

## USING OLD IDEAS TO CATCH NEW INFRINGERS: HOW COURTS SHOULD LOOK TO PATENT LAW TO APPLY LIABILITY FOR INDUCING INFRINGEMENT

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### I. INTRODUCTION

As of July 22, 2004, almost one billion illegal downloads occurred every month, and over ninety-seven percent of files shared over peer-to-peer networks were shared illegally.<sup>1</sup> On June 27, 2005, the United States Supreme Court created liability for inducing infringement of a copyright, a step many hope will help halt this Internet piracy.<sup>2</sup> Mass peer-to-peer file-sharing began with Napster, a network that enabled users to directly swap music files over the Internet.<sup>3</sup> As the number of Napster users increased, the network began to negatively impact record sales.<sup>4</sup> The music industry took action by filing suit against Napster, and the Ninth Circuit eventually held Napster liable for contributory and vicarious copyright infringement.<sup>5</sup> In June 2002, Napster filed for bankruptcy and, although the Napster name remains, the company that started peer-to-peer file-sharing no

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<sup>1</sup> See *Protecting Innovation and Art While Preventing Piracy: Hearings on S. 2560 Before the S. Judiciary Comm.*, 108th Cong. (2004) [hereinafter *Hearings*], available at [http://judiciary.senate.gov/testimony.cfm?id=1276&wit\\_id=3753](http://judiciary.senate.gov/testimony.cfm?id=1276&wit_id=3753) (testimony of Mr. Mitch Bainwol, Chairman and CEO of the Recording Industry Association of America); but see Glynn S. Lunney, Jr., *Fair Use and Market Failure: Sony Revisited*, 82 B.U. L. REV. 975, 1023–29 (2002) (discussing file-sharing as a fair use and therefore, not illegal).

<sup>2</sup> See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764, 2770 (2005).

<sup>3</sup> Michael W. Carroll, *Disruptive Technology and Common Law Lawmaking: A Brief Analysis of A&M Records, Inc. v. Napster, Inc.*, 9 VILL. SPORTS & ENT. L.J. 5, 12 (2002).

<sup>4</sup> *Id.* at 13; but see Felix Oberholzer-Gee & Koleman Strumpf, *The Effect of File Sharing on Record Sales: An Empirical Analysis 1* (Dec. 2004) (unpublished manuscript, [http://www.unc.edu/~cigar/papers/FileSharing\\_March2004.pdf](http://www.unc.edu/~cigar/papers/FileSharing_March2004.pdf)) (claiming that peer-to-peer file-sharing is having almost no effect on record sales).

<sup>5</sup> *A&M Records, Inc. v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1022, 1024 (9th Cir. 2001); see also *infra* notes 76–89 and accompanying text.

longer exists.<sup>6</sup> Shutting down Napster was a major victory for the entertainment industry, but, by that time, peer-to-peer file-sharing was prospering, and the music industry was already losing money.<sup>7</sup>

The Ninth Circuit established in *A&M Records, Inc. v Napster, Inc.*<sup>8</sup> that operators of peer-to-peer file-sharing networks could be held liable for copyright infringement<sup>9</sup> under theories of contributory and vicarious liability.<sup>10</sup> After the fall of Napster, other peer-to-peer file-sharing network operators tried to structure their networks in a way that they thought insulated them from liability.<sup>11</sup> This attempt appeared successful after the United States District Court for the Central District of California, in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*,<sup>12</sup> held that Grokster and StreamCast, which operated networks with less operator control over their respective users than Napster, could not be held liable as contributory or vicarious infringers.<sup>13</sup> The Ninth Circuit later affirmed the district court's decision in *Grokster*.<sup>14</sup> While waiting for the Supreme Court's decision on whether or not to grant certiorari in *Grokster*, and with the current doctrines of secondary copyright infringement seeming ineffective in combating the mass infringement that occurred daily across peer-to-peer networks, the entertainment industry sought a new remedy.<sup>15</sup>

At the urging of copyright owners,<sup>16</sup> several senators introduced the "Inducing Infringement of Copyright Act of 2004."<sup>17</sup> This bill

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<sup>6</sup> Chuck Squatriglia, *Napster History Sold for a Song: Scores Attend, Hundreds Log on to Bankruptcy Auction in Santa Clara*, S.F. CHRON., Dec. 12, 2002, at A25, available at <http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2002/12/12/BA71576.DTL>. The name Napster still exists because Roxio, a digital media company, bought it. *Id.*

<sup>7</sup> Carroll, *supra* note 3, at 13.

<sup>8</sup> *Napster II*, 239 F.3d 1004.

<sup>9</sup> A plaintiff alleging copyright infringement must establish two elements: "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* §13.01 (64th ed. 2004).

<sup>10</sup> *Napster II*, 239 F.3d at 1022, 1024; *see also infra* Part II.C.

<sup>11</sup> *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2003), *aff'd*, 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005); *see also infra* Part II.D (explaining that the structure of newer peer-to-peer technology prevents the company from maintaining control, which is a necessary component for finding liability).

<sup>12</sup> *Grokster I*, 259 F. Supp. 2d 1029.

<sup>13</sup> *Id.* at 1031.

<sup>14</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd. (Grokster II)*, 380 F.3d 1154, 1157 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

<sup>15</sup> *See infra* Part II.E (discussing the Inducing Infringement of Copyright Act of 2004, which could broaden secondary liability for copyright infringement).

<sup>16</sup> Marilyn Geewax, *Tech, Electronics Firms Fear Copyright Bill Could Target Them*, COX NEWS SERVICE, Sept. 29, 2004, available at LEXIS, News Library.

would have made it possible to hold anyone who induces the infringement of a copyright liable as an infringer.<sup>18</sup> The bill, based upon the section of the Patent Act<sup>19</sup> dealing with inducing infringement,<sup>20</sup> was specifically intended to prevent peer-to-peer file-sharing networks from profiting from infringement.<sup>21</sup> The session of Congress ended without any further action on the bill, and it was never reintroduced.<sup>22</sup> On June 27, 2005, the Supreme Court adopted the idea of applying the patent law concept of inducing infringement to copyright law when it published its opinion on *Metro-Goldwyn-Mayer Inc. v. Grokster, Ltd.*<sup>23</sup> A unanimous Court concluded that a distributor of a product that enables another party to infringe a copyright could be liable for the infringement of that copyright under the theory of inducing infringement.<sup>24</sup>

This Comment addresses the Supreme Court's decision in *Grokster* and how the lower courts should apply it. Part II of this Comment discusses the history of secondary liability in copyright law and how the legislature and judiciary have dealt with innovation. Part III focuses upon the concerns arising out of the Supreme Court's decision. Part IV examines how an interpretation of this decision in light of established principles in patent law ameliorate the concerns and apparent uncertainties caused by the decision.

## II. BACKGROUND

### A. *Copyright and Patent Law*

Federal copyright and patent laws are based on Article I, Section 8, Clause 8 of the United States Constitution.<sup>25</sup> Copyright law protects "original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly

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<sup>17</sup> S. 2560, 108th Cong. (2004).

<sup>18</sup> *Id.*

<sup>19</sup> Patent Act, 35 U.S.C. § 271(b)-(c) (2000).

<sup>20</sup> *Hearings*, *supra* note 1 (statement of Senator Patrick Leahy), available at [http://judiciary.senate.gov/testimony.cfm?id=1276&wit\\_id=2629](http://judiciary.senate.gov/testimony.cfm?id=1276&wit_id=2629).

<sup>21</sup> See David Kassabian, *Bill Proposed to Strengthen Copyright Laws*, DAILY TEXAN, Aug. 2, 2004, available at LEXIS, News Library, University Wire File.

<sup>22</sup> Art Brodsky, *Induce Act Blog*, <http://techlawadvisor.com/induce/2004/10/induce-dead.html> (Oct. 7, 2004).

<sup>23</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764 (2005).

<sup>24</sup> *Id.* at 2780.

