399 (SDNY 1966), the direct infringer manufactured and sold bootleg records. In denying a motion for summary judgment, the District Court held that the infringer's advertising agency, the radio stations that advertised the infringer's works, and the service agency that boxed and mailed the infringing goods could all be held liable, if at trial it could be demonstrated that they knew or should have known that they were dealing in illegal goods.

[10] *439 If vicarious liability is to be imposed on petitioners in this case, it must rest on the fact that they have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases

to which it is appropriate to refer because of the historic kinship between patent law and copyright law. [FN19]

FN19. *E.g.*, *United States v. Paramount Pictures*, 334 U.S. 131, 158, 68 S.Ct. 915, 929, 92 L.Ed. 1260 (1948); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131, 52 S.Ct. 546, 548, 76 L.Ed. 1010 (1932); *Wheaton and Donaldson v. Peters and Grigg*, 33 U.S. (8 Pet.) 591, 657-658, 8 L.Ed. 1055 (1834). The two areas of the law, naturally, are not identical twins, and we exercise the caution which we have expressed in the past in applying doctrine formulated in one area to the other. See generally, *Mazer v. Stein*, 347 U.S. 201, 217-218, 74 S.Ct. 460, 470, 98 L.Ed. 630 (1954); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345, 28 S.Ct. 722, 724, 52 L.Ed. 1086 (1908). We have consistently rejected the proposition that a similar kinship exists between copyright law and trademark law, and in the process of doing so have recognized the basic similarities between copyrights and patents. *The Trade-Mark Cases*, 100 U.S. 82, 91-92, 25 L.Ed. 550 (1879); see also, *United Drug Co. v. Rectanus Co.*, 248 U.S. 90, 97, 39 S.Ct. 48, 50, 63 L.Ed. 141 (1918) (trademark right "has little or no analogy" to copyright or patent); *McLean v. Fleming*, 96 U.S. 245, 254 (1877); *Canal Co. v. Clark*, 13 Wall. 311, 322, 20 L.Ed. 581 (1871). Given the fundamental differences between copyright law and trademark law, in this copyright case we do not look to the standard for contributory infringement set forth in *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844, 854-855, 102 S.Ct. 2182, 2188, 72 L.Ed.2d 606 (1982), which was crafted for application in trademark cases. There we observed that a manufacturer or distributor could be held liable to the owner of a trademark if it intentionally induced a merchant down the chain of distribution to pass off its product as that of the trademark owner's or if it continued to supply a product which could readily be passed off to a particular merchant whom it knew was mislabeling the product with the trademark owner's mark. If *Inwood's* narrow standard for contributory trademark infringement governed here, respondents' claim of contributory infringement would merit little discussion. Sony certainly does not "intentionally induce[]" its customers to make infringing uses of respondents' copyrights, nor does it supply its products to identified individuals known by it to be engaging in continuing infringement of respondents' copyrights, see *id.*, at 855, 102 S.Ct., at 2188.

*440 In the Patent Code both the concept of infringement and the concept of contributory infringement are expressly defined by statute. [FN20] The prohibition against contributory infringement is confined to the knowing sale of a component especially made for use in connection with a particular patent. There is no suggestion in the statute that one patentee may object to the sale of a product that might be used in connection with other patents. Moreover, the Act expressly provides that the sale of a "staple article or commodity of commerce suitable for substantial noninfringing use" is not contributory infringement.

FN20. 35 U.S.C. § 271 provides:

"(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer. "(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

When a charge of contributory infringement is predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe a patent, the public interest in access to that article of commerce is necessarily implicated. A *441 finding of contributory infringement does not, of course, remove the article from the market altogether; it does, however, give the patentee effective control over the sale of that item. Indeed, a finding of contributory infringement is normally the functional equivalent of holding that the disputed article is within the monopoly granted to the patentee. [FN21]

[FN21] It seems extraordinary to suggest that the Copyright Act confers upon all copyright owners collectively, much less the two respondents in this case, the exclusive right to distribute VTR's simply because they may be used to infringe copyrights. That, however, is the logical implication of their claim. The request for an injunction below indicates that respondents seek, in effect, to declare VTR's contraband. Their suggestion in this Court that a continuing royalty pursuant to a judicially created compulsory license would be an acceptable remedy merely indicates that respondents, for their part, would be willing to license their claimed monopoly interest in VTR's to petitioners in return for a royalty.

For that reason, in contributory infringement cases arising under the patent laws the Court has always recognized the critical importance of not allowing the patentee to extend his monopoly beyond the limits of his specific grant. These cases deny the patentee any right to control the distribution of unpatented articles unless they are "unsuited for any commercial noninfringing use." *Dawson Chemical Co. v. Rohm & Hass Co.*, 448 U.S. 176, 198, 100 S.Ct. 2601, 2614, 65 L.Ed.2d 696 (1980). Unless a commodity "has no use except through practice of the patented method," *ibid*, the patentee has no right to claim that its distribution constitutes contributory infringement. "To form the basis for contributory infringement the item must almost be uniquely suited as a component of the patented invention." P. Rosenberg, Patent Law Fundamentals § 17.02[2] (1982). "[A] sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer. Such a rule would block the wheels of commerce." *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48, 32 S.Ct. 364, 379, 56 L.Ed. 645 (1912), overruled on other grounds, *442 *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517, 37 S.Ct. 416, 421, 61 L.Ed. 871 (1917).

[11] We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible. The staple article of commerce doctrine must strike a balance between a copyright holder's legitimate demand for effective--not merely symbolic--protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.

IV

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

*443 A. *Authorized Time Shifting*

Each of the respondents owns a large inventory of valuable copyrights, but in the total spectrum of television programming their combined market share is small. The exact percentage is not specified, but it is well below 10%. [FN22] If they were to prevail, the outcome of this litigation would have a significant impact on both the producers and the viewers of the remaining 90% of the programming in the Nation. No doubt, many other producers share respondents' concern about the possible consequences of unrestricted copying. Nevertheless the findings of the District Court make it clear that time-shifting may enlarge the total viewing audience and that many producers are willing to allow private time-shifting to continue, at least for an experimental time period. [FN23]

FN22. The record suggests that Disney's programs at the time of trial consisted of approximately one hour a week of network television and one syndicated series. Universal's percentage in the Los Angeles market on commercial television stations was under 5%. See Tr. 532-533, 549-550.

FN23. The District Court did not make any explicit findings with regard to how much broadcasting is wholly uncopyrighted. The record does include testimony that at least one movie--*My Man Godfrey*--falls within that category, Tr. 2300-2301, and certain broadcasts produced by the federal government are also uncopyrighted. See 17 U.S.C. § 105. Cf. *Schnapper v. Foley*, 667 F.2d 102 (CA DC 1981) (explaining distinction between work produced by the government and work commissioned by the government). To the extent such broadcasting is now significant, it further bolsters our conclusion. Moreover, since copyright protection is not perpetual, the number of audiovisual works in the public domain necessarily increases each year.

The District Court found:

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

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

"Whatever the future percentage of legal versus illegal home-use recording might be, an injunction which seeks to deprive the public of the very tool or article of commerce capable of some noninfringing use would be an extremely harsh remedy, as well as one unprecedented in copyright law." 480 F.Supp., at 468.

Although the District Court made these statements in the context of considering the propriety of injunctive relief, the statements constitute a finding that the evidence concerning "sports, religious, educational, and other programming" was sufficient to establish a significant quantity of broadcasting whose copying is now authorized, and a significant potential for future authorized copying. That finding is amply supported by the record. In addition to the religious and sports officials identified explicitly by the District Court, [FN24] two items in the record deserve specific mention.

FN24. See Tr. 2447-2450 (Alexander Hadden, Major League Baseball); Tr. 2480, 2486-2487 (Jay Moyer, National Football League); Tr. 2515-2516 (David Stern, National Basketball Association); Tr. 2530-2534 (Gilbert Stein, National Hockey League); Tr. 2543-2552 (Thomas Hansen, National Collegiate Athletic Association); Tr. 2565-2572 (Benjamin Armstrong, National Religious Broadcasters). Those officials were authorized to be the official spokespersons for their respective institutions in this litigation. Tr. 2432, 2479, 2509-2510, 2530, 2538, 2563. See Fed.Rules Civ.Proc. 30(b)(6).

***445** First is the testimony of John Kenaston, the station manager of Channel 58, an educational station in Los Angeles affiliated with the Public Broadcasting Service. He explained and authenticated the station's published guide to its programs. [FN25] For each program, the guide tells whether unlimited home taping is authorized, home taping is authorized subject to certain restrictions (such as erasure within seven days), or home taping is not authorized at all. The Spring 1978 edition of the guide described 107 programs. Sixty-two of those programs or 58% authorize some home taping. Twenty-one of them or almost 20% authorize unrestricted home taping. [FN26]

FN25. Tr. 2863-2902; Def. Exh. PI.

FN26. See also Tr. 2833-2844 (similar testimony by executive director of New Jersey Public Broadcasting Authority). Cf. Tr. 2592-2605 (testimony by chief of New York Education Department's Bureau of Mass Communications approving home taping for educational purposes).

Second is the testimony of Fred Rogers, president of the corporation that produces and owns the copyright on *Mr. Rogers' Neighborhood*. The program is carried by more public television stations than any other program. Its audience numbers over 3,000,000 families a day. He testified that he had absolutely no objection to home taping for noncommercial use and expressed the opinion that it is a real service to families to be able to record children's programs and to show them at appropriate times. [FN27]

FN27. "Some public stations, as well as commercial stations, program the 'Neighborhood' at hours when some children cannot use it. I think that it's a real service to families to be able to record such programs and show them at appropriate times. I have always felt that with the advent of all of this new technology that allows people to tape the 'Neighborhood' off-the-air, and I'm speaking for the 'Neighborhood' because that's what I produce, that they then become much more active in the programming of their family's television life. Very frankly, I am opposed to people being programmed by others. My whole approach in broadcasting has always been 'You are an important person just the way you are. You can make healthy decisions.' Maybe I'm going on too long, but I just feel that anything that allows a person to be more active in the control of his or her life, in a healthy way, is important." T.R. 2920-2921. See also Def. Exh. PI, p. 85.

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

[13] Of course, the fact that other copyright holders may welcome the practice of time-shifting does not mean that respondents should be deemed to have granted a license to copy their programs. Third party conduct would be wholly irrelevant in an action for direct infringement of respondents' copyrights. But in an action for *contributory* infringement against the seller of copying equipment, the copyright holder may not prevail unless the relief that he seeks affects only his programs, or unless he speaks for virtually all copyright holders with an interest in the outcome. In this case, the record makes it perfectly clear that there are many important producers of national and local television programs who find nothing objectionable about the enlargement in the size of the television audience that results from the practice of time-shifting for private home use. [FN28] The seller of the equipment that expands those producers' audiences cannot be a contributory ***447** infringer if, as is true in this case, it has had no direct involvement with any infringing activity.

FN28. It may be rare for large numbers of copyright owners to authorize duplication of their works without demanding a fee from the copier. In the context of public broadcasting, however, the user of the copyrighted work is not required to pay a fee for access to the underlying work. The traditional method by which copyright owners capitalize upon the television medium--commercially sponsored free public broadcast over the public airwaves--is predicated upon the assumption that compensation for the value of displaying the works will be received in the form of advertising revenues.

In the context of television programming, some producers evidently believe that permitting home viewers to make copies of their works off the air actually enhances the value of their copyrights. Irrespective of their reasons for authorizing the practice, they do so, and in significant enough numbers to create a substantial market for a non-infringing use of the Sony VTR's. No one could dispute the legitimacy of that market if the producers had authorized home taping of their programs in exchange for a license fee paid directly by the home user. The legitimacy of that market is not compromised simply because these producers have authorized home taping of their programs without demanding a fee from the home user. The copyright law does not require a copyright owner to charge a fee for the use of his works, and as this record clearly demonstrates, the owner of a copyright may well have economic or noneconomic reasons for permitting certain kinds of copying to occur without receiving direct compensation from the copier. It is not the role of the courts to tell copyright holders the best way for them to exploit their copyrights: even if respondents' competitors were ill-advised in authorizing home videotaping, that would not change the fact that they have created a substantial market for a paradigmatic non-infringing use of petitioners' product.

B. Unauthorized Time-Shifting

[14] Even unauthorized uses of a copyrighted work are not necessarily infringing. An unlicensed use of the copyright is not an infringement unless it conflicts with one of the specific exclusive rights conferred by the copyright statute. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 154-155, 95 S.Ct. 2040, 2043, 45 L.Ed.2d 84. Moreover, the definition of exclusive rights in § 106 of the present Act is prefaced by the words "subject to sections 107 through 118." Those sections describe a variety of uses of copyrighted material that "are not infringements of copyright notwithstanding the provisions of § 106." The most pertinent in this case is § 107, the legislative endorsement of the doctrine of "fair use." [FN29]

FN29. The Copyright Act of 1909, 35 Stat. 1075, did not have a "fair use" provision. Although that Act's compendium of exclusive rights "to print, reprint, publish, copy, and vend the copyrighted work" was broad enough to encompass virtually all potential interactions with a copyrighted work, the statute was never so construed. The courts simply refused to read the statute literally in every situation. When Congress amended the statute in 1976, it indicated that it "intended to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way." House Report No. 94-1476, 94th Cong., 2d Sess., p. 66, U.S.Code Code & Admin.News 1976, pp. 5659, 5679.

