



Interpreting Grokster: Limits on the Scope of Secondary Liability for Copyright Infringement

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INTRODUCTION

¶1 One year ago, on June 27, 2005, the Supreme Court released its much-anticipated ruling in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005). The unanimous decision held that Grokster and StreamCast, the distributors of popular peer-to-peer “file sharing” software, could be secondarily liable for copyright infringement committed by their users if the companies took active steps to induce infringement.

¶2 Many observers applauded the decision, but also noted that much will depend on how it is interpreted and applied by lower courts. Others were more skeptical, expressing concern that uncertainty relating to the new “inducement” test could increase the litigation risk facing technology innovators and thus have a chilling effect on the development and deployment of new technologies.

¶3 The Center for Democracy and Technology (CDT) is a non-profit public interest group that seeks to promote free expression, privacy, and individual liberty on the open, decentralized Internet. CDT supports the imposition of secondary liability for copyright infringement in appropriate circumstances, but also believes that overbroad application of secondary liability would have serious and detrimental consequences for technological innovation. CDT submitted an amicus brief in the *Grokster* case, together with several technology associations, urging a “careful balance between protecting copyright owners and shielding innovative companies from secondary liability resulting from the misuse of their novel technologies.”

¶4 CDT believes that the Supreme Court’s *Grokster* opinion, properly interpreted, strikes an appropriate balance. It preserved secondary liability as a powerful tool against copyright infringement. At the same time, it declined to adopt theories of liability, offered by the content industry, that would have overturned or pared back the rule established in the 1984 *Sony Betamax* case that protects distributors of products with substantial noninfringing uses. Moreover, the language and rationale of the decision suggest a number of significant limits on the scope of secondary liability for copyright infringement.

¶5 This document outlines the limits on the scope of secondary copyright liability that follow from a close reading of the *Grokster* decision together with the landmark decision in *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), and patent law precedents relating to inducement liability. CDT believes the legal principles set forth below represent the best reading of current law in the wake of *Grokster*—and that careful observance of these principles by lower courts would serve the *Grokster* Court’s goal of ensuring that secondary liability for copyright infringement “does nothing to compromise legitimate commerce or discourage innovation having lawful promise.” *Grokster*, 125 S. Ct. at 2780.

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SUMMARY OUTLINE

I. THE INDUCEMENT TEST

- A. *Grokster* retains and confirms *Sony*'s "substantial noninfringing use" defense: a court may not impose liability nor infer culpable intent to induce infringement based on the production and distribution of a product capable of substantial noninfringing use—even if the product's maker knows that some infringing uses are certain to occur.
- B. Ordinary acts incident to product distribution, such as product upgrades and technical support, do not in any way make the *Sony* rule inapplicable. If the distribution of the product is protected, so are support, upgrades, and similar activities incident to such distribution.
- C. Rather, intentional inducement requires a showing of clear affirmative statements or actions ("active steps") intended to promote or encourage infringement.
1. The statements or actions must be *clear*—not ambiguous as to meaning or intent.
 2. At least some statements or actions must be *externally directed*; purely internal communications are not sufficient.
 3. The active steps must be independent of the design and distribution of the product.
 4. If the plaintiff cannot present evidence of such active steps, the case should be dismissed at summary judgment, and possibly can be dismissed in response to a motion to dismiss directed to the face of the pleadings.
 5. If a plaintiff has no evidence of externally directed active steps, the plaintiff should not be entitled to discovery relating to a defendant's internal communications.
- D. The alleged inducer must have culpable intent.
1. To be guilty of inducement, the alleged inducer must intend that the infringing acts will occur.
 2. If a defendant could not have been expected to know that the conduct he induced was infringing or had a reasonable belief that the conduct was lawful, liability should not apply.
- E. Failure to make design changes to reduce infringement and benefiting financially from infringement are not sufficient bases for inferring intent. These kinds of indirect evidence of possible intent can be used to corroborate (or

refute) direct evidence of intent consisting of affirmative statements or actions—but in the absence of such affirmative statements or actions, neither design choices nor financial interest can give rise to liability.

1. Failing to make design changes to reduce infringement is not sufficient to infer intent.
2. Benefiting financially from infringement is not sufficient to infer intent.
3. The combination of these two factors is not sufficient to infer intent, in the absence of affirmative statements or actions. If these factors are all that can be shown, cases should be dismissed at summary judgment.

F. Remedies for inducement should be tailored appropriately to the Court's goal of avoiding trenching on regular commerce in technologies with lawful uses. Specifically, if the inducer is distributing a technology with substantial noninfringing uses, injunctive relief should be limited to enjoining affirmative inducing acts; it should not include court-ordered product redesign or injunctions against product distribution.

II. IMPLICATIONS FOR THE *SONY* RULE

- A. Language in *Grokster* suggests that the *Sony* test focuses on "substantial" noninfringing uses, not "commercially significant" noninfringing uses. The evaluation of whether uses are "substantial" should not be based purely on their commercial value.
- B. Both *Grokster* concurrences suggest that the *Sony* reference to "capable of" means that courts should not limit their inquiry to current uses, but rather should give considerable deference to potential future uses.

