REPLAYING THE BETAMAX CASE FOR THE NEW DIGITAL VCRS: INTRODUCING TIVO TO FAIR USE

INTRODUCTION

The VCR has had a storied and troubled history.[1] From its first introduction into the American marketplace by Sony Corporation in 1969,[2] it has survived, for better or worse, all manner of contempt. First from the entertainment industry, who feared the device would ruin profits,[3] and then from frustrated consumers, who lacked the technical know-how to operate them for anything more then the occasional movie rental.[4] Nevertheless, VCRs have continued to survive. By 1991, the VCR had found itself in seven out of ten U.S. households,[5] and today enjoys a fixed place in the growing electronic monolith surrounding the modern television set.

The VCR has not always enjoyed such a firm setting in American life, however, and at one time narrowly escaped an early judicial retirement. Shortly after Sony introduced the Betamax VCR in 1975,[6] Universal Studios and Walt Disney Productions initiated a lawsuit,[7] claiming that Sony was contributorily liable for copyright infringement because the Betamax allowed users to videotape the

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1 *See generally* JAMES LARDNER, FAST FORWARD: HOLLYWOOD, THE JAPANESE, AND THE VCR WARS (1987) (providing an entertaining history of the VCR and the events leading up to, during, and immediately after the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417(1984)).

2 *See* Michael C. Diedring, *VCR Home Recording and Title 17: Does Congress Have the Answer to* Sony Corp. of America v. Universal City Studios, Inc.?, 35 SYRACUSE L. REV. 793, 796 (1984).

3 *See* Jay Mathews, *Ruling Urged on Use of Video Recorders*, WASH. POST, Apr. 14, 1982, at D7. Motion Picture Association of America President, Jack Valenti, told the House Judiciary Committee's Subcommittee on Courts, Civil Liberties, and the Administration of Justice that VCRs "are to the American film industry what the Boston strangler was to women." *Id.*

4 *See* Ric Manning, *VCR Manufacturers Have A New Motto: Simplify, Simplify*, COURIER-J. (Louisville, KY), Oct. 20, 1990, at 25 ("Some estimates say that 80 percent of VCR owners won't use the timing features because they don't know how or it's too much bother."); *see also* Michael Lewis, *Boom Box*, N.Y. TIMES, Aug. 13, 2000, § 6 (Magazine), at 36 (noting "the continued inability of Americans to program their VCR's" and that "[t]he VCR proved to be too unwieldy to be used for anything but renting videos").

5 *See* Joann S. Lublin, *As VCRs Advance, Agencies Fear TV Viewers Will Zap More Ads*, WALL ST. J., Jan. 4, 1991, at B3.

6 *See* Diedring, *supra* note 2, at 796. Sony later abandoned the Betamax format after losing considerable market share to the highly competitive VHS format, which is the industry standard today. *See* LARDNER, *supra* note 1, at 304.

7 *See* Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429 (C.D. Cal. 1979), *rev'd*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984).

studios' copyrighted programs without their permission.[8] The studios feared losing "control" over their programs, as well as the potential damage that could result from widespread use.[9] The ensuing eight-year legal battle eventually became known simply as "The Betamax Case."[10]

Ultimately, the studio plaintiffs failed to convince a majority on the Supreme Court. In a narrow 5-4 decision, the Court found that home taping of free-television for later viewing constituted "fair use" under the Copyright Act.[11] Of great importance to the Court was the fact that the studios were unable to prove that "some meaningful likelihood of future harm" existed from Betamax use,[12] allowing home taping to pass under the Supreme Court's first attempt at "fair-use" analysis.[13]

Today, of course, one need only survey the innocuous flashing "12:00" on VCRs across the country to understand the foresight of the majority's opinion and the absurdity of the studios' anxiety.[14] The VCR has not had the impact on American viewing habits that its detractors had envisioned.[15] This phenomenon is due in large part to the frustration many consumers experience when trying to

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8 *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 420 (1984).

9 *See id.* at 451-53. The studio's feared, among other contingencies, that massive recording of their programs would disrupt Nielsen Ratings, the studio's method of recording audience interest in particular shows for setting advertising prices, because recorded programs would not be counted, as well as fearing decreased audience interest in "telecast reruns." *Id.*; *see also* discussion *infra* Part III.A.2.a.

10 A Lexis Nexis search in the News Group File, Beyond Two Years database using the search term "Betamax Case" yielded 220 citing references, the earliest of which was in June of 1979.

11 *See Sony*, 464 U.S. at 442; *see also* 17 U.S.C. § 107 (2000) ("[T]he fair use of a copyrighted work . . . 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 . . . ; and (4) the effect of the use upon the potential market for or value of the copyrighted work.").

12 *See Sony*, 464 U.S. at 451 (emphasis omitted). The Court emphasized that home-recording of programs, broadcast for free over the public airwaves, was a non-commercial activity and therefore, presumptively, a fair use of the plaintiff's copyrighted programs. *See id.* at 448-49. In addition, the Court relied heavily on the district court's findings of fact that home recording would not lead to a substantial likelihood of future harm. *See id.* at 451. However, the Court's holding that non-commercial activity is presumptively fair use was later modified in *Campbell v. Acuff-Rose Music*, Inc., 510 U.S. 569 (1994). *See* discussion *infra* Part III.A.1.a.

13 Prior to *Sony*, the Court heard two earlier cases involving fair use but split 4-4 each time, thus providing no opinion. *See* Williams & Wilkins Co. v. United States, 420 U.S. 376 (1975); Columbia Broad. Sys., Inc. v. Loews Inc., 356 U.S. 43 (1958). Since *Sony*, the Court has addressed the issue of fair use in three subsequent cases. *See* Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539 (1985); Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994); Stewart v. Abend, 495 U.S. 207 (1990).

14 *See generally* James Lardner, *How Hollywood Learned to Stop Worrying and Love the VCR;Home Video has Diminished the Power of the Studios but not Their Profits*, L.A. TIMES, Apr. 19, 1987, (Magazine), at 12.

15 *See id.*

master the technical demands of their VCRs — most simply give up.[16] In turn, what minimal damage the studios may sustain from the few eager consumers who tape live shows is clearly offset by huge profits from videocassette sales and rentals.[17] The ten years of rhetoric and debate that led up to the Supreme Court showdown was quickly washed away in the wake of this new market.[18] Not long after the Court's ruling, the fact that one could happily record television programs without penalty was taken for granted by all the parties involved.

But just as consumers and manufacturers were praising the Court's prescience, legal scholars were less admiring of the Court's fair-use analysis. *Sony v. Universal* represented the first case in which the Supreme Court dealt with the long-standing doctrine of fair use.[19] Unfortunately, the Court's contribution to the discussion left many commentators unsatisfied.[20] Some scholars were dissatisfied with the Court's inability to articulate a consistent standard for fair-use analysis, providing inadequate direction for lower courts.[21] Others have pointed out that the Court's fair-use analysis provides little guidance in other contexts, in part due to the closeness of the vote, but primarily due to the "unique technology at issue" and specific factual record before the Court.[22] Indeed, some suggest that "as a matter of law" the Court's conclusions "would be different based on a more contemporary record."[23] Thus, it is not entirely clear what the *Sony* opinion has to offer the legal community outside the narrow context the Court defined.

Consequently, how firm is the ground upon which *Sony v. Uni-*

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16 *See generally* James Poniewozik, *Is Network TV Doomed? Personal Video Recorders that Allow Ad-Free Viewing Could Change Broadcasting*, TIME, Sept. 27, 1999, at 62.

17 *See* Lardner, *supra* note 14, at 12. As early as 1985, the studios began to realize that VCRs were fostering a huge market, of which Hollywood itself was the prime beneficiary. *See id.* Projected sales for the end of that year were $3.5 billion. *See id.*

18 *See id.* It should be noted that in 1987, "[n]ot every studio executive [was] satisfied with [the] division of spoils." *Id.* Sidney Sheinberg, President of MCA-Universal, made clear his wish to "turn the clock back." *Id.*

19 For a general discussion of fair use in copyright law, see generally Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105 (1990), WILLIAM F. PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW (1985), Saul Cohen, *Fair Use in the Law of Copyright*, 6 COPYRIGHT L. SYMP. (ASCAP) 43 (1955).

20 *See* PATRY, *supra* note 19, at 200-10; *see also* William F. Fisher III, *Article: Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659 (1988).

21 *See* Fisher, *supra* note 20, at 1664. In discussing Sony as well as *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539 (1985), the Court's second attempt at addressing fair use, Fisher contends that the Court's analysis "suffers from several minor defects and one fundamental problem: failure to identify and advance a coherent set of values." Fisher, *supra* note 20, at 1664.

22 PATRY, *supra* note 19, at 205.

23 *Id.* at 201.

versal is laid?[24] What is its precedential value? Its legacy? These were some of the questions many studios, media companies, and their advertisers were asking in 1999 when TiVo Inc. ("TiVo") launched the first *digital* VCR, followed by a similar version released by Replay Networks Inc. (otherwise referred to as "ReplayTV") in the same year.[25] This new digital version of the VCR, otherwise known as a "personal video recorder," or "PVR,"[26] has generated a tremendous amount of attention since its introduction into the marketplace. Some observers in the electronics industry have already described the PVR as "the most successful new consumer-electronics product in history."[27] Its advocates believe that the digital format will allow the PVR to succeed where the VCR has failed, by permitting viewers to tape shows with frequency and ease.[28] If this is true, it could mean the entertainment industry's old fears concerning the VCR might actually come true, twenty years later.

With such a strong endorsement, it did not take long for the media giants to respond, again.[29] By 1999, five top media companies, including Time Warner Inc., CBS Corp., News Corp., Discovery Communications, and former *Sony* plaintiff Walt Disney Corp., formed the Advanced Television Copyright Coalition (the

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24 *See* Monica Hogan, *Content Cos. Seek Copyright Protection for Personal TV*, MULTICHANNEL NEWS, Aug. 16, 1999, at 2 (noting the formation of a coalition of companies whose goal is to "protect their content from unfair use by new media technologies . . .").

25 *See* Lewis, *supra* note 4, at 36. There are currently several versions of the digital VCR now available, however, "analysts give TiVo . . . the early lead in the competition, noting that it has outstripped Replay in sales and investment partnerships." Poniewozik, *supra* note 16, at 62. NDP Intelect reported that sales for digital VCRs, including those marketed by ReplayTV, TiVo and Microsoft's UltimateTV, totaled 84,000 units through August 2001. *See TiVo and Sony Sign New Agreement*, CONSUMER ELECTRONICS, Oct. 22, 2001, *available at* LEXIS, News Library. "Sony had 45% share of overall PVR [Personal Video Recorder] market, followed by Philips (27%), Thomson (19%), Panasonic (10%). Sony sells both UltimateTV and TiVo devices, while Philips supports TiVo, Thomson backs UltimateTV and Panasonic is behind ReplayTV. Within TiVo, Sony had 61% marketshare, followed by Philips, 39%." *Id.*

26 *See* Poniewozik, *supra* note 16, at 62. Personal video recorders are also referred to as "personal televisions," "digital video recorders," or "DVRs." *See id.* The industry terms "PVR" and "DVR" have been interchangeable when discussing digital VCRs – like TiVo and ReplayTV. For consistency, this Note will use the term "PVR" when referring to digital VCRs.

27 *See* Jonathan Storm, *Personal VCR Could Be Biggest Thing Since TV*, SUNDAY GAZETTE MAIL, Oct. 14, 1999, at P10A (quoting Josh Bernoff of Forrester Research Inc., a technology analysis company in Cambridge, Mass.). Bernoff added, "These devices change the nature of the viewer's relationship with television." *Id.*

28 *See* Lewis, *supra* note 4, at 36. "{The PVR] could record any program as it was watched, as well as anything its owner instructed it to record. This is, of course, what 'VCR's were designed to do but 'didn't, since no American, not even a geek, could figure out how to make them work." *Id.*

29 *See* John Lippman, *Personal-Video-Recorder Makers May Face Suit*, WALL ST. J., Aug. 12, 1999, at B10.

"ATCC")[30] in an effort to protect their content from unfair use by new media technologies, especially the PVR.[31] At first, the formation of the ATCC seemed to indicate a return to the heated rhetoric of the early 1980s,[32] and signify a return to the courthouse for *Sony v. Universal* – The Sequel![33] But in the same breath that overt threats of litigation were made, a more cooperative tone was lingering underneath,[34] perhaps indicating that the Court's opinion in *Sony* was, in fact, quite solid after all.[35]

This Note explores the relationship of the *Sony* case and its legacy to issues currently facing the PVR industry. Part I of this Note describes how the PVR works and further explains the entertainment industry's response, so far, to its introduction into the American marketplace. Part II provides a brief judicial history of the *Sony* case. Part III analyzes the Supreme Court's *Sony* opinion, including its treatment of the fair-use doctrine and contributory negligence, explores post-*Sony* developments in these areas of law, and analyzes how both would affect potential litigation against the PVR. Finally, Part IV examines the approach of the ATCC to date, and suggests that this approach can serve as a prudent model for future dealings with new technological advancements.

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30 Encore Media Group joined the coalition later the same year. *See Encore Media Group Joins The Advanced Television Copyright Coalition*, PR NEWSWIRE, Sept. 1, 1999, *available at* LEXIS, News Group File.

31 *See* Lippman, *supra* note 29, at B10.

32 *See* Mathews, *supra* note 3 and accompanying text.

