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'SONY CQ4aiATIOli OF AM
v. UNtVtPSAL 61TY S'1"LTIJZt
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Washington, b. C:

IN THE SUPREME COURT OF THE UNITED STATES

SONY CORPORATION OF AMERICA, ET AL.,

Petitioners,

v. : No. 81-1687

UNIVERSAL CITY STUDICS, INC. and

WALT DISNEY PRCDUCTICNS,

Respondents. z

Washington, D.C.

Monday, Cctober 3, 1983

The above-entitled matter came on for oral argument before the Supreme Court of the United States at 10:51 a.m.

APPEARANCES

DEAN C. DUNLAVEY, Esq., Los Angeles, Cal.; on behalf of Petitioners.

STEPHEN.A. KROFT, Esq., Beverly Hills, Cal.j on behalf of Respondents.

QRA L A RgU.jEj1 I QE: PA, qE

CHIEF JUSTICE BURGER: Mr. Dunlavey, you may proceed whenever you're ready.

ORAL ARGUMENT OF DEAN C. DUNLAVEV, ESQ.,

ON BEHALF OF PETITIONERS

MR. DUNLAVEYt Kr. Chief Justice and may it please the Court:

Since the advent of free off-the-air television in the United States in about 1948, it has become what is undcuttedly today's most important communication medium. There has been a lot of technical progress since all of that time, which most of us lived through. The small screen has gone to the large screen, black and white has gone to color, tubes have gone to transistors, and live broadcasting has gone to delayed broadcasting using pretty much the same VTR that we're concerned about here this morning.

The Court can remember that the early television shows all had to be broadcast live because there was no means of recording them. As a matter of fact, in 1976 Sony got an Emmy from the National Academy of Television Arts and Sciences for the VTR, which had enatled delayed broadcast of an earlier recorded show.

And now progress has continued. That same VTR has been put in the hands of the public so that. irc+c~=A

of a necessary live viewing, there can be a delayed viewing. And the question this morning is: Can the copyright owners or a few of them who are profiting by exploiting their product on free television arrest this latest progress of science?

For the Court's information, by the end of this year there are expected to be something like 9-1/2 million video tape recorders in television households. That is at or near at or past the ten percent mark of television households in America.

Now, this case has left us with three issues that I would like to address this morning. The first, f course, is does the homeowner commit a direct infringement when he records the program at home with his VTR? In short, when he makes the tape has he committed a direct infringement?

The answer to that lies in the fair use section. That's Section 107 of the Copyright Act, and that's a discretion-type statute which tells the court that you can apply common sense to any instance where there seems to be literal infringement and if it's nct a fair result then it doesn't have to be treated as infringement.

The Ninth Circuit subdivided that into two questicns. First of all, it said that fair use has to

be a productive use, like the first author using a second author's works -- a second author using a first author's works in creating something new. The converse of that is called intrinsic, where you're using a copyrighted article in much the same way or exactly the same way as you would have used the original. The Ninth Circuit says it has to be productive as a matter of law.

It also left us with a factual question as to what: is the effect vis a vis the copyright owner of the home recording, because if you're testing for fair use the effect on the copyright owner is probably the most important.

The third test, assuming, just assuming that home recording is direct infringement, the question is has there been contributory infringement by the VTR suppliers, manufacturers and suppliers, for having done nothing more than to make the machine available.

Now, taking those three ad seriatim, the productive test is best answered if you could find some indication on the part cf Congress that a productive use was in fact contemplated among the variety of fair uses.

QUESTICN; Well, Hr. Uunlavey, would you agree that Congress when it kind cf codified the fair use

doctrine intended to keep that doctrine pretty much as it had been developed by the courts?

MR. DUNLAVEY:- It said it. The answer is yes, but they did not intend that it should go rigidly along the' lines that it had been gcing. They *said we're* not intending to change it, but they also indicated that common sense has been the rule in the past and should continue to be in the future. So the fair uses in the future don`t have to be the same things that have been found to be fair use in the past.

QUESTION: Isn't it accurate to say, with respect to the law at the time Congress *codified it,* that fair use required some sort of a productive use, like one author -- a book reviewer quoting a text in a book review or *something* like that?

MR. DUNLAVEY: I submit, Justice Rehnqui.st, that that was most definitely not Congress' intention, and I have three examples to put before Your Honor to support that.

First of all, remember the Williams E Wilkins case had been an intrinsic kind of usage, where medical articles were Xeroxed and distributed tc doctors in lieu of originals. That was an intrinsic use.

QUESTION: It was affirmed by an equally divided Court here.

M8. DUNLAVEY: Which `left it the law of the land, at least in the Court of-Claims. So it was a very well known case of intrinsic use just at the time Congress was passing the new Act, and Congress made no indication that it disapproved of the outcome of that case* Sc arguably Williams E Wilkins was in Congress' mind and they accepted the intrinsic use.

But I can do better than that. In the 197 Senate report a.t pages 65 and '6, it talked about the school whose classroom schedule does not synchronize with a broadcaster's television schedule. It means that the time the broadcaster is putting out an educational program that the students want to see, the students aren't in class.

That specific example was in the Senate report and it said that that school cculd record off the air the broadcast for delayed viewing at a time when class was in sessicn and that would be an example of fair use. And there we've killed four birds with one stone because, first of all, that's an intrinsic use and Congress is approving it.

Secondly, it's the copying of an entire work and Congress is approving that.

Thirdly, the purpcse is time shift and Congress is approving that.

And lastly, it's for convenience, the very same reason that the homeowner is doing it. He can't see the show when it's broadcast, so he records it for later.

But that still isn't the end of it, because in the 1976 Conference Committee report they acknowledge that the educators and the copyright owners had negotiated and would continue to negotiate on what were called guidelines, and those were to be examples of fair use. And the conference report said that.whatever these people agree upon will be regarded as part of the conferees'' understanding of fair use.