III. IMPLICATIONS FOR VICARIOUS LIABILITY

Courts should not interpret the "right and ability to control" prong of vicarious liability as being satisfied by a company's ability or practice of providing product support or upgrades or by its ability to have designed its product differently.

INTERPRETING GROKSTER:

LIMITS ON THE SCOPE OF SECONDARY LIABILITY FOR COPYRIGHT INFRINGEMENT

I. THE INDUCEMENT TEST

A. Grokster retains and confirms Sony’s “substantial noninfringing use” defense: a court may not impose liability nor infer culpable intent to induce infringement based solely on the production and distribution of a product capable of substantial noninfringing use—even if the product’s maker knows that some infringing uses are certain to occur.

¶6 The *Grokster* opinion was clear on this point:

- “In short, the [staple article of commerce] doctrine 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 the mere understanding that some of one’s products will be misused.” 125 S. Ct. at 2778.
- “*Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement.” *Id.* at 2778.
- “*Sony*’s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product.” *Id.* at 2779.

B. Ordinary acts incident to product distribution, such as product upgrades and technical support, do not in any way make the Sony rule inapplicable. If the distribution of the product is protected, so are support, upgrades, and similar activities incident to such distribution.

¶7 The *Grokster* Court expressly stated that the provision of technical support and product upgrades will not give rise to liability where the *Sony* defense would otherwise apply.

Accordingly, just as Sony did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, 464 U.S. at 439, n.19, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. *Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves.*

Id. at 2780 (emphasis added).

C. Rather, intentional inducement requires a showing of clear affirmative statements or actions (“active steps”) intended to promote or encourage infringement.

¶8 This is clear from the Court’s basic statement of its holding, and is reflected throughout the opinion.

- “We hold that one who distributes a device with the object of *promoting* its use to infringe copyright, as shown by *clear expression or other affirmative steps to foster infringement*, is liable for the resulting acts of infringement by third parties.” *Id.* at 2770 (emphasis added).

- “[W]here 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.” *Id.* at 2779 (emphasis added).
- “The record is replete with evidence that from the moment Grokster and StreamCast began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took *active steps to encourage infringement*.” *Id.* at 2772 (emphasis added).
- “Evidence of ‘active steps . . . taken to encourage direct infringement,’ . . . show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law’s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.” *Id.* (first ellipsis in original) (quoting *Oak Industries, Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988)).

1. The statements or actions must be clear—not ambiguous as to meaning or intent.

¶9 Clarity is required by the plain language of the Court’s rule: “as shown by *clear* expression or other affirmative steps.” *Id.* at 2770 (emphasis added).

¶10 The Court’s analysis of the *Sony* case reinforces the conclusion that ambiguous statements or actions are not sufficient. Specifically, the Court said that Sony’s advertisements encouraging users to “record favorite shows” or “build a library,” *id.* at 2777 (quoting *Sony*, 464 U.S. at 459 (Blackmun, J., dissenting)), of recorded programs provided “no evidence of intent to promote infringing uses” because “neither of these uses was necessarily infringing.” *Id.* (citing *Sony*, 464 U.S. at 424, 454-55). This reflected the rule, imported from patent law, that the “equivocal conduct” of selling items with both lawful and unlawful uses will not give rise to liability. *Id.* at 2777-78.

¶11 Applying this principle to a more recent example, it would follow that Apple’s 2001 “Rip. Mix. Burn.” ad campaign for computers with CD burners, *e.g.*, Apple.com, Ads—Rip. Mix. Burn., <http://www.asia.apple.com/hardware/ads/ripmixburn-long.html> (last visited Apr. 12, 2006), would not have been evidence of an intent to induce infringement. It is not likely illegal for computer users to rip, mix, and burn music for their own personal use from CDs they lawfully own. Thus, Apple’s advertisements did not unambiguously encourage infringement, as would be required to create inducement liability.

2. At least some statements or actions must be externally directed; purely internal communications are not sufficient.

¶12 While the *Grokster* Court did not articulate this point as clearly as it might have, its discussion of the inducement test carries the strong implication that at least some statements or actions must be *externally directed* in order for inducement liability to apply.

¶13 The basic statement of the Court’s test is that liability for inducement requires a showing that a product is distributed with “the object of promoting its use to infringe copyright, as shown by a clear expression or other affirmative steps to foster infringement.” *Grokster*, 125 S. Ct. at 2770, The Court repeatedly emphasized such “promotion” or “encouragement” in its restatements of the inducement test. *See* bulleted quotations at the start of Section C *supra*; *see also Grokster*, 125 S. Ct. at 2782 n.13 (“Distribution of a product can itself give rise to liability where evidence shows that the distributor intended *and encouraged* the product to be used to infringe.” (emphasis added)). “Promoting” or “encouraging” infringement imply some outward facing actions. In the absence of a showing of such “promotion” or “encouragement,” liability should not attach.

