Deal May Raise Napster From Online Ashes

By AMY HARMON

Napster, the online music service that unleashed an era of music piracy before filing for bankruptcy last year, may be about to make a legitimate comeback.

The Universal Music Group and Sony Music Entertainment are close to a deal to sell Pressplay, their joint online music service, to the company that bought Napster's name and assets last November at a bankruptcy auction, people close to the negotiations said.

That company, Roxio, which is best known for its CD-recording software, would pay about $30 million, in cash and stock, for the Pressplay service under the terms of the proposed deal.

The value of such a deal would be harder to measure. Universal and Sony, which analysts say have each poured about $30 million into Pressplay, started the service three years ago in an effort to provide a legal alternative to the frenzy of unauthorized copying of digital music files that Napster pioneered.

The record industry still blames Napster for promoting a cultural acceptance of online piracy that record companies say is largely responsible for a prolonged decline in CD sales. Just last week Universal filed a lawsuit against Bertelsmann for investing in Napster and thus enabling it to stay afloat for longer than it might have done otherwise.
But the Roxio deal would highlight how difficult it has been for Universal and Sony to attract customers to a service that critics say is hampered by restrictions intended to thwart piracy. Analysts say the three-year-old Pressplay, which charges a monthly fee of at least $9.95 for access to an online music library, has garnered fewer than 50,000 subscribers. The restrictions include limits on how many copies a customer can make of the songs he or she buys and, in some cases, the inability to transfer the music to a portable device.

MusicNet, a similar online subscription service formed by the other three major record companies and RealNetworks Inc., has not fared much better.

Record industry lawsuits forced Napster to shut down in July 2001, but millions of people every day use slightly different services that succeeded Napster as a way to copy music files online without paying for them. A federal judge in Los Angeles ruled recently that two of the file-swapping networks that became popular post-Napster — Grokster and Morpheus — were not illegal.

Industry executives said the successful introduction of Apple Computer's less-restrictive online service earlier this month helped persuade Universal and Sony that they needed to take a significant step to appeal to more customers. Apple's service, which allows users to download songs and copy them to CD's and portable devices, sold more than two million tracks in its first two weeks.

Under the proposed deal, which could be announced as early as today, Universal and Sony would take an equity stake in Roxio. Roxio, would get access to more than 300,000 tracks from the music libraries of the major labels, and the Pressplay distribution system.

Roxio, which hired Shawn Fanning, the founder of Napster, as an adviser earlier this year, is expected to revamp the service with some of Napster's technology and capitalize on the extraordinary name-recognition the Napster brand still enjoys.

Executives at Universal, Sony, Roxio and Pressplay declined to comment.

"It's still clearly the most powerful name in online music," one person close to Roxio said of Napster, citing focus groups that showed a 98 percent awareness of Napster, compared with only about 12 percent for Pressplay.
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