Inducement and Grokster: Guarding against the Pitfalls of Copyright Owners' New Weapon

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INDUCEMENT AND GROKSTER:
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COPYRIGHT OWNERS’ NEW WEAPON

INTRODUCTION

This Note provides a discussion of the legal landscape surrounding the Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster)\(^1\) case, where the Supreme Court found that distributors of peer-to-peer file sharing software could be liable according to a new theory of inducing infringement of copyright. This new theory, taken from patent law, allows defendants to be liable for the infringing acts of third parties where there is “clear expression or other affirmative steps taken” showing an intent to induce infringement by third parties.\(^2\) The Court, in what may be a decision narrowly tailored to the facts of the case, found sufficient evidence of that intent, and remanded the case to the lower court for a ruling according to this new theory.\(^3\) But because the Court adopted the theory through an analogy to patent law, it becomes necessary to analyze how courts have applied this patent law doctrine and what issues might confront courts trying to interpret the Grokster opinion in future copyright cases.

In making its decision, the Court passed on the chance to address the copyright owners’ urges to reconsider the Court’s holding in Sony Corp. of America v. Universal City Studios, Inc., which granted protection to product distributors where their goods had “substantial noninfringing uses.”\(^4\) Because that protection remains, courts must interpret and apply the Grokster opinion in a way that does not infringe upon Sony’s safe harbor.\(^5\) In doing so, courts may need to choose a side on the issue of the necessary intent for inducement, where recent authorities have acknowledged a “lack of clarity.”\(^6\)

Part II of this Note will provide an overview of how the law regarding secondary liability and peer-to-peer file sharing developed before

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2. Grokster, 125 S. Ct. at 2780.
3. Id. at 2781–83.
5. See infra notes 213–257 and accompanying text.
6. See infra notes 213–257 and accompanying text.
the Court’s opinion in Grokster. The discussion will summarize the first attempts at applying the Sony doctrine to peer-to-peer software and will be followed by an examination of the Grokster opinion in light of this past precedent in Part III. After examining the opinion, Part IV will analyze the evidence that the Court found indicative of intent to induce infringement. This discussion will include a comparison to approaches taken by courts applying the Grokster opinion. Finally, Part V of this Note will look to patent law, where the Court borrowed the theory of inducing infringement, to discuss issues that may confront courts when applying this new theory of liability. Part V will address a relevant conflict in recent Federal Circuit cases and endorse a sliding scale approach as a potential solution. Finally, Part VI will summarize the findings of this Note and provide a framework of the challenges facing courts charged with interpreting the Supreme Court’s opinion in Grokster.

II. BACKGROUND

This Part discusses the basics of secondary liability in copyright law, as well as the cases that set the stage for the issues presented to the Court in Grokster. The discussion will begin with an overview of the applicable copyright law and a discussion of the Sony case in which the Supreme Court first applied the law to technology. Then, this Part will examine the first application of the Sony ruling to peer-to-peer software in A&M Records v. Napster, Inc. (Napster). Finally, this Part will discuss the alternate interpretation of Sony provided by the Seventh Circuit in In re Aimster Copyright Litigation.

A. Overview of Secondary Liability in Copyright Law

Copyright law is derived from a constitutional mandate and is enacted in a federal statute. Article I, section eight of the Constitution

7. See infra notes 14–88 and accompanying text.
9. See infra notes 128–161 and accompanying text.
10. See infra notes 162–184 and accompanying text.
11. See infra notes 190–257 and accompanying text.
12. See infra notes 213–257 and accompanying text.
13. See infra notes 258–263 and accompanying text.
14. See infra notes 18–88 and accompanying text.
15. See infra notes 18–48 and accompanying text.
16. A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001); see infra notes 49–80 and accompanying text.
17. In re Aimster Copyright Litig., 334 F.3d 643 (7th Cir. 2003); see infra notes 81–88 and accompanying text.
gives Congress power over intellectual property in order to grant exclusive rights to inventors and artists.\textsuperscript{19} Congress does not grant these rights primarily for the benefit of the creator. Rather, copyright law intends to promote the science and arts in order to provide a benefit to the public.\textsuperscript{20} Personal gain for the inventor is a secondary concern.\textsuperscript{21} To serve these purposes, Congress gives a number of rights to copyright owners.\textsuperscript{22}

Violators can be liable for copyright infringement in both direct and secondary fashions.\textsuperscript{23} Secondary theories of liability include contributory liability, vicarious liability, and as this Note will later explain, inducement liability.\textsuperscript{24} The Copyright Act explicitly prohibits direct infringement,\textsuperscript{25} while the secondary theories have developed entirely within the framework of judge-made law.\textsuperscript{26} Judge Posner described this legal framework as necessary where enforcing copyrights against third parties makes more sense than going after the direct infringers.\textsuperscript{27}