<sup>25</sup> U.S. CONST. art. 1, § 8, cl. 8.

or with the aid of a machine or device.”<sup>26</sup> Patent law protects “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof,”<sup>27</sup> for which a patent has been issued.

i. Direct Infringement

Both copyright and patent law provide protection to owners from infringement by others. A copyright is directly infringed when another party violates any of the copyright owner’s exclusive rights to reproduce, prepare a derivative work, distribute copies, display publicly, perform publicly, or perform publicly by means of a digital audio transmission.<sup>28</sup> Direct infringement of a patent occurs when “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor.”<sup>29</sup> Both copyright owners and patent owners can protect themselves by suing the alleged infringer;<sup>30</sup> however, patent cases may only be appealed in the Court of Appeals for the Federal Circuit,<sup>31</sup> whereas copyright cases can be appealed in any circuit.<sup>32</sup>

ii. Secondary Liability for Infringement

Prior to *Grokster*, two forms of secondary liability for infringement existed in copyright law: vicarious liability and contributory li-

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<sup>26</sup> 17 U.S.C. § 102(a) (2000).

<sup>27</sup> 35 U.S.C. § 101 (2000).

<sup>28</sup> 17 U.S.C. § 106 (2000).

<sup>29</sup> 35 U.S.C. § 271(a) (2000).

<sup>30</sup> DONALD S. CHISUM, CHISUM ON PATENTS § 20.01 (101st ed. 2005); NIMMER & NIMMER, *supra* note 9, at § 12.02.

<sup>31</sup> 28 U.S.C. § 1295(a)(1) (2000).

The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction . . . of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title.

*Id.*

28 U.S.C. § 1338(a) (2000) states: “The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.”

<sup>32</sup> 28 U.S.C. § 1295(a)(1) (2000).

ability.<sup>33</sup> Although the Copyright Act<sup>34</sup> is quite extensive, there are no statutory provisions that relate to secondary liability.<sup>35</sup> While vicarious and contributory liability are different forms of secondary liability, both require a finding of direct infringement by a third party.<sup>36</sup>

Vicarious liability is a creature of the common law, derived from the principles of respondeat superior.<sup>37</sup> The Second Circuit first applied the current concept of vicarious liability in *Shapiro, Bernstein & Co., Inc. v. H.L. Green Co., Inc.*,<sup>38</sup> as a means of holding the owner of a chain of department stores liable for the sale of counterfeit records by a concessionaire.<sup>39</sup> The Second Circuit reiterated the test established in *Shapiro*, in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*,<sup>40</sup> holding that an individual is vicariously liable for copyright infringement by a third party “if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”<sup>41</sup> Every circuit has adopted this test as a means of determining when a party can be held vicariously liable.<sup>42</sup>

The other means of allocating secondary liability for infringement of copyrights is contributory liability.<sup>43</sup> Contributory liability,

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<sup>33</sup> NIMMER & NIMMER, *supra* note 9, §12.04[A].

<sup>34</sup> 17 U.S.C. §§ 101–1332 (2000).

<sup>35</sup> NIMMER & NIMMER, *supra* note 9, §12.04[A].

<sup>36</sup> *Id.* § 12.04[A][3][a].

<sup>37</sup> See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261–62 (9th Cir. 1996). In *Fonovisa*, the court imposed secondary liability against the owners of a swap meet for the infringements of both copyrights and trademarks. *Id.* at 260. The case provides a clear example of the applications of both vicarious and contributory liabilities. *Id.* at 261. Respondeat superior is defined as “[t]he doctrine holding an employer or principal liable for the employee’s or agent’s wrongful acts committed within the scope of the employment or agency.” BLACK’S LAW DICTIONARY 1338 (8th ed. 2004).

<sup>38</sup> 316 F.2d 304 (2d Cir. 1963).

<sup>39</sup> *Id.* at 305.

<sup>40</sup> 443 F.2d 1159 (2d Cir. 1971).

<sup>41</sup> *Id.* at 1162.

<sup>42</sup> See, e.g., *Gordon v. Nextel Commc’ns*, 345 F.3d 922, 925 (6th Cir. 2003); *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 513 (4th Cir. 2002); *Fonovisa*, 76 F.3d at 262; *RCA/Ariola Int’l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 781 (8th Cir. 1988); *Gershwin*, 443 F.2d at 1162; *Goes Litho. Co. v. Banta Corp.*, 26 F. Supp. 2d 1042, 1045 (N.D. Ill. 1998); *Polygram Int’l Publ’g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1324 (D. Mass. 1994); *Songmaker v. Forward of Kan., Inc.*, No. 90-4156-SAC, 1993 U.S. Dist. LEXIS 4392, at \*16 (D. Kan. Mar. 5, 1993); *Chi-Boy Music v. Towne Tavern, Inc.*, 779 F. Supp. 527, 530 (E.D. Ala. 1991); *A & N Music Corp. v. Venezia*, 733 F. Supp. 955, 957 (E.D. Pa. 1990); *Golden Torch Music Corp. v. Lichelle’s, Inc.*, No. W-86-CA-005, 1987 U.S. Dist. LEXIS 7634, at \*8 (W.D. Tex. Jan. 26, 1987). For a more complete history of the inception of vicarious liability in copyright law, see *Polygram*, 855 F. Supp. at 1324–28.

<sup>43</sup> NIMMER & NIMMER, *supra* note 9, § 12.04[A].

like vicarious liability, is not statutory, but has its roots in tort law.<sup>44</sup> The Second Circuit established the idea that “one 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.”<sup>45</sup> This test for contributory infringement is used in all the circuits.<sup>46</sup>

Patent law has two statutory provisions concerning secondary liability for infringement.<sup>47</sup> The Patent Act of 1952 codified the common law concept of contributory infringement and divided it into two categories: contributory infringement and inducing infringement.<sup>48</sup> Section 271(c) of the Patent Act covers contributory infringement and states:

Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.<sup>49</sup>

The other provision, § 271(b), governs inducement of infringement of a patent and states “whoever actively induces infringement of a patent shall be liable as an infringer.”<sup>50</sup>

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<sup>44</sup> *Fonovisa*, 76 F.3d at 264.

<sup>45</sup> *Gershwin*, 443 F.2d at 1162.

<sup>46</sup> See, e.g., *Bridgeport Music, Inc. v. Rhyme Syndicate Music*, 376 F.3d 615, 621 (6th Cir. 2004); *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004); *A&M Records, Inc. v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1019 (9th Cir. 2001); *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987); *Columbia Pictures Indust., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 160 (3d Cir. 1984); *Harris v. Thomas*, No. 02-0518, 2004 U.S. Dist. LEXIS 23103, at \*7 (E.D. La. Nov. 12, 2004); *Microsoft Corp. v. V3 Solutions, Inc.*, No. 01 C 4693, 2003 U.S. Dist. LEXIS 15008, at \*39 (N.D. Ill. Aug. 27, 2003); *Polygram*, 855 F. Supp. at 1333; *Feder v. Videotrip Corp.*, 697 F. Supp. 1165, 1177 (D. Colo. 1988); *Johnson v. Salomon*, No. 4-73 Civ 536, 1977 U.S. Dist. LEXIS 15735, at \*105 (D. Minn. May 25, 1977).

<sup>47</sup> 35 U.S.C. § 271(b)–(c) (2000).

<sup>48</sup> *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).

<sup>49</sup> 35 U.S.C. § 271(c).

<sup>50</sup> *Id.* § 271(b).

*B. The Sony Decision*

In *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>51</sup> a major 1984 decision regarding copyright infringement and new technology, the Supreme Court clarified the application of secondary liability.<sup>52</sup> The Court addressed whether or not Sony, the manufacturer of Betamax Video Tape Recorders (VTRs), could be held secondarily liable for infringement committed by its users.<sup>53</sup> In the late 1970s, Sony invented VTRs which allowed consumers to transfer current television programming onto videotape.<sup>54</sup> Some of the owners of the programs that were recorded felt their copyrights were being infringed.<sup>55</sup> These owners brought suit against Sony in an attempt to enjoin any further manufacturing or marketing of the product, and to obtain damages.<sup>56</sup> Since Sony itself was not infringing any copyrights, the action was brought under the theory of secondary liability.<sup>57</sup> The United States District Court for the Central District of California denied the plaintiffs any relief,<sup>58</sup> but the Ninth Circuit reversed this decision and held Sony liable as a contributory infringer.<sup>59</sup> The Supreme Court granted certiorari and overturned the decision of the Ninth Circuit.<sup>60</sup>

The Supreme Court only addressed the theory of contributory infringement,<sup>61</sup> under which the Ninth Circuit found Sony liable.<sup>62</sup> The Supreme Court observed that the only way it could hold Sony liable was if “they [had] sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material.”<sup>63</sup> No precedent for this existed in copyright law.<sup>64</sup> Since there is a relationship between copyright law and patent law<sup>65</sup> the Supreme Court looked to patent law,

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<sup>51</sup> 464 U.S. 417 (1984).

