

SONY CORPORATION OF AMERICA, *et al.*, *Petitioners*, vs. UNIVERSAL CITY STUDIOS, INC. and WALT DISNEY PRODUCTIONS, *Respondents*.

No. 81-1687

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ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF AMICI CURIAE TOSHIBA CORPORATION AND TOSHIBA AMERICA, INC. IN SUPPORT OF PETITIONERS

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INTEREST OF AMICI CURIAE

Toshiba is a Japanese corporation that manufactures videotape recorders (VTRs) and videotape cassettes for use in VTRs. TAI, a wholly owned American subsidiary of Toshiba, distributes Toshiba VTRs and videotape cassettes throughout the United States. Subsequent to the decision of the Court of Appeals in the *Sony* action, one of the respondents here, Universal City Studios, Inc. ("Universal"), sued fifty (50) manufacturers, distributors, and advertisers in the VTR industry, including Toshiba and TAI. *Universal City Studios, Inc. v. RCA*, No. 81-5723 (C.D. Cal. filed Nov. 6, 1981) ("*RCA* action"). Respondents' claims in the present action and those Universal is making in the *RCA* action raise novel copyright issues not previously considered by any court. These issues should now be settled by this Court.

The claims in the *Sony* and *RCA* actions are closely related in that both cases include copyright infringement and unfair competition claims based upon the manufacture, sale, and use of VTRs. Notwithstanding differences in the two cases (e.g., the differences in the marketing of VTRs between Sony on the one hand and defendants in the *RCA* action on the other, and the changes in consumer use of VTRs since trial of the *Sony* action), this Court's decision will have major impact in the *RCA* action and in clarifying the law affecting this emerging industry. Accordingly, Toshiba and TAI will be directly affected by the disposition of the present action.

PRELIMINARY STATEMENT

This brief is submitted on behalf of *amici curiae* Toshiba Corporation ("Toshiba") and Toshiba America, Inc. ("TAI") in support of petitioners' request that this Court reverse the judgment and opinion of the United States Court of Appeals for the Ninth

Circuit in *Universal City Studios, Inc. v. Sony Corp. of America*, 659 F.2d 963 (9th Cir. 1981) ("Sony action") and reinstate the judgment of the district court, 480 F. Supp. 429 (C.D. Cal. 1979). The written consent of all parties required by this Court's rule 36 is on file with the Clerk of this Court.

ARGUMENT

I. HOME VIDEOTAPE RECORDING FOR PRIVATE USE CONSTITUTES FAIR USE

In light of the unique equitable considerations in this case supporting a finding of fair use, the Court of Appeals erred in failing to uphold the district court's determination that home videotape recording for private use constitutes fair use. The exclusive rights granted to copyright owners in the Copyright Revision Act of 1976, 17 U.S.C. § 106 (Supp. IV 1980) (the "1976 Act"), are expressly limited by the doctrine of fair use, which evolved through case law and was codified subsequently in Section 107 of the 1976 Act. The fundamental precept permeating Section 107, and the case law both before and after the statute's enactment, is that fair use is an equitable rule of reason. House Comm. on the Judiciary, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 65, *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5679 ("1976 House Report"). Under this rule of reason, a fair use determination may require subordinating "the copyright holder's interest in a maximum financial return to the greater public interest...." *Rosemont Enterprises, Inc. v. Random House, Inc.*, 366 F.2d 303, 307 (2d Cir. 1966), *cert. denied*, 385 U.S. 1009 (1967). Apart from listing four nonexhaustive statutory factors for courts to consider, Congress intentionally left open Section 107 for judicial interpretation. This open-ended statutory framework was intended by Congress to permit judicial consideration not only of the four statutory criteria, but also of any other relevant equitable criteria. 1976 House Report, 1976 U.S. Code Cong. & Ad. News 5659, 5680. n1

n1 As stated in the House Report,

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. Section 107 is intended to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way. 1976 House Report, 1976 U.S. Code Cong. & Ad. News at 5680; *see also* S. Rep. No. 473, 94th Cong., 1st Sess. 62 (1975).

A. Equity and the Statutory Factors of Section 107 Justify a Fair Use Finding in this Case

The equities in the present case are overwhelmingly balanced in favor of a finding of fair use:

(1) Home VTR use occurs in the privacy of the consumer's home, and there is no suggestion of either (a) a commercial or profitmotivated use, or (b) extensive dissemination of copyrighted works in any organized or systematic fashion.

(2) Respondents have chosen to disseminate their works over the public airwaves free of charge to individuals in their homes and are usually compensated in direct relation to the size of the viewing audience which is increased by home VTR use.

(3) As it cannot be ascertained beforehand whether or when any particular televised program will be rebroadcast, the transitory nature of such programs requires capturing the

programs *in their entirety* at the moment they are broadcast in order to have access to the programs at any time other than that pre-selected by broadcasters.

(4) There has been no showing that respondents' markets will, or are likely to, be adversely affected by home VTR use.