*448 That section identifies various factors [FN30] that enable a Court to apply an "equitable rule of reason" analysis to particular claims of infringement. [FN31] Although not conclusive, the first *449 factor requires that "the commercial or nonprofit character of an activity" be weighed in any fair use decision. [FN32] If the Betamax were used to make copies for a commercial or profit-making purpose, such use would presumptively be unfair. The contrary presumption is appropriate here, however, because the District Court's findings plainly establish that time-shifting for private home use must be characterized as a noncommercial, nonprofit activity. Moreover, when one considers the nature of a televised copyrighted audiovisual work, see 17 U.S.C. § 107(2), and that timeshifting merely enables a viewer to see such a work which he had been invited to witness in its entirety free of charge, the fact *450 that the entire work is reproduced, see *id.*, at § 107(3), does not have its ordinary effect of militating against a finding of fair use. [FN33]

FN30. Section 107 provides:

"Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include-- "(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." 17 U.S.C. § 107.

FN31. The House Report expressly stated that the fair use doctrine is an "equitable rule of reason" in its explanation of the fair use section:

"Although the courts have considered and ruled upon the fair use doctrine over and over again, no real definition of the concept has ever emerged. Indeed, since the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts....

General intention behind the provision

"The statement of the fair use doctrine in section 107 offers some guidance to users in determining when the principles of the doctrine apply. However, the endless variety of situations and combinations of circumstances that can rise in particular cases precludes the formulation of exact rules in the statute. The bill endorses the purpose and general scope of the judicial doctrine of fair use, but there is no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change. Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis." H.Rep. No. 94-1476, pp. 65-66, U.S.Code Cong. & Admin.News 1976, p. 5680. The Senate Committee similarly eschewed a rigid, bright line approach to fair use. The Senate Report endorsed the view "that off-the-air recording for convenience" could be considered "fair use" under some circumstances, although it then made it clear that it did not intend to suggest that off- the-air recording for convenience should be deemed fair use under any circumstances imaginable. Senate Report 94-473, pp. 65-66. The latter qualifying statement is quoted by the dissent, *post*, at 809, and if read in isolation, would indicate that the Committee intended to condemn all off- the-air recording for convenience. Read in context, however, it is quite clear that that was the farthest thing from the Committee's intention.

FN32. "The Committee has amended the first of the criteria to be considered--'the purpose and character of the use'--to state explicitly that this factor includes a consideration of 'whether such use is of a commercial nature or is for non-profit educational purposes.' This amendment is not intended to be interpreted as any sort of not-for-profit limitation on educational uses of copyrighted works. It is an express recognition that, as under the present law, the commercial or non-profit character of an activity, while not conclusive with respect to fair use, can and should be weighed along with other factors in fair use decisions." H.Rep. No. 94-1476, p. 66, U.S.Code Cong. & Admin.News 1976, p. 5679.

FN33. It has been suggested that "consumptive uses of copyrights by home VTR users are commercial even if the consumer does not sell the homemade tape because the consumer will not buy tapes separately sold by the copyright holder." Home Recording of Copyrighted Works: Hearing before Subcommittee on Courts, Civil Liberties and the Administration of Justice of the House Committee on the Judiciary, 97th Congress, 2d Session, pt. 2, p. 1250 (1982) (memorandum of Prof. Laurence H. Tribe). Furthermore, "[t]he error in excusing such theft as noncommercial," we are told, "can be seen by simple analogy: jewel theft is not converted into a noncommercial veniality if stolen jewels are simply worn rather than sold." *Ibid*. The premise and the analogy are indeed simple, but they add nothing to the argument. The use to which stolen jewelry is put is quite irrelevant in determining whether depriving its true owner of his present possessory interest in it is venial; because of the nature of the item and the true owner's interests in physical possession of it, the law finds the taking objectionable even if the thief does not use the item at all. Theft of a particular item of personal property of course may have commercial significance, for the thief deprives the

owner of his right to sell that particular item to any individual. Timeshifting does not even remotely entail comparable consequences to the copyright owner. Moreover, the timeshifter no more steals the program by watching it once than does the live viewer, and the live viewer is no more likely to buy pre-recorded videotapes than is the timeshifter. Indeed, no live viewer would buy a pre-recorded videotape if he did not have access to a VTR.

This is not, however, the end of the inquiry because Congress has also directed us to consider "the effect of the use upon the potential market for or value of the copyrighted work." *Id.*, at § 107(4). The purpose of copyright is to create incentives for creative effort. Even copying for noncommercial purposes may impair the copyright holder's ability to obtain the rewards that Congress intended him to have. But a use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author's incentive to create. The prohibition of such noncommercial uses would *451 merely inhibit access to ideas without any countervailing benefit. [FN34]

FN34. Cf. Latman, Fair Use of Copyrighted Works (1958), reprinted as Study No. 14 in Senate Judiciary Committee, Copyright Law Revision, Studies Prepared for the Subcommittee on Patents, Trademarks, and Copyrights, 86th Cong., 2d Sess., p. 30 (1960):

"In certain situations, the copyright owner suffers no substantial harm from the use of the work.... Here again, is the partial marriage between the doctrine of fair use and the legal maxim *de minimis non curat lex*."

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

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

"Plaintiffs' experts admitted at several points in the trial that the time-shifting without librarying would result in 'not a great deal of harm.' Plaintiffs' greatest concern about time-shifting is with 'a point of important philosophy that transcends even commercial judgment.' They fear that with any Betamax usage, 'invisible boundaries' are passed: 'thecopyright owner has lost control over his program.'" 480 F.Supp., at 467.

*452 Later in its opinion, the District Court observed:

"Most of plaintiffs' predictions of harm hinge on speculation about audience viewing patterns and ratings, a measurement system which Sidney Sheinberg, MCA's president, calls a 'black art' because of the significant level of imprecision involved in the calculations." *Id.*, at 469. [FN35]

FN35. See also 480 F.Supp., at 451:

"It should be noted, however, that plaintiffs' argument is more complicated and speculative than was the plaintiffs in *Williams & Wilkins*.... Here, plaintiffs ask the court to find harm based on many more assumptions.... As is discussed more fully in Part IV, *infra*, some of these assumptions are based on neither fact nor experience, and plaintiffs admit that they are to some extent inconsistent and illogical."

There was no need for the District Court to say much about past harm. "Plaintiffs have admitted that no actual harm to their copyrights has occurred to date." *Id.*, at 451.

On the question of potential future harm from time-shifting, the District Court offered a more detailed analysis of the evidence. It rejected respondents' "fear that persons 'watching' the original telecast of a program will not be measured in the live audience and the ratings and revenues will decrease," by observing that current measurement technology allows the Betamax audience to be reflected. *Id.*, at 466. [FN36] It rejected respondents' prediction "that live television *453 or movie audiences will decrease as more people watch Betamax tapes as an alternative," with the observation that "[t]here is no factual basis for [the underlying] assumption." *Ibid.* [FN37] It rejected respondents' "fear that time-shifting will reduce audiences for telecast reruns," and concluded instead that "given current market practices, this should aid plaintiffs rather than harm them." *Ibid.* [FN38] And it declared that respondents' suggestion "that theater or film rental exhibition of a program will suffer because of time-shift recording of that program" "lacks merit." 480 F.Supp., at 467. [FN39]

[FN36] "There was testimony at trial, however, that Nielsen Ratings has already developed the ability to measure when a Betamax in a sample home is recording the program. Thus, the Betamax will be measured as a part of the live audience. The later diary can augment that measurement with information about subsequent viewing." 480 F.Supp., at 466.

In a separate section, the District Court rejected plaintiffs' suggestion that the commercial attractiveness of television broadcasts would be diminished because Betamax owners would use the pause button or fast-forward control to avoid viewing advertisements:

"It must be remembered, however, that to omit commercials, Betamax owners must view the program, including the commercials, while recording. To avoid commercials during playback, the viewer must fast-forward and, for the most part, guess as to when the commercial has passed. For most recordings, either practice may be too tedious. As defendants' survey showed, 92% of the programs were recorded with commercials and only 25% of the owners fast-forward through them. Advertisers will have to make the same kinds of judgments they do now about whether persons viewing televised programs actually watch the advertisements which interrupt them." *Id.*, at 468.

[FN37] "Here plaintiffs assume that people will view copies when they would otherwise be watching television or going to the movie theater. There is no factual basis for this assumption. It seems equally likely that Betamax owners will play their tapes when there is nothing on television they wish to see and no movie they want to attend. Defendants' survey does not show any negative effect of Betamax ownership on television viewing or theater attendance." *Ibid.*

[FN38] "The underlying assumptions here are particularly difficult to accept. Plaintiffs explain that the Betamax increases access to the original televised material and that the more people there are in this original audience, the fewer people the rerun will attract. Yet current marketing practices, including the success of syndication, show just the opposite. Today, the larger the audience for the original telecast, the higher the price plaintiffs can demand from broadcasters from rerun rights. There is no survey within the knowledge of this court to show that the rerun audience is comprised of persons who have not seen the program. In any event, if ratings can reflect Betamax recording, original audiences may increase and, given market practices, this should aid plaintiffs rather than harm them." *Ibid.*

[FN39] "This suggestion lacks merit. By definition, time-shift recording entails viewing and erasing, so the program will no longer be on tape when the later theater run begins. Of course, plaintiffs may fear that the Betamax will keep the tapes long enough to satisfy all their interest in the program and will, therefore, not patronize later theater exhibitions. To the extent this practice involves librarying, it is addressed in section V.C., *infra*. It should also be noted that there is no evidence to suggest that the public interest in later theatrical exhibitions of motion pictures will be reduced any more by Betamax recording than it already is by the television broadcast of the film." 480 F.Supp., at 467.

*454 After completing that review, the District Court restated its overall conclusion several times, in several different ways. "Harm from time-shifting is speculative and, at best, minimal." *Ibid.* "The audience benefits from the time-shifting capability have already been discussed. It is not implausible that benefits could also accrue to plaintiffs, broadcasters, and advertisers, as the Betamax makes it possible for more persons to view their broadcasts." *Ibid.* "No likelihood of harm was shown at trial, and plaintiffs admitted that there had been no actual harm to date." *Id.*, at 468-469. "Testimony at trial suggested that Betamax may require adjustments in marketing strategy, but it did not establish even a likelihood of harm." *Id.*, at 469. "Television production by plaintiffs today is more profitable than it has ever been, and, in five weeks of trial, there was no concrete evidence to suggest that the Betamax will change the studios' financial picture." *Ibid.*

The District Court's conclusions are buttressed by the fact that to the extent time-shifting expands public access to freely broadcast television programs, it yields societal benefits. Earlier this year, in *Community Television of Southern California v. Gottfried*, --- U.S. ---, --- - ---, n. 12, 103 S.Ct. 885, 891-892, 74 L.Ed.2d 705 (1983), we acknowledged the public interest in making television broadcasting more available. Concededly, that interest is not unlimited. But it supports an interpretation of the concept of "fair use" that requires the copyright holder to demonstrate some likelihood of harm before he may condemn a private act of time-shifting as a violation of federal law.

When these factors are all weighed in the "equitable rule of reason" balance, we must conclude that this record amply *455 supports the District Court's conclusion that home time-shifting is fair use. In light of the findings of the District Court regarding the state of the empirical data, it is clear that the Court of Appeals erred in holding that the statute as presently written bars such conduct. [FN40]

FN40. The Court of Appeals chose not to engage in any "equitable rule of reason" analysis in this case. Instead, it assumed that the category of "fair use" is rigidly circumscribed by a requirement that every such use must be "productive." It therefore concluded that copying a television program merely to enable the viewer to receive information or entertainment that he would otherwise miss because of a personal scheduling conflict could never be fair use. That understanding of "fair use" was erroneous.

Congress has plainly instructed us that fair use analysis calls for a sensitive balancing of interests. The distinction between "productive" and "unproductive" uses may be helpful in calibrating the balance, but it cannot be wholly determinative. Although copying to promote a scholarly endeavor certainly has a stronger claim to fair use than copying to avoid interrupting a poker game, the question is not simply two-dimensional. For one thing, it is not true that all copyrights are fungible. Some copyrights govern material with broad potential secondary markets. Such material may well have a broader claim to protection because of the greater potential for commercial harm. Copying a news broadcast may have a stronger claim to fair use than copying a motion picture. And, of course, not all uses are fungible. Copying for commercial gain has a much weaker claim to fair use than copying for personal enrichment. But the notion of social "productivity" cannot be a complete answer to this analysis. A teacher who copies to prepare lecture notes is clearly productive. But so is a teacher who copies for the sake of broadening his personal understanding of his specialty. Or a legislator who copies for the sake of broadening her understanding of what her constituents are watching; or a constituent who copies a news program to help make a decision on how to vote. Making a copy of a copyrighted work for the convenience of a blind person is expressly identified by the House Committee Report as an example of fair use, with no suggestion that anything more than a purpose to entertain or to inform need motivate the copying. In a hospital setting, using a VTR to enable a patient to see programs he would otherwise miss has no productive purpose other than contributing to the psychological well-being of the patient. Virtually any time-shifting that increases viewer access to television programming may result in a comparable benefit. The statutory language does not identify any dichotomy between productive and nonproductive time-shifting, but does require consideration of the economic consequences of copying.

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

V

"The direction of Art. I is that *Congress* shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress." Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 530, 92 S.Ct. 1700, 1707, 32 L.Ed.2d 273 (1972).

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

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

It is so ordered.

*457 Justice BLACKMUN, with whom Justice MARSHALL, Justice POWELL, and Justice REHNQUIST join, dissenting.