\begin{itemize}
\item \textsuperscript{19} U.S. CONST. art. I, § 8 ("The Congress shall have Power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .").
\item \textsuperscript{20} See id.
\item \textsuperscript{21} Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 431–32 (1984) ("Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.") (quoting Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975)).
\item \textsuperscript{22} 17 U.S.C. § 106. This section provides:
\begin{itemize}
\item (1) to reproduce the copyrighted work in copies or phonorecords;
\item (2) to prepare derivative works based upon the copyrighted work;
\item (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
\item (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; [and]
\item (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly . . . .
\end{itemize}
\textit{Id.}
\item \textsuperscript{23} See Kalem Co. v. Harper Bros., 222 U.S. 55, 63 (1911).
\item \textsuperscript{24} Ellison v. Robertson, 357 F.3d 1072, 1076 (9th Cir. 2004); \textit{see infra} notes 119–120, 128–161 and accompanying text.
\item \textsuperscript{25} See 17 U.S.C. § 501(a).
\item \textsuperscript{26} While the Copyright Act does not mention or define secondary liability, some of the legislative history indicates Congress's intent to endorse vicarious and contributory theories. \textit{See} Elizabeth Miles, In re Aimster & MGM, Inc. v. Grokster, Ltd.: Peer-to-Peer and the Sony Doctrine, 19 BERKELEY TECH. L.J. 21, 22 n.5 (2004).
\item \textsuperscript{27} Posner analogized secondary liability for infringement to "inducing a breach of contract": If a breach of contract (and a copyright license is just a type of contract) can be prevented most effectively by actions taken by a third party, it makes sense to have a legal
Contributory liability developed as a way to hold defendants liable for aiding or encouraging copyright infringement. There are three necessary elements: "(1) Direct infringement by a primary infringer, (2) knowledge of the infringement, and (3) material contribution to the infringement." Knowledge, whether actual or constructive, is present where a defendant either knows or should know of infringing activity. A party can materially contribute if it provides the "site and facilities" for copyright infringement.

Vicarious liability, an outgrowth of the common-law doctrine of respondeat superior, is applied in a broader context within copyright law. To establish a claim the plaintiff must satisfy three elements: "(1) Direct infringement by a primary party, (2) a direct financial benefit to the defendant, and (3) the right and ability to supervise the infringers." Vicarious liability differs from contributory liability in that knowledge is not an element, but control and a strong interest are required. The financial benefit gained need not be direct but can be present where infringing use promotes business or attracts customers.

B. Applying Secondary Liability to Technology—Sony Corp. of America v. Universal City Studios, Inc.

In the only prior Supreme Court decision to discuss the subject of secondary liability and technology, the Court, in a five to four deci-
sion, absolved VCR manufacturers of liability for the infringing activities of VCR owners after purchase.\textsuperscript{38} In doing so, the Court reached into the "staple article . . . of commerce" doctrine.\textsuperscript{39} This doctrine is codified within the patent statutes, but analogous provisions are not found anywhere in the Copyright Act.\textsuperscript{40} The doctrine, as applied in patent law, protects the rights of other inventors by not allowing a patent owner to allege infringement where another invention had both infringing and noninfringing uses.\textsuperscript{41} Where an invention is capable of both, patent law absolves the inventor of contributory liability.\textsuperscript{42} The \textit{Sony} Court extended this protection to the realm of copyright law: "[T]he 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."\textsuperscript{43} The Court accepted the argument that the VCR's use as a "time-shifter" was a substantial noninfringing use, and therefore absolved defendants of liability—creating a new shield for defendants against contributory infringement.\textsuperscript{44}

In coming to its decision, the \textit{Sony} Court cast light onto the purpose of copyright law within the framework of technological development.\textsuperscript{45} The Court noted that copyright law has developed alongside technology, and that Congress typically provides the necessary modifications.\textsuperscript{46} This symmetrical growth stems from a need to balance the rights of free expression with the need for technological development without slowing the advent of new and efficient methods of technological dissemination.\textsuperscript{47} In light of this, the \textit{Sony} Court advised courts to refrain from expanding the reach of copyright law without the guidance of Congress.\textsuperscript{48}

\begin{itemize}
  \item \textsuperscript{38} \textit{Id.}
  \item \textsuperscript{39} \textit{Id.} at 440 (quoting 35 U.S.C. § 271(c) (2000)).
  \item \textsuperscript{40} See \textit{id.} The "staple article of commerce" exception is codified in the Patent Code. 35 U.S.C. § 271.
  \item \textsuperscript{41} \textit{Sony}, 464 U.S. at 439–43.
  \item \textsuperscript{42} \textit{Id.}
  \item \textsuperscript{43} \textit{Id.} at 442.
  \item \textsuperscript{44} \textit{Id.} Time-shifting is the act of recording a program in order to view it at a later time. \textit{Id.} at 423. Plaintiffs offered two other uses: recording or copying programs in order to permanently keep them and using recorded programs to allow fast-forwarding through commercials. \textit{Id.} The Court found both uses were infringing. \textit{Sony}, 464 U.S. at 442.
  \item \textsuperscript{45} \textit{Id.} at 430–31.
  \item \textsuperscript{46} \textit{Id.}
  \item \textsuperscript{47} \textit{Id.}
  \item \textsuperscript{48} \textit{Id.}
\end{itemize}
C. Applying Sony to Peer-to-Peer Software: A&M Records, Inc. v. Napster, Inc.\textsuperscript{49}

The first application of the Sony doctrine to peer-to-peer networking came in \textit{A&M Records, Inc. v. Napster, Inc.} Napster used a first-generation, peer-to-peer networking structure that revolved around a central indexing server.\textsuperscript{50} Each user, or client, that connects to the network is a node.\textsuperscript{51} The central indexing server maintains a list of the files available at each node, as well as the node's unique IP address.\textsuperscript{52} In order to facilitate this control, users must register each time they log in so the system can update the directory of available files.\textsuperscript{53} The central server receives and processes all searches and commands, and when a match occurs, the requesting client receives the IP address of the corresponding host computer to facilitate a direct connection.\textsuperscript{54}

