

04-480

IN THE
Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., *et al.*,

Petitioners,

v.

GROKSTER, LTD., *et al.*,

Respondents.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

**AMICUS CURIAE BRIEF OF THE
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
IN SUPPORT OF VACATUR AND REMAND**

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***AMICUS CURIAE* BRIEF OF THE
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
IN SUPPORT OF VACATUR AND REMAND**

The American Intellectual Property Law Association (“the AIPLA”) respectfully submits this brief as *amicus curiae* in support of vacatur and remand.

INTEREST OF *AMICUS CURIAE*

The AIPLA is a national bar association of more than 16,000 members with interests and practices primarily in the areas of patent, trademark, copyright, and trade secret law. Unlike areas of practice in which separate and distinct plaintiffs’ and defendants’ bars exist, most intellectual property lawyers represent both intellectual property owners and alleged infringers.

The AIPLA has no interest in any party to this litigation or stake in the outcome in this case, other than its interest in seeking a correct interpretation and application of the copyright laws.

In accordance with Supreme Court Rule 37.3(a), the AIPLA has obtained written consent to the filing of this brief from the counsel of record for the parties. The letters of consent have been filed with the Clerk of the Court.¹

¹ In accordance with Supreme Court Rule 37.6, *amicus curiae* states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* or its counsel.

SUMMARY OF ARGUMENT

The concept of secondary liability is well recognized in virtually all areas of the law. Although the Copyright Act does not explicitly provide that one party can be held liable for the infringement committed by another, the federal courts have imposed secondary liability for copyright infringement under two theories, “contributory infringement” and “vicarious liability.”

AIPLA respectfully requests that this Court recognize that “contributory infringement” in copyright law includes “active inducement,” much as that concept is known in patent law, and that a showing of “substantial noninfringing uses” is not a defense to “active inducement.” AIPLA further requests that this Court remand the case for a determination as to whether “active inducement” can be established.

As in other areas of the law, secondary liability in copyright law must take into account and carefully balance strongly competing interests. That is particularly true when secondary copyright liability is premised on activities related to the distribution of a new product. Indeed, in those circumstances, there is a confluence of interests with many of those underlying patent law. On the one hand, the public benefits from a strong copyright system that promotes the creation and efficient protection of creative works by copyright owners. On the other hand, the public also benefits from new and better technology for accessing and distributing information, and from profitable business opportunities based on such new technology.

These competing interests are fully in play in the present case. Respondents seek to distribute innovative peer-to-peer

file sharing software that allows individual computer users on the internet to efficiently find and freely share information in their computer files with one another. This of course has the beneficial potential of allowing the public to share much useful information and of allowing willing copyright owners to distribute their creative works. But it also allows the individuals who use such software to engage in unrestricted and unauthorized reproduction and distribution of copyrighted works. Indeed, in this case there appears to be no real dispute that, at least at present, the software's "primary use" is the unauthorized copying and distribution of copyrighted music and motion pictures in violation of the rights of copyright owners.

In *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), the Court was faced with the competing interests noted above, and set forth a legal standard that attempted to appropriately balance them. The *Sony* Court confronted a claim of secondary liability, as this Court confronts now, against the distributor of a relatively new product (the Betamax video tape recorder) that could be (and was) used both for legitimate and for infringing purposes. The *Sony* Court also confronted an allegation, as this Court confronts now, that the "primary use" for the product at issue was copyright infringement. *Id.* at 427-28; *id.* at 493 (Blackmun, J., dissenting).

In that context—and recognizing that the predication of contributory copyright liability on the sale of a new product implicated many of the same policies underlying the patent law—the *Sony* Court looked to patent law for an appropriate legal standard. *Id.* at 440-41. The Court adopted a rule that there could be no secondary copyright liability for the mere sale of a product if the product was "capable of substantial noninfringing uses." *Id.* at 442.