A restatement of the facts and judicial history of this case is necessary, in my view, for a proper focus upon the issues. Respondents' position is hardly so "unprecedented," *ante*, at 778, in the copyright law, nor does it really embody a "gross generalization," *ante*, at 786, or a "novel theory of liability," *ante*, at 786, and the like, as the Court, in belittling their claims, describes the efforts of respondents.

I

The introduction of the home videotape recorder (VTR) upon the market has enabled millions of Americans to make recordings of television programs in their homes, for future and repeated viewing at their own convenience. While this practice has proved highly popular with owners of television sets and VTRs, it understandably has been a matter of concern for the holders of copyrights in the recorded programs. A result is the present litigation, raising the issues whether the home recording of a copyrighted television program is an infringement of the copyright, and, if so, whether the manufacturers and distributors of VTRs are liable as contributory infringers. I would hope that these questions ultimately will be considered seriously and in depth by the Congress and be resolved there, despite the fact that the Court's decision today provides little incentive for congressional action. Our task in the meantime, however, is to resolve these issues as best we can in the light of ill-fitting existing copyright law.

It is no answer, of course, to say and stress, as the Court does, this Court's "consistent deference to Congress" whenever "major technological innovations" appear. *Ante*, at 783. Perhaps a better and more accurate description is that the Court has tended to evade the hard issues when they arise in the area of copyright law. I see no reason for the Court to be particularly pleased with this tradition or to continue it. Indeed, it is fairly clear from the legislative history of the 1976 Act that Congress meant to change the old pattern and *458 enact a statute that would cover new technologies, as well as old.

II

In 1976, respondents Universal City Studios, Inc., and Walt Disney Productions (Studios) brought this copyright infringement action in the United States District Court for the Central District of California against, among others, petitioners Sony Corporation, a Japanese corporation, and Sony Corporation of America, a New York corporation, the manufacturer and distributor, respectively, of the Betamax VTR. The Studios sought damages, profits, and a wide-ranging injunction against further sales or use of the Betamax or Betamax tapes.

The Betamax, like other VTRs, presently is capable of recording television broadcasts off the air on videotape cassettes, and playing them back at a later time. [FN1] Two kinds of Betamax usage are at issue here. [FN2] The first is "time-shifting," whereby the user records a program in order to watch it at a later time, and then records over it, and thereby erases the program, after a single viewing. The second is "library*⁴⁵⁹-building," in which the user records a program in order to keep it for repeated viewing over a longer term. Sony's advertisements, at various times, have suggested that Betamax users "record favorite shows" or "build a library." Sony's Betamax advertising has never contained warnings about copyright infringement, although a warning does appear in the Betamax operating instructions.

FN1. The Betamax has three primary components: a tuner that receives television ("RF") signals broadcast over the airwaves; an adapter that converts the RF signals into audio-video signals; and a recorder that places the audio-video signals on magnetic tape. Sony also manufactures VTRs without built-in tuners; these are capable of playing back prerecorded tapes and recording home movies on videotape, but cannot record off the air. Since the Betamax has its own tuner, it can be used to record off one channel while another channel is being watched.

The Betamax is available with auxiliary features, including a timer, a pause control, and a fast-forward control; these allow Betamax owners to record programs without being present, to avoid (if they are present) recording commercial messages, and to skip over commercials while playing back the recording. Videotape is reusable; the user erases its record by recording over it.

FN2. This case involves only the home recording for home use of television programs broadcast free over the airwaves. No issue is raised concerning cable or pay television, or the sharing or trading of tapes.

The Studios produce copyrighted "movies" and other works that they release to theaters and license for television broadcast. They also rent and sell their works on film and on prerecorded videotapes and videodiscs. License fees for television broadcasts are set according to audience ratings, compiled by rating services that do not measure any playbacks of videotapes. The Studios make the serious claim that VTR recording may result in a decrease in their revenue from licensing their works to television and from marketing them in other ways.

After a 5-week trial, the District Court, with a detailed opinion, ruled that home VTR recording did not infringe the Studios' copyrights under either the Act of March 4, 1909 (1909 Act), 35 Stat. 1075, as amended (formerly codified as 17 U.S.C. § 1 *et seq.* (1976 ed.)), or the Copyright Revision Act of 1976 (1976 Act), 90 Stat. 2541, 17 U.S.C. § 101 *et seq.* (1982 ed.). [FN3] The District Court also held that even if home VTR recording were an infringement, Sony could not be held liable under theories of direct infringement, contributory infringement, or vicarious liability. Finally, the court concluded that an injunction against sales of the Betamax would be inappropriate even if Sony were liable under one or more of those theories. 480 F.Supp. 429 (1979).

FN3. At the trial, the Studios proved 32 individual instances where their copyrighted works were recorded on Betamax VTRs. Two of these instances occurred after January 1, 1978, the primary effective date of the 1976 Act; all the others occurred while the 1909 Act was still effective. My analysis focuses primarily on the 1976 Act, but the principles governing copyright protection for these works are the same under either Act.

*460 The United States Court of Appeals for the Ninth Circuit reversed in virtually every respect. 659 F.2d 963 (1981). It held that the 1909 Act and the 1976 Act contained no implied exemption for "home use" recording, that such recording was not "fair use," and that the use of the Betamax to record the Studios' copyrighted works infringed their copyrights. The Court of Appeals also held Sony liable for contributory infringement, reasoning that Sony knew and anticipated that the Betamax would be used to record copyrighted material off the air, and that Sony, indeed, had induced, caused, or materially contributed to the infringing conduct. The Court of Appeals remanded the case to the District Court for appropriate relief; it suggested that the District Court could consider the award of damages or a continuing royalty in lieu of an injunction. *Id.*, at 976.

III

The Copyright Clause of the Constitution, Art. I, § 8, cl. 8, empowers Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." This Nation's initial copyright statute was passed by the First Congress. Entitled "An Act for the encouragement of learning," it gave an author "the sole right and liberty of printing, reprinting, publishing and vending" his "map, chart, book or books" for a period of 14 years. Act of May 31, 1790, § 1, 1 Stat. 124. Since then, as the technology available to authors for creating and preserving their writings has changed, the governing statute has changed with it. By many amendments, and by complete revisions in 1831, 1870, 1909, and 1976, [FN4] authors' rights have been *461 expanded to provide protection to any "original works of authorship fixed in any tangible medium of expression," including "motion pictures and other audiovisual works." 17 U.S.C. § 102(a). [FN5]

FN4. Act of Feb. 3, 1831, ch. 16, 4 Stat. 436; Act of July 8, 1870, § § 85-111, 16 Stat. 212-217; Act of Mar. 4, 1909, 35 Stat. 1075 (formerly codified as 17 U.S.C. § 1 *et seq.* (1976 ed.)); Copyright Revision Act of 1976, 90 Stat. 2541 (codified as 17 U.S.C. § 101 et seq. (1982 ed.)).

FN5. Section 102(a) provides: "Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

- "(1) literary works;
- "(2) musical works, including any accompanying words;
- "(3) dramatic works, including any accompanying music;
- "(4) pantomimes and choreographic works;
- "(5) pictorial, graphic, and sculptural works;
- "(6) motion pictures and other audiovisual works; and
- "(7) sound recordings."

Definitions of terms used in § 102(a)(6) are provided by § 101:§ "Audiovisual works" are "works that consist of a series of related images which are intrinsically intended to be shown by the use of machines, or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied." And "motion pictures" are "audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any." Most commercial television programs, if fixed on film or tape at the time of broadcast or before, qualify as "audiovisual works." Since the categories set forth in § 102(a) are not mutually exclusive, a particular television program may also qualify for protection as a dramatic, musical, or other type of work.

Section 106 of the 1976 Act grants the owner of a copyright a variety of exclusive rights in the copyrighted work, [FN6] including*462 the right "to reproduce the copyrighted work in copies or phonorecords." [FN7] This grant expressly is made subject to § § 107-118, which create a number of exemptions and limitations on the copyright owner's rights. The most important of these sections, for present purposes, is

§ 107; that section states that "the fair use of a copyrighted work ... is not an infringement of copyright."
[FN8]

FN6. Section 106 provides:

"Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

"(1) to reproduce the copyrighted work in copies or phonorecords; "(2) to prepare derivative works based upon the copyrighted work;

"(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;

"(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

"(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly."

FN7. A "phonorecord" is defined by § 101 as a reproduction of sounds other than sounds accompanying an audiovisual work, while a "copy" is a reproduction of a work in any form other than a phonorecord.

FN8. Section 107 provides:

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

Section 101 makes it clear that the four factors listed in this section are "illustrative and not limitative."

The 1976 Act, like its predecessors, [FN9] does *not* give the copyright owner full and complete control over all possible *463 uses of his work. If the work is put to some use not enumerated in § 106, the use is not an infringement. See *Fortnightly Corp. v. United Artists*, 392 U.S. 390, 393- 395, 88 S.Ct. 2084, 2085-2086, 20 L.Ed.2d 1176 (1968). Thus, before considering whether home videotaping comes within the scope of the fair use exemption, one first must inquire whether the practice appears to violate the exclusive right, granted in the first instance by § 106(1), "to reproduce the copyrighted work in copies or phonorecords."

FN9. The 1976 Act was the product of a revision effort lasting more than 20 years. Spurred by the recognition that "significant developments in technology and communications" had rendered the 1909 Act inadequate, S.Rep. No. 94-473, p. 47 (1975); see H.R.Rep. No. 94-1476, p. 47 (1976), U.S.Code Cong. & Admin.News 1976, p. 5660, Congress in 1955 authorized the Copyright Office to prepare a series of studies on all aspects of the existing copyright law. Thirty-four studies were prepared and presented to Congress. The Register of Copyrights drafted a comprehensive report with recommendations, House Committee on the Judiciary, Copyright Law Revision, Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 87th Cong., 1st Sess. (Comm.Print 1961) (Register's 1961 Report), and general revision bills were introduced near the end of the 88th Congress in 1964. H.R.11947/S.3008, 88th Cong., 2d Sess. (1964). The Register issued a second report in 1965, with revised recommendations. House Committee on the Judiciary, Copyright Law Revision, Pt. 6, Supplementary Report of the Register

of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, 89th Cong., 1st Sess. (Comm.Print 1965) (Register's Supplementary Report). Action on copyright revision was delayed from 1967 to 1974 by a dispute on cable television, see generally Second Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1975 Revision Bill, ch. V, pp. 2-26 (Draft Oct.-Dec. 1975) (Register's Second Supplementary Report), but a compromise led to passage of the present Act in 1976.

A

Although the word "copies" is in the plural in § 106(1), there can be no question that under the Act the making of even a single unauthorized copy is prohibited. The Senate and House Reports explain: "The references to 'copies or phonorecords,' although in the plural, are intended here and throughout the bill to include the singular (1 U.S.C. § 1)." [FN10] *464 S.Rep. No. 94-473, p. 58 (1975) (1975 Senate Report); H.R.Rep. No. 94-1476, p. 61 (1976) (1976 House Report), U.S.Code Cong. & Admin.News 1976, p. 5675. The Reports then describe the reproduction right established by § 106(1):

FN10. 1 U.S.C. § 1 provides in relevant part: "In determining the meaning of any Act of Congress, unless the context indicates otherwise ... words importing the plural include the singular...."

"[T]he right 'to reproduce the copyrighted work in copies or phonorecords' means the right to produce a material object in which the work is duplicated, transcribed, imitated, or simulated in a fixed form from which it can be 'perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.' As under the present law, a copyrighted work would be infringed by reproducing it in whole or in any substantial part, and by duplicating it exactly or by imitation or simulation." 1975 Senate Report 58; 1976 House Report 61, U.S.Code Cong. & Admin.News 1976, p. 5675.

The making of even a single videotape recording at home falls within this definition; the VTR user produces a material object from which the copyrighted work later can be perceived. Unless Congress intended a special exemption for the making of a single copy for personal use, I must conclude that VTR recording is contrary to the exclusive rights granted by § 106(1).

The 1976 Act and its accompanying reports specify in some detail the situations in which a single copy of a copyrighted work may be made without infringement concerns. Section 108(a), for example, permits a library or archives "to reproduce no more than one copy or phonorecord of a work" for a patron, but only under very limited conditions; an entire work, moreover, can be copied only if it cannot be obtained elsewhere at a fair price. [FN11] § 108(e); see also § 112(a) (broadcaster *465 may "make no more than one copy or phonorecord of a particular transmission program," and only under certain conditions). In other respects, the making of single copies is permissible only within the limited confines of the fair use doctrine. The Senate report, in a section headed "Single and multiple copying," notes that the fair use doctrine would permit a teacher to make a single copy of a work for use in the classroom, but only if the work was not a "sizable" one such as a novel or treatise. 1975 Senate Report 63-64; accord, 1976 House Report 68-69, 71. Other situations in which the making of a single copy would be fair use are described in the House and Senate reports. [FN12] But neither the statute nor its legislative history suggests any intent to create a general exemption for a single copy made for personal or private use.

FN11. The library photocopying provisions of § 108 do not excuse any person who requests "a copy" from a library if the requester's use exceeds fair use. § 108(f)(2). Moreover, a library is absolved from liability for the unsupervised use of its copying equipment provided that the equipment bears a notice informing users that "the making of a copy" may violate the copyright law. § 108(f)(1).