The only reasonable conclusion that emerges from a full consideration of the peculiar features of home VTR use, balanced against the rights of copyright owners, is that such use is a fair use. By failing to consider the equitable factors discussed above, the Court of Appeals misapplied the enumerated fair use criteria of Section 107, and avoided a flexible balancing of these considerations by fashioning rigid rules precluding a fair use finding. n2 Therefore, the decision below should be reversed.

n2 Moreover, the Court of Appeals ignored the district court's findings in favor of fair use. A fair use determination is a factual finding, subject to the clearly erroneous standard of rule 52(a) of the Federal Rules of Civil Procedure. *See MCA, Inc. v. Wilson*, 677 F.2d 180, 183 (2d Cir. 1981); *Meeropol v. Nizer*, 560 F.2d 1061, 1068 (2d Cir. 1977), cert. denied, 434 U.S. 1013 (1978). The Court of Appeals improperly substituted its own findings of fact for those of the district court without even referring to the standard of rule 52(a) or stating any reason suggesting that the lower court's findings were clearly erroneous. As this Court twice recently held, this is reversible error. *See Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 50 U.S.L.W. 4592 (U.S. June 1, 1982); *Pullman-Standard v. Swint*, 102 S. Ct. 1781 (1982).

Section 107 lists four factors which should be considered, among others, in deciding whether to grant a fair use exemption: (1) the purpose and character of the use, including whether such use is of a commercial or non-profit educational nature; (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. No single factor is determinative on the fair use issue.

In considering the first factor, the district court properly emphasized the fact that use of VTRs in the home is not for profit or commercial purposes. On the other hand, the Court of Appeals concluded that the not-for-profit nature of the use was not significant unless it was for an "educational" purpose:

The district court... emphasized the noncommercial and home use of the copyrighted material. The statute does not, however, draw a simple commercial/noncommercial distinction. The statute contrasts commercial and non-profit educational purposes, and there is no question that the copying of entertainment works for convenience does not fall within the latter category.

659 F.2d at 972 (footnote omitted). This approach is clearly contrary to the pertinent legislative history. The 1976 House Report indicates that "*the works and uses to which the doctrine of fair use is applicable are as broad as the copyright law itself.*" 1976 House Report, 1976 U.S. Code Cong. & Ad. News at 5679 (emphasis added). The Report further notes:

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.

The amendment emphasized non-profit educational purposes merely as an *example* of a non-profit use and does not foreclose a finding of fair use as to other non-profit uses, such as those involved in the present case. Since all home videorecording involved in this case is non-profit, such nature of the use should cut in favor of a finding of fair use.

The private context within which home VTR use occurs also should have been accorded weight by the Court of Appeals in its consideration of the purpose and character of the use. Aside from the significant constitutional right of privacy in the home, see *Stanley v. Georgia*, 394 U.S. 557 (1969); *Griswold v. Connecticut*, 381 U.S. 479 (1965), the private, spontaneous, and personal nature of the use is important because it cuts against any notion of widespread dissemination or any "highly organized and systematic program for reproducing videotapes on a massive scale." *Encyclopaedia Britannica Educational Corp. v. Crooks*, No. 77-560, LEXIS slip op. at 14 (W.D.N.Y. June 21, 1982) (available on LEXIS, Genfed library, Dist file) ("*Encyclopaedia Britannica*") (quoting 480 F. Supp. at 450).ⁿ³ Indeed, all cases where a nonprofit use was held not to be fair use involved the public dissemination of copies of the copyrighted work. See, e.g., *Wihtol v. Crow*, 309 F.2d 777 (8th Cir. 1962) (musical arrangement based on plaintiff's song distributed to and performed by school choir); *Encyclopaedia Britannica* (widespread dissemination of videotaped works for classroom use). Compare *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973), *affd per curiam by an equally divided court*, 420 U.S. 376 (1975) (finding of fair use despite public dissemination). In no situation has a non-profit, non-public, personal use of a copyrighted work been found not to be "fair use" within the meaning of Section 107.

ⁿ³ Indeed, "home-use off-the-air" recording in the present case was directly distinguished from the type of widespread, systematic distribution program -- albeit for a non-profit educational use -- found to exist in *Encyclopaedia Britannica*. LEXIS slip op. at 14, 21.

The Court of Appeals seeks to circumvent this impediment by suggesting in a footnote that the present case does involve commercial exploitation. The court states that "[petitioners] are obviously not in the business of promoting home videorecording for strictly altruistic reasons." 659 F.2d at 972 n.9. This comment completely misses the mark. The relevant inquiry is whether the home use of the VTR is commercial use, not whether VTRs are sold for a profit.

As to the second factor listed in Section 107, "the nature of the copyrighted work," two unique aspects of respondents' marketing, not discussed by the Court of Appeals, are relevant and further support a fair use finding.

First, the exposure to home viewers of copyrighted works, such as respondents', enhances a "public interest" in the arts and culture of our society. See, e.g., *Rosemont Enterprises, Inc. v. Random House, Inc.*, 366 F.2d 303, 307 (2d Cir. 1966), *cert. denied*, 385 U.S. 1009 (1967) ("Whether the [fair use] privilege may justifiably be applied to particular materials turns initially on the nature of the materials, e.g., whether their distribution would serve the public interest in the free dissemination of information....").
ⁿ⁴ Failure to recognize a societal benefit from increased viewing of respondents' works resulting from home VTR recording was error on the part of the Court of Appeals.