Unlike this case, in which the software’s “primary use” is currently copyright infringement, the Court in *Sony* ultimately determined that the “primary use” for the product at issue was not in fact copyright infringement but instead was a “fair use.” As such, the Court was not required to (and expressly declined to) go further in terms of grappling with the full meaning of the phrase “capable of substantial noninfringing uses.” *Id.* at 442. Thus, this case potentially presents questions not required to be reached in *Sony*, namely: (1) does *Sony*’s “capable of substantial noninfringing uses” standard still apply even when the “primary use” of the product at issue is copyright infringement? if so, (2) what does it mean to be “capable of *substantial* noninfringing uses”? and (3) are there circumstances under which there should be secondary liability for the distributor of a product even when that product is “capable of substantial noninfringing uses”?

AIPLA’s argument focuses on the third question because AIPLA believes that it may lead to the most balanced and harmonized answer to this case.²

² AIPLA offers only abbreviated answers to the first two questions. Although the first question is a close one, AIPLA believes that the standard adopted in *Sony* strikes an appropriate balance, and there are no compelling reasons to depart from that precedent. Thus, the balance struck in *Sony* is also reflected in AIPLA’s answer to the third question.

On the second question, AIPLA recognizes that the Ninth and Seventh Circuits have apparently differed. *Compare Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1160-61 (9th Cir. 2004) (rejecting argument that the amount of noninfringing use was relevant: “[I]n order for limitations imposed by *Sony* to apply, a product need only be *capable* of substantial noninfringing uses.”) with *In re Aimster Copyright Litigation*, 334 F.3d 643, 651-53 (7th Cir. 2003) (rejecting argument that physical possibility of noninfringing uses were relevant

Just as the patent law provided an answer to the first question in *Sony*, patent law also provides an answer to the third question in this case. The patent law, from which *Sony* derived its standard, demonstrates that a showing of “substantial noninfringing uses” (recited in 35 U.S.C. § 271(c)) is not a defense when there is “active inducement” (codified in 35 U.S.C. § 271(b)). A defendant is liable for active inducement when (1) the defendant takes actions which induce (*i.e.*, encourage) acts by another which constitute infringement; (2) the defendant has notice of the infringing nature of those acts; and (3) the defendant has an “intent to cause the acts which constitute the infringement.” *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990). It is no defense to “active inducement” that the infringing acts were undertaken with a product “capable of substantial noninfringing uses.”

Not only does patent law demonstrate that a showing of “substantial noninfringing uses” is not a complete defense to secondary liability, it also substantiates the idea that “active inducement” is a form of “contributory infringement.” As the

because there was no evidence that potential noninfringing uses had been the subject of *actual* use).

In response, AIPLA observes that the *Sony* standard refers to noninfringing uses (1) of which the product is “capable” and (2) which are “substantial.” Thus, a “potential” noninfringing use (suggested by the nature of the product but for which there is no evidence of actual use) is not necessarily deficient, but at the same time, a noninfringing use that is merely a physical possibility may not be sufficient. This observation is consistent with the patent law from which the *Sony* standard was derived, which demonstrates that a use is not a “substantial” one if it is “farfetched, illusory, impractical, or merely experimental.” CHISUM ON PATENTS § 17.03[3] n.8 (2004) (collecting cases).

late Judge Giles Rich explained, both theories of secondary patent liability were once included in the case law under the single label of “contributory infringement.” *Hewlett-Packard*, 909 F.2d at 1469. It was not until the 1952 Patent Act that they were separated.

Thus, AIPLA urges the Court to recognize that the doctrine of “contributory infringement” in copyright law includes liability for “active inducement,” much as the pre-1952 patent case law doctrine of “contributory infringement” included liability for “active inducement.” Under this theory of liability, even a distributor of a product that is “capable of substantial noninfringing uses” can be secondarily liable for infringing acts of the users of the product.

This theory of liability is fully consistent with *Sony*. Significantly, the *Sony* Court noted that the plaintiff’s theory of secondary liability was premised on the defendant’s mere sale of the product (coupled with the defendant’s awareness that some of its customers would use the product to make unauthorized copies of copyrighted material). *Id.* at 439, 440. The *Sony* Court made a point of observing that there was no evidence that any of the defendant’s other activities, such as advertising, had led to direct infringement by its customers. *Id.* at 438. The Court also distinguished the situation in which a defendant “suppl[ies] its products to identified individuals known by it to be engaging in continuing infringement” or otherwise “intentionally induc[es]” its customers to make infringing uses of its product. *Id.* at 439 n.19.