FN12. For example, "the making of a single copy or phonorecord by an individual as a free service for a blind person" would be a fair use, as would "a single copy reproduction of an excerpt from a copyrighted

work by a calligrapher for a single client" or "a single reproduction of excerpts from a copyrighted work by a student calligrapher or teacher in a learning situation." 1975 Senate Report 66-67; see 1976 House Report 73-74, U.S.Code Cong. & Admin.News 1976, p. 5687. Application of the fair use doctrine in these situations, of course, would be unnecessary if the 1976 Act created a general exemption for the making of a single copy.

Indeed, it appears that Congress considered and rejected the very possibility of a special private use exemption. The issue was raised early in the revision process, in one of the studies prepared for Congress under the supervision of the Copyright Office. Latman, Fair Use of Copyrighted Works (1958), reprinted in Senate Committee on the Judiciary, Copyright Law Revision, Studies Prepared for the Subcommittee on Patents, Trademarks, and Copyrights, 86th Cong., 2d Sess., 1 (1960) (Latman Fair Use Study). This study found no reported case supporting the existence of an exemption for private use, although it noted that "the purpose and nature of a private use, and in some *466 cases the small amount taken, might lead a court to apply the general principles of fair use in such a way as to deny liability." *Id.*, at 12. After reviewing a number of foreign copyright laws that contained explicit statutory exemptions for private or personal use, *id.*, at 25, Professor Latman outlined several approaches that a revision bill could take to the general issue of exemptions and fair use. One of these was the adoption of particularized rules to cover specific situations, including "the field of personal use." *Id.*, at 33. [FN13]

FN13. Professor Latman made special mention of the "personal use" issue because the area was one that "has become disturbed by recent developments Photoduplication devices may make authors' and publishers' groups apprehensive. The Copyright Charter recently approved by [the International Confederation of Societies of Authors and Composers] emphasizes the concern of authors over 'private' uses which, because of technological developments, are said to be competing seriously with the author's economic interests." Latman Fair Use Study 33-34.

Rejecting the latter alternative, the Register of Copyrights recommended that the revised copyright statute simply mention the doctrine of fair use and indicate its general scope. The Register opposed the adoption of rules and exemptions to cover specific situations, [FN14] preferring, instead, to rely on the judge-made fair use doctrine to resolve new problems as they arose. See Register's 1961 Report 25; Register's Supplementary Report 27-28.

FN14. The one exemption proposed by the Register, permitting a library to make a single photocopy of an out-of-print work and of excerpts that a requester certified were needed for research, met with opposition and was not included in the bills initially introduced in Congress. See Register's 1961 Report 26; H.R. 11947/S. 3008, 88th Cong., 2d Sess. (1964); Register's Supplementary Report 26. A library copying provision was restored to the bill in 1969, after pressure from library associations. Register's Second Supplementary Report, ch. III, pp. 10-11; see S. 543, 91st Cong., 1st Sess., § 108 (Comm.Print Dec. 10, 1969); 1975 Senate Report 48.

The Register's approach was reflected in the first copyright revision bills, drafted by the Copyright Office in 1964. *467 These bills, like the 1976 Act, granted the copyright owner the exclusive right to reproduce the copyrighted work, subject only to the exceptions set out in later sections. H.R. 11947/S. 3008, 88th Cong., 2d Sess., § 5(a) (1964). The primary exception was fair use, § 6, containing language virtually identical to § 107 of the 1976 Act. Although the copyright revision bills underwent change in many respects from their first introduction in 1964 to their final passage in 1976, these portions of the bills did not change. [FN15] I can conclude only that Congress, like the Register, intended to rely on the fair use doctrine, and not on a *per se* exemption for private use, to separate permissible copying from the impermissible. [FN16]

FN15. The 1964 bills provided that the fair use of copyrighted material for purposes "such as criticism, comment, news reporting, teaching, scholarship, or research" was not an infringement of copyright, and listed four "factors to be considered" in determining whether any other particular use was fair. H.R.11947/S.3008, 88th Cong., 2d Sess., § 6 (1964). Revised bills, drafted by the Copyright Office in 1965, contained a fair use provision merely mentioning the doctrine but not indicating its scope: "Notwithstanding the provisions of section 106, the fair use of a copyrighted work is not an infringement of copyright." H.R.4347/S.1006, 89th Cong., 1st Sess., § 107 (1965). The House Judiciary Committee restored the provision to its earlier wording, H.R.Rep. No. 2237, 89th Cong., 2d Sess., 5, 58 (1966), and the language adopted by the Committee remained in the bill in later Congresses. See H.R.2512/S.597, 90th Cong., 1st Sess., § 107 (1967); S.543, 91st Cong., 1st Sess., § 107 (1969); S.644, 92d Cong., 1st Sess., § 107 (1971); S.1361, 93d Cong., 1st Sess., § 107 (1973); H.R.2223/S.22, 94th Cong., 1st Sess., § 107 (1975). With a few additions by the House Judiciary Committee in 1976, see 1976 House Report 5; H.R.Conf.Rep. No. 94-1733, p. 70 (1976), U.S.Code Cong. & Admin.News 1976, p. 5659, the same language appears in § 107 of the 1976 Act.

FN16. In *Williams & Wilkins Co. v. United States*, 203 Ct.Cl. 74, 487 F.2d 1345 (1973), aff'd by an equally divided Court, 420 U.S. 376, 95 S.Ct. 1344, 43 L.Ed.2d 264 (1975), decided during the process of the revision of the copyright statutes, the Court of Claims suggested that copying for personal use might be outside the scope of copyright protection under the 1909 Act. The court reasoned that because "hand copying" for personal use has always been regarded as permissible, and because the practice of making personal copies continued after typewriters and photostat machines were developed, the making of personal copies by means other than hand copying should be permissible as well. *Id.*, at 84-88, 487 F.2d, at 1350-1352. There appear to me to be several flaws in this reasoning. First, it is by no means clear that the making of a "hand copy" of an entire work is permissible; the most that can be said is that there is no reported case on the subject, possibly because no copyright owner ever thought it worthwhile to sue. See Latman Fair Use Study 11-12; 3 M. Nimmer, Copyright § 13.05[E][4][a] (1982). At least one early treatise asserted that infringement would result "if an individual made copies for his personal use, even in his own handwriting, as there is no rule of law excepting manuscript copies from the law of infringement." A. Weil, American Copyright Law § 1066 (1917). Second, hand copying or even copying by typewriter is self-limiting. The drudgery involved in making hand copies ordinarily ensures that only necessary and fairly small portions of a work are taken; it is unlikely that any user would make a hand copy as a substitute for one that could be purchased. The harm to the copyright owner from hand copying thus is minimal. The recent advent of inexpensive and readily available copying machines, however, has changed the dimensions of the problem. See Register's Second Supplementary Report ch. III, p. 3; Hearings on H.R. 2223 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Judiciary Committee, 94th Cong., 1st Sess., 194 (1975) (1975 House Hearings) (remarks of Rep. Danielson); *id.*, at 234 (statement of Robert W. Cairns); *id.*, at 250 (remarks of Rep. Danielson); *id.*, at 354 (testimony of Irwin Karp); *id.*, at 467 (testimony of Rondo Cameron); *id.*, at 1795 (testimony of Barbara Ringer, Register of Copyrights). Thus, "[t]he supposition that there is no tort involved in a scholar copying a copyrighted text by hand does not much advance the question of machine copying." B. Kaplan, An Unhurried View of Copyright 101-102 (1967).

*468 When Congress intended special and protective treatment for private use, moreover, it said so explicitly. One such explicit statement appears in § 106 itself. The copyright owner's exclusive right to *perform* a copyrighted work, in contrast to his right to reproduce the work in copies, is limited. Section 106(4) grants a copyright owner the exclusive right to perform the work "publicly," but does not afford the owner protection with respect to private performances by others. A motion picture is "performed" whenever its images are shown or its sounds are made audible. § 101. Like "sing*469 [ing] a copyrighted lyric in the shower," *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 155, 95 S.Ct. 2040, 2043, 45 L.Ed.2d 84 (1975), watching television at home with one's family and friends is now considered a performance. 1975 Senate Report 59-60; 1976 House Report 63. [FN17] Home television viewing nevertheless does not infringe any copyright--but only because § 106(4) contains the word "publicly." [FN18] See generally 1975 Senate Report 60-61; 1976 House Report 63-64; Register's 1961 Report 29-

30. No such distinction between public and private uses appears in § 106(1)'s prohibition on the making of copies. [FN19]

FN17. In a trio of cases, *Fortnightly Corp. v. United Artists*, 392 U.S. 390, 398, 88 S.Ct. 2084, 2088, 20 L.Ed.2d 1176 (1968); *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394, 403-405, 94 S.Ct. 1129, 1135-1136, 39 L.Ed.2d 415 (1974); and *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 95 S.Ct. 2040, 45 L.Ed.2d 84 (1975), this Court had held that the reception of a radio or television broadcast was not a "performance" under the 1909 Act. The Court's "narrow construction" of the word "perform" was "completely overturned by the [1976 Act] and its broad definition of 'perform' in section 101." 1976 House Report 87, U.S.Code Cong. & Admin.News 1976, p. 5701.

FN18. A work is performed "publicly" if it takes place "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." § 101.

FN19. One purpose of the exemption for private performances was to permit the home viewing of lawfully made videotapes. The Register noted in 1961 that "[n]ew technical devices will probably make it practical in the future to reproduce televised motion pictures in the home. We do not believe the private *use* of such a reproduction can or should be precluded by copyright." Register's 1961 Report 30 (emphasis added). The Register did not suggest that the private *making* of a reproduction of a televised motion picture would be permitted by the copyright law. The Register later reminded Congress that "[i]n general the concept of 'performance' must be distinguished sharply from the reproduction of copies." Register's Supplementary Report 22.

Similarly, an explicit reference to private use appears in § 108. Under that section, a library can make a copy for a patron only for specific types of private use: "private study, scholarship, or research." [FN20] § 108(d)(1) and (e)(1); see *470 37 CFR § 201.14(b) (1982). Limits also are imposed on the extent of the copying and the type of institution that may make copies, and the exemption expressly is made inapplicable to motion pictures and certain other types of works. § 108(h). These limitations would be wholly superfluous if an entire copy of any work could be made by any person for private use. [FN21]

FN20. During hearings on this provision, Representative Danielson inquired whether it would apply to works of fiction such as "Gone With the Wind," or whether it was limited to "strictly technical types of information." The uncontradicted response was that it would apply only in "general terms of science ... [and] the useful arts." 1975 House Hearings 251 (testimony of Robert W. Cairns); cf. *id.*, at 300 (statement of Harry Rosenfield) ("We are not asking ... for the right to copy 'Gone With the Wind'").

FN21. The mention in the Senate and House Reports of situations in which copies for private use would be permissible under the fair use doctrine—for example, the making of a free copy for a blind person, 1975 Senate Report 66; 1975 House Report 73, or the "recordings of performances by music students for purposes of analysis and criticism," 1975 Senate Report 63—would be superfluous as well. See n. 12, *supra*.

B

The District Court in this case nevertheless concluded that the 1976 Act contained an implied exemption for "home-use recording." 480 F.Supp., at 444-446. The court relied primarily on the legislative history of a 1971 amendment to the 1909 Act, a reliance that this Court today does not duplicate. *Ante*, at 782, n. 11. That amendment, however, was addressed to the specific problem of commercial piracy of sound

recordings. Act of Oct. 15, 1971, 85 Stat. 391 (1971 Amendment). The House Report on the 1971 Amendment, in a section entitled "Home Recording," contains the following statement:

"In approving the creation of a limited copyright in sound recordings it is the intention of the Committee that this limited copyright not grant any broader rights than are accorded to other copyright proprietors under the existing title 17. Specifically, it is not the intention of the Committee to restrain the home recording, from broadcasts or from tapes or records, of recorded performances, *471 where the home recording is for private use and with no purpose of reproducing or otherwise capitalizing commercially on it. This practice is common and unrestrained today, and the record producers and performers would be in no different position from that of the owners of copyright in recorded musical compositions over the past 20 years." H.R.Rep. No. 92-487, p. 7 (1971) (1971 House Report).

Similar statements were made during House hearings on the bill [FN22] and on the House floor, [FN23] although not in the Senate *472 proceedings. In concluding that these statements created a general exemption for home recording, the District Court, in my view, paid too little heed to the context in which the statements were made, and failed to consider the limited purpose of the 1971 Amendment and the structure of the 1909 Act.

FN22. The following exchange took place during the testimony of Barbara Ringer, then Assistant Register of Copyrights:

"[Rep.] Biester.... I can tell you I must have a small pirate in my own home. My son has a cassette tape recorder, and as a particular record becomes a hit, he will retrieve it onto his little set.... [T]his legislation, of course, would not point to his activities, would it? "Miss Ringer. I think the answer is clearly, 'No, it would not.' I have spoken at a couple of seminars on video cassettes lately, and this question is usually asked: 'What about the home recorders?' The answer I have given and will give again is that this is something you cannot control. You simply cannot control it. My own opinion, whether this is philosophical dogma or not, is that sooner or later there is going to be a crunch here. But that is not what this legislation is addressed to, and I do not see the crunch coming in the immediate future.... I do not see anybody going into anyone's home and preventing this sort of thing, or forcing legislation that would engineer a piece of equipment not to allow home taping." Hearings on S. 646 and H.R. 6927 before Subcommittee No. 3 of the House Committee on the Judiciary, 92d Cong., 1st Sess., 22-23 (1971) (1971 House Hearings).

FN23. Shortly before passage of the bill, a colloquy took place between Representative Kastenmeier, chairman of the House subcommittee that produced the bill, and Representative Kazen, who was not on the committee:

"Mr. Kazen. Am I correct in assuming that the bill protects copyrighted material that is duplicated for commercial purposes only?

