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The Supreme Court's recent decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster* gives content owners an important new tool for combating copyright infringement. According to the authors, the court's broad language premising active inducement liability on "affirmative steps taken to foster infringement" can apply to many different types of conduct on the part of a secondary infringer. Despite the court's decision not to address the "substantial noninfringing use" test of the 1984 *Sony* decision, content owners now have active inducement as well as traditional theories of contributory and vicarious liability in their litigation arsenal in what amounts to a unified theory of secondary liability. The authors trace the patent law origins of these copyright doctrines and discuss case law developments before and after *Grokster*.

What's Left of Substantial Noninfringing Use After *Grokster*?

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In hindsight, it should have been no surprise that the Supreme Court looked to patent law in addressing secondary liability for copyright infringement in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster*, 125 S.Ct. 2764, 75 USPQ2d 1001 (2005) (70 PTCJ 258, 7/1/05). The court had previously looked to patent law, and even mentioned in passing the "active inducement" standard for secondary patent infringement liability, when it decided *Sony Corporation of America v. Universal City Studios Inc.*. See 464 U.S. 417, 435, 220 USPQ 665 (1984) (27 PTCJ 243, 259, 1/19/84). In *Sony*, the court borrowed the concept of "substantial nonin-

fringing use” from the secondary liability provisions of the Patent Act in fashioning a rule to address the unique problem presented by devices that do not themselves infringe copyright, but can be used to make infringing copies of copyrighted works.

Pre-Sony Secondary Liability in Copyright Law.

The plaintiffs in *Sony* sought to impose secondary liability on the manufacturer and distributor of the Sony Betamax video cassette recorder for unauthorized copying by users of the recorder. The court reviewed the handful of cases decided up to that point that dealt with secondary liability for copyright infringement, and found no precedent to reasonably apply to the facts in the case before it. Each of those cases involved distribution of an item that itself directly infringed an identifiable copyrighted work (e.g., distribution of an unauthorized film version of a book or distribution of bootleg records) or presentation of an infringing performance of a particular copyrighted work. Each of these cases also involved some kind of direct or ongoing relationship between the direct infringer and the alleged secondary infringer on which a finding of actual or constructive knowledge of the direct infringement was based. 464 U.S. 435-440 & n. 18.

The sale of the videocassette recorder in *Sony* involved neither of the elements present in the previous cases: the recorder was not itself an infringing item, nor was there direct involvement or a continuing relationship between the manufacturer of the device and the end user from which actual knowledge of infringement of a specific work could be inferred. See 464 U.S. at 438, where the court stated that the “only contact between Sony and the users of the Betamax . . . occurred at the moment of sale.”

The court in *Sony* compared Section 271 of the Patent Act that explicitly provides secondary liability for patent infringement, and concluded that the absence of a comparable explicit provision in the Copyright Act was not a bar to imposing such liability: “For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.” 464 U.S. at 435.

The court concluded that patent law provides an appropriate analogy for copyright law “because of the historic kinship” between the two fields. 464 U.S. at 439.

What Did Patent Law Have That Copyright Law Didn't?

In contrast to copyright law, what patent law had to offer was an explicit provision in the Patent Act dealing with secondary infringement liability arising from the manufacture and distribution of devices that do not themselves infringe, but have the potential to infringe when distributed to other parties. Consideration of such circumstances arose early in patent jurisprudence.

In 1872, in *Renwick v. Pond* [20 F. Cas. 536, No. 11,702 (C.C. S.D.N.Y. 1872)], the court commented that the distributor of a firearm that infringed the plaintiff's patent covering an improved cartridge-removal mechanism was liable for infringement even though he sold the firearm without a cartridge, because the firearm was “capable of being, and designed to be, used to effect the result of the patent by the means specified in its

claims,” and required only the addition of the cartridge by the end user. *Renwick* is an early entrant in the line of cases standing for the proposition that where a device is “good for nothing else” than an infringing use, then patent infringement liability attaches to its sale to end users even though they must supply an additional component in order to operate the device in an infringing manner.