In \textit{Napster}, the Ninth Circuit applied the staple article of commerce shield to peer-to-peer networking and found the defendants liable under both contributory and vicarious theories of liability.\textsuperscript{55} In so doing, the court limited the substantial noninfringing use standard put forth by the Sony Court and instead utilized it only as a test for the knowledge element of contributory liability.\textsuperscript{56} Comparing Napster's file sharing program to the VCRs in Sony, the court held that there was no inference of knowledge simply because the software developers were aware that the software had infringing uses.\textsuperscript{57} Rather, the

\begin{itemize}
\item \textsuperscript{49} 239 F.3d 1004 (9th Cir. 2001).
\item \textsuperscript{50} See Jesse M. Feder, \textit{Is Betamax Obsolete?:} Sony Corp. of America v. Universal City Studios, Inc. in the Age of Napster, 37 CREIGHTON L. REV. 859, 864–65 (2004).
\item \textsuperscript{51} \textit{Id.} at 864.
\item \textsuperscript{52} \textit{Id.}
\item \textsuperscript{53} \textit{Id.}
\item \textsuperscript{54} \textit{Id.} The advantage of this model is that the central index contains a comprehensive list of all available files on the peer-to-peer network and thus searches quickly and efficiently to locate requested files. \textit{Id.} at 865. The simple structure results in relatively easy implementation for network programmers. Feder, \textit{supra} note 50, at 866. The downside is that the network depends on the functionality of the central server and, therefore, outages of that server can cripple the network and prevent users from being able to share files. \textit{Id.} This deficiency led to the development of newer and more decentralized peer-to-peer file-sharing methods. See Tim Wu, \textit{When Code Isn't Law}, 89 VA. L. REV. 679, 726–36 (2003).
\item \textsuperscript{55} A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1020 (9th Cir. 2001).
\item \textsuperscript{56} \textit{Id.}
\item \textsuperscript{57} \textit{Id.} The Ninth Circuit stated:

The Sony Court refused to hold the manufacturer and retailers of video tape recorders liable for contributory infringement despite evidence that such machines could be and were used to infringe plaintiffs' copyrighted television shows. . . . The Sony Court declined to impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and "substantial noninfringing uses." \textit{Id.} (quoting Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 442 (1984)).
\end{itemize}
court held that Napster's actual knowledge of infringing activity made Sony an ineffective defense.\textsuperscript{58}

The specific knowledge at issue arose from the index files on Napster's central server that listed numerous infringing files that were present and available on the network.\textsuperscript{59} In addition, the defendants served Napster with notices of infringing content and use on the Napster system.\textsuperscript{60} In essence, the standard applied by the court was a two-part rule: (1) where a product has substantial noninfringing uses, constructive knowledge will not be implied simply because the product's design allows for infringing use; but, (2) the court may find liability where there is evidence of actual and specific knowledge of infringing use.\textsuperscript{61}

\textbf{D. The Response to Napster: Peer-to-Peer Decentralization}

The ruling in \textit{Napster} sent a clear message to peer-to-peer software developers: where you have control over the actions of your users, you will be liable for those actions.\textsuperscript{62} Developers responded by creating network structures that eliminated that element of control.\textsuperscript{63} The result was a second generation of programs that differed in design from Napster and utilized a decentralized architecture.\textsuperscript{64} Under this new system, indexing and searching functions are distributed across the peer-to-peer network.\textsuperscript{65} Rather than having a central server, individual PCs on the network each handle a portion of the work originally assigned to the central indexing server in first generation systems.\textsuperscript{66}

\textsuperscript{58} \textit{Id.} at 1021–22.
\textsuperscript{59} \textit{Id.} at 1011–13.
\textsuperscript{60} \textit{Napster}, 239 F.3d at 1022 n.6 ("Plaintiff[s] . . . demonstrate that defendant had actual notice of direct infringement because the RIAA informed it of more than 12,000 infringing files.") (quoting 114 F. Supp. 2d 896, 918 (2000)) (alterations in original).
\textsuperscript{61} \textit{Id.} at 1020–22.
\textsuperscript{62} See \textit{Wu}, supra note 54, at 730.
\textsuperscript{63} \textit{Id.} at 731.
\textsuperscript{64} \textit{Id.} The open-source peer-to-peer file-sharing network Gnutella, of which Morpheus is an example, employs this type of network architecture. For more discussion regarding the technical specifics, see Feder, supra note 50, at 862–67. \textit{See also} the Ninth Circuit's discussion in the \textit{Grokster II} opinion. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (\textit{Grokster II}), 380 F.3d 1154, 1158–60 (9th Cir. 2004).
\textsuperscript{65} The result of this architectural change is that search queries must propagate through the peer-to-peer network. On successful matches, the responding client sends notification of the match back up the network chain to the original requesting user. When compared to the simplicity of querying a central index in a Napster-like, first generation network, search queries in second generation systems require significantly more time and network resources. The network is considerably more reliable, however, as it is no longer dependant on the main central server. \textit{See} Feder, supra note 50, at 865–67.
\textsuperscript{66} \textit{Id.}
Users download the client-side software onto their computer, and the software handles the indexing and searching of locally held files on the machine. It also relays search queries from other clients on the peer-to-peer network.

Decentralization eliminates the control over peer-to-peer network usage present in the Napster software. There is no central index; rather, each individual computer maintains its own list of the files available on the local machine. This means that the software distributor has no knowledge over what files users offer to share on the network. Because connections and file transfers are initiated directly by users without the involvement of a central server, there is no easy way for the distributor to determine the content of a transfer. Furthermore, even if the distributor did maintain such control, it is doubtful that it would have any control or ability to stop any infringing or illegal use.