¶14 Indeed, promotion was cited by the Court as precisely the showing that was necessary for plaintiffs to survive summary judgment: “The only apparent question about treating MGM’s evidence as sufficient to withstand summary judgment under the theory of inducement goes to the

need on MGM's part to adduce evidence that StreamCast and Grokster communicated an inducing message *to their software users.*" *Id.* at 2780 (emphasis added).

¶15 Moreover, in tracing the history of inducement liability, the Court cited four early cases for the proposition that *advertising* infringing use of a product—clearly an externally directed activity—will give rise to liability. *Id.* at 2779 (citing *Kalem v. Harper Brothers*, 222 U.S. at 62-63; *Henry v. A. B. Dick Co.*, 224 U.S. at 48-49; *Thomson-Houston Electric Co. v. Kelsey Electric R. Specialty Co.*, 75 F. 1005, 1007-1008; and *Rumford Chemical Works v. Hecker*, 20 F. Cas. 1342, 1346). The Court then cited more recent cases, stressing externally directed actions such as actively and knowingly aiding and abetting infringement; demonstrating and recommending infringing uses; and depicting infringing uses in promotional films and brochures. *Id.* at 2779-80 (citing *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 668; *Fromberg, Inc. v. Thornhill*, 315 F.2d 407, 412-13; *Haworth Inc. v. Herman Miller Inc.*, 37 U.S.P.Q. 2d 1080, 1090; and *Sims v. Mack Trucks, Inc.*, 459 F. Supp. 1198, 1215.) The Court went on to observe that “[t]he classic instance of inducement is by advertisement or solicitation that broadcasts *a message designed to stimulate others* to commit violations.” *Id.* at 2780 (emphasis added).

¶16 There are two sections of the Court's decision to which plaintiffs looking to dodge an active promotion requirement might point. However, read in context, we believe both of these sections are consistent with the Court's other clear statements that inducement liability requires externally focused statements or actions aimed at inducing infringement.

¶17 First, the Court addressed certain internal StreamCast communications. The Court wrote, “whether the[se] messages were communicated is not to the point on this record. The function of the message in the theory of inducement is to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection.” *Id.* at 2781. Reading further, however, indicates just what the Court took these internal statements to prove: “Proving that a message was sent out, then, is the preeminent but not exclusive way of showing that *active steps were taken with the purpose of bringing about infringing acts . . .*” *Id.* (emphasis added). In this instance, then, the internal messages were not themselves the “active steps,” but rather were evidence that the active steps StreamCast did take (such as aggressively courting Napster users when that service was shut down, a strategy the Court discussed at length, *see id.* at 2772-74, were taken with culpable intent. Thus, the Court characterized the evidence of internal communications as a “supplement” to the evidence based on StreamCast's direct communications to users. *Id.* at 2781. Externally directed affirmative acts remain a necessary element of the Court's test, and the Court's discussion of the internal StreamCast messages should not be taken to imply otherwise.

¶18 Second, in one description of the inducement standard somewhat different from the Court's other statements, the Court wrote, “In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement.” *Id.* at 2782. This statement opened the Court's discussion of evidence of direct infringement in section III(B) of the opinion, *id.* at 2782-83. By itself, one might read the phrase “intent to bring about infringement” as being purely about internal mental state. However, the phrase must be construed in light of the lengthy discussion of promoting infringement in the preceding section III(A). Given this discussion and the Court's other statements in the decision, it makes more sense to understand “intent to bring about infringement” as consistent with the test stated at the outset and reiterated throughout: “intent to bring about infringement” means not just passively wishing for a technology to be used for infringement, but “promoting its use to infringe copyright.” *Id.* at 2770.

3. The active steps must be independent of the design and distribution of the product.

¶19 As discussed above, *Grokster* confirmed that the *Sony* rule bars imposing secondary liability “solely from the design or distribution of a product capable of substantial lawful use,” even when the defendant knows the product is in fact used for infringement. *Id.* at 2778. Inducement liability, then, rests on active steps other than product design and distribution. According to the Supreme Court,

failing to distinguish product design and distribution (protected by *Sony*) from other, active steps encouraging infringement (not protected by *Sony*) was a key mistake in the Ninth Circuit's *Grokster* opinion, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005): the Ninth Circuit failed to recognize that *Sony*'s protection from liability does not apply "when an actual purpose to cause infringing use is shown by evidence *independent of design and distribution* of the product." *Grokster*, 125 S. Ct. at 2778 (emphasis added).

4. If the plaintiff cannot present evidence of such active steps, the case should be dismissed at summary judgment, and possibly can be dismissed in response to a motion to dismiss directed to the face of the pleadings.

¶20 Summary judgment is appropriate when "there is no genuine issue as to any material fact" and "the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). In a case where one party will bear the burden of proof on a dispositive issue at trial, the opposing party is entitled to summary judgment if no evidence toward fulfilling that burden can be shown. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986) ("Such a motion . . . requires the nonmoving party to go beyond the pleadings and . . . designate 'specific facts showing that there is a genuine issue for trial.'").