QUESTION: Do you think that involves any problem of unlawful delegation?

SIR.. DUNLAYEY. That's occurred to me and I can't answer it. But fortunately, Universal has core along· and agreed to guidelines, and therefore Universal, of all people, is act in a position to claim that there are not of validity.

In 1981 guidelines were adopted for off the air recording for educational purposes. They encompassed any broadcast that was for the use of the general public without charge. Ycu could copy it, show it twice `within the next ten days, either in the classy oom,or at home, and then you were supposed tc

erase it after 45 days.

Very clear Congressional precursor of the time shift- concept. So it-'s a reinforcement. of the intrinsic use, the entire work, time shift and convenience. And who agreed to it? Wouldn't you know, it was Universal and a large share. of their amici who were on the amici brief saying they now protest. So they are all on record as having agreed to these standards as satisfying fair use.

So I would submit that the Ninth Circuit by one of those three, two of them or all three of those has erred because it has said productive is a sine qua nom. It obviously is not.

QUESTION: Mr. Dunlavey, I suppose of course the Court doesn't have to resolve this question in order to resolve the contributory infringement question. The Court could resolve it as a means of getting to the contributory infringement question, but does it have to?

MR. DUNLAVEYz Justice O'Ccnncr, that's precisely right. There are two roads to Rome. You can say that there is direct infringement but nevertheless there was no contributory infringement or, as you have Just suggested, you can say, whether or not there was direct infringement, and we bypass that question, there

clearly was nothing that constitutes contributory infringement. So Four Honor is correct, you can resolve this; case without resolving whether home use is infringement.

Now, if you're going to make the conventional fair use test., assuming that it can be fair use, the question is whether it is, the most important test of all by common sense *and* by general acknowledgment is what's the effect on the copyright owner. Eecause I don't think anybody has trouble with the concept that you really shouldn't be using the copyright owner's works against him, all other things being equal.

So the *question is,* recognizing that the copyright owner for some reason doesn't want you tc do it - you have to assume infringement -- but recognizing that there may be other reasons why he should have tc put up with it, the test is first of all let's see What is the effect on him.

Now, the Ninth Circuit with nc explanation simply says, it seems clear that home recording does tend to *diminish* the potential market for the Universal-Disney works. No explanation, Just ipse dixit.

Conversely, the district court had said several *things.* Firstly, it said that Universal-Disney

admit there's been no harm to date. That's a fact. There's no argument about that. At the time of the trial, which was several years after most of the reccrdings, there wasn't a vestige of harm.

Then the question comes about predicting the future, and the district court listened to the witnesses and the- surveys and came to the conclusion that there vas no likelihood of prospective harm and there was no reduction in the potential market for Universal's and Disney's.

Now, the district court did that after hearing fcur general kinds cf complaints by Universal-Disney. First of all, Universal-Disney said, the money that we get for' putting our shows on television is determined b y the ratings systems, and the bigger the audience the more we make. And if the VTR owner Joins the audience but the ratings system doesn't pick him up, then we don't get paid, so we've been hurt.

The district court listened to a ratings expert and concluded that the YTR owners will be measured as part of the broadcast audience by the ratings services, and he was dead right. Nielson counts the VTR set in a household just the same as it counts a TY set, so the audience of the VTR owners is measured.

Secondly -

QUESTION:. Can I interrupt there? You're telling me that's dcne now cr **was that done** at the **time of trial?**

MR. **DUNLAVEI:** It **was either being done at the time of trial or vas. just on the verge. It is being done now.**

QUESTION: **Well, let me put it differently. Did the district court find that it was being done?**

MR. **DUNLAVET: I think the district court said that it is being done. It said they had the capability of doing it, and then at ancther point I believe it said that they were doing it.**

QUESTION& I.thought he said **that they cculd do it.- I** didn't **think he said they did it. In fact, I don't see how they cculd have made the argument that they made if they were doing it. They were saying they were losing the benefit of these counts because it wasn't being done, I thought. They were losing the benefit, you know, in their ratings of the people whc heard it only** on a **time shift basis because the time shifts weren't being considere by Nielson and similar people.**

Didn't they argue that?

KR.- DUNLAVET: **Then argued it then and they still argue it.**

QUESTION: **Well, if they make that argument then doesn't the record have to have indicated that as of the time of trial -- I don't know what's .happening now -- the record did not support what you just said?**

MR. **DUNLAVEYs No, the fact that they make the argument** today **certainly does** not *indicate* **that the record stood** *in* **their favor at the time of trial.** Zhe **fact -- I'm sorry, I don't want to take a position and have bitten off a little bit more than I can chew.**

I know **that the district court said that they have the ability to do it.**

QUESTION: **Right.**

MR.. **DUNLAVEY: I think the district court may have said they are doing it.** But **if not, the fact is that they're doing it now, so that the district court's conclusion was right**

QUESTION: **But I take it you would also argue that the mere fact that they have the ability to do it should be an adequate answer t the argument?**

MR. **DUNLAVEY; It** should **be an adequate answer.** The **better argument, of course, is that they are doing** it.

QUESTION: If we know that.

MR. **DUNLAVEY: Another complaint that they made** was that, **by virtue of having recorded something at**

home, you'll take a man out of the potential market for buying that same work if it's ever put in a prerecorded cassette. The district court at that point said, Universal-Disney stands ready to make prerecorded tapes available. At that point they said they weren't doing it because they weren't going to help a technology that they were fighting.

But the fact of the matter is, and it's common knowledge and Judicial notice today, that the prerecorded movie is available across the country, has become very popular. In fact, the use cf the home VTR now constitutes 30 percent of the primary reason why people are using video tape recorders, 30 percent.