Patent jurisprudence subsequent to *Renwick v. Pond* abounds with cases in which it was alleged that a party infringed another's patent by supplying an article that was not technically covered by the patent, but was capable of being combined with another article or device so as to be infringing. The Federal Circuit in *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 15 USPQ2d 1525 (Fed. Cir. 1990) (40 PTCJ 305, 8/9/90), referred to such situations as the most common kind of contributory infringement case prior to the adoption of the Patent Act of 1952.

Codification of Secondary Patent Infringement Liability.

Principles of liability for both direct and secondary patent infringement that were developed in case law were codified in Section 271 of the Patent Act of 1952. Direct infringement was addressed in Section 271(a), while secondary liability was covered in two separate subsections. Section 271(b) (discussed further below) broadly defines “active inducement” of patent infringement, providing that anyone who “actively induces infringement of a patent shall be liable as an infringer.”

Section 271(c) deals with the specific kind of contributory liability addressed in *Renwick v. Pond*; it provides that a party who manufactures or sells a component that constitutes “a material part” of a patented invention may be liable for contributory infringement if two conditions are met. One of those conditions is stated in the negative, the other is stated affirmatively: a party may be a contributory infringer if the component is “not a staple article or commodity of commerce suitable for substantial noninfringing use” (the negative condition), and the party *has knowledge* that the component constitutes a material part of a patented invention is “especially made or especially adapted for use in an infringement of such patent” (the positive condition).

The Sony Rule.

In fashioning a rule of decision in *Sony*, the Supreme Court imported the negative condition of Section 271(c). Distributing an article that does not itself infringe, but that can be used for copying protected works, does not result in liability for contributory infringement, the court ruled in *Sony*, “if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.” 464 U.S. at 442. Because the court concluded that the primary use of the Betamax video cassette recorder was “time-shifting” (home recording of television programs for later viewing), and because it further found that time-shifting was a fair use, the court concluded that the distributor of the recorder was not a secondary infringer under the “substantial noninfringing use” test.

It is important to note what the court in *Sony* did not decide. The consequence of the court's ruling on substantial noninfringing use as applied to the video cas-

sette recorder is that *Sony* applied only one of the two requirements for contributory liability in Section 271(c) of the Patent Act.

The court did not deal with the second requirement for contributory liability under Section 271(c): a finding of knowledge that a component is “especially made or especially adapted for use in an infringement of” a particular patented invention. Thus, the court never discussed what the equivalent requirement for contributory liability would be in a copyright infringement case, including the type of knowledge that a plaintiff alleging contributory copyright infringement would have to show if a product or device failed the substantial noninfringing use test.

The court in *Sony* also did not discuss how substantial noninfringing use analysis should be incorporated into the existing scheme of secondary liability for copyright infringement as a whole. In particular, the court in *Sony* did not address whether a finding that a device or product was capable of substantial noninfringing use would completely insulate the manufacturer or distributor from secondary liability for copyright infringement in all cases. Of course, this is the issue that the Supreme Court ultimately confronted in *Grokster*.

Is Patent Law a Good Source of Law in Copyright Infringement Cases?

Unlike *Grokster*, the ruling in *Sony* was not unanimous. The majority’s view in *Sony* concerning the “historic kinship” between copyright law and patent law did not pass muster with four of the Justices. Writing for the dissenters, Justice Blackmun opined that patent and copyright law “have not developed in parallel fashion,” and he saw weaknesses in the substantial noninfringing use test when applied to copyright infringement.

Noting that the court concluded that the home copying of television programs for “time-shifting” was not infringing (an issue on which the dissenters strongly disagreed with the majority), he pointed out that the court therefore never addressed the issue of *how much* noninfringing use a manufacturer would have to show to avoid liability. 464 U.S. at 498.