<sup>52</sup> *Id.* at 442.

<sup>53</sup> *Id.* at 420.

<sup>54</sup> *Id.* at 422.

<sup>55</sup> *Id.* at 420.

<sup>56</sup> *Id.*

<sup>57</sup> *Sony*, 464 U.S. at 419.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at 420, 456.

<sup>60</sup> *Id.* at 456.

<sup>61</sup> *See id.* at 436.

<sup>62</sup> *Id.* at 420.

<sup>63</sup> *Sony*, 464 U.S. at 439.

<sup>64</sup> *Id.*

<sup>65</sup> *Id.*

which statutorily addressed contributory negligence.<sup>66</sup> In 35 U.S.C. § 271(c), the portion of the Patent Code dedicated to contributory infringement,<sup>67</sup> the Supreme Court extracted the concept that “sale of a ‘staple article or commodity of commerce suitable for substantial noninfringing use’ is not contributory infringement.”<sup>68</sup> The Supreme Court acknowledged that there are many differences between the Patent Code and the laws of Copyright but the Supreme Court held that “the staple article of commerce doctrine,” embodied in 35 U.S.C. § 271(c) serves an important purpose in patent law and could serve an equally as important purpose in copyright law.<sup>69</sup>

The Supreme Court adopted a new limitation on contributory infringement in copyright law by declaring that “the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.”<sup>70</sup> The Supreme Court applied this limitation and determined that since the Betamax VTR was capable of substantial noninfringing uses, Sony could not be held liable as a contributory infringer.<sup>71</sup>

### C. *Napster*

As time went by, consumers’ means of copying advanced. In the late 1990s, Napster introduced the public to peer-to-peer file-sharing, thereby allowing users to directly connect to other users’ hard drives and download copies of other users’ files directly onto their own hard drives.<sup>72</sup> The majority of the files shared over Napster were unauthorized copies of copyrighted music files, enabling millions of users to become copyright infringers.<sup>73</sup> The record companies feared that this mass infringement, due to the ability of Napster’s users to download free music from the Internet, would result in a decline in record sales and a tremendous loss of profit.<sup>74</sup> This fear drove members of the record industry to file suit against Napster, claiming both contributory

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<sup>66</sup> 35 U.S.C. § 271(c) (2000).

<sup>67</sup> *Id.*

<sup>68</sup> *Sony*, 464 U.S. at 440 (quoting 35 U.S.C. § 271).

<sup>69</sup> *Id.* at 442.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.* at 456.

<sup>72</sup> See Carroll, *supra* note 3, at 11–12.

<sup>73</sup> *Id.* at 13.

<sup>74</sup> *Id.*



and vicarious liability for copyright infringement.<sup>75</sup> The United States District Court for the Northern District of California granted an injunction in favor of the record companies, but the Ninth Circuit temporarily stayed the preliminary injunction until hearing the appeal.<sup>76</sup>

On appeal the Ninth Circuit addressed the extent of Napster's liability for the copyright infringement of its customers under the theories of vicarious and contributory infringement.<sup>77</sup> Since direct infringement is required for any finding of secondary infringement,<sup>78</sup> the court first affirmed the district court's decision that the users were direct infringers because they made unauthorized copies of copyrighted works.<sup>79</sup> The Ninth Circuit next applied the *Gershwin* "contributory" infringement test, noting that "one 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."<sup>80</sup> The court immediately rejected Napster's contention that the exception created in *Sony* precluded Napster from liability as a contributory infringer because Napster was capable of substantial noninfringing use.<sup>81</sup> In so doing, the Ninth Circuit interpreted the *Sony* exception as a factor used to establish a higher level of knowledge necessary for finding liability, not as a bar to liability.<sup>82</sup> The court found this knowledge requirement satisfied, despite the fact that Napster was capable of noninfringing use because "Napster ha[d] actual knowledge that specific infringing material [was] available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material."<sup>83</sup> The Ninth Circuit also found that Napster materially contributed to the infringing activities of its users because it supplied

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<sup>75</sup> *A&M Records, Inc. v. Napster, Inc. (Napster I)*, 114 F. Supp. 2d 896, 900 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001).

<sup>76</sup> *A&M Records, Inc. v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1011 (9th Cir. 2001).

<sup>77</sup> *Id.*

<sup>78</sup> NIMMER & NIMMER, *supra* note 9, § 12.04[A][3][a].

<sup>79</sup> *See Napster II*, 239 F.3d at 1014–19. The Ninth Circuit dismissed Napster's alleged defense of fair use because the purpose and character of the use was commercial, the copyrighted works were creative in nature, the whole work was copied, and the market was harmed by the use. *Id.*

<sup>80</sup> *Id.* at 1019 (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

<sup>81</sup> *Id.* at 1020.

<sup>82</sup> *See id.* at 1020–21.

<sup>83</sup> *Id.* at 1022.

the software and the central server, thereby providing “the site and facilities” allowing the users to directly infringe.<sup>84</sup>

The Ninth Circuit next addressed vicarious liability—specifically whether or not Napster “ha[d] the right and ability to supervise the infringing activity and also ha[d] a direct financial interest in such activities.”<sup>85</sup> The Ninth Circuit affirmed the district court’s determination that Napster financially benefited from the fact that the number of copyrighted works available on its system increased directly with the number of registered users on its system.<sup>86</sup> The Ninth Circuit also affirmed the district court’s determination that Napster had the ability to block certain users’ access to the system, and to police for infringement, despite the inability to read the content of the files being transferred.<sup>87</sup> This supported the conclusion that Napster could supervise for infringement.<sup>88</sup> The court concluded that “Napster’s failure to police the system’s ‘premises’ combined with a showing that Napster financially benefit[ed] from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability.”<sup>89</sup> Although Napster attempted to remain in operation while complying with the orders of the court, it was unable to survive and filed for bankruptcy in June 2002.<sup>90</sup>

#### D. *The Next Generation of Peer-to-Peer File-Sharing Networks*

As secondary liability in copyright law developed, so did peer-to-peer technology, and although Napster disappeared as a means of obtaining free copyrighted files, new peer-to-peer networks arose.<sup>91</sup> Many of these networks used knowledge gained from the *Napster* decision concerning which features made Napster liable for contributory and secondary infringement to avoid similar fates.<sup>92</sup> In April 2003, the United States District Court for the Central District of California determined that some peer-to-peer file-sharing networks,

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<sup>84</sup> *Napster II*, 239 F.3d at 1022 (quoting *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996)).

<sup>85</sup> *Id.* (quoting *Gershwin*, 443 F.2d at 1162).

<sup>86</sup> *Id.* at 1023. This was a tenuous argument because Napster was actually not earning money. See Carroll, *supra* note 3, at 25. The only money coming in was investment capital, but the court equated the size of the user base with the amount of money Napster would be able to make in the future. *Id.*

<sup>87</sup> *Napster II*, 239 F.3d at 1024.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.* at 1023–24.

<sup>90</sup> See Squatriglia, *supra* note 6.