33 Bert Carp, Attorney for the Coalition, is quoted as saying, "If you're making a business out of reprocessing and redelivering our product, you must do it with our permission." Hogan, *supra* note 24, at 2. Gary Shapiro, President of the Consumer Electronics Manufacturers Association (CEMA), made this statement in response to the ATCC formation: "Those who are threatening to sue manufacturers of PVRs don't have a leg to stand on . . . . [T]he Supreme Court's *Betamax* . . . case guarantees all Americans the right to record television for personal use." Brett Sporich, *Network Threat Against D-VCRs Revives Discussion Of Old Betamax Legal Issues*, VIDEO STORE, Aug. 22, 1999, at 8. Marc Andreessen, a Netscape co-founder said, "[T]his is the Trojan horse for the computer industry to gain control of the entertainment industry." Lewis, *supra* note 4, at 36.

34 *See* Hogan, *supra* note 24, at 2 ("Coalition members . . . said they want to promote public-policy issues that support the growth of personal-television services – in some of which the media giants have invested – while protecting their rights as content holders."); *see also* Lippman, *supra* note 29, at B10. Bert Carp, Attorney for the Coalition, stated, "Presumably, this can be done in a win-win way. In no way is this an effort to stop PVRs . . . . It's an effort to see they grow up in a way that's good for the people who supply the TV product and for personal TV businesses as well." *See id.*

35 When CEMA president Gary Shapiro claimed that the Betamax case "guarantees all Americans the right to record television" the ATCC never actually denied that this was true. Sporich, *supra* note 33, at 8. Rather, the ATCC sought to distinguish VCR use from PVR use, claiming that they should be treated "to the same licensing laws that apply to cable and satellite companies." *Id.*

I. THE PVR AND THE ENTERTAINMENT INDUSTRY

A. *How the Digital Video Recorder Works*

At first glance, the PVR works similarly to today's common VCR. Both allow viewers to record television programs to be watched at a future date, precisely what the Supreme Court in *Sony* referred to as "time-shifting."[36] There are, however, a few major differences between today's VCR and the new digital version, and it is these differences that have both worried and intrigued the founders of the ATCC.

The most outstanding difference between the PVR and the VCR is that the PVR is incredibly easy to use.[37] This is owing to two very important innovations, which PVR manufacturers have assimilated into their machines: (1) the use of dial-in network technology and (2) the use of computer memory, or digital hard drives. Both of these innovations stand in stark opposition to the limited applications of magnetic tape used in VCRs today.[38]

The PVR is connected to a network and central computer, which allow for several key features. A user may download the week's television schedule to appear on her television screen.[39] With all of this information at the user's fingertips, there is no need for periodicals such as *TV Guide*, or newspaper television listings.[40] The user simply tells the PVR what she wants to watch and the PVR finds the program and records it. Or, if the user prefers, she merely tells the PVR to record every episode of her favorite show (say, NBC's hit show *ER*)[41] whenever it may be on.[42] The PVR even "remembers" shows the user has watched in the past, creates a profile of her viewing preferences, and records shows it thinks she *might* like to watch.[43] With this device, the television consumer is

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[36] *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 423 (1984). "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." *Id.*

[37] "Unlike, say, the VCR [the PVR] require[s] almost no technical aptitude . . . [it turns] the television into a computer but without making computer-like demands on the viewer." Lewis, *supra* note 4, at 36; "While a bit challenging to set up, it is baby simple to operate." Storm, *supra* note 27; "Manufacturers hope the ease of the interface will win over people who have given up mastering their VCRs." Poniewozik, *supra* note 16, at 62.

[38] *See generally* Mark Bunzel & Lisa Kloster, *PVRs Revolutionizing Industry*, ELECTRONIC MEDIA, Aug. 30, 1999, at 12.

[39] *See id.* "A modem port is provided so the device can – on its own – call into a central secure server to obtain up-to-date electronic program guide information including virtually every local cable, direct broadcast satellite and broadcast TV network." *Id.*

[40] *See* Poniewozik, *supra* note 16, at 62; *see also* Storm, *supra* note 27, at P10A.

[41] *ER* (NBC television broadcast).

[42] *See* Poniewozik, *supra* note 16, at 62. This feature is referred to as a "season pass." Storm, *supra* note 27, at P10A.

[43] *See* Storm, supra note 27, at P10A. Currently, this feature is only available with TiVo

no longer bound by primetime television,[44] and can watch whatever she wants, whenever she wants. The only limitation on the viewer's choice is that some broadcaster must air the program somewhere at sometime.[45]

What is most troubling to television studios is that viewers who watch taped shows are viewers who skip commercials.[46] This is especially true for PVR watchers because the devices allow you to skip commercials with the push of a button. As previously mentioned, PVRs use no tape, and are essentially hard drives that record programs as digital information.[47] This allows for such features as ReplayTV's "Quick-Skip" button, "which lets the viewer leap ahead in increments of 30 seconds, the length of a typical TV commercial,"[48] or TiVo's super-fast forward button, which allows viewers to zip past commercials at super-high speed.[49]

The PVR also gives viewers control over real-time television.[50] Viewers who choose to watch live telecasts can simply pause the program they are watching, go to the kitchen for a soda, and pick up where they left off, catching up to their program during commercials.[51] Since PVRs are always recording, viewers can choose their own instant replays.[52] The sports fan is no longer at the mercy of some network executive who prefers to show a replay of Minnesota receiver Randy Moss's touchdown *after* the commercial break.[53] The PVR user controls the instant replay, and on the advertiser's time.

Another controversial aspect of the PVR is that, theoretically, the devices have the ability to replace the studio's ads with ads of its

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and not ReplayTV. "Say you like A&E's 'Biography,' especially the ones about movie stars. Perhaps, the PVR will advise that you watch a schedule profile of Gregory Peck on E! or on Bravo or on the Independent Film Channel. You might have missed it way up there at 4:30 a.m. Tuesday, but the PVR didn't." *Id.*

44 *See* Poniewozik, *supra* note 16, at 62.

45 *See* Lewis, *supra* note 4, at 36.

46 *See id.*

47 *See generally* Bunzel & Kloster, *supra* note 38.

48 Lewis, *supra* note 4, at 36.

49 *See* Amanda Wilkinson, *Ad Wipeout Threat From Hi-Tech VCRs; A New Video Machine Which Allows Viewers to Skip Ads is Forcing Advertisers to Explore Alternative ways of Targeting Audiences*, MARKETING WEEK, Oct. 14, 1999, at 14. TiVo executives also contemplated a feature similar to the "Quick-Skip" designed by Replay Networks but chose to design the technology "so that it doesn't infuriate the networks." Lewis, *supra* note 4, at 36.

50 *See* Storm, *supra* note 27, at P10A. "Real-time" television is TV that is not viewed on a "time-shift" basis (non-recorded programming), but rather is watched by the viewer as it is being broadcast.

51 *See* Lev Grossman, *Play It Again, Lev*, TIME, Nov. 20, 2000, at 160.

52 *See* Storm, *supra* note 27, at P10A.

53 The idea of viewer empowerment and autonomy was fully embraced by the makers of TiVo. "[O]ne of TiVo's new advertisements features a network executive being hurled out a window by a pair of goons." Lewis, *supra* note 4, at 36.

own, and, as one commentator suggested, "ultimately upset the entire system of ad-based TV."[54] Neither TiVo nor Replay Networks have incorporated this application into their services yet, but the ability alone is one of the many features that the ATCC has had their eye on.[55]

Inevitably, PVR manufacturers will begin to embed the technology into other devices. In the future, DVD players, television sets, cable boxes, and satellite receivers will all converge with PVR technology.[56] If the PVR is to become this pervasive, there is little doubt about its potential impact on how consumers receive and watch television programming. The only uncertainty is who will become the dominant players in this new television market.

B. *The Response by the Entertainment Industry*

Given the potential damage to the entertainment industry from widespread use of PVRs,[57] there is obviously a question whether or not the PVR, like the VCR before it, will be used within the fair-use lines drawn by the Supreme Court in *Sony*.[58] The latest data shows that PVR watchers no longer watch regularly scheduled programming.[59] As previously mentioned, this abolishes the whole concept of primetime, and with it the "special market value of primetime."[60] This is especially disturbing to television network executives when one considers the other outstanding characteristic of PVR users. When watching recorded shows, PVR users fast-forward or skip through commercials at a much higher rate than VCR users.[61] "If no one watches commercials, then there is no commercial television."[62] The PVR, if widely embraced by consumers, threatens the very lifeblood of the television industry: advertising revenue.[63]

If the above findings are true, only one question remains: why

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54 Poniewozik, *supra* note 16, at 62.

55 *See TiVo-Replay Face Broadcaster Dissent*, SCREEN DIGEST, No. 335, Sept. 1, 1999.

56 "The final stage will be TV-based internet access, permitting viewers to download programs, movies and music from the Web and store their selections on hard drives. At this stage, TV sets will actually be computers – and convergence will finally be a reality." Matthew Fraser, *Now We're Verging On Convergence*, NAT'L POST, Apr. 24, 2000, at C7 (discussing the convergence of TV, VCR, cable, internet, and other home entertainment services with computers and its effect on the entertainment industry).

57 "Several market analysts estimate that TiVo and Replay will have sold five to seven million boxes by the end of 2002 – and that within a decade they will be in 90 million U.S. homes." Lewis, *supra* note 4, at 36.

58 *See generally* Sporich, *supra* note 33, at 8.

59 *See* Lewis, *supra* note 4, at 36.

60 *Id.*

61 *See id.*; *see also* discussion *infra* at Part III.A.2.c.ii.

62 Lewis, *supra* note 4, at 36.

63 *See id.* "The new companies [TiVo and ReplayTV] were proposing to do politely to

has the ATCC not sued yet? Surprisingly, not only has a single lawsuit yet to be filed, some of the group's members have already joined strategic alliances with either TiVo or ReplayTV, or have invested money in the new technology.[64]

One reason for this ironic behavior is that the PVR, while possibly damaging to advertisers, also has potential to be the most revolutionary marketing tool since the invention of television itself. As mentioned, the PVR is hooked up to a network which records and stores users' viewing habits.[65] This provides a very complete and detailed profile of each individual user, giving advertisers the "Holy Grail" of market research.[66] Although viewers skip commercials they do not like,[67] they might watch commercials perfectly tailored to their wants, needs, and psychological make-up.[68] Of course, this is all theory and, in the event it does not translate into advertising dollars, the networks are prepared to sue.[69] So far, the networks are content to issue licenses to PVR manufacturers, taking a wait-and-see approach, but the threat of litigation hangs over the current relationship.

II. *Sony*: A Judicial History

A. *The District Court*

After three years of litigation and a lengthy trial, the district court found for Sony Corporation on all issues raised by the plain-

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the television industry what Napster was about to do to the music industry: help consumers help themselves to entertainment without 'paying' the networks and advertisers." *Id.*

64 *See id.* The rush to invest in this new technology reached its zenith during the last quarter of 1999:

In August 1999, Time Warner, Disney, and NBC, among others, sank $57 million into Replay. About the same time, NBC and CBS, among others, handed $45 million to TiVo. By the end of 1999, all three major television networks, along with most of the major Hollywood studios, the two biggest Hollywood talent agencies (I.C.M. and C.A.A.) and all the major cable and satellite TV companies, had either made investments or formed partnerships with both Replay and TiVo.

Id.

65 "While the viewer watched the television, the box would watch the viewer. It would record the owner's viewing habits in a way that TV viewing habits had never been recorded. The viewer's every decision would be stored in a kind-of private museum of whims." *Id.* "Some advertisers such as General Motors are already working with the likes of TiVo to explore new opportunities of reaching consumers using 'viewergraphic profiles' pieced together from the programme and genre selections made by individual viewers." Wilkinson, *supra* note 49.

66 Lewis, *supra* note 4, at 36.

67 *See generally* Steven S. Lubliner, Note, *I Can't Believe I Taped the Whole Thing: The Case Against VCRs That Zap Commercials*, 43 HASTINGS L.J. 473 (1992) (discussing viewer contempt for commercials and the fictional legal implications of introducing the 1990 Mitsubishi VCR, which deleted commercials while recording, available only in Japan, to American jurisprudence).

68 *See* Lewis, *supra* note 4, at 36.

69 *See* Storm, *supra* note 27, at P10A.

tiffs' complaint.[70] The court primarily based its decision on three grounds. First, the district court held that the Copyright Act did not grant copyright holders "monopoly power over an individual's off-the-air copying in his home for private, non-commercial use."[71] The district court looked to the legislative history and determined that, "in balance, Congress did not find that protection of copyright holders' rights over reproduction of their works was worth the privacy and enforcement problems which restraint of home-use recording would create."[72] More importantly, the district court stated that even assuming Congress intended such a right, taping in this case nevertheless constituted fair use.[73]

The district court relied on several surveys conducted by the parties in 1978 to determine how the Betamax was being used.[74] The district court found, and the plaintiffs conceded, that "at the time of trial, no existing contract, license or advantageous business relationship of either Universal or Disney had been injured, interfered with or disrupted by the sale or use of Betamax and Betamax tapes or by any other activity of any defendant."[75] In fact, Disney's profits increased for the eleventh consecutive year and Universal recorded its most profitable year in the history of the company.[76] Because no current or future harm from Betamax use could be found, the district court concluded that non-commercial recording of the plaintiffs' works for later viewing could not be an unfair use of their product. Finally, the district court held, even if Betamax use was not fair use, the defendant could not be held vicariously or contributorily liable, and that Sony Corporation's activities were outside the scope of all previous applications of these doctrines.[77]

B. *The Court of Appeals*

The Court of Appeals for the Ninth Circuit reversed the district court's judgment, and found Sony liable for contributory cop-

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[70] *See* Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429 (C.D. Cal. 1979).

