LOS ANGELES (Reuters) - The talent scout who turned down the Beatles has long been credited with committing the music industry's biggest gaffe.

But Dick Rowe's billion-dollar boo-boo has been beaten to the top spot on Blender magazine's list of the "20 biggest record company screw-ups of all time" by the failure of record companies to capitalize on the Internet.

The major labels took top dishonors for driving file-sharing service Napster out of business in 2001, instead of figuring out a way to make money from its tens of millions of users. The downloaders merely scattered to hundreds of other sites, and the industry has been in a tailspin ever since.

"The labels' campaign to stop their music from being acquired for free across the Internet has been like trying to cork a hurricane -- upward of a billion files are swapped every month on peer-to-peer networks," Blender said in the report, which appears in its newly published April issue.

Rowe came in at No. 2 for politely passing on the Beatles after the unpolished combo performed a disastrous audition in 1962. Beatles manager Brian Epstein later claimed the Decca Records executive had told him that "groups with guitars are on their way out," a comment that Rowe denied making. He went on to sign the Rolling Stones.

Motown Records founder Berry Gordy was No. 3, because he sold the money-losing home of the Supremes and Marvin Gaye for about $60 million in 1988. The sum was dwarfed the following year when A&M Records sold for about $500 million. And in 1990, David Geffen got about $700 million for Geffen Records. (Gordy did retain ownership of the lucrative Motown copyrights.)

Geffen Records grabbed two spots on the list: No. 11 for suing Neil Young in the 1980s because it did not like his uncommercial musical direction; and No. 12, for pumping a reported $13 million into a Guns N' Roses album that still has not seen the light of day.
after more than a decade of work.

Other hall of shamers included Columbia Records at No. 10, for dumping Alicia Keys and rapper 50 Cent before they became famous; and Warner Bros. Records at No. 13 for signing rock band R.E.M. to a money-losing $80 million contract in 1996.

(Reporting by Dean Goodman; editing by Belinda Goldsmith)