<sup>91</sup> See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd. (Grokster II)*, 380 F.3d 1154, 1158–60 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

<sup>92</sup> *Id.*

namely Grokster and StreamCast, were not liable for either contributory infringement or vicarious infringement of copyrights.<sup>93</sup> On appeal, the Ninth Circuit affirmed this decision.<sup>94</sup> Although all peer-to-peer networks allow their users to download copies of copyrighted works, the court found that there were certain differences between Napster and the Grokster and StreamCast systems that insulated Grokster and StreamCast from both contributory and vicarious liability. The district court acknowledged that “[d]efendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares,” but whether it was intentional or not, these peer-to-peer networks fell outside the scope of the law for secondary liability.<sup>95</sup>

The Ninth Circuit first established the distinguishing features of these peer-to-peer networks.<sup>96</sup> The essential difference between a secondarily liable network and an immune network was the location of the indices of the files that were available for download.<sup>97</sup> The Napster network was liable as a contributory and vicarious infringer because it stored the information on Napster’s own servers.<sup>98</sup> In contrast, the network used by Grokster used individual users’ computers to store the system’s indices,<sup>99</sup> while StreamCast used a network that was completely decentralized and allowed users to directly search the files available on fellow users’ computers.<sup>100</sup> Without a central server with an index of all the files available for download, there was nothing for StreamCast to own or operate.<sup>101</sup> This lack of physical control over the servers distinguishes the Grokster and StreamCast networks from Napster.<sup>102</sup>

The Ninth Circuit next examined how this distinction affected these peer-to-peer file-sharing networks’ liability as contributory and vicarious infringers.<sup>103</sup> In addressing whether or not there was con-

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<sup>93</sup> Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (*Grokster I*), 259 F. Supp. 2d 1029, 1035–46 (C.D. Cal. 2003), *aff’d*, 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

<sup>94</sup> *Grokster II*, 380 F.3d at 1157.

<sup>95</sup> *Grokster I*, 259 F. Supp. 2d at 1046.

<sup>96</sup> *Grokster II*, 380 F.3d at 1158–59.

<sup>97</sup> *Id.*

<sup>98</sup> *Id.* at 1159.

<sup>99</sup> *Id.*

<sup>100</sup> *Id.*

<sup>101</sup> *Id.*

<sup>102</sup> *Grokster II*, 380 F.3d at 1159.

<sup>103</sup> *Id.* at 1160.

tributory infringement, the Ninth Circuit recognized there was no dispute over the fact that there was direct infringement.<sup>104</sup> Turning toward the knowledge requirement, the court stated how the *Sony* decision impacted the knowledge requirement of *Napster*:

If the product at issue is not capable of substantial or commercially significant noninfringing uses, then the copyright owner need only show that the defendant had constructive knowledge of the infringement. On the other hand, if the product at issue is capable of substantial or commercially significant noninfringing uses, then the copyright owner must demonstrate that the defendant had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement.<sup>105</sup>

The Ninth Circuit concluded that the district court was correct in its determination that each defendant's product was capable of substantial noninfringing uses.<sup>106</sup> Therefore, the copyright holders must show that Grokster and StreamCast had reasonable knowledge of the direct infringement committed by their users.<sup>107</sup> The Ninth Circuit also affirmed the district court's finding that in order to fulfill the knowledge requirement, Grokster and StreamCast must have known about the infringement when they were in a position to stop it.<sup>108</sup> Since they both utilized decentralized indexing networks, which could function without any support from either Grokster or StreamCast, once the companies learned of the infringement they no longer had control over the system.<sup>109</sup> Since they were not in a position to stop the infringement once they learned of it, the Ninth Circuit concluded that the higher standard of knowledge was not met.<sup>110</sup>

The Ninth Circuit next addressed whether or not the conduct of Grokster and StreamCast qualified as materially contributing to the infringement of their users.<sup>111</sup> In *Napster*, the Ninth Circuit found a material contribution because Napster provided the "site and facilities" for infringement by providing centralized indices. Since neither

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<sup>104</sup> *Id.* At the district court level, both parties stipulated to the plaintiffs' ownerships of the copyrights. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F. Supp. 2d 1029, 1034 (C.D. Cal. 2003), *aff'd*, 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005). The court considered that users of the service download copyrighted music and infringe the copyright owner's right to reproduction to be uncontroverted facts. *Id.*

<sup>105</sup> *Grokster II*, 380 F.3d at 1161.

<sup>106</sup> *Id.* at 1161–62.

<sup>107</sup> *Id.* at 1162.

<sup>108</sup> *Id.* at 1162–63.

<sup>109</sup> *Id.*

<sup>110</sup> *Id.* at 1162.

<sup>111</sup> *Grokster II*, 380 F.3d at 1163.

Grokster nor StreamCast provided centralized servers, the Ninth Circuit found they did not materially contribute to the infringement.<sup>112</sup>

Once the Ninth Circuit affirmed the district court's decision that there was no contributory infringement, the Ninth Circuit considered whether or not there had been vicarious infringement.<sup>113</sup> Since the presence of the elements of direct infringement and financial benefit were not disputed,<sup>114</sup> the only element necessary for vicarious infringement that the court addressed was the "right and ability to supervise."<sup>115</sup> The Ninth Circuit agreed with the district court in its finding that neither Grokster nor StreamCast had the right and ability to supervise their users' direct infringement.<sup>116</sup> In *Napster*, the court found that Napster had a right and ability to supervise "because it controlled the central indices of files, users were required to register with Napster, and access to the system depended on the validity of a user's registration."<sup>117</sup> Neither Grokster nor StreamCast had a central indexing system, required their users to register, or maintained any control over whether or not any particular user had access to the system.<sup>118</sup> Therefore, the Ninth Circuit concluded, unlike Napster, neither Grokster nor StreamCast had the right and ability to supervise.<sup>119</sup> Since this requirement for vicarious copyright infringement was not present, the Ninth Circuit determined that Grokster and StreamCast were not liable as vicarious infringers.<sup>120</sup> The Ninth Circuit concluded its opinion with a reminder that it is not the court's job to alter the law in the area of copyright, rather, that should be left to Congress.<sup>121</sup>

*E. The Inducing Infringement of Copyrights Act of 2004*

In June of 2004, Congress attempted to alter the law of copyright. Senators Orrin Hatch, Patrick Leahy, Bill Frist, Tom Daschle, Lindsey Graham and Barbara Boxer introduced an amendment to the Copyright Act, entitled "Inducing Infringement of Copyrights Act of 2004."<sup>122</sup> The Senators wanted to hold liable as an infringer any-

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<sup>112</sup> *Id.*

<sup>113</sup> *Id.* at 1164.

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

<sup>116</sup> *Id.*

<sup>117</sup> *Grokster II*, 380 F.3d at 1165.

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> *See id.* at 1164–66.

<sup>121</sup> *Id.* at 1167.

<sup>122</sup> S. 2560, 108th Cong. (2004).

one who intentionally induced another to infringe a copyright.<sup>123</sup> On July 22, 2004, the Senate Judiciary Committee held a hearing on “Protecting Innovation and Art while Preventing Piracy,” to discuss the proposed legislation.<sup>124</sup> Although the proposed bill received immense support from the Recording Industry Association of America and other copyright holders, it met stiff opposition from fair use groups, prompting Hatch and Leahy to request alternate drafts.<sup>125</sup> The bill was scheduled for mark-up<sup>126</sup> several times, but it was continually postponed in an effort to get all sides to agree on a proposed draft. After intense negotiation, the talks ceased on October 7, 2004, and the session of Congress ended without the bill passing.<sup>127</sup> Despite this failure, Senator Hatch announced plans to reintroduce the bill.

F. *The Supreme Court’s Decision in Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*

A reintroduction of the Induce Act became unnecessary on June 27, 2005 when the Supreme Court delivered a unanimous decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*<sup>128</sup> The Supreme Court overturned the Ninth Circuit’s holding that Grokster and StreamCast were not secondarily liable for copyright infringement committed by users.<sup>129</sup> While such a determination would be extremely important to both copyright holders and innovators under any circumstances, the magnitude of this opinion lies in the fact that the Supreme Court *created* liability for inducing infringement of a copyright.<sup>130</sup> In the opinion, Justice Souter stated: “[w]e adopt [the inducement rule of patent law] here, holding that one who distributes a device with the

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<sup>123</sup> *Id.*

<sup>124</sup> *Hearings, supra* note 1, available at [http://judiciary.senate.gov/testimony.cfm?id=1276&wit\\_id=2629](http://judiciary.senate.gov/testimony.cfm?id=1276&wit_id=2629).