Justice Blackmun also declared in the dissenting opinion in *Sony* that adopting a test under which a manufacturer is not secondarily liable for distributing a product that is “capable of substantial noninfringing uses . . . essentially eviscerates the concept of contributory infringement.” 464 U.S. at 498. He predicted that “[o]nly the most unimaginative manufacturer would be unable to demonstrate that an image-duplicating product is ‘capable’ of substantial noninfringing uses.” *Id.*

Experience arguably has validated Justice Blackmun’s observations about the weaknesses of the substantial noninfringing use test and its effect on secondary liability for copyright infringement. Twenty years after *Sony*, the parties and the numerous amici in *Grokster* would spill barrels of ink arguing about how much noninfringing use would qualify as “substantial,” how to measure noninfringing use, and when in a product life cycle the amount of noninfringing use should be measured. These issues remain unresolved even after the decision in *Grokster*, as evidenced by the debate in the concurring opinions of Justice Breyer and Justice Ginsburg. See 125 S. Ct. at 2787-2796 (Justice Breyer, concurring) and *id.* at 2783-2787 (Justice Ginsburg, concurring).

Regarding Justice Blackmun’s comment concerning the ease of showing substantial noninfringing uses, there are only a handful of reported decisions subsequent to the Supreme Court decision in *Sony* in which a court found that a product or device did not have substantial noninfringing uses. For example, in *A&M Records Inc. v. General Audio Video Cassettes Inc.*, 948 F. Supp. 1449 (C.D. Cal. 1996), the court found that “the *Sony* doctrine” did not apply to the sale of specially-manufactured blank audio cassettes (“time-loaded audio cassettes”) that were produced in non-standard, specific lengths in order to be used for copying particular copyrighted works of the plaintiffs.

The manufacturer was found contributorily liable because he manufactured the cassettes for a party that he knew was using them to make counterfeit copies. The court distinguished the sale of blank, standard-length cassette tapes, which the court concluded were protected by the “staple article of commerce” rule of *Sony*. See also *Atari Inc. v. JS&A Group Inc.*, 97 F. Supp. 5 (N.D. Ill. 1983), in which the court found that a device designed to copy the proprietary video game cartridges of a particular company had no substantial noninfringing uses, and held that the distributor of the device, who advertised it for use in copying those video game cartridges, was a contributory infringer.

These cases parallel the contributory infringement model of Section 271(c) of the Patent Act that imposes contributory liability where there is an absence of substantial noninfringing uses and knowledge that a product is especially made or adapted for use in infringing a particular patent. These pre-*Grokster* cases also suggest the relative rarity of a set of facts in which a product fails the *Sony* test. See also *In Re Aimster Copyright Litigation*, 334 F.3d 643, 67 USPQ2d 1233 (7th Cir. 2003) (66 PTCJ 285, 7/11/03) (finding no substantial noninfringing uses of the Aimster file-sharing technology where the defendant offered no evidence of any noninfringing uses).

Napster and Grokster.

Both of the Ninth Circuit opinions assessing file-sharing technology also demonstrate the difficulty of showing that a product or device does not have substantial noninfringing uses when viewed from the copyright perspective. In *A&M Records Inc. v. Napster*, 239 F.3d 1004, 57 USPQ2d 1729 (9th Cir. 2001) (61 PTCJ 364, 2/16/01), a panel of the Ninth Circuit Court of Appeals concluded that the defendants had shown that the Napster file-sharing system had “commercially significant” noninfringing uses when both present and potential future uses were considered, even though the evidence showed massive amounts of infringing copying. See 239 F.3d at 1021.

Similarly, a different panel of the Ninth Circuit in *Grokster*, relying on *Napster*, concluded that the peer-to-peer file-sharing software at issue was “capable of substantial noninfringing uses,” despite the fact that “the vast majority” of the files exchanged on the file-sharing network were unauthorized and infringing. See 380 F.3d 1154 (9th Cir. 2004) (68 PTCJ 482, 8/27/04).