"Mr. Kastenmeier. Yes. "Mr. Kazen. In other words, if your child were to record off of a program which comes through the air on the radio or television, and then used it for her own personal pleasure, for listening pleasure, this use would not be included under the penalties of this bill?

"Mr. Kastenmeier. This is not included in the bill. I am glad the gentleman raises the point.

"On page 7 of the report, under 'Home Recordings,' Members will note that under the bill the same practice which prevails today is called for; namely, this is considered both presently and under the proposed law to be fair use. The child does not do this for commercial purposes. This is made clear in the report." 117 Cong.Rec. 34748-34749 (1971).

Unlike television broadcasts and other types of motion pictures, sound recordings were not protected by copyright prior to the passage of the 1971 Amendment. Although the underlying musical work could be copyrighted, the 1909 Act provided no protection for a particular performer's rendition of the work. Moreover, copyrighted musical works that had been recorded for public distribution were subject to a "compulsory license": any person was free to record such a work upon payment of a 2-cent royalty to the copyright owner. § 1(e), 35 Stat. 1075-1076. While reproduction without payment of the royalty was an infringement under the 1909 Act, damages were limited to three times the amount of the unpaid royalty. §

25(e), 35 Stat. 1081-1082; *Shapiro, Bernstein & Co. v. Goody*, 248 F.2d 260, 262-263, 265 (CA2 1957), cert. denied, 355 U.S. 952, 78 S.Ct. 536, 2 L.Ed.2d 529 (1958). It was observed that the practical effect of these provisions was to legalize record piracy. See S.Rep. No. 92-72, p. 4 (1971); 1971 House Report 2.

In order to suppress this piracy, the 1971 Amendment extended copyright protection beyond the underlying work and to the sound recordings themselves. Congress chose, however, to provide only limited protection: owners of copyright in sound recordings were given the exclusive right "[t]o reproduce [their works] and distribute [them] to the public." *473 1971 Amendment, § 1(a), 85 Stat. 391 (formerly codified as 17 U.S.C. § 1(f) (1976 ed.)). [FN24] This right was merely the right of commercial distribution. See 117 Cong.Rec. 34748-34749 (1971) (colloquy of Reps. Kazen & Kastenmeier) ("the bill protects copyrighted material that is duplicated for commercial purposes only").

[FN24] The 1909 Act's grant of an exclusive right to "copy," § 1(a), was of no assistance to the owner of a copyright in a sound recording, because a reproduction of a sound recording was technically considered not to be a "copy." See 1971 House Hearings 18 (testimony of Barbara Ringer, Assistant Register of Copyrights); 1971 Amendment, § 1(e), 85 Stat. 391 (formerly codified as 17 U.S.C. § 26 (1976 ed.)) ("For the purposes of [specified sections, not including § 1(a)], but not for any other purpose, a reproduction of a [sound recording] shall be considered to be a copy thereof"). This concept is carried forward into the 1976 Act, which distinguishes between "copies" and "phonorecords." See n. 7, *supra*.

Against this background, the statements regarding home recording under the 1971 Amendment appear in a very different light. If home recording was "common and unrestrained" under the 1909 Act, see 1971 House Report 7, it was because sound recordings had no copyright protection and the owner of a copyright in the underlying musical work could collect no more than a 2-cent royalty plus 6 cents in damages for each unauthorized use. With so little at stake, it is not at all surprising that the Assistant Register "d[id] not see anybody going into anyone's home and preventing this sort of thing." 1971 House Hearings 23.

But the references to home sound recording in the 1971 Amendment's legislative history demonstrate no congressional intent to create a generalized home use exemption from copyright protection. Congress, having recognized that the 1909 Act had been unsuccessful in controlling home sound recording, addressed only the specific problem of commercial record piracy. To quote Assistant Register Ringer again, home use was "not what this legislation [was] addressed to." 1971 House Hearings 22. [FN25]

[FN25] During consideration of the 1976 Act, Congress, of course, was well aware of the limited nature of the protection granted to sound recordings under the 1971 Amendment. See 1975 House Hearings 113 (testimony of Barbara Ringer, Register of Copyrights) (1971 Amendment "created a copyright in a sound recording ... but limited it to the particular situation of so-called piracy"); *id.*, at 1380 (letter from John Lorenz, Acting Librarian of Congress) (under 1971 Amendment "only the unauthorized reproduction and distribution to the public of copies of the sound recording is prohibited. Thus, the duplication of sound recordings for private, personal use and the performance of sound recordings through broadcasting or other means are outside the scope of the amendment").

*474 While the 1971 Amendment narrowed the sound recordings loophole in then existing copyright law, motion pictures and other audiovisual works have been accorded full copyright protection since at least 1912, see Act of Aug. 24, 1912, 37 Stat. 488, and perhaps before, see *Edison v. Lubin*, 122 F. 240 (CA3 1903), app. dism'd, 195 U.S. 625, 25 S.Ct. 790, 49 L.Ed. 349 (1904). Congress continued this protection in the 1976 Act. Unlike the sound recording rights created by the 1971 Amendment, the reproduction rights associated with motion pictures under § 106(1) are not limited to reproduction for *public* distribution; the copyright owner's right to reproduce the work exists independently, and the "mere duplication of a copy may constitute an infringement even if it is never distributed." Register's Supplementary Report 16; see 1975 Senate Report 57 and 1976 House Report 61. Moreover, the 1976 Act was intended as a comprehensive treatment of all aspects of copyright law. The reports accompanying the 1976 Act, unlike

the 1971 House Report, contain no suggestion that home-use recording is somehow outside the scope of this all-inclusive statute. It was clearly the intent of Congress that no additional exemptions were to be implied. [FN26]

FN26. Representative Kastenmeier, the principal House sponsor of the 1976 revision bill and chairman of the House subcommittee that produced it, made this explicit on the opening day of the House hearings:

"[F]rom time to time, certain areas have not been covered in the bill. But is it not the case, this being a unified code, that the operation of the bill does apply whether or not we specifically deal with a subject or not? ... "Therefore, we can really not fail to deal with an issue. It will be dealt with one way or the other. The code, title 17, will cover it. So we have made a conscious decision even by omission....

"By virtue of passing this bill, we will deal with every issue. Whether we deal with it completely or not for the purpose of resolving the issues involved is the only question, not whether it has dealt with the four corners of the bill because the four corners of the bill will presume to deal with everything in copyright." 1975 House Hearings 115.

*475 I therefore find in the 1976 Act no implied exemption to cover the home taping of television programs, whether it be for a single copy, for private use, or for home use. Taping a copyrighted television program is infringement unless it is permitted by the fair use exemption contained in § 107 of the 1976 Act. I now turn to that issue.

IV

Fair Use

The doctrine of fair use has been called, with some justification, "the most troublesome in the whole law of copyright." Dellar v. Samuel Goldwyn, Inc., 104 F.2d 661, 662 (CA2 1939); see Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc., 626 F.2d 1171, 1174 (CA5 1980); Meeropol v. Nizer, 560 F.2d 1061, 1068 (CA2 1977), cert. denied, 434 U.S. 1013, 98 S.Ct. 727, 54 L.Ed.2d 756 (1978). Although courts have constructed lists of factors to be considered in determining whether a particular use is fair, [FN27] no fixed criteria have emerged by which that *476 determination can be made. This Court thus far has provided no guidance; although fair use issues have come here twice, on each occasion the Court was equally divided and no opinion was forthcoming. Williams & Wilkins Co. v. United States, 203 Ct.Cl. 74, 487 F.2d 1345 (1973), aff'd, 420 U.S. 376, 95 S.Ct. 1344, 43 L.Ed.2d 264 (1975); Benny v. Loew's, Inc., 239 F.2d 532 (CA9 1956), aff'd sub nom. CBS, Inc. v. Loew's Inc., 356 U.S. 43, 78 S.Ct. 667, 2 L.Ed.2d 583 (1958).

FN27. The precise phrase "fair use" apparently did not enter the case law until 1869, see Lawrence v. Dana, 15 F.Cas. 26, 60 (No. 8,136) (CC Mass.), but the doctrine itself found early expression in Folsom v. Marsh, 9 F.Cas. 342 (No. 4,901) (CC Mass.1841). Justice Story was faced there with the "intricate and embarrassing questio[n]" whether a biography containing copyrighted letters was "a justifiable use of the original materials, such as the law recognizes as no infringement of the copyright of the plaintiffs." Id., at 344, 348. In determining whether the use was permitted, it was necessary, said Justice Story, to consider "the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.... Much must, in such cases, depend upon the nature of the new work, the value and extent of the copies, and the degree in which the original authors may be injured thereby." Id., at 348-349. Similar lists were compiled by later courts. See, e.g., Tennessee Fabricating Co. v. Moultrie Mfg. Co., 421 F.2d 279, 283 (CA5), cert. denied, 398 U.S. 928, 90 S.Ct. 1819, 26 L.Ed.2d 91 (1970); Mathews Conveyer Co. v. Palmer-Bee Co., 135 F.2d 73, 85 (CA6 1943); Columbia Pictures Corp. v. National Broadcasting Co., 137 F.Supp. 348 (SD Cal.1955); Shapiro, Bernstein & Co. v. P.F. Collier & Son Co., 26 U.S.P.Q. 40, 43 (SDNY 1934); Hill v. Whalen & Martell, Inc., 220 F. 359, 360 (SDNY 1914).

Nor did Congress provide definitive rules when it codified the fair use doctrine in the 1976 Act; it simply incorporated a list of factors "to be considered": the "purpose and character of the use," the "nature of the copyrighted work," the "amount and substantiality of the portion used," and, perhaps the most important, the "effect of the use upon the *potential* market for or value of the copyrighted work" (emphasis supplied). § 107. No particular weight, however, was assigned to any of these, and the list was not intended to be exclusive. The House and Senate Reports explain that § 107 does no more than give "statutory recognition" to the fair use doctrine; it was intended "to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way." 1976 House Report 66, U.S.Code Cong. & Admin.News 1976, p. 5680. See 1975 Senate Report 62; S.Rep. No. 93-983, p. 116 (1974); H.R.Rep. No. 83, 90th Cong., 1st Sess., 32 (1967); H.R.Rep. No. 2237, 89th Cong., 2d Sess., 61 (1966).

*477 A

Despite this absence of clear standards, the fair use doctrine plays a crucial role in the law of copyright. The purpose of copyright protection, in the words of the Constitution, is to "promote the Progress of Science and useful Arts." Copyright is based on the belief that by granting authors the exclusive rights to reproduce their works, they are given an incentive to create, and that "encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and the useful Arts.'" Mazer v. Stein, 347 U.S. 201, 219, 74 S.Ct. 460, 471, 98 L.Ed. 630 (1954). The monopoly created by copyright thus rewards the individual author in order to benefit the public. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156, 95 S.Ct. 2040, 2043, 45 L.Ed.2d 84 (1975); Fox Film Corp. v. Doyal, 286 U.S. 123, 127-128, 52 S.Ct. 546, 547, 76 L.Ed. 1010 (1932); see H.R.Rep. No. 2222, 60th Cong., 2d Sess., 7 (1909).

There are situations, nevertheless, in which strict enforcement of this monopoly would inhibit the very "Progress of Science and useful Arts" that copyright is intended to promote. An obvious example is the researcher or scholar whose own work depends on the ability to refer to and to quote the work of prior scholars. Obviously, no author could create a new work if he were first required to repeat the research of every author who had gone before him. [FN28] The scholar, like the ordinary user, of course could be left to bargain with each copyright owner for permission to quote from or refer to prior works. But there is a crucial difference between the scholar and the ordinary user. When the ordinary user decides that the owner's price is too high, and forgoes use of the work, only the individual is the loser. When the scholar forgoes the use of a prior work, not only does his own *478 work suffer, but the public is deprived of his contribution to knowledge. The scholar's work, in other words, produces external benefits from which everyone profits. In such a case, the fair use doctrine acts as a form of subsidy-- albeit at the first author's expense--to permit the second author to make limited use of the first author's work for the public good. See Latman Fair Use Study 31; Gordon, Fair Use as Market Failure: A Structural Analysis of the *Betamax* Case and its Predecessors, 82 Colum.L.Rev. 1600, 1630 (1982).

[FN28]. "The world goes ahead because each of us builds on the work of our predecessors. 'A dwarf standing on the shoulders of a giant can see farther than the giant himself.'" Chafee, Reflections on the Law of Copyright: I, 45 Colum.L.Rev. 503, 511 (1945).

A similar subsidy may be appropriate in a range of areas other than pure scholarship. The situations in which fair use is most commonly recognized are listed in § 107 itself; fair use may be found when a work is used "for purposes such as criticism, comment, news reporting, teaching, ... scholarship, or research." The House and Senate Reports expand on this list somewhat, [FN29] and other examples may be found in the case law. [FN30] Each of these uses, however, reflects a common theme: each is a *productive* use, resulting in some added benefit to the public beyond that produced by the first author's work. [FN31] The fair use doctrine, in other words, permits works *479 to be used for "socially laudable purposes." See Copyright Office, Briefing Papers on Current Issues, reprinted in 1975 House Hearings 2051, 2055. I am aware of no case in which the reproduction of a copyrighted work for the sole benefit of the user has been held to be fair use. [FN32]

FN29. Quoting from the Register's 1961 Report, the Senate and House Reports give examples of possible fair uses:

" 'quotation of excerpts in a review or criticism for purposes of illustration or comment; quotation of short passages in a scholarly or technical work, for illustration or clarification of the author's observations; use in a parody of some of the content of the work parodied; summary of an address or article, with brief quotations, in a news report; reproduction by a library of a portion of a work to replace part of a damaged copy; reproduction by a teacher or student of a small part of a work to illustrate a lesson; reproduction of a work in legislative or judicial proceedings or reports; incidental and fortuitous reproduction, in a newsreel or broadcast, of a work located in the scene of an event being recorded.' " 1975 Senate Report 61-62; 1976 House Report 65, U.S.Code Cong. & Admin.News 1976, p. 5678.