<sup>125</sup> Patrick Ross, *Fair Use Groups Offer Alternative to Inducement Bill*, CONSUMER ELECTRONICS DAILY, Aug. 26, 2004, available at LEXIS, News Library.

<sup>126</sup> Markup is defined as “[a] session of a congressional committee during which a bill is revised and put into final form before it is reported to the appropriate house.” BLACK’S LAW DICTIONARY 992 (8th ed. 2004).

<sup>127</sup> See Brodsky, *supra* note 22.

<sup>128</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764 (2005). Justice Souter delivered the opinion of the court, while Justice Ginsberg filed a concurrence which Chief Justice Rehnquist and Justice Kennedy joined. *Id.* at 2783 (Ginsburg, J., concurring). In addition, Justice Breyer filed a separate concurrence which Justice Stevens and Justice O’Connor joined. *Id.* at 2787 (Breyer, J., concurring). The concurrences address the status of the *Sony* doctrine which Justice Souter felt was unnecessary to the Court’s holding in the case. *Id.* at 2778 (majority opinion).

<sup>129</sup> *Grokster III*, 125 S. Ct. at 2783.

<sup>130</sup> *Id.* at 2780.

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.”<sup>131</sup>

Justice Souter began the decision by establishing that “one who distributes a device with the object of promoting its use to infringe a 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.”<sup>132</sup> The first portion of the opinion established the background. Justice Souter initially described the technology behind Grokster and StreamCast, which was critical to the Ninth Circuit’s decision.<sup>133</sup> Justice Souter next recounted the activities of Grokster and StreamCast immediately following the downfall of Napster, and the steps each network took to attract Napster’s users searching for a new way to download copyrighted songs for free.<sup>134</sup> Justice Souter considered the activities of both peer-to-peer networks as evidence of an intention to create software to illegally download copyrighted works.<sup>135</sup> Finally, Justice Souter recounted how both the district court and the Ninth Circuit found Grokster and StreamCast not liable for the infringement of their users.<sup>136</sup> Justice Souter recognized that this was a case about the tension between copyright protection and promoting innovation, and that the argument for imposing secondary liability is powerful.<sup>137</sup>

Since the *Sony* decision was the most recent time the Supreme Court addressed secondary liability for copyright infringement, and it was that case upon which MGM based its claim, Justice Souter found it necessary to recount that earlier holding. He stated that in *Sony* the “Court addressed a claim that secondary liability for infringement can arise from the very distribution of a commercial product.”<sup>138</sup> Justice Souter explained the VCR technology that was at issue and stated that the only way to impose liability was through Sony’s knowledge that some customers would infringe.<sup>139</sup> In *Sony* the Court adopted the staple-article of commerce doctrine which in application, “absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than

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<sup>131</sup> *Id.*

<sup>132</sup> *Id.* at 2770.

<sup>133</sup> *Id.* at 2770–71.

<sup>134</sup> *Id.* at 2772–74.

<sup>135</sup> *Grokster III*, 125 S. Ct. at 2774.

<sup>136</sup> *Id.* at 2774–75.

<sup>137</sup> *Id.* at 2775.

<sup>138</sup> *Id.* at 2777.

<sup>139</sup> *Id.*

the mere understanding that some of one's products will be misused."<sup>140</sup> Justice Souter agreed with MGM that the Ninth Circuit misapplied this holding by reading the rule too broadly and concluding that being capable of substantial noninfringing use insulates the producer from liability "even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had 'specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information.'"<sup>141</sup>

Justice Souter found it sufficient to note that the lower courts misapplied *Sony*, and declined to delineate a specific point at which noninfringing use is no longer considered substantial, therefore triggering liability.<sup>142</sup> Justice Souter declared that the pertinent rule in *Sony* was the limitation it placed upon a court's ability to impute intent for secondary liability solely from the characteristics of a product. He believed, in the current case, there was no need to impute intent solely from the characteristics of a product, and declared "where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability."<sup>143</sup>

Justice Souter proceeded to explain the concept of liability for inducing infringement as it exists in patent law, and how intent to encourage infringement may be demonstrated through active steps "such as advertising an infringing use or instructing how to engage in an infringing use."<sup>144</sup> Justice Souter stated that "[f]or the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright."<sup>145</sup> Justice Souter further explained this rule by stating that "mere knowledge of infringing potential or of actual infringing uses would not be enough to subject a distributor to liability."<sup>146</sup> In order to find inducement, there must be "purposeful, culpable expression and conduct."<sup>147</sup> Justice Souter then listed which actions engaged in by *Grokster* and *StreamCast* could be sufficient to

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<sup>140</sup> *Id.* at 2778.

<sup>141</sup> *Grokster III*, 125 S. Ct. at 2778 (quoting *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd. (Grokster II)*, 380 F.3d 1153, 1162 (9th Cir. 2004)).

<sup>142</sup> *Id.* at 2778–79.

<sup>143</sup> *Id.* at 2779.

<sup>144</sup> *Id.*

<sup>145</sup> *Id.* at 2780.

<sup>146</sup> *Id.*

<sup>147</sup> *Grokster III*, 125 S. Ct. at 2780.



constitute intent.<sup>148</sup> Justice Souter next explained that actual infringement by others, in addition to intent, is necessary for a finding of inducement, and that in this case there was an abundance of evidence to support actual infringement by the users of Grokster and StreamCast.<sup>149</sup>

### III. CONCERNS SPURRED BY THE SUPREME COURT'S DECISION IN *METRO-GOLDWYN-MAYER STUDIOS INC. V. GROKSTER, LTD.*

Despite the Supreme Court's unanimous decision in *Grokster*, there are many unanswered questions. Gary Shapiro, CEO of the Consumer Electronics Association described the decision as "murky"<sup>150</sup> and providing "massive uncertainty."<sup>151</sup> As far as what inducement and infringement mean, Grokster attorney Michael Page stated that the decision provides "a whole bunch of conflicting signals and standards."<sup>152</sup> Another concern raised is the lack of clarity on what constitutes intent,<sup>153</sup> and the flood of litigation which could ensue.<sup>154</sup> Notwithstanding these concerns from the technology side, Fred von Lohmann, from the Electronic Frontier Foundation is "hopeful that when evidence is presented in the Cal. court, the judge should realize that the P2P networks have not violated the Supreme Court's new test."<sup>155</sup>

The most apparent uncertainty to emerge from *Grokster* is the interpretation of the *Sony* decision. While supporters praised the Court for affirming the *Sony* decision,<sup>156</sup> the Court actually left that decision

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<sup>148</sup> *Id.* at 2780–82.

<sup>149</sup> *Id.* at 2782.

<sup>150</sup> Paul Sweeting, *Supreme Court Hands Hollywood Huge Win in Ruling Against Grokster, Streamcast*, VIDEO BUS., July 4, 2005, at 7, available at 2005 WLNR 10640244.

<sup>151</sup> Andrew Noyes & Greg Piper, *High Court Rules Against File-Sharing Networks*, WASH. INTERNET DAILY, June 28, 2005, available at LEXIS, News Library.

<sup>152</sup> *Id.*

<sup>153</sup> Press Release, Consumer Electronics Assoc., CEA Expresses Concerns over Supreme Court Grokster Ruling; Decision Decreases Legal Clarity While Increasing Likelihood of Litigation; Intent Test Establishes High Burden for Manufacturers and Entrepreneurs (June 28, 2005), available at LEXIS, News Library.

<sup>154</sup> Jonathan M. Holda, *Commentary: Grokster Provides No Bright Line Rule: Welcome to Copyright Law*, DAILY REC. (Baltimore, MD), July 1, 2005, available at LEXIS, News Library.

<sup>155</sup> *High Court Rules Against File-Sharing Networks*, CONSUMER ELECTRONICS DAILY, June 28, 2005, available at 2005 WLNR 10135301.