They still complain of librarying, Justice Stevens. But the fact of the matter was at the time of the trial there was no evidence of any librarying of their works. The district court said specifically that there'll be no librarying,, to any significant extent. And today, the current use of the VTR, 60 percent is primarily for the purpose of time shift. So that squeezes librarying dorm into what's left of 60 plus 30 or 90 percent, the difference between that and 100 percent.

So, although they still argue librarying, the fact was then and the fact is now that it just isn't

taking place and they're not being hurt by it.

Finally, they complained that there would to a decrease in the future audiences of their television product and their motion picture. product. In fact, Mr. Sheinberg, who was the President of Universal, took the stand and in all seriousness said this will be the ruination of the movie industry.

The district court there said that there was in fact no likelihood cf a decrease in the movie cr television audience. Cnce again, the district court is dead right. 8CA has just reported its highest six months revenue in history.

And right after Mr. Sheinberg came Mr. Wasserman, who's the head of MCA and Universal, and gave his testimony, often quoted, that forecasts of doom in the entertainment industry had historically been wrong.

So the summary on the effect test is that no one is viewing *the* home recordings off the air except members *within* the intended audience at the time cf the broadcast and Universal has been amply paid for that audience. There is *no* sense in wandering off into a hypothetical assumption of horribles as to what might be done with the tapes. The fact of the matter is that they're staying within the household, only people within the intended audience are, seeing them and then they're

being erased, and absolutely no harm is being done.

QUESTION: Could all of the horribles that are postulated that you've just referred to be corrected or dealt with by Congress? If the parade of h.crribles came to be true, could Congress deal with that?

NH. DUNLAVEY: Yes, I suppose Congress could deal with any of these problems. But having given the courts the fair use statute, the courts can deal. with this one equally one, perhaps better.

The prerecorded cassette has been a bonanza in the hand of the studios. The net effect on the studios of the VTR has been a substantial benefit, certainly no detriment. So the effect test does not weigh in the copyright owner's favor at all and the public policy of letting people copy what they can off the air and thereby enhance their ability to get information certainly should prevail.

And that brings us to the third of the questions, the staple item of commerce. That is a transplant to a great extent from the copyright law, but it's also founded in common sense. If you make something that people can use far legitimate purposes, there is no legal justification in holding you responsible if somebody somewhere uses it for an improper purpose.

Now, I'm net conceding by any means -

QUESTION& If we agreed with you on that we wouldn't need to reach the questions you've been talking about, is that it?

MR. DUNLAVEY: That has crossed my mind, Justice White. But let's look at the fairness.

QUESTION*.. Well, isn't that right? You say it's crossed your mind. I'm wondering, do we have tc reach the questions you've been discussing if we agreed with you that this is a staple article of commerce and that there's no contributory infringement?

NR. DUNLAVEY:. If you agreed with me you wcul d think this case would be over.

QUESTION: Yes. But we wouldn't have to talk about fair use at all, would we?

MR. DUNLAVEY= Then may I review the innocent uses, because --

QUESTION: *Well, we wouldn't* have to talk about fair use at all, would we, if we agreed with you that this is a staple article of commerce?

ASR. DUNLAVEY: Justice White, that's correct.

QUESTION: Has any court ever so held so far as the copyright is concerned?

AS R. DUNLAVEY: On the staple items theory? Nobody to my knowledge who has made a product has ever

been held as a contributory copyright inf ringer for having made and: sold that product.

QUESTION: That isn't my question. My question was, has the staple article of commerce patent law principle. ever been applied in a copyright context?

MR. OUNLAVEY: By direct analogy, I suppose the answer is no. But I think back to Justice Holmes in the Kalem case, where he was using the very same reasoning and the very same words and the very same conclusion.

Now, if there are non-infringing uses they certainly are not going to have the VTR available to pursue those non-infringing uses if the manufacturer has to make good for somebody who uses it improperly. Nc manufacturer can stand that kind of risk.

For *non-infringing* uses we have the guidelines and the Senate report. We also have Universal's publicly taken position that they will never sue a VTR owner, no matter what he copies. Now, that has to have some impact on their position, Justice White. They simply should not be allowed to tell the public that they can copy at random and we'll hold Sony responsible for it. That isn't equitable.

And the district court, adding to those, referred to the considerable testimony at trial about

the legitimate ccgyings -- that is, I shouldn't say legitimate because that implies some isn't -- about the unchallenged copying. We had 18 witnesses at that trial. We had 482 pages of reporter's transcript, which was 67' percent of our case in chief, that had to do with unchallenged consent-type uses of the YTR.

So the Ninth Circuit has erred when it says that the YTR is not suitable for substantial non-infringing use. It most certainly is.

But even more than that, at the last argument we got into a consideration of, supposing we took a poll of copyright owners and 50 percent approved and 50 percent didn't, or more than. 50 or less than 50. On reflection, I would like to submit to the Court that it's not up to the copyright owners to decide for the American public whether we're going to have delayed television viewing.

If you want to play football, you've got tc give up your personal rights against assault and battery. That's Just the rule of the game. By the same token, if ycu. want tc make money off the public television you should have to bend with respect to your copyrights, and the copyright owners should not be able to tell the American public what they can or cannot do when it comes to progress in the television science.

Now, if I may, M=. Chief Justice, if there are no further questions I'll reserve the balance of my time for rebuttal.

CHIEF JUSTICE BURGER: Very well.

Mr. Kroft.-

ORAL ARGUMENT OF STEPHEN A.- KRCFT, ESQ.,

ON BEHALF OF RESPONDENTS

MR.`KROFT& Mr.- Chief Justice and may it please the Court:

Underneath all the legal arguments and legal labels that we've thrown around in this case, the case is really very simple and straightforward. Petitioners have created a billion dollar industry based entirely on the taking of somebody else's property, in this case copyrighted motion pictures, each of which represents a huge investment by the copyright owners.

