

SONY CORPORATION OF AMERICA, et al., *Petitioners*, vs. UNIVERSAL CITY STUDIOS, INC. and WALT DISNEY PRODUCTIONS *Respondents*.

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

BRIEF OF NATIONAL RETAIL MERCHANTS ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF REVERSAL

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THE INTERESTS OF *AMICUS CURIAE*

NRMA is a non-profit, voluntary trade association whose over 3,500 corporate members operate more than 35,000 department, chain and specialty stores throughout the nation. Many of NRMA's members sell consumer electronic equipment, including VTRs and video tapes, and are therefore vitally interested in the issues raised by this case.

In fact, NRMA's members include three of the four retailer defendants -- Carter Hawley Hale Stores, Inc., Associated Dry Goods Corporation, and Federated Department Stores, Inc. -- held contributorily liable for alleged infringements committed by consumers using VTRs for noncommercial purposes. In addition, another member of NRMA, Sears, Roebuck and Co., has been named as a defendant in a similar copyright infringement case brought by Universal City Studios, Inc. after the Ninth Circuit rendered its opinion in this case. *Universal City Studios, Inc. v. RCA Corp. et al.*, No. 81-5723 FW (filed November 6, 1981, C.D. Cal.).

NRMA submits that the Court of Appeals erred in broadening the scope of the doctrine of contributory infringement, particularly with respect to the liability of sellers of goods which, because they are capable of many noninfringing uses, should be deemed staple articles of commerce. Accordingly, the mere sale of such staple articles of commerce as VTRs cannot, as a matter of law, constitute copyright infringement. Furthermore, the Court of Appeals failed to consider the nature of a retailer's activities with respect to goods such as VTRs. Retailers are merely the last step in the chain of distribution, the conduit for conveying the VTRs from the manufacturer or distributor to the consumers, and have no control over the design or features of the machines. Retailers should not be held contributorily liable in cases such as this one, in which the alleged infringement relates to the way in which VTRs are used by consumers in the privacy of their homes. NRMA therefore urges on behalf of its members that this Court reverse the decision of the Court of Appeals.

The National Retail Merchants Association ("NRMA") submits this brief as amicus curiae, pursuant to Supreme Court Rule 36.2, in support of the position of Sony Corporation, Sony Corporation of America, Carter Hawley Hale Stores Inc., Associated Dry Goods Corporation, Federated Department Stores, Inc., Henry's Camera Corporation, and Doyle Dane Bernbach Inc. (sometimes referred to collectively as "Sony") that this Court should reverse the opinion of the Court of Appeals for the Ninth Circuit in *Universal City Studios, Inc. v. Sony Corporation of America*, 659 F.2d 963 (9th Cir. 1981).

In NRMA's view, there are a number of grounds on which the decision of the Court of Appeals should be reversed. This brief will, however, focus solely on the Court of Appeals' erroneous holding that the petitioner retailers of Sony videotape recorders ("VTRs") -- machines which, as the District Court found below, are used for many unquestionably legitimate purposes -- were contributorily liable for the allegedly infringing activities of consumers. NRMA urges this Court to reverse the Court of Appeals and hold that it is inappropriate to find VTR sellers contributorily liable for copyright infringements under the circumstances of this case.

This brief is submitted with the written consent of all parties on file with the Clerk of this Court.

SUMMARY OF ARGUMENT

In extending the doctrine of contributory infringement to retail sellers of VTRs, the Court of Appeals committed reversible error because:

(1) it misapplied the applicable legal standards, including the analogous patent law principle, under which VTRs should be deemed staple articles of commerce because, as the District Court found, they are capable of and are actually being used for many noninfringing and legitimate purposes; and

(2) it erroneously expanded the doctrine of contributory infringement and ignored the factual findings of the District Court that the retailers (a) did not know and had no reason to know that their customers would infringe the copyrights in plaintiffs' works and (b) neither induced nor encouraged the allegedly unlawful copying.

ARGUMENT

I. THE DISTRICT COURT CORRECTLY CONCLUDED THAT VTRS ARE STAPLE ARTICLES OF COMMERCE CAPABLE OF SUBSTANTIAL NON-INFRINGING USES

In a well-reasoned decision, the District Court held that a consumer's recording for at home, noncommercial viewing at a later time was not copyright infringement and that, even if it were, the sellers of VTRs would not be liable for the infringement on a direct, vicarious, or contributory basis. *Universal City Studios, Inc. v. Sony Corporation of America*, 480 F. Supp. 429 (C.D. Cal. 1979). The District Court's holding was premised, at least in part, on its conclusion that VTRs are staple articles of commerce capable of many noninfringing uses.

