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Record labels cut deals with file-sharing companies

By Jefferson Graham, USA TODAY

The major record labels, which refused initially to deal with the emerging online song file-sharing technologies, have turned over a new leaf.

Shawn Fanning, who invented the original Napster in a dorm room in 1998, Thursday announced his new firm, Snocap, which offers record companies and independent artists a vehicle to make money from their music traded on so-called peer-to-peer (P2P) services. Universal Music, the world's largest record label, has signed on to use his technology, and Fanning says he's in advanced discussions with other labels.

Wayne Rosso, former CEO of file-trading service Grokster, is launching a P2P service in January, MashBoxx. Sony BMG Music Entertainment is reportedly making its music available to MashBoxx, which will use Snocap's technology.

Rosso wouldn't comment on the Sony BMG alliance, but did say, "For two years, I shot my mouth off about wanting to be licensed by the majors, and they wouldn't talk to me. Now they're seeking me out to set up meetings."

He chalks up the changed attitude to recent court losses for the industry — the labels' lost efforts to litigate Grokster and others out of business — and the continuing popularity of file-sharing.

Fanning says the original Napster soared not because the music was free, but because users for the first time had access to an unlimited array of music.

Apple's online iTunes store has more than 1 million songs, "which sounds like a lot, but it's about on par with the average record store," he says. "If we can legitimize the P2P market, and continue to have the broadest selection, there's no limit on how big this thing can be."

According to Internet measurement service BigChampagne, about 1.4 billion songs were available for unauthorized free trading in October, despite a wave of lawsuits against song swappers by the recording industry. Nearly 7,000 lawsuits have been filed since 2003.

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Fanning, 24, has devised a way to put major and independent label content onto file-sharing services, ensuring users high-quality digital music files. Tracking information prevents trading and routes payment to the labels. The songs are wrapped in Microsoft copyright protection and can't be transferred to Apple's popular iPod MP3 player without first transferring to a CD.

Rosso says songs on MashBoxx will be available free but on a limited basis. He says he's working on ways to turn listeners into customers. A song might play only a few times before requiring a listener to pay to own it, for instance.

Michael McGuire, research director for market-tracking firm GartnerG2, calls it "encouraging" that labels are embracing file-sharing after so many years of trying to litigate it out of business.

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