And contrary to what Petitioners would have this Court believe, Respondents are not the only copyright owners who have raised express objections to these activities. The Court has before it amicus briefs raising such objections from over 70 copyright owners, including such people as the CES televisicn network, the producers of approximately 90 percent of the programs on prime tire network viewing, and many, many producers of educational and cultural rrcgrams, such as the

Children's Television Workshop, the Lincoln Center fcr the Performing Arts, and the producers of the National Geographic series and the Smithsonian Institute specials.

Despite what Petitioners again would have this Court believe, the record establishes beyond question that the Petitioners are selling and know that they're selling an instrument for use in infringement* They reccgnized the legal problem in 1965.- They continued to wrestle with it up until -- and they're still wrestling with i,t up until today.

QUESTICNs Suppose the evidence in the case put on ty witnesses that.your friend referred to indicated, just. suppose it. indicated, that about ten percent of all programming could be copied without any interference by the producer or whoever owned the program. Suppose that there was at least ten percent that a homeowner could copy without violating anyhcdy's copyright.

Would you think that would make any difference in this case?

MR. KROFT; I don't think that would make any difference. I think ten percent is too small of an amount .

QUESTION: Well, what about 50?

MR.-KROFT: I'll go you one better, Justice White. If there was only one show on the air that were copyrighted and which could not be copied without object ion, if the Petitioners sold this device with knowledge that it would be used to copy that show, under the Inwood test laid down by this Court in the trademark area I believe the Petitioners would be liable.

However, I would concede that I think it might be very difficult for us to prove if there was only one show,

QUESTION: Well, let's take 50 percent. You certainly would argue that Sony would be liable if it sold this machine knowing that homeowners would copy a good many of the 50 percent that are copyrighted, in which there would be an infringement.

MR*-KROFT: Yes,- I would, and the reason I would --

QUESTION: And you don't -- is this because you say the staple article cf commerce doctrine dcesr't apply at all, or that this is just the way it should be applied?

RR. KROFT No, I'm saying it doesn't apply at all and it doesn't apply at all. for a number of reasons. The first reason it doesn't apply is because when the Petitioner sells this product with knowledge or

reason to know, under the cases decided by this Court, that it will be used in an infringing manner -- and with the 50 percent test that would be certain knowledge then the Petitioners are held liable.

They're also held liable, even if they don't have that knowledge, if they sell the product and suggest even by implication that the product be used for an infringing purpose.

QUESTION: Well, what if on every set they have ,-- the owner's manual has it at the top and at the bottom and on each margin: ro not use this to record copyrighted works._

!!R. KBOFT: I think that that would be a very disingenuous way by the Petitioners to try to avoid liability, and I expect if the Court rules in our favor they'll try to do that. And the reason I think it's disingenuous is because that kind of a warning doesn't come anywhere close to telling the homeowner what in the world he can do with this product. The homeowner's not going to know when he sees that, that kind of a warning

The real way for Sony to have avoided this protles would have been to cooperate with the copyright owners in devising technology which would allow the broadcaster to jam the video recorder from copying the

staple article of commerce doctrine in the patent field was developed to protect the sale of ordinary items, like paper and ink,- dry ice, salt tablets.. Those are the products that came out cf the cases of this Gcurt. But it was not designed to protect the sale of items designed specifically for infringement when the manufacturer and seller of that machine knew or had reason to know it would be used for infringement.

QUESTIOKs Well, specifically for copying purposes. Under your test, supposing somebody tells the Xerox people that there are pecple who are making illegal copies with their machine and they know it. Must they -- what are they supposed to do?

MR.. KROFT: I think that probably now puts the cart b-efc.re the horse, Justice Stevens. That wasn't happening when Xerox began selling its machine. Xerox first started selling the machine for business applications. We can all remember what they locked like. You'd have to put one page in. You couldn't run through pages and pages and pages like you can today.

And over the years I suppose people have come to use Xerox for different reasons. Xerox has tried to protect itself -- and I don't know if it's doing it adequately or not -- by giving every Xerox renter -- and I believe most of these machines are rented -- a little

list of do's and don't's. And one of the don't's is don't copy copyrighted material.

QUESTION; Put you just said that wouldn't protect Sony.

MR. KROFT; I don't believe it would, and that's why I say I'm not sure --

QUESTION; Does it protect Xerox?

MR. KROFT: That's why I just said I'm not sure if it dces.

QUESTION: But your view of the law is that as long as Xerox knows that there's some illegal copying going on, Xerox is a contributory infringer?

MR. KROFT: To be consistent, Your Honor, I'd have to say yes.

QUESTION: A rather extreme position.

MR. KROFT; Justice Stevens, the reason I say that I think Xerox may be. different is Xerox didn't start out as a machine sold --

QUESTION: But isn't it true that you've tcld eight or nine million people that as of now -- we're not concerned with what's happened in the past --

MR. KROFT& We have told eight or nine million people that we are very concerned about what's happened in the past, but we're --

QUESTION: But you do not seek to recover

damages from them.

MR. **KROFT:** But **we seek to recover our damages not against them, but against the propagators of this problem, the manufacturers and sellers of the article. And of course, under standard contributory infringement doctrine we're allowed to do that. So all we've said is we're going to be exercising our legal rights. We haven't told the homeowners that what they're doing is okay or permitted.**

QUESTION: Well, is it okay?