The Court of Appeals reversed and held that the plaintiffs' copyrights in 32 works were infringed by consumers who used their VTRs to record the works for later viewing. The Court of Appeals also summarily held that the manufacturer, distributor, advertising agency and four retailers of Sony's Betamax brand VTR were contributorily liable for the

infringements. n1

n1 The Court of Appeals agreed with the District Court that the retailers' copying of portions of plaintiffs' works in order to demonstrate the capability of the VTRs was not a copyright infringement.

The Court of Appeals held that the patent law concept of "staple article of commerce" was inapplicable in a copyright infringement case and further found that, even if the doctrine were relevant, VTRs are not capable of substantial noninfringing uses.

We submit that the Court of Appeals is simply wrong, for the "staple article of commerce" concept embodies a principle clearly applicable here -- a manufacturer or seller should not be held contributorily liable for infringement if the goods are capable of substantial noninfringing uses. Thus, in patent law, liability can be assessed only if the defendant had knowledge that the use of the product would infringe a patent because the product was unsuitable for noninfringing uses.

Accordingly, in *Aro Manufacturing Co. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476 (1964), this Court found contributory patent infringement liability because the manufacturer of customized automobile convertible top replacement fabrics knew that its product was suitable for use only in certain automobile convertible tops which infringed a patent. A majority of the Court there stressed that a finding of contributory infringement was appropriate only if the contributory infringer knew that the intended use would infringe a particular patent. See *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

In *Henry v. A.B. Dick Company*, 224 U.S. 1, 48 (1912), overruled on other grounds, *Motion Picture Patents Co. v. Universal Films Manufacturing Corp.*, 243 U.S. 502 (1917), the Court explained the reasoning underlying the staple article of commerce principle:

[A] sale of an article which though adapted to an infringing use is also adapted to other and lawful uses is not enough to make the seller a contributory infringer. Such a rule would block the wheels of commerce. There must be an intent and purpose that the article sold will be so used. Such a presumption arises when the article so sold is only adapted to an infringing use.

For the same policy reasons, this principle should be applied in copyright cases. Whereas a patent confers a monopoly for a limited time on the manufacture, use or sale of patented equipment, a copyright gives an author the exclusive right to prevent the copying of a particular expression of an idea. Thus, if, as has been held, it would be an unwarranted broadening of the patent monopoly to hold a seller of an article that can be put to substantial noninfringing uses liable for patent infringement, so must it be an unwarranted extension of the copyright monopoly to declare that a seller of an article that can be used for many purposes other than illegal copying is liable for contributory infringement.

Moreover, the Court of Appeals misapplied the staple article of commerce standard in concluding that, even were the standard relevant, a VTR is not a staple article of commerce. The record below was replete with evidence showing the many uses to which VTRs can be put without any conceivable problem of copyright infringement -- such as recording and viewing uncopyrighted material, recording and viewing material as to which the copyright owner has consented, viewing home movies recorded on a video camera, and viewing prerecorded tapes of various works. n2

n2 See, e.g., R.T. 1742-3, 1769, 2300-1, 2328-9, 2436-7, 2442-8, 2481-7, 2511-6, 2540-52, 2564-87, 2593-2606, 2615-6, 2623-40, 2823-44, 2863-2902, 2912-23, 2929-39, 3007-18; Def. Exh. OT, PD, PE, PF, PG, PH, PI, PK.

Based on the record evidence, the District Court unequivocally found that "[t]he videotape recorder, like a tape recorder, is a staple item of commerce. Its uses are varied." *480 F. Supp. at 458*. The Court of Appeals summarily reversed this factual finding of the District Court. By substituting its views without finding the District Court's factual conclusions clearly erroneous, the Court of Appeals committed reversible error. As this Court recently made clear in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, *U.S. , 50 U.S.L.W. 4592 (1982)*, a court of appeals is not free to ignore a district court's findings of fact. As the District Court concluded, because VTRs are capable of many noninfringing uses, they are staple articles of commerce and sellers of VTRs should not be held liable for contributory infringement.

II. THE COURT OF APPEALS ERRONEOUSLY EXPANDED THE DOCTRINE OF CONTRIBUTORY INFRINGEMENT.

The Court of Appeals held the retailers contributorily liable for the infringing activities of consumers, even though the retailers merely sold VTRs capable of many legitimate, noninfringing uses. This holding is an unprecedented expansion of the doctrine of contributory infringement. The Court of Appeals and the District Court purported to apply the same legal standard, as both agreed that a "contributory infringer" is "one who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another." *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, *443 F.2d 1159, 1162 (2d Cir. 1971)* (footnote omitted).