¶21 Following this rule, if plaintiffs in a case alleging inducement to infringe copyright can provide no evidence of the necessary affirmative statements or actions promoting infringement (recalling that mere distribution of a product with both lawful and unlawful uses is not such evidence, *Sony*, 464 U.S. at 442), then there is no genuine issue as to material fact.

¶22 In patent law, the Federal Circuit has taken just such an approach. In *Warner-Lambert v. Apotex*, 316 F.3d 1348 (Fed. Cir. 2003), the Warner-Lambert Company sued Apotex Corporation, alleging that Apotex had induced infringement of a Warner-Lambert pharmaceutical patent by selling a chemically similar product. Though Apotex's product was labeled for purposes not covered by the Warner-Lambert patent, Warner-Lambert alleged that Apotex knew or should have known that its pharmacologically equivalent drug would be prescribed for "off-label" uses by doctors, specifically uses covered by Warner-Lambert's patent. *Id.* at 1353. On appeal, the Federal Circuit affirmed summary judgment in favor of Apotex because Warner-Lambert had failed to show culpable affirmative statements or actions by Apotex, and Apotex's drug had substantial noninfringing uses: "In the absence of any evidence that Apotex has or will promote or encourage doctors to infringe the neurodegenerative method patent, there has been raised no genuine issue of material fact." *Id.* at 1364.

¶23 A plaintiff's failure to articulate and present some evidence of active, externally directed steps to promote infringement can also be grounds for dismissal under Federal Rule of Civil Procedure 12(b)(6). The U.S. District Court for the District of Columbia recently dismissed a contributory copyright infringement case in part because the complaint "contain[ed] only cryptic suggestions that the defendants substantially participated in the alleged infringing activities." *Newborn v. Yahoo!, Inc.*, 391 F. Supp. 2d 181, 189 (D.D.C. 2005). The court wrote that the complaint's "brief, conclusory statements, which are accompanied by no factual support, are simply insufficient to state a claim of contributory copyright infringement." *Id.* Similarly, an inducement complaint that merely alleges unspecified steps to encourage infringement, accompanied by no factual support, should be subject to dismissal.

5. If a plaintiff has no evidence of externally directed active steps, the plaintiff should not be entitled to discovery relating to a defendant's internal communications.

¶24 As discussed above, inducement liability requires externally directed statements or actions; purely internal communications are not sufficient. *See* discussion at Section C.2 *supra*. It follows that, in the absence of evidence of externally directed statements or actions, a plaintiff should not be entitled to discovery relating to a defendant's internal communications, such as meeting notes or e-mails between employees.

¶25 Federal Rule of Civil Procedure 26(b)(2) states that discovery “shall be limited by the court if it determines that . . . the burden or the expense of the proposed discovery outweighs its likely benefit” The burden of requiring a defendant to sift through all its e-mails and other internal communications from the entire time period during which it developed and marketed a product would be very high. *See, e.g., Zubulake v. UBS Warburg*, 2004 WL 1620866 (S.D.N.Y. 2004) (“As individuals and corporations increasingly do business electronically—using computers to create and store documents, make deals, and exchange e-mails—the universe of discoverable material has expanded exponentially. The more information there is to discover, the more expensive it is to discover all the relevant information”); *Byers v. Illinois State Police*, 2002 U.S. Dist. LEXIS 9861 at *32 (“Many informal messages that were previously relayed by telephone or at the water cooler are now sent via e-mail. Additionally, computers have the ability to capture several copies (or drafts) of the same e-mail, thus multiplying the volume of documents. All of these e-mails must be scanned for both relevance and privilege. Also . . . archived e-mails typically lack a coherent filing system.”).

¶26 Meanwhile, absent evidence that the threshold requirement of externally directed statements or actions had been met, the benefit of allowing a full search of internal communications would be minimal. If the plaintiff cannot present evidence of externally directed inducing communications, the defendant will be entitled to summary judgment (and perhaps to have the case dismissed for failure to state a claim) regardless of what the internal communications contain. *See* discussion at Section C.2, *supra*. Thus, a plaintiff should not be able to forestall summary judgment and prolong litigation by seeking discovery of internal communications, if after initial discovery into external communications there still is no evidence of outward-facing statements or actions promoting infringement. *See Medical Billing Consultants v. Intelligent Medical Objects*, 2003 U.S. Dist. LEXIS 5606 (N.D. Ill. 2003) at *6 (denying motion to compel production of certain documents until after a decision on defendant’s summary judgment motion, on the ground that discovery of the documents “at this point in the litigation is not necessary” and “may be irrelevant” depending on the summary judgment decision.)

¶27 This principled limitation on discovery will be crucial to achieving the *Grokster* Court’s aim of avoiding “trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential.” 125 S. Ct. at 2780. If any plaintiff were permitted to extend litigation by seeking discovery of anything and everything said or communicated between company employees concerning a company product, from the time the company first began to develop the product through full-scale commercialization, then every developer of technology would face the prospect of lengthy “fishing expeditions” by plaintiffs. With no ability to limit the process or its costs, smaller and less-established technology companies would be forced to settle lawsuits with better-funded opponents on the opponents’ terms. Such a result could severely discourage the development of innovative technologies that have both lawful and unlawful uses—precisely what the *Grokster* Court was seeking to avoid.