Having concluded that the Napster system met the substantial noninfringing use test, the panel in *Napster* concluded that the *Sony* analysis was irrelevant in light of the Napster system operator’s “actual, specific knowledge of direct infringement.” 239 F.3d at 1020. The continuing relationship between the operator and

the direct infringers by virtue of the system's centralized server architecture, coupled with the notice of specific infringing files given by the industry plaintiffs, allowed the court in *Napster* to find secondary liability based on the classic principles of contributory and vicarious infringement that the Court in *Sony* found inapplicable to the sale of the videocassette recorder. In other words, the Napster technology presented a situation that was less like the fungible retail product in *Sony*, where the relationship between the distributor of the device and the end user ended at the retail sales counter, and more like the pre-*Sony* cases involving secondary liability in which there was a continuing relationship between the secondary infringer and the direct infringer.

The defendants in *Grokster* notoriously sought to engineer around the result in *Napster* by designing their file-sharing software in a way that would insulate them from the kind of actual knowledge and continuing relationship that the court found present in *Napster*. The panel in the Ninth Circuit in *Grokster* accepted this approach. Also applying classic principles of contributory and vicarious infringement, the court came to the opposite conclusion from the panel in *Napster*, however, concluding among other things that the defendants lacked sufficient knowledge of specific acts of infringement to find secondary liability.

When the Supreme Court agreed to hear the plaintiffs' appeal in *Grokster*, it appeared that the Court would at last address at least some of the questions concerning the application of the substantial noninfringing use case that had been left open in *Sony*. Instead, the Court once again avoided those issues, and returned to patent law in fashioning a rule of decision.

Active Inducement in Patent Law.

As noted above, Section 271(c) of the Patent Act codifies the most common kind of contributory liability for patent infringement, but it is not the only kind of secondary liability for patent infringement. Section 271(b) provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." Section 271(b) defines the larger and overarching category of liability. Thus, even a party that sells a product that has substantial noninfringing uses and thus is not liable for contributory infringement under § 271(c) may still be liable for actively inducing infringement under Section 271(b). See 125 S.Ct. at 2779 n. 10 and Chisum on Patents Section 17.04[3] (Matthew Bender 2005).

A wide range of conduct is encompassed by Section 271(c). One federal appeals court commented that inducement of infringement liability is "as broad as the range of actions by which one in fact causes, or urges, or encourages, or aids another to infringe a patent." *Fromberg Inc. v. Thornhill*, 315 F.2d 407, 411, 137 USPQ 84, 87 (5th Cir. 1963). The catalog of acts that may constitute inducement includes licensing accompanied by instructions, plans or other enabling of the infringement; providing repair and maintenance services; and design of an infringing article. See Chisum on Patents, supra, Section 17.04. Acts of inducement may also include advertising the infringing use, demonstrating a willingness to aid others in undertaking the infringing use, and demonstrations of the infringing use. *Id.* at Section 17.04[f].

Cases construing Section 271(b) have imported into the statutory language a requirements that the acts of

inducements be undertaken with intent, Chisum on Patents, supra, at Section 17.04[2], but at the moment, panel opinions in the Federal Circuit reflect a division of views on "whether the required intent must be merely to induce the specific acts or additionally to cause an infringement." *Instituform Technologies Inc. v. Cat Contracting Inc.*, 385 F.3d 1360, 1378, 72 USPQ2d 1870 (Fed. Cir. 2004) (68 PTCJ 657, 10/15/04).

Active Inducement in *Grokster*.

In light of the body of patent law finding secondary liability for acts involving advertising, supporting and demonstrating an infringing use, and given the manner in which the *Grokster* and *Morpheus* file-sharing systems were advertised and promoted by the defendants, it was perhaps predictable that the U.S. Supreme Court in *Grokster* would go back to patent law for support in finding liability. Looking for a new rule of decision also makes sense in light of the difficult questions the case presents concerning the substantial noninfringing use test. The conflicts expressed in the concurring opinions are evidence of that difficulty.