MR. KROFT: **Excuse me, Your Honor?**

QUESTION: **Is it okay for the people to continue to copy?**

MR. KROFT: **As a matter of law or as a matter of consent?**

QUESTIONS Either. **Well, as a matter of consent, which would then determine the legal consequence***

MR. KROFT: Of course. **As a matter of law, I do not believe it would be. As a matter of consent., it most certainly is not. We have not consented to off the air recording of our works, except with respect tc the guidelines that** Mr. **Dunlavey mentions.**

QUESTIONS Well, lo you speak for the other 90 percent who you represent? The amici join you. Do they

also consent to copying?

MR. KRGFT: Universal dces not consent. tc copying in the home use context. Let me make that clear. The guidelines that Hr. Dunlavey referred tc are guidelines with respect to educational copying. With respect to your question --

QUESTION: No, I was referring to the statement by the president of your. company that's quoted in your adversary's brief. It says that, we've won this case but we're not going to try and interfere with any copying by people who new have YTR's. As I understand, they said something like that.

MR. KROFTt It said we would seek. our remedy from the contributory infringer, which has joint and several liability, and which we're entitled to do. That's what the statement was intended to mean.

But I don't want to leave your last question unanswered. I don't represent amici, nc. I am not authorized to speak for them today.

But they have spoken on their own behalf by filing their amicus briefs.

'QUESTION: Well, is it their position, or do we know, that the homeowner who copies tonight may incur some liability?

MR. KROFT: I'm sorry, there was a cough.

QUESTION: The homeowner who copies tonight, not your program but the 90 percent that the amici represent, does that homeowner risk any liability?

MR. KRCFT: I believe so. Put I don't believe

QUESTION: Dc you think he's going to get rid of his machine?

SIR. **KROFT:** Excuse me, Justice?

QUESTION: Do you think the homeowner is going to get rid of his machine and threw it away? If sc, dream on.

(Laughter.)

MR. KROFT: Justice "Marshall, I don't believe that a copyright owner, after seven years of litigation here, is going to sue the homeowner. I think. that ty not doing it they've implied they won't.

I think that the remedy here, though, can be that a continuing royalty be granted against the Petitioners and in favor of the Respondents, which would require the Petitioners, who are reaping all the economic benefit from this machine, to share some of it with the copyright owners whose product made this machine such an attractive consumer device in the first place, and in that way the homeowner would not be disturbed, Justice Earshall.

How, it must be emphasized that we're not talking about one or two *individuals* here, one or two copies. We're talking about millions cf copies. The estimates are that by the end of the decade there will be something like 40 or 50 million of these machines in. homes. And it only takes common sense and a brief examination of the district court's findings to realize that the economic loss to Respondents from these millions of copies will be enormous.

We believe this harm will manifest itself in a number of ways, but I think only an examination of three of them is necessary to illustrate the point.

QUEETIQNz ?'r. Kreft, the district court found no harm, present, past or prospective, did it?

MR. KRCFTs I don't believe that's correct, Justice O'Connor. The district court found that we did not put on proof of past damages, and the reason for that is we elected to recover statutory damages, which we had the absolute right tc do.

The district court *found* -- its language sounded like it was talking in the present. It said there is no reduction because we didn't put on any evidence of present harm. But remember, at that time there were only something like 130,000 Betamax and less than a million total YTR's in the marketplace, compared

to something like 75 million television homes at that time.

But he did not say there will be nc future harm, and that's the insidious problem with Petitioner's characterization of the district court's opinion. TY.e burden of proving -- let me back up.

In copyright law, once there's been proof cf infringement there is a presumption that there will to future harm. That's established by all of the cases. And at that point it falls cn the Petitioners, the Defendants, to prove that there will not be, and the district court must find that there will not be, future harm.

The district court did not make that finding. The district court made the mistake of reversing the burden of proof and requiring the Respondents, in addition to the presumption, proving that there will be harm. And all the district court said was that the Respondents did not meet a burden that they didn't have in the first place.

Now, the first area in which this harm is apparent, and which the district court didn't consider at. all bit the Ninth Circuit did, is that off the air recording is going to -- uncompensated off the air recording is going to interfere with the copyright

owner's ability to license off the air recording of its copyrighted works for a fee, whether that's recording done for time shift purpcses or library purpcses.

The district court did repeatedly recognize that off the air reccrdings have value to homeowners, thereby indicating, I think implicitly, that they wculd be willing to pay for it. And in fact, of course, they are paying substantially for it, but right new they're not paying the copyright owner.

And as I explained at the last argument, AEC is about to commence a service to exploit this value by beaming scrambled signals between 2:00 and 6:00 a.m. in the morning to owners of special equipment furnished to them. They will be paying a license fee for it, and they'll be able then to unscramble the signal and watch it after it's been recorded.

What's interesting about this service, I new realize and didn't explain to the Court last time we were here, is that Scny has manufactured and will be furnishing the equipment for receiving and recording and descrambling that scrambled signal. And furthermore, as I understand the technology, the scrambled. tape will only be viewable for a month and after a month it will beccme indecipherable. And I can't explain the technology because it's beyond me, but that's what I

understand will happen.

How, these attributes make it very clear to me that Sony realizes that there's a big business in tine shifting, even in time shifting, for the copyright owner. ABC currently projects that by 1990, when there's about 40 million of these machines in households and there's only been about 15 percent penetration of this scrambled service, that it will generate over $500 million annually in revenues.

Huch of that will be going to the copyright owners if they agree to do this with ABC, because they will be furnishing the material that will be recorded. They'll be getting paid for this off the air recording. And it doesn't take much imagination to realize that if people can continue to do this off the air for free during the rest of the broadcast day -- that is, between 6s00 a.m. in the morning and 2s00 a.m. the following morning -- that they're not going to be willing to pay for it. They're simply not going to want to pay for something that they now get and have been getting for quite a long time for nothing.