¶28 Moreover, courts have denied discovery requests when the likely costs are significant and the party seeking discovery has failed to articulate a specific basis for believing that relevant evidence would result. *See Wright v. AmSouth Bancorp.*, 320 F.3d 1198 (11th Cir. 2003) (upholding denial of plaintiff’s “unduly burdensome” request for discovery of all word processing files created, modified, or accessed by five employees over a two and one-half year period, where plaintiff had “failed to make a reasonable showing of relevance” for the requested items); *Fennell v. First Step Designs*, 83 F.3d 526 (1st Cir. 1996) (upholding denial of a motion for further discovery where the discovery would entail substantial costs and there was “little particularized basis” to believe that relevant evidence would be found).

D. The alleged inducer must have culpable intent.

¶29 The *Grokster* Court stated that “[t]he inducement rule . . . premises liability on purposeful, *culpable* expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.” 125 S. Ct. at 2780 (emphasis added).

¶30 The Court also characterized both the staple article of commerce doctrine and *Sony* as reserving liability for cases where there is culpability or fault. It wrote that the staple article of commerce doctrine “limits liability to instances of more acute fault” than simply knowing a product will be misused. *Id.* at 2778. Similarly, “*Sony’s* rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product,” but at the same time “was never meant to foreclose rules of fault-based liability.” *Id.* at 2779.

¶31 The requirement of culpable intent carries at least two implications.

1. To be guilty of inducement, the alleged inducer must intend that the infringing acts will occur.

¶32 The Federal Circuit has embraced this principle in the patent law context. See *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) (“[W]e are of the opinion that proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”).

2. If a defendant could not have been expected to know that conduct he induced was infringing or had a reasonable belief that the conduct was lawful, liability should not apply.

¶33 In patent law, a defendant who intends to induce a specific act, when he knew or should have known that the act constituted infringement, is secondarily liable for the infringement. If the defendant neither knew nor should have known that the induced act was infringing, it is an open question whether secondary liability attaches. The Federal Circuit has declined to rule decisively on this issue.

[T]here is a lack of clarity concerning whether the required intent must be merely to induce the specific acts or additionally to cause an infringement. See *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) (“The plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.”). But see *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) (“Proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”).

Insituform Techs., Inc. v. Cat Contracting, Inc., 385 F.3d 1360, 1378 (Fed. Cir. 2004).

¶34 This issue was not expressly addressed in the *Grokster* case, as there was no indication that either defendant had a reasonable belief that the behavior it induced was lawful. Of the two approaches, however, the *Manville Sales* formulation—“[t]he plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce actual infringements,” 917 F.2d at 553 (emphasis added)—is more consistent with the *Grokster* opinion.

¶35 First, the Court’s discussion of *Sony* suggests that the applicability of inducement liability in that case turned not just on whether the conduct Sony induced was in fact unlawful, but rather on whether the conduct was *already known* to be unlawful. Sony had run advertisements aimed at inducing behavior (building a library of recorded programs) that was arguably infringing. The *Grokster* Court stated that because this behavior was not “necessarily infringing” there was “no evidence of stated or indicated intent to promote infringing uses” and thus “the *only conceivable* basis for imposing liability was on a theory of contributory infringement.” 125 S. Ct. at 2777 (emphasis added). Surely an inducement action would have been “conceivable” if it hinged solely on resolving the questionable legality of users creating home libraries of copyrighted works. The Court’s analysis strongly suggests that because this legal issue was unsettled, Sony lacked the culpable intent required for inducement liability.

¶36 The policy behind the *Grokster* decision also argues for not applying inducement liability when a defendant has a reasonable belief that the conduct she promotes is lawful.

¶37 The Court recognized “the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential.” *Id.* at 2780. It further stated that its inducement test “does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.” *Id.* But innovation would indeed be discouraged if technology developers could be held liable for guessing wrong about notoriously slippery copyright concepts such as fair use. Technological development inevitably will outpace judicial determinations of the legal contours for innovative uses of content. Holding technologists responsible for promoting behavior that they reasonably believe to be fully lawful would, as a practical matter, force innovators to defer advertising innovative features until their status had been legally settled. Inevitably, this would discourage the development of such features.

E. Failure to make design changes to reduce infringement and benefiting financially from infringement are not sufficient bases for inferring intent. These kinds of indirect evidence of possible intent can be used to corroborate (or refute) direct evidence of intent consisting of affirmative statements or actions—but in the absence of such affirmative statements or actions, neither design choices nor financial interest can give rise to liability.