ⁿ⁴ The Court of Appeals stated that "there seems to be some indication that the scope of fair use is greater when informational type works, as opposed to more creative products, are involved... If a work is more appropriately characterized as entertainment, it is less likely that a claim of fair use will be accepted." 659 F.2d at 972. Under Section 107, however, entertainment works have been given the same fair use treatment as

informational works. Thus, for example, in *Berlin v. E.C. Publications, Inc.*, 329 F.2d 541 (2d Cir.), cert. denied, 379 U.S. 822 (1964), the court found a parody appearing in Mad Magazine to be fair use, stating:

While the social interest in encouraging the broad-garuged burlesques of Mad Magazine is admittedly not readily apparent, and our individual tastes may prefer a more subtle brand of humor, this can hardly be dispositive here.

329 F.2d at 545. The Court of Appeals therefore improperly injected its own subjective viewpoint as to the public interest in entertainment works.

Second, since television programs are available for viewing only at particular times, absent reruns, programs missed by a viewer at the time of broadcast are "lost." This is especially true with respect to the industry practice known as "counter-programming" where "networks frequently broadcast their better and stronger programs at the same time." 480 F. Supp. at 441. "Timeshifting" enables the VTR user to view one program while simultaneously recording another from a single television set, or to view a program broadcast at a time when the user is not at home. Timeshifting therefore affords the viewer a wider latitude in terms of the number and choice of programs that can be viewed and serves to increase access to copyrighted works.

As a practical matter, timeshifting usually serves no real function unless the entire program is copied. While "the amount and substantiality of the portion used in relationship to the copyrighted work as a whole" is one of the factors considered on the fair use issue, the "substantiality factor" should not bar a finding of fair use when a VTR is used for timeshifting. As the district court correctly concluded:

Like the other variables in the fair use analysis, the substantiality factor is inextricably bound with the issue of harm. Obviously, *in the normal case of copying*, the effect that the infringing copy has on the market for the original will depend to a large extent on whether the copy can substitute for the original... Home use recording off-the-air usually involves copying the entire work. This fact, however, does not defeat the defense of fair use, *because all factors must be taken together*. When considered with the nature of the material and the noncommercial private use, this taking of the whole still constitutes fair use, because there is no accompanying reduction in the market for 'plaintiff's original work.'

480 F. Supp. at 454 (emphasis added) (footnote omitted).

The Court of Appeals, however, gave such undue weight to the substantiality factor that a balanced consideration of all the factors was precluded. *See Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, 626 F.2d 1171, 1177 n.15 (5th Cir. 1980) ("The idea that copying an entire copyrighted work can never be fair use is an overbroad generalization, unsupported by the decisions..."); *accord Williams & Wilkins Co. v. United States*, 487 F.2d at 1353; *Encyclopaedia Britannica*, LEXIS slip op. at 25. n5

n5 Relevant to the "amount" aspect of this third factor is the singular copying that occurs in home VTR use, *see* S. Rep. No. 473, 94th Cong., 1st Sess. 63 (1975), a point completely ignored by the Court of Appeals. A VTR user makes only one copy of any specific program and there is no attendant dissemination. In contrast, cases where a non-profit use was made of a copy but was held not to be fair use involved the making of multiple copies from one or more works by a single person or entity. *See Encyclopaedia Britannica* (defendant systematically copied and distributed educational television programs); *Wihtol v. Crow*, 309 F.2d 777 (8th Cir. 1962) (multiple copies of a single work were made and distributed by an individual).

The fourth factor listed in Section 107 (the "harm factor") is "the effect of the use upon the potential market for or value of the copyrighted work." It is evident, however,

that there is no reduction in the potential market for respondents' works. The district court addressed various propositions offered by respondents on the harm issue, noting that "[respondents] admit they are to some extent inconsistent and illogical." *480 F. Supp. at 451* (emphasis added). The district court considered both the repeated and non-repeated viewing of a copy made by a VTR and found, with respect to both, that respondents' claims of harm were too speculative and too full of unwarranted assumptions to negate a finding of fair use. *480 F. Supp. at 451-52*. This factual finding by the district court was not reversed by the Court of Appeals as "clearly erroneous."

The essence of respondents' claim of harm is that the "copying indirectly reduces the revenue by affecting ratings and advertising." *Id. at 452*. Respondents contend that home VTR use enables the user to avoid watching advertisements, either by using the pause control or by fast-forwarding, and that this affects profits. *Id. at 435-36*. Aside from the consideration that the use of the pause or fast-forward controls cannot be considered activity violative of the copyright laws, n6 the rule of television advertising "is that the larger the perceived rating of the program carrying the commercial, the larger the advertising fee... For rerun programming, larger audiences obtained during prior showing generally increase[s] the expected audience, and hence the fee, for rerun licensing." *Id. at 440, 441*. n7 By increasing the number of programs of different broadcasters that will be viewed, home VTR usage can thereby raise the ratings of particular programs and, in a direct manner, increase the compensation to the copyright holder. *480 F. Supp. at 466*. n8

n6 Even without a VTR, a viewer can easily avoid watching commercials by walking away from the television or by changing a channel. On remotecontrol TV sets, viewers can easily avoid listening to a commercial by employing the "mute" control. Similarly, use of a VTR to "avoid" commercials involves the "active" participation of the viewer. When a viewer records with a VTR in the direct mode, the pause control can be used to avoid taping a commercial; however, the commercial must be "monitored" to allow the viewer to release the pause control. In the timeshift mode, commercials *are* recorded and the only way they can be ignored on playback is for the viewer to use the fast-forward feature on a VTR. Yet here, too, the viewer must "monitor" the playback to know when the commercial begins and ends.