<sup>156</sup> Press Release, Home Recording Rights Coalition, HRRC - Concerned Over Grokster "Inducement" Rule, Encouraged on Betamax and Home Taping; Intent Standard Seems Narrow; Burden of Proof High (June 27, 2005), available at LEXIS, News Library.

untouched.<sup>157</sup> In fact, the unanimous court filed two concurring opinions on the issue of the *Sony* doctrine with three Justices supporting each concurrence.<sup>158</sup> In Justice Ginsburg's concurrence, in which Chief Justice Rehnquist, and Justice Kennedy join, she was concerned with what the *Sony* Court intended by "substantial noninfringing use."<sup>159</sup> Justice Ginsburg did not believe that the "anecdotal evidence of noninfringing uses" proffered by *Grokster* was sufficient to satisfy the requirements of *Sony*.<sup>160</sup> Justice Ginsburg emphasized the importance of the proportion of noninfringing uses to infringing uses, and found that one of the reasons the Ninth Circuit was incorrect in its analysis of the *Sony* doctrine was its finding that the noninfringing uses that existed for *Grokster* and *StreamCast* were substantial.<sup>161</sup>

Justice Breyer wrote his concurrence, in which Justice Stevens and Justice O'Connor joined, in order to disagree with the concurrence of Justice Ginsburg.<sup>162</sup> Justice Breyer maintained that the percentage of noninfringing use that was necessary in *Sony* to be considered substantial was about 9 percent, a figure which is very close to the 10 percent he asserted was present in *Grokster*.<sup>163</sup> Justice Breyer also stressed the importance of the word "capable" in the *Sony* decision, and that the Court did not require the product to currently have substantial noninfringing use, but rather that it was *capable* of substantial noninfringing use.<sup>164</sup> Justice Breyer utilized the rest of the concurrence to explain why altering the *Sony* rule, as he believes Justice Ginsburg suggests it ought to be, would be bad from a policy perspective.<sup>165</sup>

#### IV. THE APPARENT UNCERTAINTIES RAISED BY THIS DECISION ARE RESOLVED IF THE COURTS APPLY THE DECISION IN CONJUNCTION WITH PATENT LAW PRINCIPLES

Most of the concerns regarding the uncertainties of *Grokster*, including those expressed by the Supreme Court, can be resolved by looking to patent law where the Court admittedly derived the doctrine of inducing infringement. Additionally, the Supreme Court has

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<sup>157</sup> Holda, *supra* note 154.

<sup>158</sup> Metro-Goldwyn-Mayer Studios Inc. v. *Grokster*, Ltd. (*Grokster III*), 125 S. Ct. 2764, 2769 (2005).

<sup>159</sup> *See id.* at 2784 (Ginsburg, J., concurring).

<sup>160</sup> *Id.* at 2785.

<sup>161</sup> *Id.* at 2785–86.

<sup>162</sup> *Id.* at 2787 (Breyer, J., concurring).

<sup>163</sup> *Id.* at 2789.

<sup>164</sup> *Grokster III*, 125 S. Ct. at 2789 (Breyer J., concurring).

<sup>165</sup> *Id.* at 2791–95.

acknowledged that when “[t]he closest analogy is provided by the patent law cases . . . it is appropriate to refer [to them] because of the historic kinship between patent law and copyright law.”<sup>166</sup> Therefore, since *Grokster* is the first application of inducing infringement in copyright law, where the opinion is not explicitly clear, it is appropriate to refer to the application of the inducing infringement of patent statute.

A. *Concern over the Murky Standard of What Infringement Means*

There is concern that the Supreme Court was not clear about the necessary elements of inducing infringement liability. Although Justice Souter did not explicitly lay out the factors necessary for finding liability, the decision is far from “massive[ly] uncertain[.]”<sup>167</sup> Justice Souter’s three page discussion of the evidence which exists against *Grokster* and *StreamCast* concerning intent,<sup>168</sup> as well as his use of the phrase “in addition to intent,”<sup>169</sup> make it clear that intent is a necessary element. The other required element is “actual infringement by recipients of the device.”<sup>170</sup> Regardless of explicit identification in the decision, Justice Souter declared that the Court was adopting the inducing infringement rule from patent law.<sup>171</sup> Therefore, it is appropriate to look to patent law for guidance. In patent law the courts require three elements to be present for a finding of inducing infringement: direct infringement, knowledge, and intent.<sup>172</sup>

In both patent and copyright law, the requirement of direct infringement is a common element for any finding of secondary liability,<sup>173</sup> and the courts have read the elements of intent and knowledge into the statute, despite an explicit requirement in the Patent Act.<sup>174</sup> In applying the rule presented by the Court in *Grokster*, the courts will require both actual infringement and intent because they are explic-

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<sup>166</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). See also John Shepard Wiley, Jr., *Copyright at the School of Patent*, 58 U. CHI. L. REV. 119, 137–44 (1991).

<sup>167</sup> Noyes & Piper, *supra* note 151.

<sup>168</sup> *Grokster III*, 125 S. Ct. at 2780–82.

<sup>169</sup> *Id.* at 2782.

<sup>170</sup> *Id.*

<sup>171</sup> *Id.* at 2780.

<sup>172</sup> CHISUM, *supra* note 30, § 17.04.

<sup>173</sup> See *supra* Part II.A.ii (noting that direct infringement is required for vicarious liability and contributory liability in copyright law and for contributory liability and inducing infringement in patent law).

<sup>174</sup> *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990); *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988); CHISUM, *supra* note 30, §17.04.

itly stated, but the courts should also look to patent law and require knowledge.

In applying § 271(b), the inducing infringement of patent statute, the Court of Appeals for the Federal Circuit recognized that “[a]lthough section 271(b) does not use the word ‘knowing,’ the case law and legislative history uniformly assert such a requirement,”<sup>175</sup> and that “a person infringes by actively and *knowingly* aiding and abetting another’s direct infringement.”<sup>176</sup> The alleged infringer must have knowledge that the acts are inducing infringement; mere knowledge of the acts does not sufficiently satisfy the knowledge requirement.<sup>177</sup>

When applying the inducing infringement of copyright rule as presented by the Supreme Court in *Grokster*, the courts should adopt a knowledge requirement similar to the one adopted by the Federal Circuit in patent law. Reading this requirement in would alleviate some fears of murkiness because the courts would recognize, like the Federal Circuit, that “[t]he plaintiff has the burden of showing that . . . he knew or should have known his actions would induce actual infringements.”<sup>178</sup>

*B. Concern that Lack of Clarity of Intent Could Cause Ruinous Litigation*

Some critics of the *Grokster* decision are concerned that the Supreme Court was not clear on the standard of intent, and that this could lead members of the content industry to bring excessive lawsuits.<sup>179</sup> Although the Supreme Court did not devote much time to the general standard of intent, Justice Souter made it clear that the level of intent necessary is the intent to cause infringement. Justice Souter explained that liability will exist if “one . . . distributes a device with the object of promoting its use to infringe copyright.”<sup>180</sup> The technology industry should be pleased that the Supreme Court established this elevated level of intent because when the courts apply

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<sup>175</sup> *Water Techs.*, 850 F.2d at 668 (citing CHISUM, *supra* note 30, at § 17.04).

<sup>176</sup> *Id.*

<sup>177</sup> *Ferguson Beauregard/Logic Controls v. Mega Sys., LLC*, 350 F.3d 1327, 1342 (Fed. Cir. 2003) (citing *Micro Chem., Inc. v. Great Plains Chem. Co.*, 194 F.3d 1250 (Fed. Cir. 1999)).

<sup>178</sup> *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

<sup>179</sup> See William Triplett, *Grokster Tuned Out*, DAILY VARIETY, June 28, 2005, at 1, available at 2005 WLNR 10197971.