1. Failing to make design changes to reduce infringement is not sufficient to infer intent.

¶38 The *Grokster* Court stated plainly that “*Sony*’s rule limits imputing culpable intent as a matter of law from the characteristics . . . of a distributed product.” *Id.* at 2779. Thus, the mere fact that a product includes or fails to include certain features will not be sufficient to infer the designer’s intent.

¶39 Although the Court cited defendants’ failure to include measures to reduce infringing uses as supporting its conclusion about their intent, it is important to note the secondary role this factor played. The Court wrote that “this evidence [communications and marketing to Napster users] of unlawful objective is *given added significance* by MGM’s showing that neither company attempted to develop . . . mechanisms to diminish the infringing activity using their software.” *Id.* at 2781 (emphasis added). The Court went on to say that the Ninth Circuit was wrong to treat the failure to develop such mechanisms as wholly irrelevant—but its relevance was that it “*underscores Grokster’s and StreamCast’s intentional facilitation of their users’ infringement.*” *Id.* (emphasis added). In short, it was corroborating evidence.

¶40 The Court made this point expressly in footnote 12: “Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device was otherwise capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.” *Id.* at 2781 n.12.

¶41 Similarly, from patent law: “‘Actively inducing,’ like ‘facilitating,’ requires an affirmative act of some kind [J]urisdiction for a claim of inducement cannot be premised on an omission. . . .” *Tegal Corp. v. Tokyo Electron Co., Ltd.*, 248 F.3d 1376, 1378-79 (Fed. Cir. 2001) (citing *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1569 (Fed. Cir. 1994)) (citations omitted and emphasis removed).

2. Benefiting financially from infringement is not sufficient to infer intent.

¶42 The *Grokster* Court observed that the defendants benefit financially from the infringing use of their software because their advertising revenue rises the more the software is used. But again, it is crucial to note how the Court characterized this evidence—as “a further complement to the direct evidence of unlawful objective.” 125 S. Ct. at 2781. The Court went on to state expressly that “[t]his evidence alone would not justify an inference of unlawful intent.” *Id.* at 2782.

¶43 It is worth noting that the opposite rule—inferring intent from financial interest—would mean that culpable intent could be inferred for practically any commercial technology offering. Whether

revenue is derived from product sales or advertising, higher volume usage of a product will virtually always translate into higher profits. So if some of the volume is due to unlawful uses, the maker of the product benefits from those uses. Certainly Sony benefited financially from a high volume of VCR sales, including sales to infringing users—but the *Sony* Court refused to infer culpable intent from that profit motive. *See Sony*, 464 U.S. at 439 (“If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory.”). Profit motive alone cannot establish the requisite intent for inducement liability.

3. *The combination of these two factors is not sufficient to infer intent, in the absence of affirmative statements or actions. If these factors are all that can be shown, cases should be dismissed at summary judgment.*

¶44 Failing to take steps to reduce infringement plus benefiting financially from infringement cannot be enough to find culpable intent, for the same reasons that the *Grokster* Court said neither alone is sufficient. Since practically any commercial company will have a financial interest in the increased use or sales of its product, inferring intent from the combination of these two factors would implicate virtually any company that does not design its product to reduce infringement. But the Court specifically wrote that *Sony* “absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses” and “limits imputing culpable intent as a matter of law from the characteristics . . . of a distributed product.” 125 S. Ct. at 2779.

¶45 Certainly Sony had a financial interest in the sale of VCRs and could have altered the product in ways that would have reduced infringement (such as removing the record button)—so if product design plus financial interest were enough to infer culpable intent, Sony should have been inferred to have such intent. Instead, the Court characterized the facts of the *Sony* case as showing “no evidence of stated or indicated intent to promote infringing uses,” making liability on an inducement theory unavailable. *Id.* at 2777.

¶46 Moreover, if a plaintiff’s only evidence is failure to take technical or other steps plus a financial interest, he will have failed to show the “encouragement,” “promotion,” or other active steps that are necessary to an inducement claim, as we discuss at length in Section C *supra*. As described there, in the absence of such a showing, a plaintiff will have failed to raise any “genuine issue of material fact” and defendants should be entitled to summary judgment.

F. Remedies for inducement should be tailored appropriately to the Court’s goal of avoiding trenching on regular commerce in technologies with lawful uses. Specifically, if the inducer is distributing a technology with substantial noninfringing uses, injunctive relief should be limited to enjoining affirmative inducing acts; it should not include court-ordered product redesign or injunctions against product distribution.

¶47 The *Grokster* Court did not address the question of remedies. Both patent law and the *Sony* case, however, suggest that responding to unlawful inducement by enjoining distribution of a technology with lawful uses would greatly upset the balance that the law seeks to achieve in this area.

¶48 In patent law, remedies for inducement do not include enjoining the design or distribution of ordinary, multi-use items that can be used to infringe a patent. The rationale is that the patent holder’s government-granted monopoly over a particular technology should not give it control over the distribution of items not covered by the patent. Indeed, seeking to leverage a patent into control over distribution of a “staple article of commerce” is considered patent misuse. *See Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491 (1942) (holding that “the use of [a patent] to suppress competition in the sale of an unpatented article may deprive the patentee” of its right to obtain relief against an infringer). Enjoining distribution of a multi-purpose article of commerce as a remedy for

unlawful inducement would allow a patent holder to exercise exactly the kind of control over nonpatented goods that the misuse doctrine is designed to prevent.