FN30. See, e.g., *Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, 626 F.2d 1171 (CA5 1980) (comparative advertising).

FN31. Professor Seltzer has characterized these lists of uses as "reflect [ing] what in fact the subject matter of fair use has in the history of its adjudication consisted in: it has always had to do with the use by a second author of a first author's work." L. Seltzer, *Exemptions and Fair Use in Copyright* 24 (1978) (emphasis removed). He distinguishes "the mere reproduction of a work in order to use it for its intrinsic purpose--to make what might be called the 'ordinary' use of it." When copies are made for "ordinary" use of the work, "ordinary *infringement* has customarily been triggered, not notions of fair use" (emphasis in original). *Ibid.* See also M. Nimmer, *Copyright* § 13.05[A][1] (1982) ("Use of a work in each of the foregoing contexts either necessarily or usually involves its use in a derivative work").

FN32. *Williams & Wilkins Co. v. United States*, 203 Ct.Cl. 74, 487 F.2d 1345 (1973), *aff'd* by an equally divided Court, 420 U.S. 376, 95 S.Ct. 1344, 43 L.Ed.2d 264 (1975), involved the photocopying of scientific journal articles; the Court of Claims stressed that the libraries performing the copying were "devoted solely to the advancement and dissemination of medical knowledge," 203 Ct.Cl., at 91, 487 F.2d, at 1354, and that "medical science would be seriously hurt if such library photocopying were stopped." *Id.*, at 95, 487 F.2d, at 1356. The issue of library copying is now covered by § 108 of the 1976 Act. That section, which Congress regarded as "authoriz[ing] certain photocopying practices which may not qualify as a fair use," 1975 Senate Report 67; 1976 House Report 74, U.S.Code Cong. & Admin.News 1976, p. 5688, permits the making of copies only for "private study, scholarship, or research." § § 108(d)(1) and (e)(1).

I do not suggest, of course, that every productive use is a fair use. A finding of fair use still must depend on the facts of the individual case, and on whether, under the circumstances, it is reasonable to expect the user to bargain with the copyright owner for use of the work. The fair use doctrine must strike a balance between the dual risks created by the copyright system: on the one hand, that depriving authors of their monopoly will reduce their incentive to create, and, on the other, that granting authors a complete monopoly will reduce the creative ability of others. [FN33] The inquiry is *480 necessarily a flexible one, and the endless variety of situations that may arise precludes the formulation of exact rules. But when a user reproduces an entire work and uses it for its original purpose, with no added benefit to the public, the doctrine of fair use usually does not apply. There is then no need whatsoever to provide the ordinary user with a fair use subsidy at the author's expense.

FN33. In the words of Lord Mansfield: "[W]e must take care to guard against two extremes equally prejudicial; the one, that men of ability, who have employed their time for the service of the community, may not be deprived of their just merits, and the reward of their ingenuity and labour; the other, that the world may not be deprived of improvements, nor the progress of the arts be retarded." *Sayre v. Moore*, 1 East 361 n. (b), 102 Eng.Rep. 139, 140 n. (b) (K.B.1785). See Register's Supplementary Report 13.

The making of a videotape recording for home viewing is an ordinary rather than a productive use of the Studios' copyrighted works. The District Court found that "Betamax owners use the copy for the same purpose as the original. They add nothing of their own." 480 F.Supp., at 453. Although applying the fair use doctrine to home VTR recording, as Sony argues, may increase public access to material broadcast free over the public airwaves, I think Sony's argument misconceives the nature of copyright. Copyright gives the author a right to limit or even to cut off access to his work. Fox Film Corp. v. Doyal, 286 U.S. 123, 127, 52 S.Ct. 546, 547, 76 L.Ed. 1010 (1932). A VTR recording creates no public benefit sufficient to justify limiting this right. Nor is this right extinguished by the copyright owner's choice to make the work available over the airwaves. Section 106 of the 1976 Act grants the copyright owner the exclusive right to control the performance and the reproduction of his work, and the fact that he has licensed a single television performance is really irrelevant to the existence of his right to control its reproduction. Although a television broadcast may be free to the viewer, this fact is equally irrelevant; a book borrowed from the public library may not be copied any more freely than a book that is purchased.

It may be tempting, as, in my view, the Court today is tempted, to stretch the doctrine of fair use so as to permit unfettered use of this new technology in order to increase access *481 to television programming. But such an extension risks eroding the very basis of copyright law, by depriving authors of control over their works and consequently of their incentive to create. [FN34] Even in the context of highly productive educational uses, Congress has avoided this temptation; in passing the 1976 Act, Congress made it clear that off-the-air videotaping was to be permitted only in very limited situations. See 1976 House Report 71; 1975 Senate Report 64. And, the Senate report adds, "[t]he committee does not intend to suggest ... that off-the-air recording for convenience would under any circumstances, be considered 'fair use.'" *Id.*, at 66. I cannot disregard these admonitions.

FN34. This point was brought home repeatedly by the Register of Copyrights. Mentioning the "multitude of technological developments" since passage of the 1909 Act, including "remarkable developments in the use of video tape," Register's Supplementary Report xiv-xv, the Register cautioned: "I realize, more clearly now than I did in 1961, that the revolution in communications has brought with it a serious challenge to the author's copyright. This challenge comes not only from the ever-growing commercial interests who wish to use the author's works for private gain. An equally serious attack has come from people with a sincere interest in the public welfare who fully recognize ... 'that the real heart of civilization ... owes its existence to the author'; ironically, in seeking to make the author's works widely available by freeing them from copyright restrictions, they fail to realize that they are whittling away the very thing that nurtures authorship in the first place. An accommodation among conflicting demands must be worked out, true enough, but not by denying the fundamental constitutional directive: to encourage cultural progress by securing the author's exclusive rights to him for a limited time." *Id.*, at xv; see 1975 House Hearings 117 (testimony of Barbara Ringer, Register of Copyrights).

B

I recognize, nevertheless, that there are situations where permitting even an unproductive use would have no effect on the author's incentive to create, that is, where the use would not affect the value of, or the market for, the author's work. Photocopying an old newspaper clipping to send to a friend *482 may be an example; pinning a quotation on one's bulletin board may be another. In each of these cases, the effect on the author is truly *de minimis*. Thus, even though these uses provide no benefit to the public at large, no purpose is served by preserving the author's monopoly, and the use may be regarded as fair.

Courts should move with caution, however, in depriving authors of protection from unproductive "ordinary" uses. As has been noted above, even in the case of a productive use, § 107(4) requires consideration of "the effect of the use upon the *potential* market for or value of the copyrighted work" (emphasis added). "[A] particular use which may seem to have little or no economic impact on the author's rights today can assume tremendous importance in times to come." Register's Supplementary Report 14.

Although such a use may seem harmless when viewed in isolation, "[i]solated instances of minor infringements, when multiplied many times, become in the aggregate a major inroad on copyright that must be prevented." 1975 Senate Report 65.

I therefore conclude that, at least when the proposed use is an unproductive one, a copyright owner need prove only a *potential* for harm to the market for or the value of the copyrighted work. See 3 M. Nimmer, Copyright § 13.05[E] [4] [c], p. 13-84 (1982). Proof of actual harm, or even probable harm, may be impossible in an area where the effect of a new technology is speculative, and requiring such proof would present the "real danger ... of confining the scope of an author's rights on the basis of the present technology so that, as the years go by, his copyright loses much of its value because of unforeseen technical advances." Register's Supplementary Report 14. Infringement thus would be found if the copyright owner demonstrates a reasonable possibility that harm will result from the proposed use. When the use is one that creates no benefit to the public at large, copyright protection should not be denied on the basis that a new technology that may result in harm has not yet done so.

***483** The Studios have identified a number of ways in which VTR recording could damage their copyrights. VTR recording could reduce their ability to market their works in movie theaters and through the rental or sale of pre-recorded videotapes or videodiscs; it also could reduce their rerun audience, and consequently the license fees available to them for repeated showings. Moreover, advertisers may be willing to pay for only "live" viewing audiences, if they believe VTR viewers will delete commercials or if rating services are unable to measure VTR use; if this is the case, VTR recording could reduce the license fees the Studios are able to charge even for first-run showings. Library-building may raise the potential for each of the types of harm identified by the Studios, and time-shifting may raise the potential for substantial harm as well. [FN35]

FN35. A VTR owner who has taped a favorite movie for repeated viewing will be less likely to rent or buy a tape containing the same movie, watch a televised rerun, or pay to see the movie at a theater. Although time-shifting may not replace theater or rerun viewing or the purchase of prerecorded tapes or discs, it may well replace rental usage; a VTR user who has recorded a first-run movie for later viewing will have no need to rent a copy when he wants to see it. Both library-builders and time-shifters may avoid commercials; the library builder may use the pause control to record without them, and all users may fast-forward through commercials on playback. The Studios introduced expert testimony that both time-shifting and librarying would tend to decrease their revenue from copyrighted works. See 480 F.Supp., at 440. The District Court's findings also show substantial library-building and avoidance of commercials. Both sides submitted surveys showing that the average Betamax user owns between 25 and 32 tapes. The Studios' survey showed that at least 40% of users had more than 10 tapes in a "library"; Sony's survey showed that more than 40% of users planned to view their tapes more than once; and both sides' surveys showed that commercials were avoided at least 25% of the time. Id., at 438-439.

Although the District Court found no likelihood of harm from VTR use, 480 F.Supp., at 468, I conclude that it applied an incorrect substantive standard and misallocated the ***484** burden of proof. The District Court reasoned that the Studios had failed to prove that library-building would occur "to any significant extent," id., at 467; that the Studios' prerecorded videodiscs could compete with VTR recordings and were "arguably ... more desirable," *ibid*; that it was "not clear that movie audiences will decrease," id., at 468; and that the practice of deleting commercials "may be too tedious" for many viewers, *ibid*. To the extent any decrease in advertising revenues would occur, the court concluded that the Studios had "marketing alternatives at hand to recoup some of that predicted loss." Id., at 452. Because the Studios' prediction of harm was "based on so many assumptions and on a system of marketing which is rapidly changing," the court was "hesitant to identify 'probable effects' of home-use copying." *Ibid*.

The District Court's reluctance to engage in prediction in this area is understandable, but, in my view, the court was mistaken in concluding that the Studios should bear the risk created by this uncertainty. The Studios have demonstrated a potential for harm, which has not been, and could not be, refuted at this early stage of technological development.

The District Court's analysis of harm, moreover, failed to consider the effect of VTR recording on "the potential market for or the value of the copyrighted work," as required by § 107(4). [FN36] The requirement that a putatively infringing use *485 of a copyrighted work, to be "fair," must not impair a "potential" market for the work has two implications. First, an infringer cannot prevail merely by demonstrating that the copyright holder suffered no net harm from the infringer's action. Indeed, even a showing that the infringement has resulted in a net benefit to the copyright holder will not suffice. Rather, the infringer must demonstrate that he had not impaired the copyright holder's ability to demand compensation from (or to deny access to) any group who would otherwise be willing to pay to see or hear the copyrighted work. Second, the fact that a given market for a copyrighted work would not be available to the copyright holder were it not for the infringer's activities does not permit the infringer to exploit that market without compensating the copyright holder. See *Iowa State University Research Foundation, Inc. v. American Broadcasting Cos.*, 621 F.2d 57 (CA2 1980).

FN36. Concern over the impact of a use upon "potential" markets is to be found in cases decided both before and after § 107 lent Congress' imprimatur to the judicially-created doctrine of fair use. See, e.g., *Iowa State University Research Foundation, Inc. v. American Broadcasting Cos.*, 621 F.2d 57, 60 (CA2 1980) ("the effect of the use on the copyright holder's potential market for the work"); *Meeropol v. Nizer*, 560 F.2d 1061, 1070 (CA2 1977) ("A key issue in fair use cases is whether the defendant's work tends to diminish or prejudice the potential sale of plaintiff's work"), cert. denied, 434 U.S. 1013, 98 S.Ct. 727, 54 L.Ed.2d 756 (1978); *Williams & Wilkins Co. v. United States*, 203 Ct.Cl. 74, 88, 487 F.2d 1345, 1352 (1973) ("the effect of the use on a copyright owner's potential market for and value of his work"), aff'd by an equally divided Court, 420 U.S. 376, 95 S.Ct. 1344, 43 L.Ed.2d 264 (1975); *Encyclopaedia Britannica Educational Corp. v. Crooks*, 542 F.Supp. 1156, 1173 (WDNY 1982) ("[T]he concern here must be focused on a copyrighted work's potential market. It is perfectly possible that plaintiffs' profits would have been greater, but for the kind of videotaping in question") (emphasis in original).