n7 The district court noted that both the Nielson and Arbitron rating services, used extensively in the broadcast industry, have the capacity to measure *VTR usage*. *480 F. Supp. at 441*.

n8 As this Court noted in *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, *415 U.S. 394 (1974)*:

By extending the range of viewability of a broadcast program, CATV systems thus do not interfere in any traditional sense with the copyright holders' means of extracting recompense for their creativity or labor. When a broadcaster transmits a program under license from the copyright holder he has no control over the segment of the population which may view the program... but rather he gets paid by advertisers on the basis of all viewers who watch the program... From the point of view of the broadcasters, such market extension may mark a reallocation of the potential number of viewers each station may reach, a fact of no direct concern under the Copyright Act. *From the point of view of the copyright holders, such market changes will mean that the compensation a broadcaster will be willing to pay for the use of copyrighted material will be calculated on the basis of the size of the direct broadcast market augmented by the size of the CATV market.*

415 U.S. at 412-13 (emphasis added). Likewise, appropriate compensation to the copyright owners can easily be determined based on a calculation of the size of the direct broadcast market augmented by the size of the VTR market. Although respondents

argued that harm would result from recording off-the-air and saving the tape for more than one subsequent viewing (i.e., "librarying" the tapes) and from the avoidance of commercials through the use of the pause and fast-forward shifting, they have failed to demonstrate any injury from these practices. *480 F. Supp. at 467-68.*

The Court of Appeals' treatment of the "harm" factor is unsatisfactory for two reasons. First, the Court of Appeals imputes harm from the mere fact that "copies made by home videorecording are used for the same purpose as the original." *659 F.2d at 974.* The court labelled this the "functional test." *Id.* at n.13. This type of mechanical finding of potential harm is not supported by case law. Those cases which have found negative effects on the potential market for a copyrighted work involved situations far different from the one now before this Court. *See, e.g., Wainwright Securities Inc. v. Wall Street Transcript Corp., 558 F.2d 91, 96 (2d Cir. 1977), cert. denied, 434 U.S. 1014 (1978)* (near verbatim use of plaintiff's financial reports in defendant's financial publication was "blatantly self-serving, with the obvious intent, if not the effect, of fulfilling the demand for the original work"); *Encyclopaedia Britannica*, LEXIS slip op. at 15, 16 (defendants' wholesale copying and systematic distribution of plaintiffs' educational television programs to schools clearly cut into the market for plaintiffs' works). This is not a case where petitioners are competing with respondents for an audience; indeed, there is no competition here that could dilute the audience for respondents' works.

Second, the Court of Appeals erred by taking into account the "*cumulative* effect of mass reproduction of copyrighted works made possible by videorecorders" in its harm analysis. *659 F.2d at 974.* Section 107 looks only to the "use made of a work in any *particular case....*" (emphasis added). The district court was presented with evidence of only a limited number of allegedly infringed works, copied by four individuals. *See 480 F. Supp. at 436-38.* In terms of these particular instances of copying, the harm that respondents hypothesized would result cannot be viewed as having any potential effect on the market for respondents' work. n9

n9 Nevertheless, even assuming that the cumulative effect of all home use recordings was properly considered, there is no evidence to support respondents' allegations of "assumed" harm. Respondents presented no evidence by advertisers that would even give rise to an inference that advertisers would be less willing to air commercials or pay lower advertising fees merely because of the home use of VTRs, even where librarying takes place.

In sum, consideration of the specific criteria enumerated in Section 107, and other unique pertinent factors of home VTR use, requires a finding of fair use. The Court of Appeals failed to consider all relevant factors under Section 107 and improperly rejected the district court's well-considered factual determinations. As discussed fully in the Brief for the Petitioners, the Court of Appeals also ignored the clear indication of Congress that home VTR recording should not be considered violative of copyrights.

The notion that VTR use can be anything but a fair use of respondents' works runs counter to any concept of fair use as an equitable rule of reason. Accordingly, this Court should reject the Court of Appeals' erroneous construction of the doctrine of fair use in this case.

B. The Court of Appeals' Productive Use Theory Creates an Impermissible Rigid Rule Against Fair Use

The Court of Appeals also erred by creating a rigid rule barring a finding of fair use in all cases where a copy of a copyrighted work is used for the same end for which the original was intended. n10 The Court of Appeals held that "[w]ithout 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 971-72. n11

n10 Such rigid rules negating a finding of fair use have been rejected repeatedly by courts. For example, in *Encyclopaedia Britannica*, the court stated:

Plaintiffs argue that off-the-air videotaping amounts to such substantial copying that this practice can never be considered fair use under the copyright statutes. *Such a sweeping contention must be rejected* since 'the idea that copying an entire copyrighted work can never be fair use is an overbroad generalization, unsupported by the decisions, and rejected by years of accepted practice.'

Encyclopaedia Britannica, LEXIS slip op. at 25. See also *Berlin v. E.C. Publications, Inc.*, 329 F.2d 541, 543 (2d Cir.), cert. denied, 379 U.S. 822 (1964).

n11 In support of this proposition, the Court of Appeals quotes extensively from *Exemptions and Fair Use in Copyright* (1978) by Leon Seltzer. 659 F.2d at 970. A full reading of Seltzer's passage, however, reveals that Seltzer supports petitioners' contention that copying of a copyrighted work for its intrinsic use should not preclude a finding of fair use. Seltzer's reference to "the list" is not a reference to the factors listed in Section 107, as the court indicates, but to a list of eight examples of fair use contained in a 1961 Report of the Register of Copyrights "orienting Congress on the issues to be dealt with in copyright revision." L. Seltzer at 23. As Seltzer makes clear, he is concerned that this list was too restrictive of the fair use doctrine and therefore criticizes the absence of considerations in the list regarding the intrinsic use of photocopies.