¶49 Thus, a leading patent law treatise states “the patent owner’s remedies . . . for active inducement cannot be expanded so as to establish exclusive control over the staple commodity. Such expansion would upset the delicate balance established by Section 271(d) [of 35 U.S.C., pertaining to misuse of the patent monopoly].” 1 Donald S. Chisum, *Patents: A Treatise on the Law of Patentability, Validity, and Infringement* § 17.04[3] (2005).

¶50 Likewise, the Fifth Circuit has held that a patent holder may sue a “seller of staples who is ‘actively inducing’ infringement. The patentee’s relief, however, would not be an injunction forbidding the defendants’ sale of staples, since mere sale is not wrongful under [35 U.S.C. § 271](b) or (c). Appropriate relief might extend to an injunction against continuing to ‘actively induce’ infringement, conduct forbidden by [§ 271](b).” *Robm & Haas Co. v. Dawson Chemical Co.*, 599 F.2d 685, 704 (5th Cir. 1979).

¶51 A parallel skepticism over inappropriate expansion of a government-granted monopoly, in the copyright context, is precisely what led the Supreme Court to rule as it did in *Sony*:

The Court of Appeals’ holding that respondents are entitled to enjoin the distribution of VTRs, to collect royalties on the sale of such equipment, or to obtain other relief, if affirmed, would enlarge the scope of respondents’ statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection. Such an expansion of the copyright privilege is beyond the limits of the grants authorized by Congress.

Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 421 (1984). The Court went on to hold that, “in an action for contributory infringement against the seller of copying equipment, the copyright holder may not prevail unless the relief that he seeks affects only his programs, or unless he speaks with virtually all copyright holders with an interest in the outcome.” *Id.* at 446 (emphasis removed).

¶52 The *Sony* Court’s analysis on this point is fully applicable to inducement cases; the concerns the Court expressed about overbroad injunctive relief do not depend in any way on the particular legal theory under which secondary liability is established. Thus, a plaintiff may reasonably seek damages against an inducer. He may seek to enjoin conduct involving the active promotion of infringement. He may not, however, seek to block distribution of a general purpose copying or networking technology. That would not be “relief that . . . affects only his programs,” as *Sony* requires. *Id.* Moreover, in the case of a general purpose copying or networking technology, it is inconceivable that a plaintiff could speak for “virtually all copyright holders with an interest in the outcome,” since that would be virtually all copyright holders everywhere.

¶53 A plaintiff seeking support in the *Grokster* opinion for the kind of injunction that patent law and *Sony* appear to reject might point to footnote 13, which stated that in an inducement case, “the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use.” 125 S. Ct. at 2782 n.13. But this footnote neither addressed nor carried any necessary implication for the issue of what remedies should be available when inducement liability is found.

¶54 Rather, the purpose of the footnote was to respond to the defendants’ argument that the inducement theory of liability was not properly before the Court. The defendants had argued, in effect, that the question of whether they could be held liable for distributing a technology was entirely separate from the question of whether they could be held liable for actions that actively encourage the technology’s infringing use. The point of the footnote was to say that the two questions are not so separate. Under the inducement theory, the footnote explained, it is the entire course of conduct—distributing a product, while intending and taking active steps to encourage its use for infringement—that is unlawful. Indeed, the footnote characterizes this combination of elements as “the culpable act” (singular). In fashioning an appropriate remedy for such an unlawful

course of conduct, there is no reason to assume that enjoining each and every individual element of the course of conduct would be the best option. Thus, in crafting the scope of any injunction, the analysis from *Sony* should still control—and certainly should not be displaced by a footnote that does not even purport to consider the remedies issue.

II. IMPLICATIONS FOR THE SONY RULE

¶55 The Court in *Grokster* declined to “revisit *Sony* further . . . to add a more quantified description” of how much noninfringing use is sufficient under *Sony*. *Id.* at 2778. However, the Court’s opinion does help clarify how the Court views the *Sony* test in other important regards.

A. Language in Grokster suggests that the Sony test focuses on “substantial” noninfringing uses, not “commercially significant” noninfringing uses. The evaluation of whether uses are “substantial” should not be based purely on their commercial value.

¶56 In its restatements of the *Sony* principle in the *Grokster* decision, the Court repeatedly used the phrasing “substantial” rather than “commercially significant.”

- “[T]he [staple article of commerce] doctrine 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 the mere understanding that some of one’s products will be misused.” *Id.* at 2777-78 (emphasis added).
- “Sony barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement.” *Id.* at 2778 (emphasis added).
- “[I]n the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the Sony safe harbor.” *Id.* at 2781 n.12 (emphasis added).
- “[Sony] struck a balance between the interests of protection and innovation by holding that the product’s capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.” *Id.* at 2782 (emphasis added).