Recognition that “active inducement” is part of the law of contributory infringement strikes an appropriate balance among the interests described above; indeed it strikes the same balance

as was struck in *Sony*. As made clear by the history of the patent law from which the *Sony* standard was derived, a showing that a product had no “substantial noninfringing uses” resulted in a presumption that its distributor had an *intent* to cause the infringing uses. *Hewlett-Packard*, 909 F.2d at 1469. Thus, limiting liability to situations in which a product is not “capable of substantial noninfringing uses” is presumptively the same as imposing a requirement that the distributor of the product have an intent to cause the acts which constitute the infringement. There is no reason to allow secondary liability when intent can be presumed but to withhold it when it can be separately proven.

The Ninth Circuit misapprehended the full range of circumstances in which a party can be held liable for “contributory infringement” because it did not appreciate the full breadth of the theory of “active inducement” that remains after *Sony*. Accordingly, even if the district court was correct in granting summary judgment that Respondents’ products are “capable of substantial noninfringing uses,” the judgment should be vacated and the case remanded for a determination as to whether Respondents are liable for “active inducement.”³

³ AIPLA offers no conclusion as to whether Respondents are liable under the separate copyright doctrine of “vicarious liability,” but it does offer some passing observations on that topic. Because “vicarious liability” in this case, like “contributory infringement,” would be predicated largely on the distribution of a product, there is the same confluence of underlying interests with patent law as were identified in *Sony*. Indeed, the *Sony* Court expressly stated that its analysis of secondary liability “necessarily entail[ed] consideration of arguments and case law” not only relevant to “contributory infringement” but also to theories “under . . . other labels,” including vicarious liability. *Sony*, 464 U.S. at 435 n.17. It only makes sense that if the mere sale of the product in *Sony* could not give rise to “contributory infringement,” it also could

ARGUMENT

I. The Ninth Circuit Failed To Recognize That “Contributory Infringement” After *Sony* Properly Includes “Active Inducement” And Thus Too Narrowly Identified The Circumstances Under Which *Sony* Allows For “Contributory Infringement” When There Has Been A Showing of “Substantial Noninfringing Uses”

The Ninth Circuit misapprehended the full range of circumstances in which a party should be held liable for “contributory infringement.” Although the Ninth Circuit properly recognized that *Sony* limits the circumstances under which a finding of “contributory infringement” can be made, it identified those circumstances too narrowly.

The proper limiting effect of the *Sony* rule is best understood by examining the patent law from which the rule was derived. Such an examination demonstrates that a defendant can be liable for “contributory infringement” even when its challenged actions are taken in connection with a product that is “capable of substantial noninfringing uses.” Specifically, there is liability for contributory copyright infringement when the defendant has engaged in “active inducement.”

not give rise to “vicarious liability.” For this reason, AIPLA urges caution in considering any argument that the right to supervise or control required for “vicarious liability” can be predicated on an ability to *modify* one’s product so as to obtain the requisite supervision or control. Such an argument must be reconciled with the fact that the same could have been said in *Sony*.

In this case, the Ninth Circuit stated that the requirements to establish contributory infringement were: “(1) direct infringement by a primary infringer, (2) knowledge of the infringement, and (3) material contribution to the infringement.” *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1160 (9th Cir. 2004). The Ninth Circuit then properly recognized that, despite the breadth of this formulation, the holding in *Sony* implicitly limited the circumstances in which contributory infringement can be found when liability is premised on the distribution of a product. *Id.* In attempting to identify those circumstances, however, the Ninth Circuit viewed *Sony* too restrictively.

The Ninth Circuit interpreted *Sony* “to apply to the knowledge element of contributory copyright infringement.” *Id.* It held that “if a defendant [can] show that its product [is] capable of substantial or commercially significant noninfringing uses, then constructive knowledge of the infringement [can] not be imputed.” *Id.*

Significantly, the Ninth Circuit properly concluded that a “substantial noninfringing use” is not a complete defense to contributory infringement. Nevertheless, the Ninth Circuit viewed the remaining circumstances under which contributory infringement could be found too narrowly. According to the Ninth Circuit, if a substantial noninfringing use was shown, “the copyright owner would be required to show that the defendant had reasonable knowledge of specific infringing [uses]” at a time when it contributed to those infringing uses. *Id.* at 1161.