[71] *Id.* at 432.

[72] *Id.* Scholars have pointed out that this analysis is "contrary to both the structure of the act and its legislative history, which evidences the intention of Congress to grant to copyright owners the exclusive right to control all reproductions of their works *except* as expressly provided for in Sections 107 through 118." PATRY, *supra* note 20, at 201 (footnotes omitted). Since the Supreme Court did not disturb the court of appeal's holding on this issue the district court's holding "must, therefore, be considered invalid." *Id.* at 202.

[73] See *Sony*, 480 F. Supp. at 446.

[74] *See id.* at 438-39.

[75] *Id.* at 439.

[76] *See id.*

[77] *See id.* at 462.

yright infringement.[78] The court rejected the district court's conclusion that Congress had not granted copyright holders the right to prohibit private home recording.[79] The court then held, as a matter of law, that home use of a VCR could not be fair use because it was not a "productive use."[80] The court of appeals further rejected the district court's fair-use analysis by stating, "[the Copyright Act] does not . . . draw a simple commercial/noncommercial distinction, [but rather] contrasts commercial and nonprofit educational purposes, and there is no question that the copying of entertainment works for convenience does not fall within the latter category."[81] After finding that home recording was an unproductive use, the court found it unnecessary for plaintiffs to prove any future harm to the potential market for their copyrighted works.[82] Nevertheless, the court of appeals "felt compelled" to disagree with the district court on this issue.[83] The court criticized the district court for failing to take into consideration the "full scope" of the infringing activity and the "cumulative effect" of mass reproduction made possible by the Betamax VCR.[84] Moreover, the court of appeals believed that such a "cumulative effect" would tend to diminish the potential market for plaintiffs' copyrighted works.[85] The court of appeals remanded the case back to the district court to consider appropriate relief for the plaintiffs.[86]

III. THE SUPREME COURT'S ANALYSIS, POST-*SONY* DEVELOPMENTS, AND THE PVR

The Supreme Court failed to render judgment upon initial arguments, and it was only after rehearing that a narrow 5-4 majority emerged to reverse the court of appeals decision.

A. *Fair Use*

Article I, Section 8, Clause 8 of the United States Constitution 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." As is obvious from the Constitution's plain language, it is the re-

78 *See* Universal City Studios, Inc. v. Sony Corp. of Am., 659 F.2d 963 (9th Cir. 1981).
79 *See id.* at 966; s*ee also supra* note 72 and accompanying text.
80 *Sony*, 659 F.2d at 971.
81 *Id.*
82 *See id.* at 973-74.
83 *Id.* at 974.
84 *Id.*
85 *See id.*
86 *See id.* at 967.

sponsibility of Congress to define the contours of the monopoly privilege granted to authors and inventors.[87]

Although the Constitution sets out to award authors and inventors for their achievements, the true aim of copyright law is to benefit the general public.[88] The *Sony* Court noted that this task involves the careful weighing of interests, the interests of authors and inventors to "control and exploit[ ] . . . their writings and discoveries[,]" with "society's competing interest in the free flow of ideas, information, and commerce."[89]

In order to achieve this balance, the exclusive rights conceived by Congress and granted to copyright holders[90] are not unlimited and have from their first inauguration been subject to several exceptions.[91] The affirmative defense of "fair use" is perhaps the most famous exception to an author's exclusive rights.[92] Although the doctrine has no real definition,[93] fair use has been described generally as "a reasonable and limited use of a copyrighted work without the author's permission."[94] Developed from common law, fair use has been lauded as an "equitable rule of reason,"[95] necessary to help courts "avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster."[96]

In practice, the fair-use doctrine, like the Copyright Act itself, must balance the need to provide incentives to authors and artists with the public's need for access to information. To this end, fair use has evolved as a flexible instrument, free to be applied to particular situations on a case-by-case basis.[97]

The doctrine of fair use was finally given expressed statutory

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87 *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).

88 *See id.*

89 *Id.*

90 17 U.S.C. § 106 (2000) (listing the exclusive rights of copyright holders as follows: the right to (1) reproduce the copyrighted work in copies or phonorecords, (2) prepare derivative works based upon the copyrighted work, (3) 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) to perform the copyrighted work publicly, (5) to display the copyrighted work publicly, and (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission).

91 *See id.* §§ 107 - 122.

92 *See id.* § 107.

93 *See* H.R. Rep. No. 94-1476, at 66 (1976) ("no real definition of the concept has emerged . . . [and] no generally applicable definition is possible . . . each case raising the question must be decided on its own facts.").

94 BLACK'S LAW DICTIONARY 617 (7th ed. 2000).

95 H.R. REP. NO. 94-1476, *supra* note 93, at 66.

96 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT 13.05 (1998 ed.) (citing *Iowa State Univ. Research Found., Inc. v. American Broadcasting Cos.*, 621 F.2d 57 (2d Cir. 1980)).

97 *See* H.R. Rep. No. 94-1476, *supra* note 93, at 66.

recognition in § 107 of the Copyright Act of 1976.[98] Traditionally, courts looked to several criteria when evaluating whether a particular conduct constituted fair use.[99] These criteria, however, were reduced to four essential standards as adopted in § 107.[100] In codifying the doctrine of fair use, Congress intended to endorse the present purpose and scope of the judicial rule, and not to "change, narrow, or enlarge it in any way."[101] At the same time, Congress did not intend to "freeze the doctrine in the statute, especially during a period of rapid technological change."[102]

Despite these statements by Congress, however, it is clear from the congressional record that § 107, as written, is the result of private negotiations and compromise.[103] Those negotiations resulted in § 107 as it appears today:

> 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 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.
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.[104]

In recognition of this delicate compromise, at least one court

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98 *See id.*
99 *See id.*
100 *See id.*
101 *Id.* "Therefore, in determining the scope and limits of fair use, reference must be made to pre- as well as post-1978 cases." 3 NIMMER, *supra* note 96, § 13.05.
102 H.R. REP. NO. 94-1476, *supra* note 93, at 66.
103 *See* PATRY, *supra* note 19, at viii. "As codified and as explained in the legislative reports and the guidelines . . . the fair use of the 1976 Act is very much a creature of compromise." *Id.* The compromise was reached between two main lobbying groups. On one side of the debate was the "proprietors," comprised of authors and publishers, and on the other side the "users," represented by libraries and educators. *Id.*
104 17 U.S.C. § 107 (2000).

hinted toward relying on a statutory interpretation of fair use.[105] In *Pacific & Southern Co., Inc. v. Duncan*,[106] the Eleventh Circuit noted in *dictum* that Congress "may have overstated its intention to leave the doctrine of fair use unchanged," because "the statute clearly offers new guidance for courts in considering fair use defenses."[107] The *Duncan* court found Congress' restatement of the fair-use doctrine as establishing "a minimum number of inquiries . . . even if it leaves to the courts how to assign relative weights to each factor and how to supplement the first four factors."[108] The doctrine's recent codification seemed to be leading at least one court to openly speculate on the direction fair use should take. Under this environment, the time seemed ripe for the Supreme Court to shape and clarify the debate.

The *Sony* case was the Court's opportunity to finally enter the discussion. Unfortunately, as previously mentioned, the Court's contribution did little to clear the air. The Court's opinion came under immediate academic scrutiny.[109] One scholar suggested that the Supreme Court misapplied the fair-use doctrine,[110] others criticized the Court for failing to provide useful insights into the fair-use analysis outside the VCR context.[111] In addition, the Supreme Court's analysis of the second and third factors, "the nature of the copyrighted work" and "the amount and substantiality of the portion used in relation to the copyrighted work as a whole,"[112] has correctly been described as "perfunctory" at best.[113]

These inadequacies are compounded, of course, by the closeness of the vote, and the Court's reliance on the specific factual record provided by the district court.[114] The Court's conclusions as to the fairness of home recording could very well have been dif-

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105 *See* PATRY, *supra* note 19, at vii-viii.

106 744 F.2d 1490 (11th Cir. 1984).

107 *Id.* at 1495 n.7.

108 *Id.* at 1495.

109 *See generally* Fisher, *supra* note 20; PATRY, *supra* note 19.

110 *See* Fisher, *supra* note 20; *see also* text accompanying note 21.

111 *See* PATRY, *supra* note 19.

112 17 U.S.C. § 107(2)-(3)(2000).

113 PATRY, *supra* note 19, at 205. The extent of the Court's analysis as to the second and third factors is found exclusively in the following passage:

> Moreover, when one considers the nature of a televised copyrighted audiovisual work, and that time-shifting merely enables a viewer to see such a work which he had been invited to witness in its entirety free of charge, the fact that the entire work is reproduced . . . does not have its ordinary effect of militating against a finding of fair use.

Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 448 (1984) (citations omitted).

114 *See* PATRY, supra note 19, at 205.

ferent based on a "more contemporary record."[115]

It also bears repeating that the Supreme Court's holding is particularly narrow in the VCR context.[116] Again, the Court held that non-commercial, home-use recording of programs broadcast for free over public airwaves does not constitute copyright infringement. The Court declined to broaden the scope of its holding to other circumstances.[117] For these reasons, it may be difficult to construe guiding principles from the Supreme Court's opinion.[118]

Sony's critics aside, the case nevertheless stands today as one of only a few Supreme Court decisions on fair use from which lower courts may seek direction.[119] Likewise, given the PVR's close relationship to the VCR, the Court's analysis is particularly prudent for purposes of this Note. And, although the Court's discussion of the second and third factors of the fair-use analysis are generally unhelpful, the Court's dialogue on the first and fourth factors, "the character of the use" and "the effect of use upon the potential market,"[120] lends significant guidance.

In addition, even though the specific holding of *Sony* is narrowly tailored, the Court's general analysis provides a practical, albeit imperfect, roadmap to navigate the fair-use issues surrounding potential litigation involving the PVR. In the following sections, this Note focuses exclusively on the Court's analysis of the first and final factors of § 107, and applies this analysis to the technology at issue with the PVR.

1. The Character of Use

The first factor listed in § 107 is "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes."[121] Despite the "commercial"/"nonprofit educational" characterization, there are no set categories of use that automatically give rise to a finding of fair use or infringement.[122] Although the § 107 preamble lists several types of activities that may be fair use, this list is not exhaustive,[123] and any

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115 *Id.* at 201.

116 *See id.*

117 *See Sony*, 464 U.S. at 442. The issues of copying from cable and pay television were brought before a district court in California in the case of *Universal City Studios, Inc. v. RCA Corp.*, No. 81-5723 (C.D. Cal., filed Nov. 6, 1981), and subsequently dropped after the Supreme Court's decision.

118 *See* PATRY, *supra* note, 19 at 205.

119 *See supra* text accompanying note 13.

120 17 U.S.C. § 107(1),(4) (2000).

121 *Id.* § 107(1).

122 *See* 3 NIMMER, *supra* note 96, § 13.05.

123 *See id.* Section 107 lists: "criticism, comment, news reporting, teaching (including

activity must be viewed in conjunction with the other three factors.[124]

It is important to note at this point that the Supreme Court recognized two categories of VCR users: (1) those who "time-shift" programs, where time-shifting is defined by the Court as "the practice of recording a program to view it once at a later time, and thereafter erasing it,"[125] and (2) those who create a library of recorded programs "in order to keep [them] for repeated viewing over a longer term."[126]

a. Time-Shifting

The court of appeals stated, "It is noteworthy that the statute[, 17 U.S.C. § 107,] does not list 'convenience' or 'entertainment' or 'increased access' as purposes within the general scope of fair use."[127] The court of appeals declared that time-shifting was not a "productive" use, and therefore not a fair use under the copyright act. But, the Supreme Court criticized the court of appeals for not engaging in an "equitable rule of reason" analysis, condemning the circuit court's rigid requirement that every fair use must be a productive use.[128] The Court acknowledged that the "productive"/ "non-productive" distinction may be helpful in some circumstances but that such a distinction could not be "wholly determinative."[129]

Putting aside the court of appeals' "productive use" doctrine, the Supreme Court seemingly created a categorical rule of its own. The Court declared that home recording was a non-commercial activity and therefore presumptively fair use:

If the Betamax were used to make copies for a commercial or

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multiple copies for classroom use), scholarship, or research" as examples of activity that may be found fair use. 17 U.S.C. § 107. "In the context of the 1992 amendment to the fair use doctrine, the legislative history states that types of uses beyond the six enumerated in the preamble to Section 107 may also be considered. Parody is a common example of such a use." 3 NIMMER, *supra* note 96, § 13.05 n.45 (quoting H.R. REP. NO. 102-286, at n.6 (1992)).

124 *See* 3 NIMMER, *supra* note 96, § 13.05.

125 Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 423 (1984) ("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.").

126 *Id.* at 459 (Blackmun, J., dissenting).

127 Univeral City Studios, Inc. v. Sony Corp. of Am., 659 F.2d 963, 970 (9th Cir. 1981). "The statute contrasts commercial and nonprofit educational purposes, and there is no question that the copying of entertainment works for convenience does not fall within the latter category." *Id.* at 972.