The Court of Appeals first notes that Section 107 lists "criticism, comment, news reporting, teaching..., scholarship, or research" as nonexhaustive *examples* of fair use. 659 F.2d at 969, 970. Nevertheless, as support for its productive use theory, the court views fair use as being restricted to these types of "traditional use" examples. *Id.* at 970. The Court of Appeals' analysis is contrary to the intent underlying the Copyright Act. Section 107 is structured to require the consideration of all factors relevant to any particular type of usage. A "productive use" analysis fails to consider all the Section 107 factors or to consider other factors relevant to developing VTR technology and, as shown above, completely ignores the societal benefit resulting from home VTR use. n12

n12 See *supra* at 7-8. In *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973), *aff'd per curiam by an equally divided court*, 420 U.S. 376 (1975), the Court of Claims found fair use where an intrinsic use was made of a photocopied work. As the district court stated, "[t]he *Williams & Wilkins* case, affirmed by an evenly divided Supreme Court, has little precedential value. Its holding is specifically limited to its unique factual situation... *The value of the case lies in its demonstration of the relevance of the fair use doctrine when copyright protection is tested by new technology and non-commercial use.*" 480 F. Supp. at 450. The district court merely used the case to compare its facts. 480 F. Supp. at 450-52. The Court of Appeals mischaracterized the district court's opinion by stating that the district court used "*William & Wilkins Co.*'s distortions of the fair use rationale to justify an application of the doctrine which... stretches fair use beyond recognition and undermines our traditional reliance on the economic incentives provided to authors by the copyright scheme." 659 F.2d at 970.

The rigid "productive use" test invoked by the Court of Appeals loses sight of the unique context of home VTR recording of televised programs, both copyrighted and non-copyrighted, which are transmitted over the public airwaves. The determination of whether home VTR use is fair use, while supported by the legal principles enunciated in prior cases, cannot be restricted to the factual situations of those cases which have not dealt with VTR technology. It was error therefore for the Court of Appeals to restrict fair

use to what it labeled the "traditional" uses appearing in prior cases. Moreover, a "productive use" test foregoes any analysis of harm on the potential market for respondents' works. There is no justification for inflexible rules in this case where there has been no showing that respondents' markets will be harmed or that petitioners are competing with respondents. "The line which must be drawn between fair use and copyright infringement depends on an examination of the facts in each case. It cannot be determined by resort to any arbitrary rules or fixed criteria." *Meeropol v. Nizer*, 560 F.2d 1061, 1068 (2d Cir. 1977), cert. denied, 434 U.S. 1013 (1978); accord *Triangle Publications, Inc. v. Knight Ridder Newspapers, Inc.*, 626 F.2d 1171, 1175-76 n.12 (5th Cir. 1980). Accordingly, to the extent that the court denied a fair use exemption based on its productive use test, the court manifestly erred.

II. THE COURT OF APPEALS ERRED IN HOLDING PETITIONERS CONTRIBUTORILY LIABLE FOR COPYRIGHT INFRINGEMENT

As demonstrated above, the Court of Appeals erred in not finding that home videotape recording for private use constitutes a fair use. Even if some consumer use conceivably amounted to infringement, there would still be no basis for holding petitioners contributorily liable for copyright infringement.

Contributory copyright liability derives from the common law tort doctrine that "one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasors." *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966), See generally Restatement of Torts, § 876 (1939); cf. 35 U.S.C. § 271(b) ("Whoever actively induces infringement of a patent shall be liable as an infringer."). The circumstances in which a person has been held contributorily liable for another's infringement of copyright only have been those where that person (the "contributory infringer") and the "direct infringer" were *in pari delicto*:

(1) The contributory infringer commits the direct infringement in concert with the direct infringer or pursuant to a common design with him. See *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 327 F. Supp. 788 (S.D.N.Y. 1971), rev'd on other grounds *sub non*. *Screen Gems-Columbia Music, Inc. v. Metlis & Lebow Corp.*, 453 F.2d 522 (2d Cir. 1972) ("Screen Gems"); Restatement of Torts, § 876(a) (1939).

(2) The contributory infringer knows of the direct infringer's "infringing" conduct and gives substantial assistance or encouragement to the direct infringer. See *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); Restatement of Torts, § 876(b) (1939).

(3) The contributory infringer gives substantial assistance to the direct infringer and his own conduct, separately considered, constitutes copyright infringement. See *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354, 365-66 (9th Cir. 1947); Restatement of Torts, § 876(c) (1939).

None of these circumstances, in which the defendants can be considered "aiders and abettors" of the infringement, are present in this case.

Petitioners have neither acted in concert with particular consumers using their own VTRs, nor given substantial assistance or encouragement to such persons. Petitioners herein manufacture and sell VTRs, which, as shown below, are capable of substantial noninfringing uses. Once sold to a consumer, that person can use the machine in any way he deems appropriate; petitioners simply have no control over the uses to which particular consumers will put their machine.