In this case, the Studios and their *amici* demonstrate that the advent of the VTR technology created a potential market for their copyrighted programs. That market consists of those persons who find it impossible or inconvenient to watch the programs at the time they are broadcast, and who wish to watch them at other times. These persons are willing to pay for the privilege of watching copyrighted work at their convenience, as is evidenced by the fact that they are willing to pay for VTRs and tapes; undoubtedly, most also would be willing to pay some kind of royalty to copyright holders. The Studios correctly argue that they have been deprived of the ability to exploit this sizable market.

It is thus apparent from the record and from the findings of the District Court that time-shifting does have a substantial *486 adverse effect upon the "potential market for" the Studios' copyrighted works. Accordingly, even under the formulation of the fair use doctrine advanced by Sony, time-shifting cannot be deemed a fair use.

V

Contributory Infringement

From the Studios' perspective, the consequences of home VTR recording are the same as if a business had taped the Studios' works off the air, duplicated the tapes, and sold or rented them to members of the public for home viewing. The distinction is that home VTR users do not record for commercial advantage; the commercial benefit accrues to the manufacturer and distributors of the Betamax. I thus must proceed to discuss whether the manufacturer and distributors can be held contributorily liable if the product they sell is used to infringe.

It is well established that liability for copyright infringement can be imposed on persons other than those who actually carry out the infringing activity. *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 62-63, 32 S.Ct. 20, 21-22, 56 L.Ed. 92 (1911); 3 M. Nimmer, Copyright § 12.04[A] (1982); see *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 160, n. 11, 95 S.Ct. 2040, 2046, n. 11, 45 L.Ed.2d 84 (1975); *Buck v. Jewell-*

LaSalle Realty Co., 283 U.S. 191, 198, 51 S.Ct. 410, 411, 75 L.Ed. 971 (1931). Although the liability provision of the 1976 Act provides simply that "[a]nyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright," 17 U.S.C. § 501(a), the House and Senate Reports demonstrate that Congress intended to retain judicial doctrines of contributory infringement. 1975 Senate Report 57; 1976 House Report 61. [FN37]

[FN37]. This intent is manifested further by provisions of the 1976 Act that exempt from liability persons who, while not participating directly in any infringing activity, could otherwise be charged with contributory infringement. See § 108(f)(1) (library not liable "for the unsupervised use of reproducing equipment located on its premises," provided that certain warnings are posted); § 110(6) ("governmental body" or "nonprofit agricultural or horticultural organization" not liable for infringing performance by concessionaire "in the course of an annual agricultural or horticultural fair or exhibition").

*487 The doctrine of contributory copyright infringement, however, is not well-defined. One of the few attempts at definition appears in Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159 (CA2 1971). In that case the Second Circuit stated that "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." Id., at 1162 (footnote omitted). While I have no quarrel with this general statement, it does not easily resolve the present case; the District Court and the Court of Appeals, both purporting to apply it, reached diametrically opposite results.

A

In absolving Sony from liability, the District Court reasoned that Sony had no direct involvement with individual Betamax users, did not participate in any off-the-air copying, and did not know that such copying was an infringement of the Studios' copyright. 480 F.Supp., at 460. I agree with the Gershwin court that contributory liability may be imposed even when the defendant has no formal control over the infringer. The defendant in Gershwin was a concert promoter operating through local concert associations that it sponsored; it had no formal control over the infringing performers themselves. *488 443 F.2d, at 1162-1163. See also Twentieth Century Music Corp. v. Aiken, 422 U.S., at 160, n. 11, 95 S.Ct., at 2046, n. 11. Moreover, a finding of contributory infringement has never depended on actual knowledge of particular instances of infringement; it is sufficient that the defendant have reason to know that infringement is taking place. 443 F.2d, at 1162; see Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc., 256 F.Supp. 399 (SDNY 1966). [FN38] In the so-called "dance hall" cases, in which questions of contributory infringement arise with some frequency, proprietors of entertainment establishments routinely are held liable for unauthorized performances on their premises, even when they have no knowledge that copyrighted works are being performed. In effect, the proprietors in those cases are charged with constructive knowledge of the performances. [FN39]

[FN38]. In Screen Gems, on which the Gershwin court relied, the court held that liability could be imposed on a shipper of unauthorized "bootleg" records and a radio station that broadcast advertisements of the records, provided they knew or should have known that the records were infringing. The court concluded that the records' low price and the manner in which the records were marketed could support a finding of "constructive knowledge" even if actual knowledge were not shown.

[FN39]. See, e.g., Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assn., Inc., 554 F.2d 1213 (CA1 1977); Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co., 36 F.2d 354 (CA7 1929); M. Witmark & Sons v. Tremont Social & Athletic Club, 188 F.Supp. 787, 790 (Mass.1960); see also Twentieth Century Music Corp. v. Aiken, 422 U.S., at 157, 95 S.Ct., at 2044; Buck v. Jewell-LaSalle Realty Co., 283 U.S. 191, 198-199, 51 S.Ct. 410, 411-412, 75 L.Ed. 971 (1931); 3 M. Nimmer, Copyright § 12.04[A], pp. 12-35 (1982).

Courts have premised liability in these cases on the notion that the defendant had the ability to supervise or control the infringing activities, see, e.g., Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (CA2 1963); KECA Music, Inc. v. Dingus McGee's Co., 432 F.Supp. 72, 74 (WD Mo.1977). This notion, however, is to some extent fictional; the defendant cannot escape liability by instructing the performers not to play copyrighted music, or even by inserting a provision to that effect into the performers' contract. Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assn., Inc., 554 F.2d, at 1214- 1215; KECA Music, Inc. v. Dingus McGee's Co., 432 F.Supp., at 75; Shapiro, Bernstein & Co. v. Veltin, 47 F.Supp. 648, 649 (WD La.1942). Congress expressly rejected a proposal to exempt proprietors from this type of liability under the 1976 Act. See 1975 Senate Report 141-142; 1976 House Report 159-160; 1975 House Hearings 1812-1813 (testimony of Barbara Ringer, Register of Copyrights); *id.*, at 1813 (colloquy between Rep. Pattison and Barbara Ringer). The Court's attempt to distinguish these cases on the ground of "control," *ante*, at 786, is obviously unpersuasive. The direct infringer ordinarily is not employed by the person held liable; instead, he is an independent contractor. Neither is he always an agent of the person held liable; *Screen Gems* makes this apparent.

*489 Nor is it necessary that the defendant be aware that the infringing activity violates the copyright laws. Section 504(c)(2) of the 1976 Act provides for a reduction in statutory damages when an infringer proves he "was not aware and had no reason to believe that his or her acts constituted an infringement of copyright," but the statute establishes no general exemption for those who believe their infringing activities are legal. Moreover, such an exemption would be meaningless in a case such as this, in which prospective relief is sought; once a court has established that the copying at issue is infringement, the defendants are necessarily aware of that fact for the future. It is undisputed in this case that Sony had reason to know the Betamax would be used by some owners to tape copyrighted works off the air. See 480 F.Supp., at 459-460.

The District Court also concluded that Sony had not caused, induced, or contributed materially to any infringing activities of Betamax owners. 480 F.Supp., at 460. In a case of this kind, however, causation can be shown indirectly; it does not depend on evidence that particular Betamax owners relied on particular advertisements. In an analogous case decided just two Terms ago, this Court approved a lower court's conclusion that liability for contributory trademark infringement could be imposed on a manufacturer who "suggested, even by implication" that a retailer use the manufacturer's goods to infringe the trademark of another. Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 851, 102 S.Ct. 2182, 2186, 72 L.Ed.2d 606 (1982); see *id.*, at 860, 102 S.Ct., at 2191 (concurring opinion). I think this standard is equally appropriate in the copyright context.

The District Court found that Sony has advertised the Betamax as suitable for off-the-air recording of "favorite shows," "novels for television," and "classic movies," 480 F.Supp., at 436, with no visible warning that such recording *490 could constitute copyright infringement. It is only with the aid of the Betamax or some other VTR, that it is possible today for home television viewers to infringe copyright by recording off-the-air. Off-the-air recording is not only a foreseeable use for the Betamax, but indeed is its intended use. Under the circumstances, I agree with the Court of Appeals that if off-the-air recording is an infringement of copyright, Sony has induced and materially contributed to the infringing conduct of Betamax owners. [FN40]

FN40. My conclusion respecting contributory infringement does not include the retailer defendants. The District Court found that one of the retailer defendants had assisted in the advertising campaign for the Betamax, but made no other findings respecting their knowledge of the Betamax's intended uses. I do not agree with the Court of Appeals, at least on this record, that the retailers "are sufficiently engaged in the enterprise to be held accountable," 659 F.2d, at 976. In contrast, the advertising agency employed to promote the Betamax was far more actively engaged in the advertising campaign, and petitioners have not argued that the agency's liability differs in any way from that of Sony Corporation and Sony Corporation of America.

B

Sony argues that the manufacturer or seller of a product used to infringe is absolved from liability whenever the product can be put to any substantial noninfringing use. Brief for Petitioners 41-42. The District Court so held, borrowing the "staple article of commerce" doctrine governing liability for contributory infringement of patents. See 35 U.S.C. § 271. [FN41] This Court today is much less positive. See *ante*, *491 at 788. I do not agree that this technical judge-made doctrine of patent law, based in part on considerations irrelevant to the field of copyright, see generally *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 187-199, 100 S.Ct. 2601, 2608-2614, 65 L.Ed.2d 696 (1980), should be imported wholesale into copyright law. Despite their common constitutional source, see U.S. Const., Art. I, § 8, cl. 8, patent and copyright protections have not developed in a parallel fashion, and this Court in copyright cases in the past has borrowed patent concepts only sparingly. See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345-346, 28 S.Ct. 722, 724, 52 L.Ed. 1086 (1908).

[FN41] The "staple article of commerce" doctrine protects those who manufacture products incorporated into or used with patented inventions-- for example, the paper and ink used with patented printing machines, *Henry v. A.B. Dick Co.*, 224 U.S. 1, 32 S.Ct. 364, 56 L.Ed. 645 (1912), or the dry ice used with patented refrigeration systems, *Carbice Corp. v. American Patents Corp.*, 283 U.S. 27, 51 S.Ct. 334, 75 L.Ed. 819 (1931). Because a patent-holder has the right to control the use of the patented item as well as its manufacture, see *Motion Picture Patents Co. v. Universal Film Co.*, 243 U.S. 502, 509-510, 37 S.Ct. 416, 417-418, 61 L.Ed. 871 (1917); 35 U.S.C. 271(a), such protection for the manufacturer of the incorporated product is necessary to prevent patent-holders from extending their monopolies by suppressing competition in unpatented components and supplies suitable for use with the patented item. See *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 197-198, 100 S.Ct. 2601, 2613-2614, 65 L.Ed.2d 696 (1980). The doctrine of contributory patent infringement has been the subject of attention by the courts and by Congress, see *id.*, at 202-212, 100 S.Ct., at 2616-2621, and has been codified since 1952, 66 Stat. 792, but was never mentioned during the copyright law revision process as having any relevance to contributory *copyright* infringement.

I recognize, however, that many of the concerns underlying the "staple article of commerce" doctrine are present in copyright law as well. As the District Court noted, if liability for contributory infringement were imposed on the manufacturer or seller of every product used to infringe--a typewriter, a camera, a photocopying machine--the "wheels of commerce" would be blocked. 480 F.Supp., at 461; see also *Kalem Co. v. Harper Brothers*, 222 U.S., at 62, 32 S.Ct., at 21.

I therefore conclude that if a *significant* portion of the product's use is *noninfringing*, the manufacturers and sellers cannot be held contributorily liable for the product's infringing uses. See *ante*, at 788. If virtually all of the product's use, however, is to infringe, contributory liability may be imposed; if no one would buy the product for noninfringing purposes alone, it is clear that the manufacturer is purposely profiting from the infringement, and that liability is appropriately imposed. In such a case, the copyright owner's monopoly would not be extended beyond its proper bounds; the manufacturer of such a product contributes to the infringing activities of others and profits directly thereby, while *492 providing no benefit to the public sufficient to justify the infringement.

The Court of Appeals concluded that Sony should be held liable for contributory infringement, reasoning that "[v]ideotape recorders are manufactured, advertised, and sold for the primary purpose of reproducing television programming," and "[v]irtually all television programming is copyrighted material." 659 F.2d, at 975. While I agree with the first of these propositions, [FN42] the second, for me, is problematic. The key question is not the amount of television programming that is copyrighted, but rather the amount of VTR usage that is infringing. [FN43] Moreover, the parties and their *amici* have argued vigorously about both the amount of television programming that is covered by copyright and the amount for which permission to copy has been given. The proportion of VTR recording that is infringing is ultimately a question of fact, [FN44] and the District Court specifically declined to make *493 findings on the "percentage of legal versus illegal home-use recording." 480 F.Supp., at 468. In light of my view of the

law, resolution of this factual question is essential. I therefore would remand the case for further consideration of this by the District Court.

FN42. Although VTRs also may be used to watch prerecorded video cassettes and to make home motion pictures, these uses do not require a tuner such as the Betamax contains. See n. 1, *supra*. The Studios do not object to Sony's sale of VTRs without tuners. Brief for Respondents 5, n. 9. In considering the noninfringing uses of the Betamax, therefore, those uses that would remain possible without the Betamax's built-in tuner should not be taken into account.

FN43. Noninfringing uses would include, for example, recording works that are not protected by copyright, recording works that have entered the public domain, recording with permission of the copyright owner, and, of course, any recording that qualifies as fair use. See, e.g., *Bruzzone v. Miller Brewing Co.*, 202 U.S.P.Q. 809 (N.D.Cal.1979) (use of home VTR for market research studies).