<sup>180</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764, 2780 (2005).

the inducing infringement statute in patent law, on which this rule is based, they do not uniformly apply a high level of intent.<sup>181</sup>

In different circumstances, the Federal Circuit applies different standards for the requisite level of intent.<sup>182</sup> In 1990, the Federal Circuit held in *Manville Sales Corp.*, that “[i]t must be established that the defendant possessed specific intent to encourage another’s infringement.”<sup>183</sup> The Federal Circuit has not maintained this high level of intent as the standard throughout its decisions.<sup>184</sup> In *Hewlett-Packard Co.*,<sup>185</sup> which was decided three months prior to *Manville Sales Corp.*, the Federal Circuit held the level of intent necessary for inducing infringement is only the “intent to cause the acts which constitute the infringement.”<sup>186</sup> Since these decisions, the Federal Circuit has utilized both specific intent to induce infringement,<sup>187</sup> and the lower standard which is intent to cause the act that constitutes infringement.<sup>188</sup>

While it is clear that the level of intent necessary for a finding of inducing infringement of a copyright is high, there is still concern over how a court will determine whether intent is present. The Supreme Court did spend time describing the specific activity engaged in by *Grokster* and *StreamCast* that it felt displayed the necessary intent.<sup>189</sup> In addition, Justice Souter listed which activities would not be sufficient, such as mere knowledge of the infringement, as well as “ordinary acts incident to product distribution, such as offering customers technical support or product updates.”<sup>190</sup> The Supreme Court also held that intent may be shown through clear expression. The Court provided substantial guidance on how to determine what constitutes intent, but also intentionally left it somewhat undefined. The Supreme Court allowed for “other affirmative steps taken to foster in-

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<sup>181</sup> CHISUM, *supra* note 30, § 17.04.

<sup>182</sup> *Id.*

<sup>183</sup> *Manville Sales*, 917 F.2d at 553. “Specific Intent” is defined as “[t]he intent to accomplish the precise criminal act that one is later charged with.” BLACK’S LAW DICTIONARY 826 (8th ed. 2004).

<sup>184</sup> CHISUM, *supra* note 30, § 17.04.

<sup>185</sup> *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990).

<sup>186</sup> *Id.* at 1469.

<sup>187</sup> *Ferguson Bearegard/Logic Controls v. Mega Sys., LLC*, 350 F.3d 1327, 1342 (Fed. Cir. 2003).

<sup>188</sup> *Moba, B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1318 (Fed. Cir. 2003).

<sup>189</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764, 2780–82 (2005).

<sup>190</sup> *Id.* at 2780.

fringement.”<sup>191</sup> This standard is similar to the standard used in evaluating liability for inducing infringement of a patent, where the courts may infer intent.<sup>192</sup> Permitting a court to infer intent grants more discretion to the courts and allows a more fact sensitive analysis.

The ability to infer intent does not mean courts have no guidance, they may look to patent law where there is precedent for inferring intent. In patent law it is not necessary to have direct evidence in order to prove inducement, but rather “circumstantial evidence may suffice,”<sup>193</sup> and “[t]he requisite intent to induce infringement may be inferred from all of the circumstances.”<sup>194</sup> The Court of Appeals for the Federal Circuit has established guidelines for inferring intent.<sup>195</sup>

One of these guidelines is the requirement of an affirmative act.<sup>196</sup> In *Tegal Corp. v. Tokyo Electron Co., Ltd.*,<sup>197</sup> a parent company escaped liability for a subsidiary’s infringement because the Federal Circuit held that failure to prevent infringement was not inducement.<sup>198</sup> The Federal Circuit stated that “[i]n the absence of a showing of control over another party, merely permitting that party to commit infringing acts does not constitute infringement,”<sup>199</sup> and “evidence of mere inaction [does] not constitute inducement.”<sup>200</sup> The

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<sup>191</sup> *Id.*

<sup>192</sup> *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 669 (Fed. Cir. 1988).

<sup>193</sup> *Id.* at 668.

<sup>194</sup> *Id.* at 669. The Federal Circuit applied this standard in *Snuba International, Inc. v. Dolphin World, Inc.*, No. 99-1357, 2000 U.S. App. LEXIS 16946, at \*18 (Fed. Cir. July 11, 2000). Snuba owned a patent for a method for diving without air tanks strapped to the body. *Id.* at \*2. Dolphin World manufactured air tanks that were not strapped to the body. Dolphin World provided promotional material containing instructions on how to use its product in a way consistent with the method for which Snuba owned a patent, and thus, was infringing. *Id.* at \*2-3. The Federal Circuit considered instructions on how to infringe, although supplied separately from the product, in combination with supplying the product, sufficient to infer the necessary intent for inducing infringement liability. *Id.* at \*18.

<sup>195</sup> CHISUM, *supra* note 30, § 17.04[3].

<sup>196</sup> See *Tegal Corp. v. Tokyo Electron Co., Ltd.*, 248 F.3d 1376, 1380 (Fed. Cir. 2001).

<sup>197</sup> 248 F.3d 1376 (Fed. Cir. 2001). Tegal had an injunction against Tokyo Electron America, Inc. (TEA), preventing the corporation from inducing its subsidiaries to infringe Tegal’s patents. *Id.* at 1377. After the injunction had issued, one of the companies that TEA owned directly infringed one of Tegal’s patents, and Tegal claimed that this violated the injunction because TEA induced. *Id.* Since TEA did not take any action to get the subsidiary to infringe, the court did not infer intent. *Id.* at 1380.

<sup>198</sup> *Id.* at 1380.

<sup>199</sup> *Id.* at 1378.

<sup>200</sup> *Tegal*, 248 F.3d at 1379 (citing *A. Stucki Co. v. Worthington Indus., Inc.*, 849 F.2d 593, 597 (Fed. Cir. 1988)).

Federal Circuit noted that a defendant cannot be held liable for failure to take legal action against the party it is allegedly inducing.<sup>201</sup> In *Tegal*, the Federal Circuit held that in order to find a defendant liable for inducing infringement, the defendant must commit an affirmative act.<sup>202</sup>

Another patent case that is helpful in determining the presence of intent is *Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*<sup>203</sup> In that case, advertising satisfied the requirement of an affirmative step to infer intent.<sup>204</sup> In *Chiuminatta*, the court found the manufacturers of a saw liable for inducing infringement of a patent by inferring intent through advertisement.<sup>205</sup> Since the saw could perform an infringing function and the advertisement notified the consumers of this fact, the court found Cardinal liable for inducing infringement.<sup>206</sup> If a manufacturer conveys to the consumer the possible infringing use of either an infringing or an innocent product, through advertising, labels, or instructions, he could be held liable for inducing infringement of a patent.<sup>207</sup> Donald S. Chisum, a leading authority on patents, noted that “[e]ven an express warning to customers against infringing use will not preclude liability if under the circumstances the warning invites such use.”<sup>208</sup>

If a court interpreting the new inducing infringement of copyright rule adopts these limitations on inferring intent, it would minimize the concern over frivolous litigation. A copyright holder would have an indication by looking at patent law of what may or may not constitute the requisite intent for infringement, and would only invest in lawsuits where a court is likely to find inducement.

### C. *The Fate of the Sony Decision*

In *Grokster*, a case concerned with establishing a new standard of liability in copyright law, much is made by the Justices of what should

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<sup>201</sup> *Id.* at 1380.

<sup>202</sup> *Id.* at 1378, 1380.

<sup>203</sup> 145 F.3d 1303 (Fed. Cir. 1998).

<sup>204</sup> *Id.* at 1312.

<sup>205</sup> *Id.* In this case, Cardinal manufactured a saw that cut through concrete, while Chiuminatta held a patent for the process of cutting through concrete at a certain hardness. *Id.* at 1305–06. In advertisements by Cardinal, it informed customers that they could use the saw to cut through concrete at a hardness that the patent did not protect. *Id.* Cardinal conceded, however, that the saw would cut through that level and beyond, therefore encompassing the hardness the patent protected. *Id.*

<sup>206</sup> *Id.*

<sup>207</sup> CHISUM, *supra* note 30, §17.04[4][F].

<sup>208</sup> *Id.*

be done with an old rule of copyright law. Both the new standard, inducing infringement, and the old rule, the staple-article doctrine from the *Sony* decision, are ideas borrowed from patent law. It appears the Justices' concerns are unnecessary.