The district court determined that there were no genuine issues as to whether Respondents’ software was “capable of

substantial noninfringing uses” and granted summary judgment for the defendants. 259 F.Supp.2d 1029, 1035-43 (C.D. Cal. 2003). The Ninth Circuit affirmed this determination. 380 F.3d at 1161-62. The Ninth Circuit dismissed the remainder of Petitioners’ contributory infringement claims by reasoning that the only “material contribution” by Respondents was the distribution of their software, and because Respondents had distributed their software to persons before gaining any “reasonable knowledge of specific infringing [uses]” by those persons, there could be no contributory infringement. *Id.* at 1162-63.

Both the district court and the Ninth Circuit failed to recognize, however, that “active inducement” is available as a theory of “contributory infringement” after *Sony*. As more fully discussed below, “active inducement” may be shown when a defendant takes actions which induce infringing acts, with notice of the infringing nature of those acts and with an intent to cause those acts. The Ninth Circuit did not allow for this theory of liability.

II. “Active Inducement” Is A Proper Basis For “Contributory Infringement” After *Sony*, Even When There Has Been A Showing of “Substantial Noninfringing Uses”

The proper limiting effect of the *Sony* rule is best understood by examining the patent law from which the rule was derived, as well as the text of *Sony* itself. Such an examination demonstrates that “contributory infringement” in copyright law after *Sony* includes “active inducement.”

Perhaps the most oft-cited formulation for the doctrine of “contributory infringement” in copyright law comes from the Second Circuit in *Gershwin Publishing Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971): “[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.” *See, e.g.*, NIMMER ON COPYRIGHT § 12.04[A][2][a] (2004) (quoting *Gershwin*). It should be noted that this formulation of “contributory infringement” includes both “inducing” and “materially contributing.” It also requires *knowledge* of the infringing activity, but does not expressly require *intent* that the activity occur.

It was on the basis of a formulation of “contributory infringement” such as that in *Gershwin* that the plaintiffs in *Sony* pressed their claim for contributory infringement. In their view, the defendant (Sony) had been put on notice (and therefore had the relevant level of knowledge) that users of its product (the Betamax video tape recorder) were engaging in copyright infringement, and the defendant “induce[d], cause[d], or materially contribute[d] to the infringing conduct” by continuing to sell its product to such users.

In response, the *Sony* Court adopted the rule from patent law that the mere sale of a product, when coupled with only general notice about the intentions of the product’s users, could not constitute contributory copyright infringement if the product was “capable of substantial noninfringing uses.” *Sony*, 464 U.S. at 442.

Significantly, the *Sony* Court distinguished its own facts from the situation in which a defendant “suppl[ies] its products

to identified individuals known by it to be engaging in continuing infringement” or otherwise “*intentionally* induc[es]” its customers to make infringing uses of its product. *Id.* at 439 n.19 (emphasis added). It also noted that there was no evidence that any of the defendant’s other activities, such as advertising, had led to direct infringement by its customers. *Id.* at 438.

The implication is that if such facts had been present, there could have been liability for inducement—active inducement. On the facts, however, active inducement could not be found because (1) knowledge of the uses to which Sony’s product would be put was too general, when coupled with the mere sale of a product with substantial noninfringing uses, to infer an intent to cause the uses that constituted the infringement and (2) there were no additional actions, such as advertising or instructions, from which to infer an intent to cause the uses that constituted the infringement.

It follows that, even after *Sony*, a defendant may be liable for “inducing” infringement if it (1) takes actions which induce (*i.e.*, facilitate or encourage) acts by another which constitute infringement (already recognized as a predicate for “contributory infringement” under the formulation in *Gershwin*); (2) has notice of the infringing nature of those acts (already required under any conventional formulation of “contributory infringement”); and (3) manifests an intent to cause those acts. Those are the very elements that define “active inducement.”

The fact that the *Sony* Court assumed knowledge on the part of the defendant demonstrates that the Ninth Circuit was incorrect in concluding that the *Sony* rule altered the “knowledge” requirement for contributory infringement.