Some developers pushed peer-to-peer software evolution even further and implemented programs that combined elements from both first and second generation structures. Looking to combine the benefits of both architectures while reducing their respective deficiencies, software programmers developed a networking mechanism that was only partially decentralized. They accomplished this through the advent of the "supernode." Rather than a main central indexing


68. See Feder, supra note 50, at 865.

69. As one website explains: Example: on the basis that a peer is directly connected to eight other peers, each query is first passed on to the eight peers, who disseminate the query on to the 64 peers attached to them. When this is extrapolated, by the sixth iteration of this process one single query will have reached 2,097,152 peers on the network. CacheLogic, Understanding Peer-To-Peer: Filespace Sharing, Architecture and Protocol, http://www.cachelogic.com/p2p/p2phistory.php (last visited Jan. 22, 2006).


72. See Feder, supra note 50, at 882–83.

73. Id.

74. See infra note 80 and accompanying text.

75. An example of this system is FastTrack, which was developed by KaZaa and of which Grokster is a descendent. Feder, supra note 50, at 865.

76. See id.

77. Id.
server, the system would contain an arbitrary amount of supernodes that would share the functions of a central indexing server. These systems reclaimed some of the computing efficiency lost when the Napster decision forced developers away from the centralized model. Nevertheless, the software provider could still shield itself from liability by pointing to its lack of knowledge and control.

E. The Seventh Circuit Tries to Open the Door to Liability: In re Aimster Copyright Litigation

After the district court's Grokster ruling, but before the appeal, the Seventh Circuit addressed the issue of liability against another distributor of peer-to-peer software in Aimster. As in Napster, the Seventh Circuit ruled against the software distributor by affirming the district court's grant of a preliminary injunction. In doing so, the court adopted a broader interpretation of Sony.

The court in Aimster expanded the knowledge prong of contributory liability by holding that "when a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement." It failed to elaborate on just what the results of that analysis need to be, instead holding that "the balancing of costs and benefits is necessary only in a case in which substantial noninfringing uses, present or prospective, are demonstrated." This was a further modification of the Sony ruling: a mere showing of potential noninfringing uses is no longer enough—there must actually be

78. Id. at 865–67. Any computer connected to the network could act as a supernode provided it met certain qualifications. Id. at 865 n.16. These supernodes created a backbone for the peer-to-peer network that performed the functions of a first generation central server—they gathered information regarding available files and relayed the search queries to the individual clients. Id. at 865–67. The individual clients connected to the peer-to-peer network through one of these supernodes. Feder, supra note 50, at 865–67. The result was a network that had faster searches than a decentralized system but used far less network resources. Id. In addition, the system maintained reliability since no certain amount of supernodes needed to be present and online for the system to retain functionality. Id. See also Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster I), 380 F.3d 1154, 1158–59 (9th Cir. 2004).

79. See Wu, supra note 54, at 735–36.

80. Id. at 737–39.


82. See Grokster II, 380 F.3d at 1167.

83. Aimster, 334 F.3d at 649.

84. Id. at 650.
evidence such use occurs, and those uses should be weighed against infringing uses. 85 The court listed five possible noninfringing uses of the Aimster software, and then pointed to the complete lack of evidence in the record that any user of the program made use of it in any of those ways. 86 Absent that evidence, Sony was no help to Aimster.

The Aimster software, while unique in some ways, was still based on a central index that provided knowledge of the actual content on the system. 87 Therefore, despite the new interpretation of Sony in Aimster, it is likely the Napster court would have decided the case the same way. The Morpheus and Grokster software, part of the second generation movement that arose in a response to the Napster decision, 88 would not be directly addressed until Grokster.

III. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. 89

This Part of the Note examines the Supreme Court’s decision in Grokster. 90 It will first discuss how the Court dealt with the central issue of when a product distributor can be liable for the acts of its users. 91 That discussion will show how the Court chose not to apply either the Seventh Circuit or the Ninth Circuit’s proffered interpretations of the Court’s ruling in Sony. 92 Instead, the Court provided a new reading of Sony’s holding and gave copyright owners a new theory upon which to seek liability—the inducing infringement of copyright theory. 93 After reinterpreting Sony, the Court analyzed the evidence on the record to determine if it was sufficient to survive summary judgment on this new ground of inducing infringement of copyright. 94 This Part will discuss that analysis, focusing on the three categories of evidence the Court pointed to as sufficient proof of intent to induce. 95

85. See id.
86. Id. at 652–53. The five potential uses were: (1) downloading non-copyrighted music, (2) increasing the value of music as currency in an on-line community, (3) leading to the formation of community groups and fan clubs that promoted music, (4) encouraging sincere communication protected by the software’s encryption feature, and (5) obtaining access to music which the user had previously purchased but not brought with him or her while traveling. Id.
87. Id. at 646–47.
88. See supra notes 62–80 and accompanying text.
89. 125 S. Ct. 2764 (2005).
90. See infra notes 96–123 and accompanying text.
91. See infra notes 103–123 and accompanying text.
92. See infra notes 106–108 and accompanying text.
93. See infra notes 109–123 and accompanying text.
94. See infra notes 124–184 and accompanying text.
95. See infra notes 124–184 and accompanying text.
A. Facts and Procedural History

The case came to the Supreme Court on appeal from the Ninth Circuit, which had affirmed the district court’s grant of partial summary judgment to the defendants as to contributory and vicarious liability.96 The plaintiffs in the case owned or controlled most of the copyrighted music and movies in the United States.97 "The defendants, Grokster and StreamCast, were distributors of freely available peer-to-peer file sharing programs.98 The copyright owners alleged that roughly ninety percent of the files shared between the users of these programs were copyrighted and that seventy percent of the files belonged to the plaintiffs.99 Indeed, the software distributors did not vigorously contest that most of their users exchanged files illegally.100 The main issue facing the Court was whether to affirm the Ninth Circuit’s ruling that Grokster and StreamCast were neither contributorily nor vicariously liable for the infringement of their users because the structure of the software each provided did not allow for the knowledge or control necessary for liability.101 The Ninth Circuit achieved this result via its interpretation of the *Napster* and *Sony* decisions, an interpretation the Supreme Court overruled.102