128 *See Sony*, 464 U.S. at 455 n.40.

129 *Id.* ("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.").

> profit-making purpose, such use would presumptively be unfair. The contrary presumption is appropriate here, however, because the [d]istrict court's findings plainly establish that time-shifting for private home use must be characterized as a non-commercial, nonprofit activity.[130]

It has been suggested that the Court avoided creating a presumption of fair use in all non-commercial uses by "limit[ing] itself not only to the specific use before it, but to the district court's findings of fact regarding that use."[131] Nevertheless, in subsequent cases lower courts have come to rely heavily on this aspect of the *Sony* Court's analysis,[132] essentially leading to the adoption of a one-step fair-use inquiry.[133] Not surprisingly, the Court's rather strong presumption and its effect on lower courts was the subject of repeated criticism.

In response to these developments, the Supreme Court tried to smooth the edges on its categorical rule.[134] In *Campbell v. Acuff-Rose Music, Inc.*,[135] the Supreme Court announced its distaste for creating bright-line rules in an equitable fair-use analysis.[136] The Court's opinion stood for the proposition that commerciality merely inclines against a finding of fair use, without giving rise to presumptive significance.[137]

Although the Court downgraded non-commercial activity from a presumption of fair use to a mere inclination of fair use, the distinction continues to survive and remains a vital part of fair-use analysis. Conceivably, PVR time-shifting would fit squarely within the Supreme Court's inclination to finding non-commercial, non-profit activity fair use. Like the VCR, the PVR allows users to time-shift programs, without any direct commercial gain from such activity.[138]

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130 *Id.* at 449. This language marked one of the more extraordinary aspects of the Court's opinion, essentially shifting the burden of proof from the defendant to the plaintiff to show commercial harm. *See* discussion *infra* Part III.A.2.

131 PATRY, *supra* note 19, at 205.

132 *See* 3 NIMMER, *supra* note 96, § 13.05 (citing *American Geophysical Union v. Texaco, Inc.*, 802 F. Supp. 1, 13 (S.D.N.Y. 1992), *aff'd*, 60 F.3d 913 (2d Cir. 1994), *cert. dismissed*, 116 S. Ct. 592 (1995), which described lower courts' adherence to the *Sony* language, regarding the non-commercial presumption, as "ritualistic" and repeated "almost like a mantra.").

133 *See* Howard J. Schwartz & Cynthia D. Richardson, *2 Live Crew Case Sets "Fair Use" Back on Track*, N.J.L.J., July 25, 1994, at 12.

134 *See* Pierre N. Leval, *Nimmer Lecture: Fair Use Rescued*, 44 UCLA L. REV. 1449, 1464 (1997) (giving a succinct explanation of the Supreme Court's contributions to fair use, and declaring that the Court's opinion in *Campbell v. Acuff-Rose*, 510 U.S. 569 (1994), "kill[ed] the canard that commercial use is presumptively unfair").

135 510 U.S. 569 (1994).

136 *See id.* at 577.

137 *See* 3 NIMMER, *supra* note 96, § 13.05.

138 It is important to note a distinction here between commercial/non-commercial *activ-*

b. Librarying

One of the studios' major objections to VCR use was that owners could record and store programs, creating a library of televised movies, and greatly reducing the rental and resale value of televised works.[139] Although creating a private video library could arguably be characterized as non-commercial, all the parties involved assumed, *arguendo*, that "librarying" was not a fair use.[140] Consequently, the VCR is capable of at least some type of infringing activities outside the scope of fair use, and some VCR users are engaging in activity that violates copyright law. As of yet, the PVR does not allow users to library programs in the same way, or to the same degree, as VCRs do, therefore avoiding altogether the possibility of one type of infringing use.[141]

Currently, the most expensive model of PVR holds approximately thirty hours of programming.[142] While conceivably a user may hold a program in the PVR memory indefinitely, the more likely scenario is that most stored programs will be recorded over within a few weeks. This likelihood will occur primarily because a PVR is constantly recording, not only programs the user tells it to record but also programs it thinks the user might like to watch, and has limited memory for carrying out these tasks.[143] If a user would like a permanent copy of a particular program, she would still need the assistance of a VCR.[144]

However, a proper fair-use analysis must take into consideration future potential developments.[145] At least one analyst has pointed out that the price of computer memory is falling by half every eighteen months, and it is not inconceivable that PVRs of the future may be able to hold the equivalent of a Blockbuster Video

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ity and the effect of that activity on a plaintiff's potential *market*. A commercial activity does not always give rise to substantial commercial damage. Likewise, a non-commercial activity could easily usurp a plaintiff's market for his copyrighted work. The effect of PVR use as a non-commercial activity on the ATCC's copyrighted material is discussed *infra* Part III.A.2.

139 *See* Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429, 467-68 (C.D. Cal. 1979).

140 *See* Fisher, *supra* note 20, at 1665 n.23. The district court however was extremely suspicious as to the damaging effects from librarying. *See Universal*, 480 F. Supp. at 436-437.

141 The question, of course, still remains whether or not a PVR used only for time-shifting is still within the fair use analysis outlined by the *Sony* court. *See* discussion *infra* at Part III.A.2.

142 *See* Lewis, *supra* note 4, at 36. At the time of this writing, the ReplayTV PVR has thirty hours of storage and costs $499. *See id.*

143 *See* discussion *supra* Part I.A.

144 *See FAQ at* http://www.replay.com/video/replaytv/replay-tv_4000_faq.asp#3 (last visited Mar. 3, 2002) ("If you want to watch a recording on videotape instead, it's easy to transfer your recordings to your VCR after you've recorded them on ReplayTV.").

145 *See* discussion *infra* Part III.A.2.

store and cost as little as $100.[146] One reason for the *Sony* Court's dismissal of librarying concerns may have rested on the district court's record, which showed that this activity was too expensive and cumbersome on the VCR user to be of concern to the studios.[147] But, a PVR that can hold the volume of programs described above would be no more expensive than the cost of the machine itself, and may be as easy to store and access as the files on a word processor. Indeed, in the future, the PVR's main function may be to record and archive an entire season, and every season, of your favorite television show, or every movie by your favorite director.

In potential PVR litigation, the future of PVR technology could certainly make librarying a more central concern in a court's analysis. One who plans merely to time-shift may end up creating a library because, with enough memory, there is no need to ever erase a previously viewed program.

2. The Question of Commercial Damage

The fourth factor listed in § 107 is "the effect of the use upon the potential market for or value of the copyrighted work."[148] As previously discussed, the purpose of copyright law is to create economic incentives for creative effort,[149] and the *Sony* Court admitted that "[e]ven copying for noncommercial purposes may impair the copyright holder's ability to obtain the rewards that Congress intended him to have."[150] By extension, a use that has no verifiable effect upon the potential market for or value of the copyrighted work also has no effect upon the author's incentive to create.[151]

In the year following *Sony*, the Supreme Court pronounced in *Harper & Row Publishers, Inc. v. Nation Enterprises*[152] that this leg of the analysis "is the single most important element of fair use."[153]

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146 *See* Lewis, *supra* note 4, at 36.

147 The district court summarized the testimony of William Giffiths, the only individual defendant and a client of plaintiffs' law firm, 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.

Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429, 436-37 (C.D. Cal. 1979) (emphasis added); *see also* Diedring, *supra* note 2, at 816 (pointing out several other factors, such as the quality of VCR recorded movies versus retail copies, that diminishes librarying concerns).

148 17 U.S.C. § 107(4)(2000).

149 *See* discussion *supra* Part III.A.

150 Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 450 (1984).

151 *See id.*

152 471 U.S. 539 (1985).

153 *Id.* at 567 (citing 3 NIMMER, *supra* note 96, § 13.05[A]). The *Harper* Court noted that

In analyzing this fourth factor, a court must consider *future* consequences and "whether *unrestricted* and *widespread* conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact" on this potential market.[154] It is not necessary to show "actual present harm,"[155] nor is a plaintiff required to demonstrate with certainty that future damage will result from the defendant's conduct.[156] "What is necessary is a showing by a preponderance of the evidence that *some* meaningful likelihood of future harm exists."[157] If the defendant's intended use of the copyrighted work is for commercial gain, the likelihood of future harm may be presumed.[158] But if such use is for a noncommercial purpose, "the likelihood must be demonstrated."[159] This inquiry can be particularly vexing for courts because in every fair-use case the defendant has invariably displaced a potential market.[160] A clever plaintiff can always define the defendant's use as an appropriation of plaintiff's potential market, no matter how small and insignificant that market may appear.[161]

a. The *Sony* Analysis

The Supreme Court in *Sony* completely relied on the district court's findings of fact with respect to the potential commercial damage from widespread Betamax use.[162] Plaintiffs proposed several theories upon which they hoped to show that significant damage would result from widespread use of VCRs. All of these theories were rejected by the Supreme Court in adherence to the district court's judgment.[163] A brief sketch of the studios' major theories,

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"[e]conomists who have addressed the issue believe the fair use exception should come into play only in those situations in which the market fails or the price the copyright holder would ask is near zero." *Id.* at 567 n.9 (citing, , T. BRENNAN, *Harper & Row v. The Nation, Copyrightability and Fair Use*, Dep't of Justice Economic Policy Office Discussion Paper 13-17 (1984); Wendy Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the* Betamax Case *and its Predecessors*, 82 COLUM. L. REV. 1600, 1615 (1982)).

154 3 NIMMER, *supra* note 96, § 13.05[A] (emphasis added).

155 *Sony*, 464 U.S. at 451. "[A] requirement [of actual present harm] would leave the copyright holder with no defense against predictable damage." *Id.*

156 *See id.*

157 *Id.*

158 *See id.*

159 *Id.* The Supreme Court refined this inquiry in *Harper & Row* by announcing that, as a matter of law, the copyright holder has the burden of establishing with "reasonable probability the existence of a causal connection between the infringement and a loss of revenue," at which point the burden shifts to the defendant "to show that this damage would have occurred had there been no taking of copyrighted expression." Harper & Row Publishers, Inc. v. Nation Enterprises, 471 U.S. 439, 567 (1985).

160 *See* 3 NIMMER, *supra* note 96, § 13.05.

161 *See id.*

162 *See Sony*, 464 U.S. at 450-51.

163 *See id.* The Supreme Court also endorsed the district court's theory that time-shifting

upon which they hoped to show "likelihood of future harm," is as follows:

First, the *Sony* plaintiffs feared that VCR owners who watched their recorded version of televised programs would not be "measured" in the Nielsen Ratings,[164] the studios' method of counting the number of households watching a particular program.[165] The ratings for a given show set the price for advertising during that program; the higher the rating the higher the price to advertise.[166] Viewers who time-shift would not be counted, causing ratings to decrease and consequently revenue.[167] Unfortunately for the studios, by the time the district court wrote its opinion, Nielson Ratings had "already developed the ability to measure when a Betamax in a sample home is recording the program."[168]

Next, plaintiffs predicted that audience demand for live television and movies would decrease as people increasingly relied on programming from their VCRs.[169] The district court noted that plaintiffs' fear of this contingency is based on the assumption that VCRs would act as a substitute for watching regular television or going to the movies. Essentially, the argument contends that "people will view copies when they would otherwise be watching television or going to the movie theater."[170] The district court disagreed, finding no factual basis to support the assumption. Instead, the district court found the more likely assumption to be that VCR owners would only watch their recorded shows when there was nothing they cared to watch on television or see in the movie theater.[171]

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expands the general public's access to programming, which "yields societal benefits." *See id.* at 455. The district court found that increased access to public programming is consistent with First Amendment policy of increasing public access to information, generally. *See* Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429, 454 (C.D. Cal. 1979). The Supreme Court qualified this policy by conceding that this interest is not without boundaries. *See Sony*, 464 U.S. at 454. However, this policy, taken into consideration with the speculative and implausible possibility of damages, and the Supreme Court's "equitable rule of reason" approach to the analysis, provided enough support for the majority to conclude that time-shifting constituted fair use under the Copyright Act. *See id.* at 454-455.

164 *See Universal*, 480 F. Supp. at 466.

165 For a thorough description of Nielsen Ratings, how they work, and what they mean see http://www.nielsenmedia.com/whatratingsmean (last visited Oct. 25, 2001).

166 *See generally id.*

167 *See Universal*, 480 F. Supp. at 466.

168 *Id.*

169 *See id.*

170 *Id.*

171 *See id.* The district court properly noted that the Copyright Act does not confer onto copyright holders the right to prevent other modes of entertainment from competing with their product. *See id.*

There is no way, nor should there be, for plaintiffs to limit the availability of alternatives to television viewing. Games, books, movies even people all divert potential viewers from the

Plaintiffs also feared that time-shifting would reduce audiences for telecast reruns and film rentals.[172] As to reruns, plaintiffs' theory was premised on the idea 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."[173] The district court found the "underlying assumptions" to this theory "particularly difficult to accept."[174] In fact, evidence suggested an opposite result; the more people who watch an original telecast, the greater its value in syndication.[175] In the case of film rentals, the district court again dismissed the studios' fears for lacking "merit."[176] The court noted that "[p]laintiffs' experts admitted at several points in the trial that the time-shifting without librarying would result in not a great deal of harm."[177] The district court concluded by saying:

> Harm from time-shifting is speculative and, at best, minimal. 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.[178]

The question now becomes whether or not PVR technology, with its revolutionary digital format, will finally bring these old theories to fruition. Will the PVR put an end to the great American tradition of going to the movies, make the rerun obsolete, or stop consumers from buying and renting videos and DVDs? The short answer is, probably not.

b. Post-*Sony* Developments

The district court was properly skeptical of the studios' attempt to show potential commercial damage from VCR use and readily dismissed these attempts for lack of any factual basis. Yet, it

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television set. It is impossible for plaintiffs or this court to isolate the diversion of Betamax from that of these competitors.
Id.