¶57 This distinction is significant for several reasons. It clarifies that noncommercial products or distributors are entitled to the same legal protection as commercial ones. It also allows courts to take account of uses that may be qualitatively very significant, whether or not they constitute a large proportion of use quantitatively. For example, if a programmer distributes a new anonymizing technology with the aim of aiding foreign dissidents, that use might qualify as “substantial” even if more users choose to employ the technology for other, potentially unlawful purposes.

B. Both Grokster concurrences suggest that the Sony reference to “capable of” means that courts should not limit their inquiry to current uses, but rather should give considerable deference to potential future uses.

¶58 The *Sony* case protected technologies that are “capable of substantial noninfringing uses.” 464 U.S. at 442. The majority opinion in *Grokster* did not provide further detail about how *Sony*’s “capable of” language should be interpreted. However, both of the concurrences, signed by three justices each,

touched on the issue. Both suggested that “capable of” implied considerable deference to potential future uses of products.

¶59 Arguing that Grokster and StreamCast had not made an adequate showing to warrant summary judgment under *Sony*, Justice Ginsburg wrote, “[f]airly appraised, the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant uses were likely to develop over time.” *Grokster*, 125 S. Ct. at 2786 (Ginsburg, J., concurring).

¶60 Justice Breyer, disagreeing with Ginsburg’s analysis of the facts, wrote:

Importantly, *Sony* also used the word “capable,” asking whether the product is “*capable of*” substantial noninfringing uses. Its language and analysis suggest that a figure like 10%, if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time. See [*Sony*, 464 U.S. at 444] (noting a “significant potential for future authorized copying”). And its language also indicates the appropriateness of looking to potential future uses of the product to determine its “capability.”

Here the record reveals a significant future market for noninfringing uses of Grokster-type peer-to-peer software.

Id. at 2789 (Breyer, J., concurring).

¶61 Although the two concurrences differed in their evaluation of the facts before them, both agreed—using remarkably similar language—that *Sony*’s “capable of” language implied that courts must not only examine current uses, but look to whether there is “a reasonable prospect” of substantial noninfringing use developing “over time.” The only disagreement was whether Grokster and StreamCast had sufficiently demonstrated such a prospect as to warrant summary judgment (and even Justice Ginsburg’s opinion clearly left open that such potential might yet be demonstrable at trial). This forward-looking aspect of the *Sony* rule is essential to protecting technological innovation because, as Justice Breyer noted, “a product’s market can evolve dramatically over time” and a static rule would “threaten technologies that have undeveloped future markets.” *Id.* at 2792 (Breyer, J., concurring).

III. IMPLICATIONS FOR VICARIOUS LIABILITY

Courts should not interpret the “right and ability to control” prong of vicarious liability as being satisfied by a company’s ability or practice of providing product support or upgrades or by its ability to have designed its product differently.

¶62 Canonically, vicariously liability is imposed on those who profit from infringement while declining to exercise a right and ability to control or supervise it. In its *Grokster* decision, the Ninth Circuit rejected the argument that the ability of a peer-to-peer service to modify its software by distributing upgrades constituted an ability to control or supervise the infringing behavior of its users: “We agree with the district court that possibilities for upgrading software located on another person’s computer are irrelevant to determining whether vicarious liability exists.” *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1166 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

¶63 The Supreme Court did not address this part of the Ninth Circuit’s analysis. See *Grokster*, 125 S. Ct. at 2776 n.9 (“Because we resolve the case based on an inducement theory, there is no need to analyze separately MGM’s vicarious liability theory.”). As a procedural matter, however, the Supreme Court decision vacated the Ninth Circuit’s ruling. That ruling thus no longer has the binding force of precedent, only the persuasive force it offers as the considered opinion of the jurists who authored it.

¶64 Similarly, in the Seventh Circuit *Aimster* case, Judge Posner wrote that he had “doubts” that vicarious liability applied in the case. But the court did not need to reach the question of vicarious

liability to decide the case, so the issue was not resolved. *In re Aimster Copyright Litig.*, 334 F.3d 643, 654 (7th Cir. 2003).

¶65 Despite the lack of judicial resolution, it surely would be a bizarre outcome if lower courts now interpreted vicarious liability to impose liability in precisely the circumstances where the *Grokster* and *Sony* Courts said there should be none. In *Grokster*, the Court sought a “sound balance” between the “values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement.” 125 S. Ct. at 2775. That balance required that distributors of products with significant lawful uses not be easily saddled with liability for the uses others may make of those products.

¶66 Interpreting companies’ ability to upgrade their products as a right and ability to control infringing behavior would undermine the Supreme Court’s careful balance. Any software company or any hardware company whose product has upgradeable software or “firmware” components—essentially any vendor of consumer entertainment or IT products in the digital age—could once again face liability for copyright infringement simply by virtue of selling a product capable of both lawful and unlawful uses. This result would seem clearly contrary to the goals of the Court’s careful *Grokster* decision.