QUESTIChs May I ask one other question. If the effect of this time shifting -- and I know you dispute the reading of the findings, but if the effect were to enlarge the size of the audience for your first

transmission, would you then be able to establish harm?

?!R. KROFT& Yes, I believe so, Justice Stevens. First of all, the cases have said. that merely because there might be a speculated increase in one market --

QUESTION: Nc, no. Assume there was prccf and you took it as a fact -- I know you don't -- that there were, that the time shifting actually enlarges the size of the audience. Assume that's a fact. Then could you possibly show harm?

MR.: KROFTs Yes. There are two answers to that, Justice Stevens, one legal and cne factual.

The legal answer is that the cases have held that just because there may be an increase in one market -- and let's assume under ycur hypothetical that there is -- that does not destroy the copyright owner's rights to enforce his copyright under the fair use doctrine if there are going to be harms in other markets, because it's up to the copyright owner to determine how and in what manner and in what markets and in what progression he will exploit his product.

The factual answer to your question is that the so-called increase in audience depends on who's in that. increased audience. The name of the game here is advertiser support. They pay for the audiences and the

broadcasters in turn then pay the suppliers of the product.

If that increased audience, fcr example, included people whom the advertiser of a particular program wasn't interested in reaching -- for example, a. truck driver who doesn't buy the family detergent, likes to record soap operas for some reason or another, and the advertiser now picks him up as a viewer at night because he watches his time shift recording -- the advertiser's not going to be willing to pay for him.

To allude to a question you asked earlier, although the district court in fact did find that the ratings services at the time of trial were measuring recordings, they were not -- and the district court also fcund this -- they were not measuring playbacks, neither when i t was played back nor who it was played back fcr.

Another example of why your hypothetical would not necessarily increase revenues or cause the fair use defense to come into play is because it depends when the advertisement is watched. If a Christmas advertisement is broadcast the week before Christmas and it's watched the day after New Year's, it's of no value to the advertiser and he's not going to pay fcr it.

Now, another area, the second area where off the air recording is going to cause substantial harm to

copyright owners is in the market for the sale and rental of prerecorded cassettes. And it must be borne in mind that this market doesn't depend on the sale cf machines that can record off the air. At the time of trial -- and this is in the record -- Sony was selling machines that had no off the air recording capability. They were just players like an ordinary record player. And those players can play back these prerecorded tages and cassettes.

So it's quite misleading to suggest that we only have that market because cff the air recorders are out there. That's not at all the case.

The district court expressly found that off the air recordings, both time -- and he didn't differentiate in this finding between time shift and library copies -- will compete with the sale and rental of those devices. It doesn't take much imagination to realize that that ccmpetiticn is going to reduce the income to the Respondents from the sale and rental cf their copyrighted mcticn pictures.

This is probably best illustrated by the fact that this year the Electronics Industry Association has estimated that there will be a sale of approximately 55 million blank cassettes in this country, as opposed to only 8 million prerecorded cassettes. Now, the reascn

people are buying so many more blank tapes than they are prerecorded ta.pes seems obviously to me to be that they're just not willing to pay the extra price tc buy a copyrighted motion picture when they can take it off the air for the mere price of a blank cassette.

QUESTION: Could I ask you, do you think under the present Act there can be -- that just sound recording is a violation of the copyright?

MR. KROFT; I believe it is, Justice White. I believe it is.

QUESTION: You think this present Act changed the la w ?

MR. KROFT: I don't believe that there was ever a law necessarily that permitted home recording of audio. But I'm giving you my off the cuff response.

QUESTION: But if there was such a law bef cre , you think that is no longer the law?

MR. KROFT; Well, maybe I should be a little bit more prudent and say I think there's a good chance that it is nc longer the law, because the legislative history of the 1976 statute specifically said with respect to sound recordings that recapturing those sound recordings off the air is a violation, and when it said that i t did not repeat the home recording exemption that had been mentioned in 1971.

Mr. **Justice Stevens, one further answer to your question about increasing the audience.** I **was assuming in my answer to you that all these commercials would be watched. In fact, most people that are recording off the air are taking the commercials cut, sc that the commercials aren't even reaching --**

QUESTION: Except they can't do that unless they're watching the program at the time.

MR. **KROFT; Well, that's not entirely true. They can take theca out of the recording if they're watching them at the time.**

QUESTICRz But they get them cn the tape in the first place unless they're watching it at the time.

MR.-KRCFT; That's correct.

QUESTION: **Then they can fast forward when they watch** it.

MR. **KROFT: You understand the technology quite well. That's right.**

(Laughter.)

MR. **KROFT: There are devices coming on the market, however --**

QUESTION: May **I ask, since ycu went back** to that **question, you pointed. out that the audience, people in the audience are not all alike. Scme people might not want tobuy the thing that's advertised with the**

is watched. in a month or a month and a half. There's not going to be a diary that can be put together that can do that.

I would like to talk about the staple article of commerce argument for a moment. But before I dc, I'd like to leave what I've been generally talking about in this area, the harm issue, with this one thought.

Fair use was a very narrow doctrine designed for very limited application, for use in the creation of scholarly or research works or works for contemporary comment or news reporting purposes, and only then when a small amount was taken. Cff the air recording for home entertainment purposes doesn't even come anywhere close to fitting that definition. It takes the whole thing, which traditionally under the cases has required an exclusion of the fair use defense. And it's not for the purpose of encouraging and advancing creativity of new intellectual works.

I believe that Petitioner's counsel errs when he suggests that, because an off the air recording in Alaska, which is what the. Senate report referred to, which has six time zones, for educational purposes may be allowed, that that means that off the air recording in all circumstances, not involving education, not involving a salutary purpose like research or

soar opera and so forth.

But do the ratings take that into account, or do they treat all viewers alike?