172 *See id.* at 467-68.

173 *Id.* at 466.

174 *Id.*

175 *See id.* ("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 current market practices, this should aid plaintiffs rather than harm them.").

176 *See id.* at 467.

177 *Id.* The *Sony* plaintiffs petitioned for a rehearing on the issue of potential harm but were denied. *See* 465 U.S. 1112 (1984).

178 *See Universal*, 480 F. Supp. at 467.

is *history* that has proved to be the harshest critic of the studios' theories,[179] because the studios' suppositions were premised on the erroneous idea that the VCR would fundamentally change people's viewing habits. It did not. Since the Supreme Court's decision in *Sony*, movie theater attendance, syndication rights, and videocassette sales and rentals are all providing unprecedented revenue to the movie industry,[180] and the revenue from these streams is not likely to fall victim to PVR use.

In the case of movie renting and buying, even in 1984, many realized that taping movies off the television was a poor substitute for watching an authorized commercial copy.[181] Retail versions of popular movies provide uncut, unedited, and uninterrupted copies, as opposed to their televised counter-parts.[182] Also, the quality of a retail copy cannot be compared with the version recorded off the air using a VCR.[183] Today, the unequaled superiority of DVDs, offering wide-screen format, digital sound quality, and various other amenities, makes the distinction even greater.[184]

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179 *See* Bill Carter, *TV Unfazed By Rise in Zapping*, N.Y. TIMES, July 8, 1991, at D1 (reporting on an A.C. Nielsen survey that finds little commercial damage to the entertainment industry from television viewers eliminating commercials upon playback, or avoiding them altogether); *see also* Adam Liptak, *Is Litigation The Best Way To Tame New Technology*, N.Y. TIMES, Sept. 2, 2000, at B9 ("'It is fair to say,' declared Charles S. Sims, a lawyer at Proskauer Rose who represents the industry in internet-related litigation, 'that as things worked out, the studios did not lose control of their products' through home taping on VCR's. Indeed, video rental income now rivals box-office receipts.").

180 *See, e.g.*, Nicholas E. Sciorra, *Self-Help & Contributory Infringement: The Law and Legal Thought Behind a Little "Black Box,"* 11 CARDOZO ARTS & ENT. L.J. 905, 907 (1993) ("Recently, motion picture profits have been considerably enhanced by the emergence of the home-video market . . . . Though still considered ancillary, the home-video market now doubles domestic box-office revenue."); *see also* Meredith A. Harper, *COMMENTS: International Protection of Intellectual Property Rights in the 1990s: Will Trade Barriers and Pirating Practices in the Audiovisual Industry Continue?* 25 CAL. W. 'INT'L L.J. 153, 153 (1994) ("[T]he audiovisual industry, comprised of motion pictures, videocassettes, music and related products, represents the second greatest export for the United States."); *but see* Laurent Belsie, *Who Pays for What on Tomorrow's Internet?*, CHRISTIAN SCI. MONITOR, Oct. 25, 1995, at 1 ("Modern-day pirates use everything from videocassette recorders to computers to make illegal copies of songs, software, and movies. Publishers lose sales of $15 billion to $20 billion a year because of piracy, according to the [International Intellectual Property Alliance].").

181 *See* Diedring, *supra* note 2, at 816 n.181. The author brings up this point in the context of librarying, but it is equally valid in this context.

182 *See id.*

183 *See id.*

184 One of the many features that have attracted movie audiences to the DVD format over, or in addition to, televised versions is the introduction of director and actor commentaries. DVDs often provide a standard version of a film along with a second or third version providing audio commentary throughout the film. In a sense, the director or actor watches the film with you and comments on elements of the film. *See generally* Michael P. Lucas, *The Art of DVD Talk*, L.A. TIMES, Oct. 19, 2001, at pt. 6, p. 18. Some recent audio-commentary DVD releases include Francis Ford Coppola guiding you through *The Godfather*, Arnold Schwarzenegger commenting on *Total Recall*, Rob Reiner's musings regarding *When Harry Met Sally. . .*, and John Cleese, Eric Idle and Michael Palin's observations on *Monty Python and the Holy Grail*. *See id.*

Although the digital quality of a PVR recording, compared with the analog format of VCRs, is certainly an improvement in some regards, this is not enough to overcome the attractiveness of the commercial copy. To date, there is no direct evidence that the PVR is capable of substantially disrupting profits from movie theaters, movies sales, or syndication rights. To make such accusations at this time would require constructing assumptions too tenuous to meet the Supreme Court's "*substantial*-likelihood-of-future-harm" test.

c. Potential PVR Damage

However, there are two new and more concrete possibilities for potential commercial damage to the entertainment industry from PVR use that are beginning to emerge,[185] possibilities that were largely overlooked by the Supreme Court in the VCR context. First, statistics are beginning to show that PVR owners no longer watch television programs when they are originally run.[186] Instead, users watch almost all programs on a time-shift basis. This practice disintegrates the value of primetime television to studios and their advertisers.[187] Second, and perhaps the most damaging practice, PVR users, when watching recorded programs, systematically skip or fast-forward through commercials at a very high rate[188]—a rate much higher then the district court and subsequent studies have found for VCR users.[189] This practice is otherwise referred to as "commercial avoidance."[190]

The Supreme Court in analyzing the effects of VCR usage disregarded both of these potential developments.[191] This is due primarily to the lack of evidence to support a finding of significant damage for these possibilities,[192] but also due to the fact that VCRs never inspired owners to record with an ease or frequency that

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185 *See generally* Lewis, *supra* note 4, at 36.

186 *See id.*

187 *See id.*

188 *See id.*

189 *See* Univeral City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429, 438-39 (C.D. Cal. 1979); *see also If TV Ads Get Zapped By Viewers*, N.Y. Times, Aug. 12, 1982, at D17 (citing survey results from a 1979 study).

190 *See* Lubliner, *supra* note 67, at 473 n.3 (giving a thorough breakdown of the various ways in which viewers avoid commercials, a practice also referred to as "zapping"). "[T]he term zap describes the practice of fast-forwarding through recorded commercials and of not recording them in the first place. [The term] . . . also suggests the extent of a viewer's power as he 'zaps' unwanted ads." *Id.*

191 *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 452-54 (1984). The district court, however, offered some brief analysis on the question of commercial avoidance. *See Universal*, 480 F. Supp. at 468.

192 *See Universal*, 480 F. Supp. at 468.

would give rise to these effects, which the PVR, with its digital technology, does encourage.

i. The Value of Primetime

Primetime television is consistently the most important advertising time offered to companies for pitching their products on the public airwaves.[193] The more consumers expected to tune into a particular show, slated for a particular time slot, the more expensive the cost to advertise.[194] While the plaintiffs in *Sony* feared that VCR use would disrupt the studios' method of counting viewers during primetime, and in so doing their ability to set advertising prices,[195] PVR use may disrupt the value of primetime in other ways.

If viewers can now watch a show at their convenience, instead of when the networks air them, studios lose several advantages. For one, there is no particular advantage to airing a show during primetime, thus primetime loses its prominence and market value.[196] Ordinarily, a show aired during primetime would earn considerably more advertising revenue than the same show aired at midnight, based solely on the fact that more viewers will be watching television during the hours of 7:00 p.m. to 10:00 p.m.[197] In a PVR world this would no longer be true. Everyone may still be watching television during primetime, but rather than watch the network line-up they are more likely to watch their recorded programs. In addition, networks can no longer put one show up against another.[198] There would be no strategic advantage, say, to NBC airing a new episode of their hit comedy *Friends* to compete directly with ABC's popular game-show *Who Wants To Be A Millionaire?*. Instead, every show is competing with every other show, but not because of *when* they are aired.[199] Finally, the networks cannot attract an audience to a show by simply airing when people are watching, and any advantage the networks have by putting a new

193 *See generally* TOM GITLIN, INSIDE PRIME TIME (Univ. of Cal. Press 2000). Free-television is not free. *See id.* Viewers may not pay directly for the privilege of watching their favorite show, but the cost is eventually passed on to them in the price of the products and services advertised during the program. *See* Diedring, *supra* note 2, at 812-13.

194 *See* Diedring, *supra* note 2, at 812-13.

195 *See Universal*, 480 F. Supp. at 466.

196 *See* Lewis, *supra* note 4, at 36. However, conceivably, "the market value of other broadcast space rises." *Id.*

197 *See id.* ("The basic formula for making and selling TV programs hasn't changed since the beginning of commercial television. The network that develops a new program assumes it can ensure its success by placing it in a desirable time slot, when a lot of people happen to be watching TV.").

198 *See id.*

199 *See id.*

show on after a currently popular show also disappears.[200] PVR users would have merely recorded the popular shows, thereby avoiding the rest of the evening's lineup.

ii. Commercial Avoidance

In *Sony*, plaintiffs predicted that companies would be less willing to pay for advertising if Betamax owners fast-forwarded through commercials upon playback, or deleted commercials while recording programs.[201] The district court noted, however, that "to omit commercials, Betamax owners must view the program, including the commercials, while recording," and that "[t]o avoid commercials during playback, the viewer must fast-forward and, for the most part, guess as to when the commercial has passed."[202] Both parties conducted surveys regarding this practice. The studios reported that viewers fast-forwarded through commercials 56.1% of the time upon playback of recorded programs, whereas, Sony's survey put this number at 24.6%, making an average rate of 40.35% for the two surveys.[203] The Supreme Court agreed with the district court that these numbers did not warrant a finding of substantial adverse impact on plaintiffs.

Since *Sony*, this number (40.35%) has remained the same, despite that fact that VCRs have continued to improve.[204] A small survey conducted in 1991, by A.C. Nielsen, showed that VCR owners recorded on average about 1.5 hours of programming, which accounts for only 3% of total television viewing.[205] Of these recorded programs, approximately 40% of VCR owners attempted to avoid commercials through fast-forwarding.[206]

However, the most recent statistics detailing PVR use indicate that commercial avoidance may be more threatening to television networks than previously surmised. In fact, statistics released from PVR manufacturers *themselves* show that PVR users skip commercials 88% of the time,[207] more than double the number found ac-

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200 *See id.*

201 *See* Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 479, 438-39 (1979).

202 *Id.* at 468 ("For most recordings, either practice may be too tedious.").

203 *See id.* The district court relied on the defendant's survey results, declaring, "As defendants' survey showed, 92% of the programs were recorded with commercials and only 25% of the owners fast-forward through them." *Id.* Another survey conducted in 1979 showed that 31% of viewers fast-forwarded. *See If TV Ads Get Zapped By Viewers, supra* note 191, at D17.

204 *See* Lublin, *supra* note 5, at B3.

205 *See id.*

206 *See id.*

207 *See* Lewis, *supra* note 4, at 36 (citing statistics collected by Replay Networks Inc., maker of ReplayTV).

ceptable by the Supreme Court in *Sony*. This reality, taken into consideration with the fact that PVR users watch the majority of their programs on a time-shift basis, makes PVR use significantly more damaging to studios and their advertisers than VCR use.[208] Forrester Research, an independent firm that analyzes new technologies,[209] estimates that PVR use will lead to a 20% overall reduction in commercial watching over the next five years.[210]

Since PVRs are a part of a network that records in detail how owners are using their machines, actual *current* damages can be proved with near perfect accuracy.[211] Future plaintiffs could prove "actual present harm" with great detail, and without the imperfect and clumsy surveys relied on by the plaintiffs in *Sony*.[212] If the technology gains wide acceptance, as predicted,[213] proving "substantial likelihood of future harm" could be a forgone conclusion. Time-shifting with a PVR could be the first case in which this practice, previously found to be fair use in *Sony* and every subsequent case dealing with the issue, leads to a finding of copyright infringement.

d. Counter Arguments and Criticism: Why the PVR Might *Not* be so Dangerous After All

Despite the preceding arguments, any attempt to forecast the ultimate effect of the PVR on viewer habits, and whether or not those changes, if any, will affect the studios' revenue streams, is perhaps speculative.[214] The uncertainty in predicting viewer behavior is evidenced by the historical pattern of television and movie viewing, which has remained relatively unchanged, even in the face of technological advancements.[215] In other words, "[t]elevision re-

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208 Currently, there are no statistics available for how much television is watched on a time-shift basis by PVR owners compared with normal television viewing, but it is conceded by PVR manufacturers that this number is substantial. *See* Lewis, *supra* note 4, at 36.

209 Forrester Research can be accessed via the Internet at http://www.forrester.com (last visited Oct. 29, 2001).

210 *See* Louis Chunovic, *Cable Getting Ready for Future of TV Ads; Video on Demand to Change the Game*, ELECTRONIC MEDIA, June 18, 2001, at 14.