B. Reasoning

The Supreme Court began its opinion in much the same way as the two previous courts, discussing the structure of the software each defendant employed, reviewing the magnitude of infringement taking place, and laying out each side’s arguments.103 The Court then began to discuss the particular evidence of StreamCast and Grokster’s involvement in the infringement, however, and it became clear that the Court did not grant certiorari in order to let them off the hook.104 It referred to the probable magnitude of infringing content as “staggering” and began laying the tracks for the new theory of liability—inducing infringement of copyright.105

97. *Id.* at 1158. The *Grokster* plaintiffs were most of the major motion picture studios and record companies in the United States. *Id.* at 1158 n.1.
98. *Id.* at 1158.
99. *Id.*
100. *Id.* at 1160; see also Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2782 (2005).
101. See *Grokster*, 125 S. Ct. at 2778.
102. *Id.*
103. See *id.* at 2770–72.
104. See *id.* at 2772.
105. *Id.*
The Court's first step in doing so was to address the current interpretation of its seminal ruling in *Sony*. The Court did not, as one might expect, address any kind of circuit split on the issue between the Ninth and Seventh Circuits. The Court's majority opinion cited *Aimster* only once, and did not discuss Judge Posner's interpretation of *Sony*. This could reflect the Court's belief that the two opinions are reconcilable, and that no actual conflict existed. More likely, the Court felt that such a discussion was unwarranted because it intended to decide the case on the theory of inducement, which branched away from both the Ninth and Seventh Circuits' interpretations. In doing so, the Court focused on the Ninth Circuit's ruling and its apparent misreading of the *Sony* opinion.

The Court stated that the parties mischaracterized the argument in the case as to what it means for a product to be "capable of commercially significant noninfringing uses." Essentially, the parties were battling over what showing of lawful uses was required for the *Sony* shield to apply. The copyright owners felt that even if a product was capable of noninfringing uses, consideration should be given to the magnitude of such uses versus the magnitude of infringing uses. Where the overwhelming use of the product is to infringe a copyright, such as here where the estimate was ninety percent infringing use, the *Sony* shield should not let the product distributor off the hook. On the other hand, the defendants felt that the rule in *Sony* was clear. Where a product has significant noninfringing uses, courts can not

106. *Id.* at 2776 (citing *In re Aimster Copyright Litig.*, 334 F.3d 643, 645–46 (7th Cir. 2003)). The Court instead cited to *Aimster*’s discussion of the difficulties facing the plaintiffs should they be cutoff from pursuing liability against the software distributors and forced to seek damages from the direct infringers. *Grokster*, 125 S. Ct. at 2776.

107. It is arguably possible to reconcile the ruling in *Aimster* with the Ninth Circuit's rulings in *Napster* and *Grokster*. Similar to the software in *Napster* but unlike the software in *Grokster*, the central indexing servers employed by the *Aimster* defendants provided knowledge and control over infringing use. *Aimster*, 334 F.3d at 646–47. The *Grokster* court held that where those elements are absent, liability cannot be found. In addition, the *Aimster* defendant failed to produce any evidence of substantial noninfringing uses, in which case it was treated as if no such uses existed. *See supra* note 86 and accompanying text. Of course, this is tempered by *Sony*’s holding that the product "need merely be capable of" such uses. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

108. *Grokster*, 125 S. Ct. at 2778 ("We agree with MGM that the Court of Appeals misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied.").

109. *Id.* (quoting *Sony*, 464 U.S. 442 (1984)).

110. *See id.*

111. *Id.*

112. *Id.*
hold its distributor liable without "specific knowledge." As the Sony opinion says, the product "need merely be capable of [such] uses."

The Supreme Court, in essence, said that both parties were wrong, and that the Ninth Circuit limited the Sony ruling beyond the circumstances presented in that case. Sony did not state that significant noninfringing uses will save a defendant from liability altogether. Rather, it merely held that where a product is capable of such uses, the defendant cannot be held liable based only on the design of the product or on knowledge of infringing uses. Other theories of liability, such as actual intent to induce infringement, are fair game. The theory that the Court chose was the inducing infringement of copyright, which it borrowed from patent law. The Court stated that regardless of the Sony holding, there can be liability when a device is distributed "with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement . . . ." What it did not decide, and what may later prove to be the more important question, is exactly whether the Sony rule should be limited to take into consideration the magnitude of infringing versus noninfringing uses of a challenged product. The justices left that question for another day, although the concurring opinions in the case set the

113. Id. (quoting Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster II), 380 F.3d 1154, 1162 (9th Cir. 2004)).
114. Sony, 464 U.S. at 442.
115. See supra note 108 and accompanying text.
116. Grokster, 125 S. Ct. at 2778 ("This view of Sony, however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory.").
117. Id.
118. Id.
119. Id. at 2779-80.
120. Id. at 2780.
121. The Court noted:

Because Sony did not displace other theories of secondary liability, and because we find below that it was error to grant summary judgment to the companies on MGM's inducement claim, we do not revisit Sony further, as MGM requests, to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur. It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of Sony and to leave further consideration of the Sony rule for a day when that may be required.