Measuring the facts in this record against this standard, the District Court found that the VTR sellers were not contributory infringers. That court determined, as a factual matter, that the retailers had no knowledge of the infringing activity and that no evidence showed that they "in any way induced or caused to be made any of the copies at issue." *480 F. Supp. at 459*. The District Court further noted that the VTR sellers "have neither the right nor the ability to control Betamax purchasers' use of the machine in their homes." *Id. at 461*.

The Court of Appeals flatly ignored these factual findings and held, without evidentiary support, that the VTR sellers possessed the requisite knowledge. It summarily concluded that "there is no doubt that appellees have met the other requirements for contributory infringement -- inducing, causing, or materially contributing to the infringing conduct of another." *659 F.2d at 957-6*. Once again, by overturning the factual findings of the District Court without finding them clearly erroneous, the Court of Appeals committed reversible error. *Ives Laboratories, Inc.*, *supra*.

Moreover, the Court of Appeals also misconstrued the legal standards for contributory infringement, as developed by this Court and lower courts. The relevant cases demonstrate that a defendant can be held liable for contributory infringement only if he knew or should have known that the specific infringement was occurring and specifically caused or orchestrated the infringing activity.

The *Ives Laboratories* case is also instructive on this issue. Although the decision of the Court of Appeals was reversed on the narrow ground that it had wrongly set aside the findings of the trial court, this Court took the opportunity to reiterate the standard for contributory infringement under trademark law:

Thus, if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is

contributorily responsible for any harm done as a result of the deceit.

50 U.S.L.W. at 4595. While not deciding the issue, the Court stated that, absent direct or imputed knowledge of specific infringements, the manufacturers of "look-a-like" generic drugs would not be held contributorily liable for infringements druggists committed by improperly substituting the generic drug for a trademarked drug, even though some number of unlawful substitutions might be anticipated. Id., n.14. Thus, under the principle reiterated in *Ives Laboratories*, before a seller can be held liable for contributory trademark infringement, it must have induced the infringement or have reason to believe that the specific infringement will occur. This principle applies equally to copyright cases.

Thus, for instance, in *Kalem Co. v. Harper Brothers*, 222 U.S. 55 (1911), the defendant made a movie based on the copyrighted novel *Ben Hur* and sold the film to jobbers. It was found contributorily liable for the infringement that occurred when the movie was exhibited in theaters to which the jobbers had sold it, because the defendant obviously expected and intended that the specific infringing activity would occur.

Moreover, as further demonstrated in *Universal Pictures Co., Inc. v. Harold Lloyd Corp.*, 162 F.2d 354 (9th Cir. 1947), a contributory infringer must be directly linked to the infringing act and know of it before liability will arise. In that case, a scriptwriter was held liable, as a contributory infringer, for his participation in writing the screenplay for a movie which infringed plaintiff's copyright. The writer knew that the infringement would occur, as he had copied from the copyrighted work in writing the screenplay.

Similarly, in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159 (2d Cir. 1971), a company which managed concert artists and organized concerts was held contributorily liable for the infringements committed by the concert artists. Central to the finding of contributory infringement was the conclusion that the defendant helped to plan the concert programs and therefore knew the specific infringing works that would be performed.

Under the standards developed in these cases, a defendant will be held liable for contributory infringement if the factual circumstances demonstrate that he knew or had reason to know that the primary activity infringed plaintiff's copyrighted works and materially aided the infringing activity. Yet the record in this case contains no evidence showing that any of the VTR sellers intended or knew that consumers would use the VTRs to copy Universal's or Walt Disney's works, or encouraged copying of the plaintiffs' works.

Retailers have no control over or knowledge of the particular uses to which consumers put goods they have purchased and should not be held liable, merely because they sold goods which consumers in the privacy of their homes might conceivably use for infringing activities. Under the Court of Appeals' flawed reasoning, sellers of cameras, photocopying machines and typewriters would be exposed to liability for copyright infringements committed by users of these machines. This Court should seize this opportunity to restore reason to the doctrine of contributory infringement.

CONCLUSION

For the above reasons, NRMA respectfully urges this Court to reverse the decision of the Court of Appeals, which failed to give due weight to factual findings of the District Court and which misapplied the applicable legal standards.

Respectfully submitted,

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