MR. KROFTt The ratings are not one integrated thing. The ratings are done in a variety of ways. You have the metered ratings which just tell you if the set's turned on or not; doesn't tell you who's watching. And then you also have diaries that tell you who's watching at the time that the television set is turned on.

QUESTION: Let me put it this way. The ratings that are used to fix the rates that the copyright owner charges for his programs, do they distinguish between different kinds of viewers?

MR. KRCFTs They do, because the diaries tell the advertisers what are the demographics of the audience that are watching the shows at the particular time the television is turned on. So in that way the advertiser knows.

But with respect tc video recording, we're never going to know against what program a particular recording is viewed, if it's viewed at all, when it's viewed. Because all you have to do is think about it for a moment and you can realize that a diary is never going tc be able to tell you if the recording made today

contemporary comment, can somehow be fair use.

And with respect to the Williams E Wilkins case, I should point out to the Court that even though that case talked about it being okay to record entire copyrighted works, in fact what it was talking about was only one article in an entire copyrighted journal. And then when the Senate got to Williams E Wilkins, at page 71 cf the Senate report, it said that Williams E Wilkins failed to significantly illuminate the application of the fair use doctrine and gave little guidance to Congress on the application of the doctrine.

Now, when you realize that this can't be a fair use use because it doesn't advance one cf the traditional purposes and it takes too much of the copyrighted work, then you realize that you never have to get to the fourth factor, the prospective harm factor, because you don't have fair use in the first place. Yeu don't just get into this issue by invoking the words "fair use," and if it's not a fair use case then you don't have to look at harm, and that's the case here.

In addition to that, as I said, harm is presumed in a copyright case unless the defendant proves it won't occur in the future and the district court makes that finding. The-Petitioner didn't prove that

here and the district court most assuredly did nct make that finding.

QUE5TIOIis Mr. Krcft, did you say Alaska within itself had six different time zones?

MR. KROFT s I did say that. I may have erred in the amount, but the reference in the *House* report did talk about the fact that Alaska, being so large, did encompass several time zones, and that was the reason that the House report in that unusual example indicated that off the air copying for educational purposes there might be allowed.

But the House report also went on to make very clear that, even in the educational context, the fair use doctrine had to be very narrowly circumscribed with respect to motion pictures and generally should be applied cnly to the use of excerpts.

With respect to the staple article of commerce doctrine, I've explained, I believe, that it's nct really designed for the sale of things other than salt tablets and dry ice and things of that nature. Eut in addition to that, if we're going to analogize to the patent statute, the patent statute also has a section that says that when the seller cf an article, even a staple article, sells it with encouragement, urging or inducement cf some scrt that it be used in an infringing

way, and it is used in that way, then the seller cf that article cannot escape liability even though the article may be a staple and even if he can prove the separate and second test.

It has to be a staple and it has to be suitable for substantial non-infringing use. Even if he could prove those two things, if he sells it with inducement and encouragement that it be used in an infringing way then he'll be held liable.

And in this case the evidence shows beyond dispute, and the district court did not find otherwise, that Sony is selling this machine for the primary purpose cf recording copyrighted works off the air, including copyrighted works owned by the Respondents; and that the advertising and selling activities, as well as the instruction manuals, which give very detailed instructions as to how to record television programs off the air, exhort and contribute tc this copying.

In fact, in recognition of what this machine could and would do, Scny gave its advertising agency a written indemnity agreement against any liability for advertising Betamax because, in the words of the agreement, "our legal counsels were concerned about the risks of advertising a video recording product that can be used to record copyrighted material."

Now, given those facts, you don't ever have tc reach the staple article of commerce doctrine. And I might add that even if the Court were to try to avoid the fair use issue by reaching the contributory infringement issue here, we still have other theories of liability that weren't. addressed by the Ninth Circuit below on which we also hold the Petitioners responsible.

But even if the Court did reach the staple article doctrine here, Petitioners have the burden cf proving that the Petamax is available and suitable for substantial actual non-infringing uses, and the district court very pointedly refused to find on the evidence brought before the court by Petitioners that that was enough to allow the district court to find that Petamax was suitable for substantial and actual non-fringing use.

QUESTION: What do you have tc put on? What do your clients have to put on on your side of the case?

MR. KROFT: We have tc put on, Justice White, that Sony sold this product with knowledge or reason to know that it would be used in an infringing way, which we did through the admissions of Sony's executive; or in the alternative, that it was sold with the suggestion,

even by implication, that it be used in an infringing way, which again we did, through the advertisements, the brochures, and the instruction manuals.

QUESTICNi Well, what about-- do you think, assuming the staple article of commerce notion applies in the copyright field, do you think it's an affirmative defense?

MR. KROFT: Absolutely, Justice White.

QUESTICNs Is it in the patent field, or is it part of the plaintiff's case?

MR. KROFT& In the only case that I can think of where it was extensively discussed, which is the Fifth Circuit case of Fromberg versus Thornhill, although the court didn't discuss whose burden it was, the entire tenor of that whole decision was that the burden was on the defendant, that it was an affirmative defense.

QUESTICN; Well then, there isn't much authority, then, on who's got the burden in connection with the staple article of commerce notion. Just one case and that by inference?

MR. KROFTt That case by inference. Again, it lid not arise in the -- it hasn't arisen to my knowledge in the copyright field, and I believe -- and I'm not an expert on the patent statute in its entirety. But in

the cases I've seen, that's the one that comes to mind.

Petitioners only put cn evidence from a fern educational, sports and religious people that claimed that they owned their copyrights, and as we pointed cut in our brief we think that proof was deficient. Put even if you took the notion that all sports, educational and religious programming could be copied with impunity -- and that's not the record here, because we do have objections from other educational and religious copyright owners -- all that the Petitioners' survey shows is that the use of the Betamax is to copy -- it is used 9 rercent of the time to copy that kind of material, as opposed to 80 percent of the time to copy the type of entertainment programming owned by the Respondents and the amici that have come to this Court.