211 Interview with Barton Beebe, Adjunct Professor, Benjamin N. Cardozo School of Law, in New York, NY (Feb. 1, 2001).

212 *See* Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 224 (2nd Cir. 1999) ("[C]onsumer surveys . . . are expensive, time-consuming and not immune to manipulation."); *but see* Xuan-Thao N. Nguyen, *The New Wild West: Measuring and Proving Fame and Dilution Under the Federal Trademark Dilution Act*, 63 ALB. L. REV. 201, 238 (1999) ("[I]ssues arising with survey evidence, such as bias, misleading questions and unreliable results, may be avoided by applying appropriate survey techniques.").

213 PVRs are expected to be in 75 to 80% of U.S. homes by 2010. *See* Wilkinson, *supra* note 49, at 14.

214 *See* Poniewozik, *supra* note 16, at 62; Storm, *supra* note 27, at P10A; Wilkinson, *supra* note 49, at 14; Lewis *supra* note 4, at 36.

215 *See* Poniewozik, *supra* note 16, at 62.

mains a defiantly passive medium."[216] In the past, manufacturers have invented new devices for viewers, including the VCR, remote control, and cable television, all promising to revolutionize the industry.[217] Needless to say, viewers quietly assimilated each of these inventions without significantly changing society,[218] or disrupting industry profits.

It must be remembered that any prediction that PVRs will significantly harm television studios and their advertisers is based on the assumption that a large number of viewers will eventually embrace this new toy.[219] Although a limited number of PVRs are showing signs of potentially damaging studio profits, the machines are not in wide use yet.[220] The PVR is still something of a novelty in the home electronics market and the current high price tag has certainly kept many consumers away for now.[221] Despite predictions from electronics enthusiasts that the PVR will revolutionize the industry, the revolution is not guaranteed.[222] As one analyst suggested, "In terms of technology and the way people use TV, if you bet on the status quo, you won't go wrong very often."[223]

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216 *Id.*

217 *See* Lewis *supra* note 4, at 36.

218 *See id.* "[B]eyond pushing buttons on keypads, couch potatoes have not proved willing to do much more." Poniewozik, *supra* note 16, at 62.

219 *See* Poniewozik, *supra* note 16, at 62. "PVR sellers can perhaps count on your neighbor with the satellite dish and DVD; they now must convince the rest of us that they have not gone a box too far." *Id.*

220 *See* Richard Tomkins, *Comment & Analysis: A Brainer Box*, FIN. TIMES (London), Nov. 1, 2000, at 24 (finding that there are currently only about 100,000 people in the U.S. with PVR machines); *but cf.* Bunzel & Kloster, *supra* note 38, at 12 ("The Carmel Group predicts 220,000 PVRs will be sold this year, and if historical consumer adoption curves and computer pricing trends are any indication, they are likely to be a market force to reckon with soon.").

221 *See* Storm, *supra* note 27, at P10A. PVRs range in price from $700 for a small capacity machine to $1,200 to $1,500 for additional storage. *See id.* The price "pose[s] the usual buying barriers associated with new home technology." *Id.*

222 *See supra* note 27 and accompanying text; *but cf.* Grossman, *supra* note 51, at 160 (explaining several short comings of the Panasonic ShowStopper, which comes with the ReplayTV).

223 Storm, *supra* note 27, at P10A (quoting Alan Wurtzel, President of Research and Media Development for NBC). Some observers have suggested that any prediction that the PVR will finally deliver the long-awaited revolution, and fundamentally change viewing behavior, fails to take into consideration the fact that there are "cultural issues" that may have as deep an impact on consumer habits as technology. *See* Wilkinson, *supra* note 49, at 14. "People will still want to share the experience of watching events." *Id.* This observation would surely be a consideration to any court faced with litigation against the PVR. Given television's stagnant history, and the obvious failure of the VCR to live up to the studios' damaging forecast, courts may be reluctant to put too much stock in recent predictions that PVRs pose a formidable threat to studios. The fact that the VCR never met the studios' expectation of ruined profits may leave an impression on a court of law, and the court of public opinion, that any predictions regarding potential damage from PVRs should be given considerable scrutiny. Such consideration would surely tip the equities in the direction of PVR manufacturers. In other words, without more convincing proof of substantial damage from PVR use, studio-plaintiffs may be seen as crying wolf.

B. *Contributory Copyright Infringement*

The concept of contributory liability permeates all areas of the law[224] and, through a long line of cases, has found a solid place in American copyright law under the 1909 Act, the 1976 Act, and today's more recent manifestations.[225] Yet, odd as it may seem, the Copyright Act does not expressly provide for liability under the theory of contributory infringement.[226] The closest congressional declaration for the imposition of contributory liability in the copyright context is found in the closely related field of patent law.[227] Its noted absence in the Copyright Act led the Supreme Court to observe, "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."[228]

Proving contributory infringement was vital to plaintiffs' case in *Sony v. Universal.*[229] A finding by the Supreme Court that time-shifting constituted copyright infringement would be meaningless without a further judicial statement holding the VCR manufacturers liable.[230] Absent a finding of contributory infringement on the part of the Sony Corporation, the studios would face the near impossible task of trying to enforce their rights against individual users, instead of the manufacturers themselves.[231]

In deciding the question of contributory copyright infringement, the Supreme Court in *Sony* declared, "If vicarious liability is to be imposed on [the defendant] in this case, it must rest on the

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224 *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 435 (1979).

225 *See* 3 NIMMER, *supra* note 96, § 12.04.

226 *See Sony*, 464 U.S. at 435. "Such a provision, however, was added later, in the context of the Semiconductor Chip Protection Act of 1984; yet the latter provision is limited to the sui generis protection added in 1984 for semiconductor mask works, and is inapplicable to copyrightable works in general." *See* 3 NIMMER, *supra* note 96, § 12.04 (footnotes omitted).

227 *See* 3 NIMMER, *supra* note 96, § 12.04. "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, § 271(c)." *Sony*, 464 U.S. at 435. Although patent and copyright are not interchangeable, and one must "exercise caution . . . in applying doctrine formulated in one area to the other," the Court has noted "the historic kinship between patent law and copyright law." *Id.* at 439.

228 *Sony*, 464 U.S. at 435.

229 *See* 3 NIMMER, *supra* note 96, § 12.04.

230 *See id.*

231 *See id.* Contributory liability has been described as a kind-of "judicial shortcut." *See* Liptak, *supra* note 179, at B9. "It allows a single suit against a central facilitator rather then thousands of suits against individual infringers." *Id.* The need for such a shortcut is obvious because "the private nature of home copying and the minuscule damage caused by an individual act of infringement make judicial enforcement highly problematic. Nevertheless, aggregate damages can be enormous." Gary S. Lutzker, *DAT's All Folks:* Cahn v. Sony *and the Audio Home Recording Act of 1991 – Merrie Melodies or Looney Tunes?*, 11 CARDOZO ARTS & ENT. L.J. 145, 153 (1992).

fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material."[232] However, borrowing from the Patent Act,[233] the Court found that such liability did not extend to a "staple article or commodity of commerce" capable of "substantial non-infringing" uses.[234] In other words, the question of whether or not a defendant has constructive knowledge is tightly linked to a finding of substantial non-infringing uses.

In finding the VCR capable of substantial non-infringing uses, the Supreme Court took special note of the district court's findings that not all time-shifting involves copyrighted programs, and not all content providers may object to time-shifting of their broadcasts.[235] The Supreme Court in *Sony* referred to this class of recording as "authorized" time-shifting.[236] The district court observed "considerable testimony" from copyright owners who consented to recording of their broadcasts.[237] Copyright holders of sports, religious, and educational programs were some of the consenting owners that the district court offered as examples.[238] Others, who may join this list in the event of PVR litigation, might include pay-television services, such as HBO and Showtime, since they receive payment for their programming directly from consumers, instead of through commercial advertising. Of course, it may be assumed that pay-television services will only authorize copying of their *original* programs, and not those copyrighted films they license from movie studios for broadcasting.[239]

The *Sony* plaintiffs' argued that infringing uses outweighed

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232 *Sony*, 464 U.S. at 439.

233 35 U.S.C. § 271(c) (2000); *see also* note 227 and accompanying text.

234 *Sony*, 464 U.S. at 440.

235 *See id. at* 443.

236 *See id.*

237 *See* Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429, 468 (C.D. Cal. 1979). "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." *Id.* The district court considered this testimony when denouncing injunctive relief as an inappropriate remedy, even if use of the VCR was not fair use. *See id.*

238 *See id.* Of those testifying on behalf of consenting copyright owners, the Supreme Court pointed out the statement of Fred Rogers, star and producer of *Mister Roger's Neighborhood*, the long running children's educational program. *Sony*, 464 U.S. at 445. "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." *Id.*

239 Without authority for this proposition, this author can only guess that pay-television services will be contractually unable to authorize consumer copying of a studio's film licensed for broadcasting on such service. It should also be noted that, although pay-TV services were in existence at the time of *Sony*, not a single pay-TV service filed an amici curiae brief.

non-infringing uses, and that the majority of copyright holders *would* object to wholesale copying of their programs.[240] The Supreme Court found this argument unconvincing, however, and extensively cited the district court's findings as to consenting copyright owners in holding that the VCR is capable of substantial non-infringing uses.[241] The Court's main objective, in discussing authorized time-shifting, was to point out that plaintiffs had no right to enjoin this activity and prevent *other* copyright holders from authorizing time-shifting for *their* programs.[242]

Whether or not authorized time-shifting alone would be enough to carry the day, and lead the Court to hold that home-video recording devices are capable of significant non-infringing uses, is unknown, because the Court went on to find that even *unauthorized* time-shifting was legitimate fair use.[243] Although, it is hard to imagine that the number of consenting copyright holders found in *Sony*, taken alone, would suffice to show that the PVR is capable of significant non-infringing copying. Even assuming that sports, religious, and educational broadcasters would still consent to PVR copying of their programs, the balance would surely tip in the direction of the vast majority of non-consenting copyright holders.

However, the Supreme Court also seemed concerned with how a finding of contributory liability would affect not only consenting copyright holders but also VCR manufacturers and consumers. The Court was obviously uncomfortable with the implications from such a finding:

> 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 [VCRs] simply because they may be used to infringe copyrights. That,

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240 *See Universal*, 480 F. Supp. at 468. The court of appeals agreed, finding that VCRs were not suitable for any substantial non-infringing use even if some copyright owners elect not to enforce their rights. *See* Sony Corp. of Am. v. Universal City Studios, Inc., 659 F.2d 963, 975 (9th Cir. 1981).

241 *See Sony*, 464 U.S. at 445-47.

242 *See id.* at 446.

> If there are millions of owners of [VCR'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.
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> *Id.*

243 *See id.* at 447; *see also* discussion *supra* Part III.A.1.c.

> however, is the logical implication of their claim. The request for an injunction below indicates that respondents seek, in effect, to declare [VCRs] contraband.[244]

The studios, of course, tried to downplay this proposition by suggesting that merely providing a "continuing royalty pursuant to a judicially created compulsory license" was a wholly appropriate remedy.[245] Nevertheless, the Court remained cognizant of the wider implications and qualified the plaintiffs' proposed remedy as merely an indication of their *willingness* "to license their claimed monopoly interest," and not a limitation of such implications.[246]

1. Contributory Copyright Infringement Post-*Sony*

Since *Sony*, the doctrine of contributory liability in copyright law has remained sound[247] but judicial development of the doctrine in the home-recording context stayed relatively stagnant immediately following the Court's decision.[248] Some have pointed out that the Court's decision regarding contributory infringement in *Sony* has deterred other *Sony*-like litigation.[249] As a result, the Court's opinion has had a significant rippling effect throughout the home-recording industry, *outside* the judicial context.

The music industry closely watched the *Sony* case in the early 1980s. Manufacturers of home sound-recording equipment developed a new digital format called compact discs (or "CDs"), meant to replace the existing "analog" format, such as vinyl and magnetic tapes.[250] Not long after this format change, the new Digital Audio Tape, or "DAT," from Japan was getting underway.[251] The introduction of DATs into the American market place would allow U.S.

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244 *Sony*, 464 U.S. at 441 n.21.

245 *Id.*

246 *Id.* A claim of contributory infringement has been compared to a class-action suit, and, like any class-action case, a court must be mindful of the interests of those not before the court. *See* Liptak, *supra* note 179, at B9.

247 *See* N.Y. Times Co. v. Tasini, 533 U.S. 483, 518 (2001); Matthew Bender & Co. v. West Pub. Co., 158 F.3d 693, 707 (2d Cir. 1998); Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255, 262 (5th Cir. 1988); Liberty Toy Co. v. Fred Silber Co., No. 97-3177, 1998 U.S. App. LEXIS 14866, at *19 n.10 (6th Cir. June 29, 1998); Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 261 (9th Cir. 1996); Kepner-Tregoe, Inc. v. Vroom, No. N-89-459(EBB), 1998 U.S. Dist. LEXIS 22979, at *18-19 (D. Conn. Feb. 3, 1998); Polygram Int'l Publ'g v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1320 (D. Mass. 1994); CoStar Group, Inc. v. LoopNet, Inc., 172 F. Supp. 2d 747, 749 (D. Md. 2001).

248 The major exception to this observation being the Napster case and subsequent suits against online music-file sharing, where compromise does not appear to be an option. *See infra* text accompanying note 287.

249 *See* CRAIG JOYCE ET AL., COPYRIGHT § 7.07[B][1] (5th ed. 2000) (discussing the history and formation of the Audio Home Recording Act).