Id. at 2778-79.
stage for the argument.\textsuperscript{122} Fittingly, the justices split on the issue, three to three.\textsuperscript{123}

IV. ANALYSIS

This Part delves into the Grokster opinion to examine further the implications of the new theory of inducing infringement of copyright.\textsuperscript{124} It will first examine the Court's analysis of the evidence presented to it and what the Court now requires for inducement liability.\textsuperscript{125} It will then consider the first application of the Grokster opinion as an example of how courts will decide future inducement cases.\textsuperscript{126} Finally, this Part will ask whether in this instance the Court, by establishing this new theory and leaving the Sony shield issue for later, took the correct approach.\textsuperscript{127}

A. A New Weapon for Copyright Owners: Inducing Infringement of Copyright

After the Court proffered its new interpretation of Sony, the issue then became whether there was sufficient evidence that Grokster and StreamCast, through "clear expression or other affirmative steps taken," intended to induce infringement.\textsuperscript{128} The Court said there was sufficient evidence, and pointed to three categories of proof which it felt showed that "[t]he unlawful objective [was] unmistakable."\textsuperscript{129}

First, the court highlighted promotional materials and internal communications showing that the defendants made an effort to emphasize infringing capabilities of the software in question and to target a known group of infringers.\textsuperscript{130} Among this evidence, the Court pointed to StreamCast's distribution of the "OpenNap" program, which was compatible with Napster.\textsuperscript{131} StreamCast used the program to distribute and advertise its own Morpheus software.\textsuperscript{132} Also on the

\textsuperscript{122} See Grokster, 125 S. Ct. at 2783–87 (Ginsburg, J., concurring); id. at 2787–96 (Breyer, J., concurring).
\textsuperscript{123} Justice Ginsburg argued for a modification of the Sony rule and was joined by Chief Justice Rehnquist and Justice Kennedy. Id. at 2783–87 (Ginsburg, J., concurring). Justice Breyer, on the other hand, argued to affirm the Sony Rule and was joined by Justices Stevens and O'Connor. Id. at 2787–96 (Breyer, J., concurring).
\textsuperscript{124} See infra notes 128–184 and accompanying text.
\textsuperscript{125} See infra notes 128–161 and accompanying text.
\textsuperscript{126} See infra notes 162–171 and accompanying text.
\textsuperscript{127} See infra notes 172–184 and accompanying text.
\textsuperscript{128} Grokster, 125 S. Ct. at 2780.
\textsuperscript{129} Id. at 2782.
\textsuperscript{130} Id. at 2772–73, 2781.
\textsuperscript{131} Id. at 2784.
\textsuperscript{132} Id.
record were StreamCast’s internal documents in which the defendant frequently referenced Napster. As for Grokster, the Court stated that the company derived its name from Napster, and that Grokster inserted metatags into its own webpage to divert search queries from users looking for the Napster software.

Second, the Court pointed out the failure of both parties to make an effort to eliminate or even reduce the infringing use of their products. The Ninth Circuit had refused to hold this against the defendants because the defendants had no independent duty to police its users. Although the Supreme Court did not disagree, it felt the failure to take such measures indicated an intent to facilitate infringement.

Finally, the Court discussed the business models each party adopted, which relied on streaming advertising and maximizing product usage—usage that was inevitably infringing. The defendants made money by displaying advertisements to those who used their software. As a result, the defendants’ profits increased proportionately with usage. In the Court’s view, because the only high volume use of the product was to steal copyrighted works, the defendants were depending on use by infringers to turn a profit.

The Court felt that the evidence before it showed an intent to induce infringement that was “unmistakable.” Because the Court ruled only on a motion for summary judgment, however, it will be up to the lower courts to determine liability. An argument can certainly be made that the lower court should see things another way. While the defendants may have targeted a “known group of infringers” in the Napster user base, they also targeted what was, for all intents and purposes at the time, the most significant group of peer-to-peer file sharers. The defendants may have wanted to lure in users

133. Id.
135. Grokster, 125 S. Ct. at 2774, 2781.
136. Id. at 2781.
137. Id. 
138. Id. at 2773–74, 2781–82.
139. Id. at 2781–82.
140. Id. at 2782.
141. Grokster, 125 S. Ct. at 2782.
142. Id.
143. Id. at 2782–83.
144. See infra note 180 and accompanying text.
looking for free copyrighted works, or they may have simply been looking for users who might download the defendants' software. Furthermore, much of the evidence cited by the Court occurred near the time Napster first came under fire, and well before its liability was determined.\textsuperscript{145} While the direct downloading of copyrighted works was clearly illegal at the time, offering the software that facilitated such acts was not.

The Court further complicated that issue when it pointed to evidence of the defendants' failure to mitigate infringing use as indicative of intent to induce.\textsuperscript{146} The district court held Napster liable because Napster had knowledge of infringing use and had an ability to control that use, but failed to do so.\textsuperscript{147} In Grokster, however, the lower courts were willing to absolve both defendants because that control and knowledge were absent.\textsuperscript{148} But the Supreme Court used the same failure to act against the defendants under a new theory of liability.\textsuperscript{149} That theory is not codified and is borrowed from another body of law.\textsuperscript{150} Furthermore, both the Grokster defendants and other potential litigants watched as attempts to amend the Copyright Act in this way failed.\textsuperscript{151} When the lower courts, Congress, and the Supreme