There is no question that VTRs are capable of substantial noninfringing uses:

(1) the recording of material where the copyright owners have consented to such recording, see 480 F. Supp. at 468;

(2) the recording of non-registrable material, e.g., programming as to which registration and infringement action are regularly rendered impossible by the erasing of the programming from the tape which had given it tangible form, *see 480 F. Supp. at 468*;

(3) the recording of non-copyrightable material, *see, e.g., 17 U.S.C. § 105* ("United States Government works");

(4) the recording of copyrightable, but not registered, material, *see 17 U.S.C. § 411* (registration prerequisite to infringement suit); n13

n13 Review of M. B. Nimmer, *Nimmer on Copyright*, 12.04[A] at 12-39-40 (1981), the pages cited by the Court of Appeals (*659 F.2d at 975 n.16*), indicates that virtually all television programs are *copyrightable*, not copyrighted (i.e., registered), material.

(5) the recording of material on which the copyright has expired;

(6) the playback of pre-recorded videocassettes which are licensed by the copyright owner; and

(7) the recording and playback, in conjunction with a home videocamera, of films made by the VTR owner.

No prior case has assigned contributory copyright liability to a person who merely manufactures or sells equipment which subsequently may be used for infringing uses, as well as substantial noninfringing uses, by ultimate consumers. As this Court indicated in its unanimous opinion in *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911) (Holmes, J.):[I]t is said that the defendant did not produce the representations, but merely sold the films to jobbers, and on that ground ought not to be held. In some cases where an ordinary article of commerce is sold nice questions may arise as to the point at which the seller becomes an accomplice in a subsequent illegal use by the buyer. It has been held that mere indifferent.. . knowledge on the part of the seller that the buyer.. . is contemplating such unlawful use is not enough.

222 U.S. at 62 (emphasis added). n14

n14 The standard set forth in *Kalem* is consistent with that used in analogous patent and trademark contributory infringement cases. *See Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 50 U.S.L.W. 4592 (U.S. June 1, 1982) (where this Court recently refused to sustain a finding of contributory trademark infringement where evidence merely showed that a generic drug company anticipated some illegal substitutions of drugs by some unknown pharmacists to some unspecified extent); *Sims v. Western Steel Co.*, 551 F.2d 811, 817 (10th Cir.), cert. denied, 434 U.S. 858 (1977) (contributory patent infringement involves the "active participa[tion] in the line of conduct of which the actual infringer was guilty. Thus he should be in the nature of an accessory before the fact.").

Based on its analysis of the facts of this case and the legal principles discussed above, the district court held that petitioners were not contributorily liable. The district court held that petitioners had not engaged in the kind of activities which would make them contributory infringers:

Here, 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. Henry's Camera sold the Betamax to Griffiths' sons but no testimony shows that the store or its employees knew that Griffiths would record copyrighted works.

480 F. Supp. at 460. The district court further held:

there was no evidence that any of the copies made by the... witnesses in this suit were influenced or encouraged by [petitioners] advertisements... [Petitioners] here do not arrange for and direct the programming for the infringing activity... [Petitioners] here do not sell or advertise the infringing work.

480 F. Supp. at 460-61 (emphasis added). The district court's finding with respect to contributory liability are subject to the "clearly erroneous" standard of rule 52(a) of the Federal Rules of Civil Procedure. As this Court recently held in a trademark case with particularly similar facts, *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 50 U.S.L.W. 4592 (U.S. June 1, 1982), the Court of Appeals' substitution of these factual findings without finding them clearly erroneous is reversible error. 50 U.S.L.W. 4596 & n. 19; see also *Pullman-Standard v. Swint*, 102 S. Ct. 1781 (1982).

While the Court of Appeals (659 F. Supp. at 975-76) and the district court (480 F. Supp. at 459-61) both purported to adopt the same definition of a contributory copyright infringer as "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another..." *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971), the Court of Appeals applied the "knowledge" and "inducement" elements of this definition in a manner not supported by either prior case law or logic.

With respect to the "knowledge" element, the Court of Appeals erred in holding:

It is only necessary that a copyright defendant have knowledge of the infringing activity. It cannot be argued that the corporate appellees cannot be held to have the knowledge that the Betamax will be used to reproduce copyrighted material, some of which appellants own.

659 F.2d at 975. The Court of Appeals' decision goes against prior case law in holding that mere general knowledge that infringement will inevitably occur is sufficient to hold the equipment manufacturer liable. For example, in *Gershwin*, the Court of Appeals for the Second Circuit found that a concert artists' managing company was contributorily liable because the company knew that these artists were performing copyrighted works, unlicensed by the copyright owners, at a concert sponsored by the Port Washington Community Concert Association, but nevertheless helped form and direct the association, program the compositions presented and create an audience for the association's concert. 443 F.2d at 1161. The managing company thus knew that particular copyrighted works were being infringed by specific persons, who were aided and abetted in the infringements by the company. Therefore, the "infringing activity" alleged in *Gershwin* was the infringing conduct of particular direct infringers and not the conduct (both non-infringing and infringing) of performing artists and concert associations generally. See also *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354, 365-66 (9th Cir. 1947) (infringing motion picture photoplay writer contributorily liable for selecting the material for the photoplay knowing that it had been used in another picture); *Screen Gems*, 327 F. Supp. at 791-92 (agency employee who handled the infringer's account was "a knowing party to the piracy").