The court formulated the new active inducement standard for copyright infringement liability, stating that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." 125 S.Ct. at 2780. The court emphasized that "purposeful, culpable expression and conduct" is required. Mere knowledge of infringing uses is not enough, the court concluded. The defendant must act with the specific intent of inducing infringement by third parties. Regardless of the confusion that may exist in the Federal Circuit over the standard for active inducement in patent infringement cases, *Grokster* appears to set a high standard for parties who seek to establish active inducement liability in copyright infringement cases.

The Substantial Noninfringing Use Test After *Grokster*.

The Supreme Court ruled that the Ninth Circuit in *Grokster* misapplied the *Sony* rule, but not because it came to an erroneous conclusion on whether the *Grokster* software had substantial noninfringing uses. Rather, the court faulted the Ninth Circuit for interpreting *Sony* "to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it . . . even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product. . . ."

The court in *Grokster* left reconsideration of *Sony* "for another day." That leaves a substantial amount of confusion on just how the *Sony* test should be applied until that day arrives. Justice Breyer, joined by Justices Stevens (the author of the majority opinion in *Sony*) and Justice O'Connor, argued that the lower court in *Grokster* was correct in finding that the substantial noninfringing use test was met in *Grokster*, and expressed the view that a product should be found to meet the *Sony* standard unless it "will be used almost exclusively to infringe copyrights."

Justice Ginsburg, joined by the late Chief Justice Rehnquist and Justice Kennedy, argued equally strongly that in the face of the overwhelming evidence of copy-

right infringement, the defendants should have been required to “demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time” in order to survive a motion for summary judgment.

There is a lot of room between these two opposing positions, each of which captured an equal number of justices.

There also appears to be disagreement in the circuit court opinions that address substantial noninfringing use. The Ninth Circuit in *Napster* concluded that the defendant’s actual knowledge of specific infringing uses rendered the relative proportions of infringing and noninfringing uses irrelevant. That decision has never been overruled, and therefore would appear to still be good law, at least in the Ninth Circuit.

The Seventh Circuit opinion in *In re Aimster Copyright Litigation*, also has not been overruled. In *Aimster*, the Seventh Circuit panel criticized the Ninth Circuit’s *Napster* opinion for its focus on knowledge of infringing uses as the sole factor in determining whether a new technology is protected by the *Sony* rule. In *Aimster*, the Seventh Circuit articulated a number of principles applicable to determining substantial noninfringing use, but never applied them because the defendant failed to show any noninfringing use whatsoever. In an opinion issued just a few weeks after *Grokster* was decided, however, a district court in the Seventh Circuit applied *Aimster* in determining whether a font software product that was capable of being used in an infringing manner satisfied the *Sony* test.

In *Monotype Imaging Inc. v. Bitstream Inc.*, 376 F. Supp. 2d 877 (N.D. Ill. 2005) (see story in this issue), the court derived three factors from the *Aimster* opinion for evaluating whether a technology falls within the *Sony* safe harbor: “(1) the respective magnitudes of infringing and noninfringing uses; (2) whether the defendant encouraged the infringing uses; and (3) efforts made by the defendant to eliminate or reduce infringing uses.” The program was found to pass this version of the *Sony* test, primarily because the court found that the noninfringing use of the software “vastly outweighs any potential infringing uses.” The court also found no liability under a *Grokster* inducement theory, finding no evidence that the defendants marketed or distributed the software with the intent to induce infringement of the plaintiffs’ works.

Conclusion.

Despite the confusion that remains concerning the *Sony* test, the *Grokster* decision gives content owners an important new tool for combating infringement.

Although the court appears to set a high standard for showing intent, the phrase “affirmative steps taken to foster infringement” is broad language that it can apply to many different types of conduct on the part of a secondary infringer. Active inducement doesn’t displace existing theories of contributory and vicarious liability, it augments them, and arguably even unites them into a “unified field theory” of secondary liability, re-focusing secondary liability analysis on the conduct of the alleged secondary infringer.