Patent law has proven not only that the staple-article doctrine and the concept of inducing infringement are capable of coexisting,<sup>209</sup> but that the staple-article doctrine provides an appropriate limitation on secondary liability. The language that the Supreme Court adopted in the *Sony* decision was taken directly from 35 U.S.C. § 271(c), the contributory infringement section of the Patent Act, which is immediately preceded by § 271(b), the inducing infringement section of the Patent Act, which the Court adopted in the *Grokster* decision.<sup>210</sup>

Justice Souter described the current understanding of the *Sony* rule as limiting "imputing culpable intent as a matter of law from the characteristics or uses of a distributed product."<sup>211</sup> This means that if a product is capable of a noninfringing use, and there is no other evidence that the distributor was intending to induce infringement, the distributor cannot be liable.<sup>212</sup> The application of the *Sony* rule by Justice Souter is the application of the staple-article doctrine that the Federal Circuit utilizes.

There are several cases in patent law which demonstrate that the current application of the staple-article doctrine, in conjunction with the inducing infringement rule, is successful in catching infringers, while still being effective in limiting liability to manufactures which intend to induce infringement. The Federal Circuit, in *Fina Research, S.A. v. Baroid Ltd.*,<sup>213</sup> makes it clear that even if a product is deemed a staple article, that does not explicitly provide protection from inducing infringement liability.<sup>214</sup> In its analysis, the Federal Circuit ac-

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<sup>209</sup> 35 U.S.C. § 271 (2000).

<sup>210</sup> *Id.*

<sup>211</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764, 2779 (2005).

<sup>212</sup> *See id.*

<sup>213</sup> 141 F.3d 1479 (Fed. Cir. 1998).

<sup>214</sup> *Id.* at 1482. Fina was a chemical company that made and sold FINAGREEN, a product used in drilling for oil and as an ingredient in drilling muds. *Id.* at 1480. Baroid owned the patent for these drilling muds and claimed that Fina infringed and induced infringement of its patent because customers that used FINAGREEN to make the drilling muds infringed the patent. *Id.* The court held that Fina could be held liable for inducing infringement, but not for direct infringement because, at most, FINAGREEN satisfied only one element of the drilling mud patents, which contained multi-element claims. *Id.* at 1481-82. Further, the court explained that



knowledged that with inducing infringement, the fact that the infringing article is a “staple article or commodity of commerce suitable for substantial noninfringing use”<sup>215</sup> does not protect the defendant from liability.<sup>216</sup> Despite the fact that a staple-article is not completely insulated from liability, it still protects legitimate manufacturers.

In *Oak Industries, Inc. v. Zenith Electronics Corp.*,<sup>217</sup> the United States District Court for the Northern District of Illinois examined the liability of a manufacturer whose product had several uses, all of which were noninfringing except one.<sup>218</sup> The court found that in a case such as this, whether or not the manufacturer is liable for inducing infringement hinges on whether or not the requisite level of intent is present.<sup>219</sup> The court noted that “a jury could find that Zenith actually induced infringement . . . by adding extra shielding . . . to eliminate direct pickup interference;”<sup>220</sup> however, “if the jury found that the shielding was necessary for the converters to perform the unpatented methods, then any infringement would be incidental to the performance of other functions,”<sup>221</sup> and Zenith would not be liable. If the product is a staple-article and its capacity to infringe a copyright is incidental and necessary to its ability to perform its other noninfringing functions, the intent element for inducing infringement will not be met, and there can be no liability.<sup>222</sup>

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because FINAGREEN was capable of a noninfringing use, Fina could not be held liable for contributory infringement. *Id.*

<sup>215</sup> *Fina Research*, 141 F.3d at 1482–83 (citing 35 U.S.C. § 271(c)).

<sup>216</sup> *Id.* at 1482.

<sup>217</sup> 726 F. Supp. 1525 (N.D. Ill. 1989).

<sup>218</sup> *Id.* at 1539–44. Zenith created a cable converter box that performed several functions such as tuning, decoding, and descrambling. *Id.* at 1529. The housing around the box had a shielding that prevented direct interference, a method patented by Oak Industries. *Id.* Zenith argued that the converter boxes used the same hardware to perform the infringing function of preventing interference and noninfringing function of housing the box, and that the infringement was not intentional. *Id.* at 1538.

<sup>219</sup> *Id.* at 1542.

<sup>220</sup> *Oak Indus.*, 726 F. Supp. at 1542 n.12.

<sup>221</sup> *Id.* at 1542.

<sup>222</sup> *See id.*

Additionally, in *Warner-Lambert Co. v. Apotex Corp.*,<sup>223</sup> the drug company was not liable when two percent of consumers used the drug in an infringing manner while the remaining ninety-eight percent did not infringe.<sup>224</sup> The Federal Circuit held that “[e]specially where a product has substantial noninfringing uses, intent to induce infringement cannot be inferred even when the defendant has actual knowledge that some users of its product may be infringing the patent.”<sup>225</sup>

When analyzing the *Sony* rule and what its current and future application should be, the courts should look to patent law. There, an exact determination of what amount of noninfringing use constitutes a substantial amount, which is the focus of both concurrences in *Grokster*, is not the important aspect of the doctrine. What the staple-article doctrine brings to patent law, and what the *Sony* rule brings to copyright law, is a check on the ability of the courts to presume intent. Under the current understanding, the exact percentage of use that is noninfringing is irrelevant as long as there is other evidence of intent to induce infringement.

## V. CONCLUSION

Prior to the Supreme Court’s decision in *Grokster*, copyright law permitted two ways to hold a defendant liable for infringement by another: vicarious and contributory liability.<sup>226</sup> The courts were unsuccessful in utilizing either form of secondary liability to hold the current peer-to-peer file-sharing networks liable for the infringement of users.<sup>227</sup> Congress introduced the “Inducing Infringement of Copyright Act of 2004” as an alternative means of secondary liability to hold peer-to-peer networks liable.<sup>228</sup> Unfortunately the congressional session expired before any action was taken on the bill.<sup>229</sup> On

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<sup>223</sup> 316 F.3d 1348 (Fed. Cir. 2003). Apotex is a drug company that owned patents for various uses of its drugs. *Id.* at 1351–53. A small percentage of doctors began prescribing one of Apotex’s drugs for a use in a way that not only differed from a method for which Apotex owned a patent, but also infringed a Warner-Lambert patent. *Id.* The court held that although Apotex may have known about the infringing use, the use was not approved by the FDA, it was only used in an infringing way about two percent of the time, and therefore, the evidence was insufficient to infer intent. *Id.* at 1365–66.

<sup>224</sup> *Id.* at 1365.

<sup>225</sup> *Id.*

<sup>226</sup> See *supra* note 33 and accompanying text.

<sup>227</sup> See *supra* Part II.D.

<sup>228</sup> See *supra* notes 124–25 and accompanying text.

<sup>229</sup> See *supra* note 126–27 and accompanying text.

June 27, 2005 the Supreme Court issued a decision in *Grokster*, in which it adopted liability for inducing infringement of a copyright.<sup>230</sup>

The Supreme Court's decision received criticism for lacking clarity.<sup>231</sup> Many of the uncertainties could be resolved by examining the decision in conjunction with the previously established principles of inducing infringement in patent law, since that is where the Supreme Court admittedly borrows the doctrine.<sup>232</sup> Criticism that the Supreme Court was too vague, in regard to the exact requirements of inducement and infringement, can be resolved through an analysis of Justice Souter's decision in its entirety, as well as looking to patent law which established direct infringement, intent, and knowledge as the necessary requirements.<sup>233</sup> The concern over the lack of clarity of what constitutes intent can be resolved by recognizing the guidance Justice Souter provides, by listing specific activities which are not sufficient to constitute intent, as well as looking at patent law cases in which the Federal Circuit provides further guidelines for finding intent.<sup>234</sup> The disagreement among the Justices concerning the fate of the *Sony* decision can also be resolved by looking to patent law, from which the *Sony* decision was originally borrowed, and where the staple-article doctrine and inducing infringement rule coexist.<sup>235</sup>

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<sup>230</sup> See *supra* notes 129–30 and accompanying text.

<sup>231</sup> See *supra* notes 150–51 and accompanying text.

<sup>232</sup> See *supra* Part IV.A–B.

<sup>233</sup> See *supra* Part IV.A.

<sup>234</sup> See *supra* Part IV.B.

<sup>235</sup> See *supra* Part IV.C.