Even assuming petitioners may have known that individuals were likely to utilize the Betamax to record copyrighted works, that is insufficient, by itself, to prove "constructive knowledge" of the recording of particular copyrighted works. See *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62 (1911) (Holmes, J.), discussed *supra* at 18. n15 It is even less sufficient to find that petitioners had induced, caused or materially contributed to the allegedly infringing conduct of the home VTR users. On this issue the Court of Appeals states, without elaboration or analysis, that:

n15 The Court of Appeals' treatment of the "staple article of commerce" question is also unsatisfactory. In its discussion of that issue, the Court of Appeals misstated the district court's opinion by indicating that the district court relied on the "staple article of commerce" theory for its determination. *659 F.2d at 975*. In fact, the district court only applied the underlying rationale for the patent law "staple article of commerce" rule, "[w]hether or not... the Betamax is capable of 'substantial' noninfringing use." *480 F. Supp. at 461*. In so doing, the district court stated, reflecting Justice Holmes' decision in *Kalem Co. v. Harper Bros.*, *222 U.S. 55 (1911)*:

Commerce would indeed be hampered if manufacturers of staple items were held liable as contributory infringers whenever they 'constructively' knew that some purchasers on some occasions would use their product for a purpose which a court later deemed... to be an infringement.
480 F. Supp. at 461.

"The corporate defendants are sufficiently engaged in the enterprise to be accountable."

659 F.2d at 975-76. The Court makes no attempt to explain what "enterprise" petitioners are supposed to be "sufficiently engaged in." Even assuming the Court of Appeals was correct on the fair use issue, all that petitioners did was manufacture or sell equipment capable of infringing as well as substantial non-infringing uses. Petitioners should not be held contributorily liable for infringing uses so removed from the manufacture and sale of VTRs.

III. A COMPULSORY ROYALTY IS NOT AN APPROPRIATE REMEDY

The Court of Appeals, in its remand, suggested that an acceptable resolution in this case may be the awarding of a "continuing royalty." *659 F.2d at 976*. A compulsory royalty is not an appropriate remedy because: (1) it is not a remedy provided by Congress; (2) as a measure of future damages, a determination of an appropriate royalty is too speculative and uncertain; and (3) a comprehensive royalty scheme is beyond the institutional competence of courts to devise and administer.

Congress has not created a compulsory royalty scheme in the VTR area. n16 Congress has not specified a "reasonable royalty" as a remedy for copyright infringement, or as a measure of damages. n17 Furthermore, in those situations in which it has created a compulsory royalty, Congress has vested responsibility and authority to determine a reasonable royalty payment and make distribution thereof to injured copyright holders in a specialized agency and not in the courts. n18

n16 Six bills are currently pending in Congress which would exempt home VTR use from copyright liability: H.R. 4808 (introduced by Rep. Stanford Parris (R-Va.) on October 21, 1981); S. 1758 (introduced by Senators Dennis DeConcini (D-Ariz.) and Alphonse D'Amato (R-NY) on October 20, 1981); H.R. 5488 (introduced by Rep. Don Edwards (D-Calif.) on February 9, 1982); H.R. 5705 (introduced by Rep. Edwards on March 3, 1982); H.R. 4783 (introduced by Rep. John Duncan (R-Tenn.) on October 20, 1981); H.R. 5250 (introduced by Mr. Thomas Foley (D-Wash.) on December 16, 1981); and Amendment No. 1333 to S. 1758 (introduced by Senator Mathias on March 4, 1982 to replace his Amendment No. 1242 to S. 1758 previously introduced on December 16, 1981). The Mathias Amendments, H.R. 5705 and H.R. 5488, would create a compulsory licensing scheme with royalty payments in the VTR area.

n17 See *Widenski v. Shapiro, Berstein, & Co.*, *147 F.2d 909 (1st Cir. 1945)* ("in lieu of actual damages" provision of 1909 Act, predecessor of the "statutory damages" provision in 1976 Act, is a substitute for the reasonable royalty rule applied in patent cases). Cf. *35 U.S.C. § 284* (damages for patent infringement).

n18 The Copyright Royalty Tribunal has jurisdiction to determine rates applicable to the compulsory royalties for secondary transmissions by cable systems, *17 U.S.C. § § 111, 801(b)(2)*, for the making and distribution of phonorecords of nondramatic musical works, *17 U.S.C. § § 115, 801(b)(1)*, for public performances by coin-operated phonorecord players ("jukeboxes"), *17 U.S.C. § § 116, 801(b)(1)*, and for the use of certain works in connection with noncommercial broadcasting, *17 U.S.C. § § 118, 801(b)(1)*. The Tribunal is also responsible for receiving and distributing royalty fees payable under the compulsory cable and coin-operated phonorecord player licenses. *17 U.S.C. § § 111(d)(3), 116(c), 801(b)(3)*. See generally *Nat'l Ass'n of Broadcasters v. Copyright Royalty Tribunal*, 675 F.2d 367 (D.C. Cir. 1982).

In *Fortnightly Corporation v. United Artist Television Inc.*, 392 U.S. 390 (1968), an analogous case in a developing technology (cable television), the Solicitor General in a *amicus curiae* brief had urged the Court to "imply" a license for the various cable television performances. The Solicitor General proposed this as a "compromise decision... that would... accommodate various competing considerations of copyright, communications, and antitrust policy." 392 U.S. at 401. This Court, however, declined the invitation, stating: "*That job is for Congress.*" 392 U.S. at 401 (emphasis added).