\begin{itemize}
  \item\textsuperscript{146} See supra notes 135–137 and accompanying text.
  \item\textsuperscript{147} See supra notes 49–60 and accompanying text.
  \item\textsuperscript{148} See supra notes 101–102 and accompanying text.
  \item\textsuperscript{149} See supra note 102 and accompanying text.
  \item\textsuperscript{150} See supra notes 117–120 and accompanying text.
  \item\textsuperscript{151} The bill, Senate Resolution 2560, was introduced during the second session of the 108th Congress. Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Cong. (2004). It was sponsored by Senator Orrin Hatch of Utah. See id. The bill died in the Senate in 2004. See Bill Rosenblatt, Induce Act Dead for This Year, Oct. 14, 2004, http://www.drmwatch.com/legal/article.php/3421731. The introductory remarks accompanying the bill showed a clear intent on the part of the legislators to address the legal landscape surrounding the Grokster case and the issue of peer-to-peer file sharing. Id. The bill attempted to do exactly what the Court did in Grokster—establish a new offense of inducing infringement of copyright. See 150 CONG. REC. S7190 (daily ed. June 22, 2004) (statement of Sen. Hatch). The bill proposed amending the Copyright Act by providing additional language at the end of § 501, the text of which would have read as follows:

  (g)(1) In this subsection, the term “intentionally induces” means intentionally aids, abets, induces, or procures, and intent may be shown by acts from which a reasonable person would find intent to induce infringement based upon all relevant information about such acts then reasonably available to the actor, including whether the activity relies on infringement for its commercial viability.

  (2) Whoever intentionally induces any violation identified in subsection (a) shall be liable as an infringer.

  (3) Nothing in this subsection shall enlarge or diminish the doctrines of vicarious and contributory liability for copyright infringement or require any court to unjustly withhold or impose any secondary liability for copyright infringement.
\end{itemize}
Court all have different views on the legality of Grokster's actions, can those actions really indicate an unlawful intent? The Court's explanation is that the evidence indicates liability only when taken in "context."\(^{152}\)

The Court's willingness to hold the defendants' business model against them is also particularly troubling, especially when hordes of software and online content providers employ the same ad-supported business model.\(^{153}\) As a common revenue strategy, the defendants likely would have used advertising within their respective products regardless of their intent to attract infringing or noninfringing users. Furthermore, the Court seems to presume that every Napster user the defendants attracted would use the new software only to steal copyrighted works. If the defendants can show a belief that those users would also look for the occasional public domain work, or perhaps come across and download such works while using the software, then there is certainly an argument that the defendants' business model did not depend on infringing use.

The Court's decision in *Grokster* does not make explicitly clear what is required for inducement liability, providing the aforementioned evidence only as examples. The Court was quick to point out that none of these types of evidence is sufficient standing alone.\(^{154}\) Instead, the Court stated that the evidence on the record was enough

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\(^{152}\) See infra note 155 and accompanying text.


\(^{154}\) *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2781 n.12 (2005). The Court noted:

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 otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.
to survive summary judgment only when taken together and in context. This is fitting, because the Court pointed to the evidence as indicative of intent, as opposed to stressing the actual conduct itself. Much of the promotional materials considered may have never been made public, and the noted internal communications were surely not. It is not certain whether a court could find a "clear expression" of intent to induce without affirmative steps taken beyond the mere selling of a product. The Court suggests that such a holding, however, would trump the Sony shield.

But the Court's wording seems to indicate its belief that the lower court should find liability for inducement in this instance. Perhaps foreseeing its demise, Grokster has already settled and shut down its software. Whether the dispute survives until the lower court reconsidered it on remand remains to be seen, but if so, the Court's analysis of the available evidence is likely to be strongly influential. Indeed, the first district court case interpreting the Court's ruling mirrors the approach.

B. Grokster's First Descendent: Monotype Imaging, Inc. v. Bitstream, Inc.

The first attempt at applying the Court's opinion in Grokster came in Monotype Imaging, Inc. v. Bitstream, Inc., where Judge St. Eve held that there was insufficient evidence of the defendant's intent to induce infringement of copyright. Judge St. Eve noted the evidence in the case against the defendant, and compared it against the three categories of evidence outlined by the Supreme Court in Grokster.

Id. The Court also noted that "[t]his evidence alone would not justif[y] an inference of unlawful intent, but viewed in the context of the entire record its import is clear." Id. at 2782 (referring to the evidence of Grokster and StreamCast's business models).

155. Id. at 2782.

156. See id. at 2773 n.7 ("The record makes clear that StreamCast developed these promotional materials but not whether it released them to the public. Even if these advertisements were not released to the public and do not show encouragement to infringe, they illuminate StreamCast's purposes.").

157. Id.

158. Grokster, 125 S. Ct. at 2781 n.12.

159. See Ted Bridis, Grokster File-Sharing Service to Shut Down, Pay $50 Million, AUGUSTA CHRONICLE, Nov. 8, 2005, C08. Grokster agreed to pay fifty million dollars and to stop distributing its software. Id.

160. As of April 7, 2006, settlement negotiations were dead, and StreamCast, the remaining defendant, intended to take the case to court. See Alex Viega, StreamCast to Seek Trial in Copyright Case, Apr. 7, 2006, available at http://abcnews.go.com.

161. See infra notes 162-171 and accompanying text.


163. Id. at 888-89.
Initially, the court noted that the defendant advertised its software by hailing its ability to work with any type of font, presumably including those protected by copyright, without infringing on any intellectual property rights. The plaintiffs attempted to argue that this was analogous to targeting infringers as the Grokster defendants did with the former Napster user-base. The court rejected this contention, finding that Bitstream only intended to promote its software’s ability to work with non-Bitstream fonts rather than to encourage infringement.

After making this determination, the court went on to note that the defendants had taken steps to avoid the use of its software with fonts owned and protected by other companies. Finally, the court held that the defendant’s business model was not similar to those of the Grokster defendants. There was no evidence that the defendant benefited from the use of its software with other companies’ fonts, whether that use was infringing or noninfringing. Rather, it appeared that the defendant distributed the software with its own fonts in order to increase its own sales.