Based on those figures, the district court was entirely correct in ducking the substantial non-infringing use issue. Cn those numbers and on the evidence before the trial court, it never could have made a finding that Petamax was suitable, the off the air recording aspect was suitable, for substantial non-fringing use.

Thank you.

CHIEF JUSTICE BURGER: Very well.

Do you have anything further, Mr. Dunlaveyi

REBUTTAL ARGUMENT OF DEAN C. DUNLAVEY, ESQ.,

ON BEHALF CF PETITIONERS

MR. DUNLAVEY: Justice Marshall, when Mr. Croft says that he wants the manufacturer of Betamax to be enjoined, he could not be more serious. When we were town in the district court, the court was asking him at the time he had finished his case and before the defense started -- and I'm reading now. It says:

"You are not asking that Sony be enjoined from Eurthe r manufacture cf the Eetamax, cr are you?

And Mr. Kroft says: "Yes. I am."

To be sure there was no misunderstanding, a Little bit later the Judge said: "Let's get back to the relief you are actually seeking. You say, one, you want an order prohibiting Sony from manufacturing Betamax?"

And Mr. Krcft says: "That is where we start." Then he went on and he said: "We want to get all the Eetamaxes that have been out on the market and we want to recall them and disembowel them so that they can no longer record off the air."

And he's not kidding. He wants that relief, which I suppose is within the injunctive power of the :ourt, and/or he wants X250 per infringement every time a homeowner copies one of his programs. There's no manufacturer, in the world that can stand up to that kind

of relief.

Now, it would be nice if there were a way of distinguishing in free off the air television what programs are free for copying without objection and what programs are not. Eut for the moment there isn't. The VTR is inanimate. It can't tell.

The question of jamming is an interesting scientific theory, but that, as the district court said, requires the cooperation of the FCC and the broadcasters and the VTR manufacturers, and that is something that is wholly beyond Sony's power.

So the question really becomes, can the movie studios take the YTR out of the hands of the public, or, if we're going to look at the big picture, can they exact some kind of a royalty in another forum for the privilege of their use?

Remember that these movie studios have not contributed a thing to the genesis of television. Television had to get along in its earlier years without any help from the movie studios because they were afraid of it. They saw competition with the theaters and they weren't about to supply their product to it, and they didn't.

So television got started and. came a long way before the movie studios realized that it was a place

where they could exploit their product. And they get into it as a matter of profit, and they're still into it as a matter cf profit.

QUESTION: Well, you're not suggesting Sony isn't into it as a matter of profit?

(Laughter.)

MR. DUNLAVEY: I am not, and I'm not suggesting that the television receiver makers are net in it fcr profit. But when you're in it for profit you've get to yield to the public benefit. And I submit to you, Justice Rehnquist, that the chance for a man who works at night and has no opportunity to see prime time television when it's being broadcast live should not be foreclosed from seeing it the next morning if the technolcgy makes it possible for him to do sc.

I have to work during the daytime and quite often in the evening. Why should I be deprived of seeing scmething that's going on in the afternoon, perhaps a presidential address to the nation that takes place at 4:00 o'clock cut in California? Why can't ve see those?

QUESTION: Why shculdn't ycu pay for it?

MR. DUNLAVEY: Because the television audience is a free audience historically. The pay is being made. It's simply being made at the front end. The man

who makes the because is being paid, and he's being paid with the understanding that anybody who's got. the technology of receiving that broadcast has the right to do it. In fact, that's one of the things this Court has said in previous cases.

The prerecorded market that these people are benefiting so handsomely from does require an off the air capability in the product. These people make a video disc &layer which is a playback only type of device. It has never sold well because the public doesn't want it.

It's only when you combine the playback and the record capabilities together that you have something the public wants, and it's that device, made by the electronic industry, which is benefiting the movie studios so handsomely.

QUESTION: The only thing the public wants is copyrighted material?

MR. DUNLAVEYs May I ask you to repeat that, Justice Marshall?

QUESTION& Is your position that the only thing the public wants is copyrighted material? Is that your position

MR. DUNLAVEY: No, not, in the way you express it, Justice Marshall. It so happens that under the

copyright statute as it's now written anything that is broadcast either from a tape or recorded. onto a tape is automatically copyrighted in the first instance. Sc the public can't help it that the broadcast is subject tc copyright.

Later on comes the time when you have tc register it if you want to sue and, as we covered at the last argument, there's a lot of programming that is not registered because the people don't care enough to do it. lanifestly, that's a bill for free copying.

But it's not a question of the public wanting copyrighted material. It's just a fact that whatever goes to the public ever free off the air television now is technically copyrighted at the time of the broadcast.

We conclude this case just where we started it many years ago. The fact of the matter is that the VTR is only being used by people in the intended audience, for whom the movie studios have been adequately and handsomely paid once. I would submit to this Court, as I did to the district court, that there is no reacn in the world why a man who has to see Monday night football on Tuesday morning should have tc pay for the privilege.

If something is done that is improper with the

tape once it's made, the courts can deal with those improper instances, and they have. Taking a tape to FiJi, putting a tape in the theater -- these things have been encountered and stopped.

But to use it at home a short time after the broadcast, to see nothing more than your neighbor cr the rest of your family saw a few hours earlier for free, there is no reason in common sense why you should have to pay for that. The studios have been paid once. There is no reason why they should have to be paid twice.

Thank you.

CHIEF JUSTICE BURGER: Thank you, gentlemen.

The case is submitted.

(Whereupon, at 11:52 a.m., the case in the above-entitled matter was submitted.)

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