250 *See id.*

251 *See id.*

consumers to record in this new digital format.[252] Recording in the analog format had always bothered the American recording industry but digital recording appeared particularly threatening.[253] Specifically, DATs would allow users to record their music with "near-perfect fidelity" in "multi-generational digital copies."[254] The music industry saw this as a significant threat to their sales of prerecorded CDs.[255]

The music industry eventually filed suit against (who else?) Sony Corporation, as a manufacturer of audio home-recording equipment, for contributory copyright infringement, after attempts to work out a compromise fared.[256] How the music industries' claims would have fared in the face of *Sony* precedent is unknown.[257] Eventually the parties settled, preferring to sit down with Congress to work out a legislative solution, as opposed to the uncertainty of *Sony*-like litigation. In 1992, the long-awaited compromise found codification in the Audio Home Recording Act ("AHRA"),[258] and "broke new ground for American intellectual property."[259] The new legislation imposed a compulsory license scheme on the manufacturers of home-audio recording equipment, in exchange for immunity from contributory liability.[260] More interestingly, it imposed legal limitations on the technology itself rather then merely limiting the way in which that technology could be used.[261]

2. Contributory Copyright Liability and the PVR

The full extent of the legal implications and intricacies of the AHRA is outside the scope of this Note. Nevertheless, the AHRA is undeniably a part of the *Sony* legacy. But how does this legacy instruct PVR manufacturers and the studios that might eventually object to them? For the *Sony*-plaintiffs, litigation seemed the best method to protect their content, but proved to be expensive, time-consuming, and ultimately unsuccessful.[262] The music industry

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252 *See id.*
253 *See id.*
254 *Id.*
255 *See id.*
256 *See generally* Lutzker, *supra* note 231 (discussing *Cahn v. Sony Corp.*, No. 90-4537 (S.D.N.Y. July 11, 1991) and the congressional compromise that followed).
257 *See* CRAIG, *supra* note 249, § 7.07[B][1].
258 *See* 17 U.S.C. § 10 (2001).
259 CRAIG, *supra* note 249, § 7.07[B][1].
260 *See id.*
261 *See id.*
262 After losing before the Supreme Court, the studios also turned to Congress for relief. *See The Case Against VCRs Will Be Long-Playing*, BUS. WK., Jan. 30, 1984, at 30. Congress, however, proved no more helpful and the studios eventually dropped their pursuit of a

watched carefully and then looked to Congress, deciding that *Sony*-like litigation, and its ultimately uncertain result, seemed less appealing than lobbying their local senator. But even this approach proved to be expensive and time-consuming, and, despite having a place at the bargaining table, even Congressional solutions have a degree of uncertainty.[263] Consequently, perhaps for parties involved in a potential PVR conflict, lessons from the past may be shaping the adoption of a new approach.[264]

C. *Deference to Congress*

The Supreme Court noted in *Sony*, "long before the enactment of the Copyright Act of 1909, it was settled that the protection given to copyrights is wholly statutory."[265] As such, the Court declared its reluctance to tread where Congress "has not plainly marked [the] course," especially when confronted with a new technology the Copyright Act did not anticipate.[266] Early in Justice Stevens' majority opinion, he wrote:

> 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

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congressional compromise. *See* Maxwell Glen, *The Latest Chapter in the Home Audio Taping Battle Unfolds in Congress*, NAT'L J., Nov. 2, 1985, vol. 17, No. 44, at 2483 (explaining how music companies decided to "go it alone" on Capitol Hill after the movie industry "all but conceded defeat").

263 *See* CRAIG, *supra* note 249, § 7.07[B][1]. "Although the outlines of the solution finally embodied in the Audio Home Recording Act of 1992 were laid down in a compromise negotiated between recording companies and manufacturers and importers of electronic equipment, the legislation as finally enacted deviates from the terms of that compromise in some important ways." *Id.*

264 *See* discussion *infra* Part IV.

265 Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 431 (1984) (citing *Wheaton v. Peters*, 8 Pet. 591, 661-662 (1834)). The Constitution expressly delegates to congress the 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." U.S. CONST. art. I, § 8, cl. 8.

266 *Sony*, 464 U.S. at 430-31. "The question concerning technology and copyright is whether its promotion of one goal, dissemination, will cripple another goal, authorship. Modern duplication technologies, from photocopiers to tape recorders and recordable compact discs, challenge copyright law by placing the power of manufacturing reproductions beyond the control of copyright owners, and into the public domain." *See* Lutzker, *supra* note 231, at 147.

have been amended repeatedly.[267]

The Court then observed that the history of copyright legislation has developed primarily as a result of technological change and advancement.[268] In fact, it was the invention of the printing press that "gave rise to the original need for copyright protection."[269]

The Court cited several instances where it wisely deferred to Congress when confronted with a new technology that copyright law did not anticipate, thereby allowing Congress to fashion the appropriate response.[270] In defense of this practice, the Court cites "sound policy," as well as Congress' "constitutional authority,"[271] and "institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by . . . new technology."[272] By these pronouncements the Court made clear its intention to limit the judicial role in the conflict between new technology and copyright law.[273] This idea was continually echoed throughout the majority's opinion, signaling a minor theme in the Court's analysis that deserves some attention.

Arguably, the Court's above approach would apply equally well if confronted with a case concerning copyright infringement and the PVR. As discussed earlier, due to the perhaps speculative nature of predicting commercial damages from PVR use,[274] the Court may wish to defer to Congress on questions concerning the PVR's place in the Copyright Act.

Conceivably, the Court would be compelled to adhere to this practice of congressional deference, especially in the case of the PVR, as in *Sony*, where the device has already taken a foothold in the market.[275] One underlying reason for the Supreme Court's de-

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267 *Sony*, 464 U.S. at 429 (emphasis added).

268 *See id.* at 430-31.

269 *Id.* at 430.

270 *See id.* at 431 n.11. Two of the Court's examples include, (1) when copyright issues surrounding the player piano in *White-Smith Music Publ'g Co. v. Apollo Co.*, 209 U.S. 1 (1908) led to the enactment of the Copyright Act of 1909, and (2) where the invention of cable and microwave broadcasting, dealt with by the Court in *Fortnightly Corp. v. United Artists Tel., Inc.*, 392 U.S. 390 (1968), and *Teleprompter Corp. v. Columbia Broad. Sys., Inc.*, 415 U.S. 394 (1974), "prompted the enactment of the complex provisions set forth in 17 U.S.C. § 111(d)(2)(B) and § 111(d)(5) (1982 ed.) after years of detailed congressional study . . . ." *Sony*, 464 U.S. at 431 n.11.

271 *Sony* 464 U.S. at 431; *see also supra* note 265 and accompanying text.

272 *Sony*, 464 U.S. at 431.

273 Even Justice Blackmun in his dissent agreed that "[l]ike so many other problems created by the interaction of copyright law with a new technology, '[there] can be no really satisfactory solution to the problem presented here, until Congress acts.'" *Id.* at 500 (citing *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 167 (1975)).

274 *See* discussion *supra* Part III.A.2.d.

275 *See* Bill Carter, *Compressed Data; Aiming a Little Persuasion at Makers of TV Recorders*, N.Y.

cision in *Sony* may have been their fear of outlawing a machine already in wide use.[276] This would in effect make the PVR "contraband,"[277] and the millions of consumers using them guilty of copyright infringement. According to Forrester Research, 14% of U.S. households will contain a PVR in the next five years, and 80% of U.S. households will contain a PVR by the year 2010.[278] The Supreme Court would, of course, declare itself immune to such considerations, but the pull of consumer power seems an inevitable dynamic in any calculation of the facts.

IV. THE PVR'S POTENTIAL AND THE ATCC RESPONSE: CREATING A MODEL APPROACH TO TECHNOLOGICAL ADVANCEMENTS

When the VCR entered the American marketplace, the first instinct of studio executives was to sue.[279] Today those instincts, while certainly still rather healthy, at least allow for the possibility of adaptation.[280] When the ATCC's legal representation initially talked of lawsuits,[281] a more cooperative approach quickly followed.[282]

But the question still remains, why have the members of the ATCC chosen to embrace a technology that promises to threaten their broadcast model? The answer is obviously complex and ultimately only the members of the ATCC themselves truly know. This has not deterred analysts and insiders from pontificating on possible reasons. Some have suggested that the legal road is simply too tenuous,[283] thereby forcing the ATCC to invest in these companies

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TIMES, Aug. 16, 1999, at C5. The ATCC has indicated that this is one reason for their early formation. *See id.* Bert Carp, Attorney for the Coalition, said, "If you wait until you are actually hurt . . . you might be making a big mistake . . . we've just learned that in some cases you need to speak up early to protect your position." *Id.* Although the ATCC response may be purely anticipatory, it is by no means extraordinary, considering that PVRs are growing in popularity and will continue to do so in the coming years.

276 *See id.*

277 *Sony*, 464 U.S. at 441 n.21 ("The request for an injunction below indicates that respondents seek, in effect, to declare [VCR's] contraband.").

278 *See* Wilkinson, *supra* note 49, at 14.

279 *See* Liptak, *supra* note 179, at B9.

280 *See id.*

281 It is interesting to note that the ATCC initially suggested that PVRs, because they incorporate network technology and appear to be service based business models, should be subject to the same licensing schemes designed for cable and satellite companies. *See* Sporich, *supra* note 33, at 8. The ATCC claimed that PVRs should be seen as "subscription services" because they are "based on selling networks' copyrighted content." *TiVo-Replay face Broadcaster Dissent*, SCREEN DIG., Sept. 1, 1999.

282 *See supra* text accompanying note 34.

283 *See* Hogan, *supra* note 24, at 2. When it looked as if the ATCC may sue, Joe Butt, Director of Consumer Technology Research at Forrester Research, Inc., said, "I don't blame them for trying . . . but you are in a real rat's nest when you try to separate this issue from VCRs . . . I doubt they have a legal leg to stand on." *Id.*

and endeavor to work out a business relationship. Wendell Bailey, Vice President of Advanced Cable Technology at NBC, a member of the ATCC, reveals that when it comes to new technology "[y]ou have to have a relationship with them or you'll have a relationship against them."[284] A former NBC president, Tom Rogers, further revealed, "[w]e thought that the technology was going to come, and it was better to have some voice in shaping it than none."[285] One of the more ambitious analysts suggests, "The Internet gave birth to a new corporate religion . . . [t]he religion says: change is inevitable."[286]

Regardless of the ultimate justification, the result is the same, content providers are choosing compromise and adaptation over confrontation. While this approach is clearly inapplicable in certain circumstances,[287] the opportunity for networks to work with PVR manufacturers exists in this case. The ATCC and the entertainment industry should not let this opportunity go by. Despite the prospect of giving up some power to PVR manufacturers, the ATCC can still increase and expand its revenue streams through alternative modes of advertising.

A. *Changing the Way You Watch TV*

As previously mentioned, the most intriguing aspect of the PVR to studios and advertisers is its ability to insert ads to be aired to different viewers at the same time.[288] In addition, advertisers will be able to choose which ads to show to whom, based on an incredibly detailed profile of each viewer. Neither service allows this practice just yet, but, given its potential as a potent advertising tool, its introduction into the television viewing experience cannot be far away.[289]

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284 Bunzel & Kloster, *supra* note 38, at 12.

285 Lewis, *supra* note 4, at 36.

286 *Id.* "A lot of these guys had their bell rung four years ago by the Internet . . . and they don't want to be humiliated a second time." *Id.*

287 The recent music industry battle against online music file sharing is a perfect example of where compromise is not an option. Despite the music industry's widely publicized victory over file-sharing icon Napster, music publishers are in a constant state of war against alternative services, such as Morpheus and Kazaa, that similarly provide copyrighted music for free over the Internet. *See generally* Matt Richtel, *Agreement Is a First Step For Licensing Online Music*, N.Y. TIMES, Oct. 10, 2001, at C2. Music file sharing is again on the rise. *See id.* "Jupiter Media Metrix, which measures Internet traffic, plans to release a study this week showing the total number of users at a number of the popular free services rose 492 percent from March to August." *Id.* Interestingly, the music industry's strategy at this time is to provide consumers with legitimate Internet music services as an alternative to the pirate sites. *See id.* Proving that while compromise is not an alternative, adaptation is certainly one strategy being exploited.

288 *See supra* Part I.B.

289 *But see* Janet Kornblum, *Privacy Organization Hits Recorder Maker*, USA TODAY, Mar. 26,

However, advertisers need not rely solely on this method in order to increase or maintain advertising revenue in a PVR world. Despite the fact that PVRs will allow ad insertion, frightened advertisers are in general agreement that the PVR will force them to find new approaches to getting their messages to viewers.[290] Advertisers still have several other alternatives to reach consumers through commercial television, and many new methods have already emerged.

The more viewers attempt to avoid commercials, the more necessary it becomes for advertisers to embed their products into the programs themselves. The current practice of product placement is the most obvious solution,[291] but advertisers are now seeing this practice advance into "virtual video advertising."[292] Virtual video advertising allows "advertisers to digitally insert images of products into program content itself where they never actually existed – instead of segregating them in easily avoidable commercial breaks."[293] The time may come when the ads you see on stadium billboards during televised baseball games are not real.[294] Rather, the ads are generated by computer-imaging equipment[295] that can select different ads to be viewed in different geographic locations. In effect, the product itself becomes the vehicle for the advertisements.[296]

Advertisers may also choose to return to advertising models previously forgotten by the entertainment industry.[297] Specifically, advertisers may wish to return to the early practice of company-

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2001, at 3D (announcing that the non-profit Privacy Foundation is accusing TiVo, Inc. of collecting viewer data without viewer permission and "giv[ing] the impression in [their] manuals that they are not collecting information on the shows you are watching").