A compulsory royalty as a remedy for copyright infringement can be considered the equivalent of, or a measure of, prospective liquidated damages, i.e., reasonable "user" fees for the future. Assuming that a district court has equitable power to determine appropriate remedies other than those provided by Congress, the remedy of a compulsory royalty should be precluded, as a matter of law, as too speculative and uncertain in this case to afford an accurate measure of the amount of prospective damage. The claims of respondents regarding future injury were determined to be too speculative for purposes of the determination of injunctive relief, n19 and are likewise too speculative for the purpose of damage calculation, even in terms of effect on a "potential market." n20 Moreover, the causal links between the sale of particular name-brand VTRs (such as the Betamax), the generalized expectation that VTR owners will record copyrighted works in general, and any injury to the value of the works of an objecting copyright owner in particular, are too attenuated. See, e.g., *Bigelow v. RKO Radio Pictures*, 327 U.S. 251, 264 (1946) ("[T]he jury may not render a verdict based on speculation or guesswork."); see also *Illinois Brick Co. v. Illinois*, 431 U.S. 720, 747 (1977) ("[G]iven the difficulty of ascertaining the amount absorbed by any particular indirect purchaser, there is little basis for believing that the amount of the recovery would reflect the actual injury suffered."). Here, any estimate of whether or to what extent any particular manufacturer's VTRs would be used to record any copyrighted works belonging to respondents, and any estimate of the economic harm to respondents such recording might cause, would involve the kind of speculation or guesswork in calculating damages which this Court has condemned.

n19 As the district judge stated:

This is a doubtful case. An injunction would deprive the public of a new technology capable of noninfringing uses...

Courts look for irreparable harm to the plaintiff before issuing injunctive relief, and here plaintiffs' fears of irreparable harm are speculative at best. *480 F. Supp. at 464.*

n20 The district court suggested that use of a VTR might enable a viewer to see more programs and thus *increase* the value of the programs. See discussion *supra* at 11.

Assuming that a district court were to impose a royalty scheme, a determination would have to be made as to the standards determinative of a proper royalty. As

demonstrated above, a royalty determination as a measure of *prospective* damages to the copyright owner is too speculative, and therefore should be precluded as a matter of law. Standards that are designed to achieve generalized societal goals, such as those specified by Congress for the Copyright Royalty Tribunal in which the royalty rates applicable to compulsory licenses are to be calculated, n21 are likewise beyond the institutional competence of a court to establish. To make an accurate determination of a royalty rate, a district court would have to hold hearings, probably over an extended period of time, and to accept evidence from parties other than those before the court. n22 Assuming a district court, nonetheless, could devise a "proper" royalty scheme, it may have to maintain jurisdiction over the action to settle controversies over the distribution of royalty fees, and perhaps monitor the fairness of the royalty rates. Active judicial involvement in such administration will be constrained by the limited expertise and time of federal judges. As recently stated by the United States Court of Appeals for the District of Columbia in a case involving judicial review of distribution of funds collected under a statutorily authorized compulsory royalty scheme, "[C]laims of this sort are generally well beyond the expertise or authority of courts... and Congress made clear its awareness of our limitations by making the [Copyright Royalty] Tribunal the primary arbiter of these claims." *Nat'l Ass'n of Broadcasters v. Copyright Royalty Tribunal*, 675 F.2d at 367, 374 (D.C. Cir. 1982). See also *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 161-66 (1948) (judiciary is unsuited to supervise competitive bidding system).

n21 See, e.g., 17 U.S.C. § 801(b)(1).

n22 The Copyright Royalty Tribunal's experience with determining royalty rates is instructive. For example, the Tribunal published notice of its first proceeding to determine the royalty rate for the phonorecord compulsory license on January 2, 1980. 45 *Fed. Reg.* 63 (1980). During the spring of 1980, the Tribunal accepted submissions of economic studies and legal motions, and then commenced evidentiary hearings that lasted forty-six days and involved thirty-five witnesses. See *Adjustment of Royalty Payable Under Compulsory License for Making and Distributing Phonorecords*, 46 *Fed. Reg.* 10,466, 10,466-67 (1981). Closing arguments followed in November, and the Tribunal published the new rate on January 5, 1981, over a year after it published its initial notice of a proceeding. 46 *Fed. Reg.* 891 (1981).

CONCLUSION

Home videotape recording should be considered a fair use. As a private, non-commercial and non-profit activity related to programs freely broadcast to millions of home VTR users, this use cannot be deemed to so diminish the market for respondents' works as to justify restriction of individual freedom. As a new technology not dealt with in prior cases, VTR use is entitled to a balanced and flexible analysis under Section 107, to comport with the intent underlying the statute. The Court of Appeals' uncompromising approach to the fair use question is unwarranted, unreasonable, and unprecedented.

By merely manufacturing or selling VTRs, petitioners cannot be held contributorily liable for copyright infringement, because once a VTR is sold to a particular consumer, petitioners simply have no control over that consumer's uses of the VTR. Petitioners are in no way *in pari delicto* with their customers. The impropriety of requiring payment of a compulsory royalty in this case merely underscores the unfairness of holding petitioners contributorily liable for copyright infringement.

For all of the foregoing reasons, and for the reasons stated in petitioners' brief, this Court should reverse the judgment and opinion of the Court of Appeals for the Ninth Circuit and should reinstate the decision and judgment of the district court.

Respectfully submitted,

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