FN44. Sony asserts that much or most television broadcasting is available for home recording because (1) no copyright owner other than the Studios has brought an infringement action, and (2) much televised material is ineligible for copyright protection because videotapes of the broadcasts are not kept. The first of these assertions is irrelevant; Sony's liability does not turn on the fact that only two copyright owners thus far have brought suit. The amount of infringing use must be determined through consideration of the television market as a whole. Sony's second assertion is based on a faulty premise; the Copyright Office permits audiovisual works transmitted by television to be registered by deposit of sample frames plus a description of the work. See 37 CFR § § 202.20(c)(2)(ii) and 202.21(g) (1982). Moreover, although an infringement action cannot be brought unless the work is registered, 17 U.S.C. § 411(a), registration is not a condition of copyright protection. § 408(a). Copying an unregistered work still may be infringement. Cf. § 506(a) (liability for criminal copyright infringement; not conditioned on prior registration).

VI

The Court has adopted an approach very different from the one I have outlined. It is my view that the Court's approach alters dramatically the doctrines of fair use and contributory infringement as they have been developed by Congress and the courts. Should Congress choose to respond to the Court's decision, the old doctrines can be resurrected. As it stands, however, the decision today erodes much of the coherence that these doctrines have struggled to achieve.

The Court's disposition of the case turns on its conclusion that time-shifting is a fair use. Because both parties agree that time-shifting is the primary use of VTRs, that conclusion, if correct, would settle the issue of Sony's liability under almost any definition of contributory infringement. The Court concludes that time-shifting is fair use for two reasons. Each is seriously flawed.

The Court's first reason for concluding that time-shifting is fair use is its claim that many copyright holders have no objection to time-shifting, and that "respondents have no right to prevent other copyright holders from authorizing it for their programs." *Ante*, at 789. The Court explains that a finding of contributory infringement would "inevitably frustrate the interests of broadcasters in reaching the portion of their audience that is available only through time-shifting." *494 *Ante*, at 790. Such reasoning, however, simply confuses the question of liability with the difficulty of fashioning an appropriate remedy. It may be that an injunction prohibiting the sale of VTRs would harm the interests of copyright holders who have no objection to others making copies of their programs. But such concerns should and would be taken into account in fashioning an appropriate remedy once liability has been found. Remedies may well be available that would not interfere with authorized time-shifting at all. The Court of Appeals mentioned the possibility of a royalty payment that would allow VTR sales and time-shifting to continue unabated, and the parties may be able to devise other narrowly tailored remedies. Sony may be able, for example, to build a VTR that enables broadcasters to scramble the signal of individual programs and "jam" the

unauthorized recording of them. Even were an appropriate remedy not available at this time, the Court should not misconstrue copyright holders' rights in a manner that prevents enforcement of them when, through development of better techniques, an appropriate remedy becomes available. [FN45]

FN45. Even if concern with remedy were appropriate at the liability stage, the Court's use of the District Court's findings is somewhat cavalier. The Court relies heavily on testimony by representatives of professional sports leagues to the effect that they have no objection to VTR recording. The Court never states, however, whether the sports leagues are copyright holders, and if so, whether they have exclusive copyrights to sports broadcasts. Of course, one who does not hold an exclusive copyright does not have authority to consent to copying.

Assuming that the various sports leagues do have exclusive copyrights in some of their broadcasts, the amount of authorized time-shifting still would not be overwhelming. Sony's own survey indicated that only 7.3 percent of all Betamax use is to record sports events of all kinds. Def. Exh. OT, Table 20. Because Sony's witnesses did not represent all forms of sports events, moreover, this figure provides only a tenuous basis for this Court to engage in fact-finding of its own.

The only witness at trial who was clearly an exclusive copyright owner and who expressed no objection to unauthorized time-shifting was the owner of the copyright in *Mister Rogers' Neighborhood*. But the Court cites no evidence in the record to the effect that anyone makes VTR copies of that program. The simple fact is that the District Court made no findings on the amount of authorized time-shifting that takes place. The Court seems to recognize this gap in its reasoning, and phrases its argument as a hypothetical. The Court states: "If there are millions of owners of VTR's who make copies of televised sports events, religious broadcasts, and educational programs such as *Mister Rogers' Neighborhood*, and if the proprietors of those programs welcome the practice," the sale of VTR's "should not be stifled" in order to protect respondent's copyrights. *Ante*, at 790 (emphasis supplied). Given that the Court seems to recognize that its argument depends on findings that have not been made, it seems that a remand is inescapable.

***495** The Court's second stated reason for finding that Sony is not liable for contributory infringement is its conclusion that even unauthorized time-shifting is fair use. *Ante*, at 791. This conclusion is even more troubling. The Court begins by suggesting that the fair use doctrine operates as a general "equitable rule of reason." That interpretation mischaracterizes the doctrine, and simply ignores the language of the statute. Section 107 establishes the fair use doctrine "for purposes such as criticism, comment, news reporting, teaching, ... scholarship, or research." These are all productive uses. It is true that the legislative history states repeatedly that the doctrine must be applied flexibly on a case-by-case basis, but those references were only in the context of productive uses. Such a limitation on fair use comports with its purpose, which is to facilitate the creation of new works. There is no indication that the fair use doctrine has any application for purely personal consumption on the scale involved in this case, [FN46] and the Court's application of it here deprives fair use of the major cohesive force that has guided evolution of the doctrine in the past.

FN46. As has been explained, some uses of time-shifting, such as copying an old newspaper clipping for a friend, are fair use because of their *de minimis* effect on the copyright holder. The scale of copying involved in this case, of course, is of an entirely different magnitude, precluding application of such an exception.

***496** Having bypassed the initial hurdle for establishing that a use is fair, the Court then purports to apply to time-shifting the four factors explicitly stated in the statute. The first is "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." § 107(1). The Court confidently describes time-shifting as a noncommercial, nonprofit activity. It is clear, however, that personal use of programs that have been copied without permission is not what § 107(1) protects. The intent of the section is to encourage users to engage in activities the primary benefit of which accrues to others. Time-shifting involves no such humanitarian impulse. It is likewise something of a mischaracterization of time-shifting to describe it as noncommercial in the sense that that term is used in

the statute. As one commentator has observed, time-shifting is noncommercial in the same sense that stealing jewelry and wearing it--instead of reselling it--is noncommercial. [FN47] Purely consumptive uses are certainly not what the fair use doctrine was designed to protect, and the awkwardness of applying the statutory language to time-shifting only makes clearer that fair use was designed to protect only uses that are productive.

FN47. Home Recording of Copyrighted Works: Hearing before Subcomm. on Courts, Civil Liberties and the Administration of Justice of the House Comm. on the Judiciary, 97th Cong., 2d Sess., pt. 2, p. 1250 (1982) (memorandum of Prof. Laurence H. Tribe).

The next two statutory factors are all but ignored by the Court--though certainly not because they have no applicability. The second factor--"the nature of the copyrighted work"--strongly supports the view that time-shifting is an infringing use. The rationale guiding application of this factor is that certain types of works, typically those involving "more of diligence than of originality or inventiveness," *New York Times Co. v. Roxbury Data Interface, Inc.*, 434 F.Supp. 217, 221 (NJ 1977), require less copyright protection than other original works. Thus, for example, informational *497 works, such as news reports, that readily lend themselves to productive use by others, are less protected than creative works of entertainment. Sony's own surveys indicate that entertainment shows account for more than 80 percent of the programs recorded by Betamax owners. [FN48]

FN48. See A Survey of Betamax Owners, R. 2353, Def. Exh. OT, Table 20, cited in Brief for Respondents 52.

The third statutory factor--"the amount and substantiality of the portion used"--is even more devastating to the Court's interpretation. It is undisputed that virtually all VTR owners record entire works, see 480 F.Supp., at 454, thereby creating an exact substitute for the copyrighted original. Fair use is intended to allow individuals engaged in productive uses to copy small portions of original works that will facilitate their own productive endeavors. Time-shifting bears no resemblance to such activity, and the complete duplication that it involves might alone be sufficient to preclude a finding of fair use. It is little wonder that the Court has chosen to ignore this statutory factor. [FN49]

FN49. The Court's one oblique acknowledgement of this third factor, *ante*, at 792, seems to suggest that the fact that time-shifting involves copying complete works is not very significant because the viewers already have been asked to watch the initial broadcast free. This suggestion misses the point. As has been noted, a book borrowed from a public library may not be copied any more freely than one that has been purchased. An invitation to view a showing is completely different from an invitation to copy a copyrighted work.

The fourth factor requires an evaluation of "the effect of the use upon the potential market for or value of the copyrighted work." This is the factor upon which the Court focuses, but once again, the Court has misread the statute. As mentioned above, the statute requires a court to consider the effect of the use on the *potential* market for the copyrighted work. The Court has struggled mightily to show that VTR use has not *reduced* the value of the Studios' copyrighted works in their *present* markets. Even if true, that showing only begins the proper inquiry. The development *498 of the VTR has created a new market for the works produced by the Studios. That market consists of those persons who desire to view television programs at times other than when they are broadcast, and who therefore purchase VTR recorders to enable them to time-shift. [FN50] Because time-shifting of the Studios' copyrighted works involves the copying of them, however, the Studios are entitled to share in the benefits of that new market. Those benefits currently go to Sony through Betamax sales. Respondents therefore can show harm from VTR use simply

by showing that the value of their copyrights would *increase* if they were compensated for the copies that are used in the new market. The existence of this effect is self-evident.

FN50. The Court implicitly has recognized that this market is very significant. The central concern underlying the Court's entire opinion is that there is a large audience who would like very much to be able to view programs at times other than when they are broadcast. *Ante*, at 790. The Court simply misses the implication of its own concerns.

Because of the Court's conclusion concerning the legality of time-shifting, it never addresses the amount of noninfringing use that a manufacturer must show to absolve itself from liability as a contributory infringer. Thus, it is difficult to discuss how the Court's test for contributory infringement would operate in practice under a proper analysis of time-shifting. One aspect of the test as it is formulated by the Court, however, particularly deserves comment. The Court explains that a manufacturer of a product is not liable for contributory infringement as long as the product is "*capable* of substantial noninfringing uses." *Ante*, at 788 (emphasis supplied). Such a definition essentially eviscerates the concept of contributory infringement. Only the most unimaginative manufacturer would be unable to demonstrate that a image-duplicating product is "capable" of substantial noninfringing uses. Surely Congress desired to prevent the sale of products that are used almost exclusively to infringe copyrights; *499 the fact that noninfringing uses exist presumably would have little bearing on that desire.

More importantly, the rationale for the Court's narrow standard of contributory infringement reveals that, once again, the Court has confused the issue of liability with that of remedy. The Court finds that a narrow definition of contributory infringement is necessary in order to protect "the rights of others freely to engage in substantially unrelated areas of commerce." *Ante*, at 788. But application of the contributory infringement doctrine implicates such rights only if the remedy attendant upon a finding of liability were an injunction against the manufacture of the product in question. The issue of an appropriate remedy is not before the Court at this time, but it seems likely that a broad injunction is not the remedy that would be ordered. It is unfortunate that the Court has allowed its concern over a remedy to infect its analysis of liability.

VII

The Court of Appeals, having found Sony liable, remanded for the District Court to consider the propriety of injunctive or other relief. Because of my conclusion as to the issue of liability, I, too, would not decide here what remedy would be appropriate if liability were found. I concur, however, in the Court of Appeals' suggestion that an award of damages, or continuing royalties, or even some form of limited injunction, may well be an appropriate means of balancing the equities in this case. [FN51] Although I express no view on the merits *500 of any particular proposal, I am certain that, if Sony were found liable in this case, the District Court would be able to fashion appropriate relief. The District Court might conclude, of course, that a continuing royalty or other equitable relief is not feasible. The Studios then would be relegated to statutory damages for proved instances of infringement. But the difficulty of fashioning relief, and the possibility that complete relief may be unavailable, should not affect our interpretation of the statute.

FN51. Other Nations have imposed royalties on the manufacturers of products used to infringe copyright. See, e.g., Copyright Laws and Treaties of the World (UNESCO/BNA 1982) (English translation), reprinting Federal Act On Copyright in Works of Literature and Art and on Related Rights (Austria), § 42(5)-(7), and An Act dealing with Copyright and Related Rights (Federal Republic of Germany), Art. 53(5). A study produced for the Commission of European Communities has recommended that these requirements "serve as a pattern" for the European community. A. Dietz, Copyright Law in the European Community 135 (1978). While these royalty systems ordinarily depend on the existence of authors' collecting societies, see *id.*, at 119, 136, such collecting societies are a familiar part of our copyright law. See generally *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1, 4-5, 99 S.Ct. 1551,

1554, 60 L.Ed.2d 1 (1979). Fashioning relief of this sort, of course, might require bringing other copyright owners into court through certification of a class or otherwise.

Like so many other problems created by the interaction of copyright law with a new technology, "[t]here can be no really satisfactory solution to the problem presented here, until Congress acts." Twentieth Century Music Corp. v. Aiken, 422 U.S., at 167, 95 S.Ct., at 2049 (dissenting opinion). But in the absence of a congressional solution, courts cannot avoid difficult problems by refusing to apply the law. We must "take the Copyright Act ... as we find it," Fortnightly Corp. v. United Artists, 392 U.S. 390, 401-402, 88 S.Ct. 2084, 2090, 20 L.Ed.2d 1176 (1968), and "do as little damage as possible to traditional copyright principles ... until the Congress legislates." Id., at 404, 88 S.Ct., at 2091 (dissenting opinion).