290 *See Upfront Flawed, But Invaluable,* ADVERTISING AGE, May 15, 2000, at S6. "The balance of power is shifting. We need to really focus on that in the years to come so we can still keep our business of advertising and media strong." *Id.* "'This traditional business of advertising that we have is going to be in jeopardy,' Farina warned. 'It's going to be cannibalized by all of this technology.'" *See* Jim Forkan, *Brave New Whirl; TiVo, Interactive and Cross-Media Ad Sales Mean Opportunities and Concerns, Cablevision,* Apr. 10, 2000, at 48.

291 *See* Storm *supra* note 27, at P10A.

292 Kinney Littlefield, *Insertion of Product Images is Blurring the Line Between Commercials, Content,* ORANGE COUNTY REGISTER, Mar. 25, 2000, *available at* LEXIS, News Library.

293 *Id.* Interestingly, privacy groups have pointed out that virtual advertising crosses the line of suggestive selling and into the area of the invasive. Michael F. Jacobson, co-author of *Marketing Madness* with Laurie Mazur, says, "It's sneaky advertising – putting advertising in places where you wouldn't expect it, and where you can't avoid it and it's not clearly advertising." *Id.*

294 *See id.*

295 Princeton Video Image, a New Jersey-based company, has created L-VIS, for Live Video Insertion System. *See id.*

296 *See id.* Mr. Jacobson added, "You must ask, '[i]s it advertising or programming or both?' It's both." *Id.*

297 See Jack Neff, *Sponsors Behind Camera; Content More Critical, So Marketers Again Turn Producer,* ADVERTISING AGE, Jan. 22, 2001, at S3.

sponsored broadcasts. Companies may simply brand programs with their name. For example, one day we may see *Barnes & Noble presents: Oprah* or *The Proctor & Gamble Comedy Hour.*[298] Sponsorship was recently adopted by ABC, when Johnson & Johnson became the sole sponsor for the commercial-free broadcast of ABC's pilot episode of *Gideon's Crossing*, a critically-praised medical drama.[299] Similarly, NBC broadcast the critically-acclaimed film *Schindler's List* two years earlier without commercial interruption.[300] For this particular broadcast, the Ford Motor Company signed on as the sponsor and merely bookended the film with extended commercials.[301]

Advertisers and broadcasters might also do well by simply appealing to the audiences' need for the collective viewing experience. Conceivably, live sports telecasts and "event" programming, such as award shows or "season finales," will attract audiences who wish to watch these events as they unfold, rather than on a time-shift basis. This will allow traditional advertising models to be largely unaffected by the PVR.[302] In the inaugural season of *Survivor*,[303] a reality-based television program where contestants live for several days stranded in remote locations,[304] one of the largest audiences in television history tuned in for the series' final episode.[305] This is, of course, another example of the way in which technology does not and cannot fundamentally change the way in

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298 Critics, however, object to this because the inevitable conclusion is that companies themselves will eventually shape viewer programming. *See id.* The possibilities for abuse are obvious. One can imagine Dr. Benton, a fictional re-occurring character on NBC's *ER*, prescribing a new drug to one of his patients—a drug, not coincidently, recently introduced to the marketplace by the commercial host.

299 *See* Bill Carter, *Hold the Ads, ABC Decides*, N.Y. TIMES, Sept. 20, 2000, at E4.

300 *See id.*

301 *See id.* However, ABC admitted that this format yielded significantly less revenue than traditional advertising (i.e., frequent commercial breaks) and that "[i]t could only work for unique situations." *Id.* (quoting Ms. Andrea Alstrup, Vice President of Advertising for Johnson & Johnson, who added, "I don't think it would be affordable on any other basis."). Nevertheless, commercial television is "increasingly about creating events." *Id.* This is one alternative to traditional television advertising that may establish a loyal viewing audience, which may in turn become a profitable target audience to advertisers looking to attach their goods to such a program. Once the audience is established, the other advertising techniques can be implemented to create revenue streams.

302 *See* Marc Gunther & Irene Gashurov, *When Technology Attacks!*, FORTUNE, Mar. 6, 2000, at 152.

303 *Survivor* (CBS television broadcast).

304 *See* Gunther & Gashurov, *supra* note 302, at 152. The first season of *Survivor* deposited sixteen men and women on a desert island near Borneo for thirty-nine days. *See id.* Note that *Survivor* heavily incorporates product placement into its broadcasts. *See id.* "Starting with just the clothes on their backs, they will have contests to win prizes provided by sponsors—a pair of Reeboks, a bottle of Budweiser, or a night inside a GM car." *See id.*

305 *See* Bill Carter, *'Survivor' Puts CBS in Land of Superlatives*, N.Y. TIMES, Aug. 25, 2000, at C1 (stating that the show drew more than fifty million viewers and was the "11th-most-watched episode of a series in the history of television").

which viewers enjoy the collective television experience.[306]

The possibilities for advertisers to reach television viewers are perhaps endless. In fact, networks may choose to ignore selling advertising entirely and simply charge viewers directly for the privilege of viewing their content.[307] We have already seen the development of several authorized websites selling streaming music online.[308] Will pay-network television be far behind?

The PVR will not destroy commercial television—just commercial television, as we know it. The PVR merely forces advertisers to be more creative in their attempt to reach viewer consumers. As studio-advertisers seek new ways to enhance or change commercial television for their clients, they have the opportunity to actually increase their advertising revenue.

B. *Adaptation or Confrontation?*

The remote control, the VCR, cable television, all of these advancements have meant one thing to the entertainment industry: new consumer technology will inevitably take the power out of the studios' hands and put it into the hands of viewers. Up until now, studios, networks, and advertisers have continued to adapt, and despite slowly losing more power, they have seen profits continually increase.[309] The PVR, of course, promises to go a step beyond these past novelties. If it can shape viewers habits like analysts predict, it will not merely *add* to the television experience, it will become the *new* television. The PVR will embed itself between 102 million homes and a fifty billion dollar entertainment industry.[310]

Must the entertainment industry sit idly by while the PVR becomes the new hub for their content? Is litigation the appropriate vehicle for resolving this clash?[311] Whether or not litigation is the

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306 *See supra* note 223 and accompanying text.

307 Karen Kaplan & Corie Brown, *5 Studios Plan Joint Venture to Offer Movie Downloads*, L.A. TIMES, Aug. 17, 2001, at A1. Already this year "five major Hollywood studios announced that they are joining forces to build an Internet service that will allow consumers to download full-length movies to watch on their home computers and televisions beginning as early as this year." *Id.*

308 *See* Tom DiNome, *You Listen, You Pay: Post-Napster Music Services*, NY TIMES, Mar. 7, 2002, at C4.

309 *See* Lewis, *supra* note 4, at 36 ("True, the big three networks had 91 percent of the viewing audience in 1978 and only 45 percent in 1999. But it is also true that of the $45 billion of television advertising in 1999, $14 billion went to CBS, ABC and NBC, which is $10 billion more than they collected in 1978.").

310 *See id.*

311 *See* Liptak, *supra* note 179, at B9 ("Legal scholars are sharply divided . . . . Eugene Volokh, a law professor at the University of California, Los Angles, said that judicial resolution of cases like the one against Napster 'is what the law is all about.' He said that 'it is a good and acceptable thing if business people address the violations of their legal rights by seeking judicial relief.'").

best answer in this situation is a decision that involves a complex and thoughtful investigation of the circumstances. For now, the ATCC has chosen to wait and see how the new technology develops.

The ATCC members have learned their lesson from *Sony* and want input in shaping the direction of this technology as it advances, rather than relying on the all-or-nothing approach through litigation. By compelling licensing at this stage, and investing in TiVo and ReplayTV, the networks are taking the first steps toward living with new technology rather than fighting it, and hoping to protect their interest in the process. By forming the ATCC, however, they are also protecting their right to sue if those interests are compromised too much. This approach has allowed this new technology the opportunity to grow, while still establishing the rights of entertainment content creators and distributors.

CONCLUSION

The invention of the PVR, and its potential impact on the entertainment industry, provides an excellent opportunity to look back on one of the legendary cases of Supreme Court lore. *Sony v. Universal* provided a picture of copyright law at one of the modern crossroads of technology, law, and consumerism. Its effect on copyright law has been, at times, controversial and, without question, far-reaching. But its ultimate legacy may be in its impact on the future of the PVR. While its holdings offer some guidance in navigating the legal issues facing the PVR, its ultimate lessons extend much further than the courtroom.

The digital transition continues to challenge the entertainment industry's old business model, but also offers new opportunities. Television studios and networks, historically inflexible, are making advancements toward embracing these new challenges. While the entertainment industry must be ever vigilant to protect their content from unfair use by new technology, they must also be mindful of the opportunities these new technologies can offer. The ATCC's patient and thoughtful approach can serve as an important model for other industries faced with similar challenges.

Postscript

In February 2001, Sonicblue Inc. agreed to purchase ReplayTV Inc. in two stock deals valued at approximately $128 mil-

lion.[312] The ReplayTV 4000, a revolutionary new PVR, reached store shelves in November 2001.[313] Unlike the previous versions of the PVR contemplated in this Note, the ReplayTV 4000 allows viewers to automatically delete television commercials and transmit copies of programs to others over the Internet.

The ReplayTV 4000 incorporates a new technology it calls "Commercial Advance" which systematically removes commercials from recorded programs upon playback.[314] Sonicblue notes that the commercial avoidance technology removes approximately 96% of all "intraprogram" commercials, but results may vary and "depend upon the quality of television reception and the nature of the program recorded."[315]

Its program-sharing feature allows users to swap recorded programs over the Internet.[316] However, users may only share a recorded program with no more then fifteen friends or family members, and only if they too own a ReplayTV 4000.[317]

Sonicblue's introduction of the ReplayTV 4000 was immediately met by several lawsuits from some of the largest players in Hollywood, including several members of the ATCC.[318] Not surprisingly, the chief objection from the plaintiffs, including all seven major Hollywood movie companies, is that these new features violate their copyrights.[319] These lawsuits, and the novel issues that

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312 *See* David P. Hamilton, *Sonicblue agrees to buy 2 firms, posts quarter loss*, WALL ST. J., Feb. 2, 2001, at B5; Benny Evangelista, *Former chipmaker Sonicblue saved its future by switching to digital entertainment*, SAN FRAN. CHRON., Sept. 10, 2001, at E1.

313 *See* Greg Tarr, *ReplayTV Relaunches PVR HW Line*, TWICE, Sept. 03, 2001, at 65; Jesse Hiestand, *Sonicblue touts latest ReplayTV*, HOLLYWOOD REP., Sept. 05, 2001, *available at* LEXIS, News Library.

314 *Replaytv 4000 Features, at* http://www.sonicblue.com/video/replaytv/replaytv_4000_features.asp (Mar. 25, 2002) [hereinafter *Features*]. The RTV4000, as it has been nicknamed, "can be programmed to skip all commercials by default . . . [but, c]areful not to bypass actual programming, it zaps most, but not all, advertising segments." Frank Bajak, *Networks sue over new video recorder; ReplayTV 4000 skips commercials*, CHI. TRIB., Feb. 11, 2002, Bus., at 5.

315 *Features, supra* note 314. *But see* Stephen Manes, *Court TV, Ad-Free*, FORBES, Feb. 4, 2002, at 74 ("[A]s often as 30% of the time the function fails to whack the ads at all, and in my tests it eliminated one show's title sequence.").

316 *See Features, supra* note 314 ("The ReplayTV 4000 is so connected it allows you to share recorded programs with other friends and family that have ReplayTV 4000s. And with its broadband connectivity, sending and receiving programs is a breeze. So, if you forgot to record your favorite soap opera, just ask your Mom to send it to you!"). *But see* Manes, *supra* note 315, at 74 ("Uploading a 30-minute show at 'standard' (read: abysmal) quality takes roughly eight hours over a typical high-speed connection from providers such as AT&T Broadband. A two-hour feature at 'high' quality? A mere four days.").

317 *See* Jon Healey, *Studios Assail ReplayTV Technology; Courts: Lawsuits claim the key functions of personal video recorders violate copyrights*, L.A. TIMES, Feb. 11, 2002, pt. 3, at 6.

318 See Nick Wingfield, *Entertainment Firms Sue Sonicblue Over Features of New ReplayTV Device*, WALL ST. J., Nov. 1, 2001, at B8; Dan Gillmor, *Hollywood launches new legal barrage on technology*, SAN JOSE MERCURY NEWS, Feb. 14, 2002, *available at* LEXIS, News Library.

319 *See* Healey, *supra* note 317, pt. 3, at 6.

they raise with respect to the ReplayTV 4000, are outside the scope of this Note. However, to the extent that these suits bring up issues related to PVR technology in general, and as contemplated herein, this Note is instructive.[320]

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320 One suit, filed by MGM, Fox, Universal Studios and Orion Pictures, argues that movie studios face potential damages from PVR "librarying," an issue previously contemplated in this Note. *See* discussion *supra* Part III.A.1.b. This claim, among others in the MGM suit, threatens not just the ReplayTV 4000, but all PVRs. *See* Healey, *supra* note 317, pt. 3, at 6.

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