The case, as a first example of how lower courts will interpret the Grokster opinion, is encouraging in that Judge St. Eve took the Court’s lead and looked beyond the evidence of conduct in an attempt to deduce the actual intent of the actor. Furthermore, she did so in light of what appears to be a similar situation to that in Grokster, one where users implemented the provided software in both infringing and noninfringing fashions. As this Note will discuss further, it will be important for courts to look for actual intent of inducement, as opposed to imputing that intent from the surrounding circumstances.

C. Right Answer at the Right Time?

A definitive answer Grokster is not, but it does do two things. It seemingly ends the prolonged dispute between these specific parties, and it gives copyright owners another weapon to use to defend their rights against infringement. While the more important question is left for another day, the Court gives strong indications that it does intend

164. Id. at 888.
165. Id. at 889.
166. Id.
167. Id.
168. Monotype Imaging, 376 F. Supp. 2d at 888–89.
169. Id. at 889.
170. Id.
171. See infra notes 213–257 and accompanying text.
to answer it eventually.\textsuperscript{172} In the mean time, perhaps the Court's ruling was appropriate, establishing a status quo of sorts and giving more time for the pertinent issues presented to develop.\textsuperscript{173}

As for peer-to-peer software, this decision alone seems unlikely to provide the deterrent the copyright owners were hoping to get. The Court effectively embraced the prevalent argument that the defendants in this case should be liable because it was obvious what they were trying to do.\textsuperscript{174} There is still no holding that software used in overwhelming fashion to steal copyrighted works is itself illegal to distribute. As Justice Breyer points out, the Court is not saying that the technology itself conflicts with copyright laws, and thus the opinion is likely to have a direct effect on only the named defendants.\textsuperscript{175} The message sent to software distributors is essentially this: If you intend to pass out software that facilitates copyright infringement, do not make obvious any hope to benefit from that infringement. In fact, the \textit{Grokster} decision may help other peer-to-peer software providers develop strategies to avoid liability. In the future, software distributors will likely take affirmative steps to avoid similar paper trails, such as seeking opinion letters regarding advertisements or posting disclaimers against infringing use.\textsuperscript{176} Of the three types of evidence the Court noted against the defendants, it was the evidence of blatant targeting of Napster users that ultimately did in StreamCast and Grokster. The Court specifically said that failure to prevent infringement or a suspect business model alone would tread too close to the \textit{Sony} shield and not give rise to liability.\textsuperscript{177}

For that reason, for copyright owners' new method of attack to carry any weight, it is likely that copyright owners will urge courts to avoid a rigid adoption of the Court's evidentiary categorizations.\textsuperscript{178}

\begin{itemize}
    \item \textsuperscript{172} Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2778–79 (2005) ("It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of \textit{Sony} and to leave further consideration of the \textit{Sony} rule for a day when that may be required."). \textit{See also id.} at 2783–96 (concuring opinions arguing for and against modification of the \textit{Sony} rule).
    \item \textsuperscript{173} \textit{See id.} at 2793–96 (Breyer, J., concurring).
    \item \textsuperscript{174} Brief of Respondent-Appellee at 42–43, Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (\textit{Grokster II}), 380 F.3d 1154 (9th Cir. 2004) (Nos. 03-55894, 03-55901), 2003 WL 22753806.
    \item \textsuperscript{175} \textit{See Grokster}, 125 S. Ct. at 2793–96 (Breyer, J., concurring).
    \item \textsuperscript{176} \textit{See Diane Leenheer Zimmerman, Daddy, Are We There Yet? Lost in Grokster-Land,} \textit{9} \textit{N.Y.U. J. LEGIS. & PUB. POL'Y} \textit{75}, 94–95 (2006). Professor Zimmerman proposes a "toothless tiger" scenario, where \textit{Grokster} could serve as "a teaching manual for future iterations of Napster/Grokster on how to avoid liability . . . ." \textit{Id.} at 94.
    \item \textsuperscript{177} \textit{See supra} note 157 and accompanying text.
    \item \textsuperscript{178} In \textit{Monotype Imaging}, the first case to apply the \textit{Grokster} decision, the plaintiff proffered evidence analogizing Bitstream to the \textit{Grokster} defendants and lost. \textit{Monotype Imaging, Inc. v.}
Grokster and StreamCast both emerged on the peer-to-peer scene relatively early, and they came into the picture as a result of the fall of the clear king of online file-sharing, Napster. The "known group" of infringers that the defendants targeted was in essence the only group of infringers, because at the time virtually everyone was using Napster. Had that not been the case, it is unlikely that either Grokster or StreamCast would have wasted time designing software intended to foster compatibility with the Napster client. Today's internet users have any number of file-sharing programs from which to choose, and those programs facilitate the sharing of virtually any type of media. Is there any group of infringers within those products distinct enough to be a "known group" to be targeted? Is a known group of infringers simply internet users who like music?

D. Looking to Patent Law

This question foreshadows what is likely to occur—courts will break away from the Supreme Court's approach and perform individual analyses of presented evidence in order to assess the intent of the defendant. Because the Court adopted the theory of inducing infringement that is codified within patent law, courts are likely to look to the Federal Circuit and its interpretation of the doctrine when analyzing evidence against defendants in copyright cases. In addition, courts may look to Grokster for help in addressing inducement in patent cases as well. That would be good news to all litigants, if we were to presume that courts have reduced a statute in existence since 1952 to a set of clear rules and applications. Sadly, this is not the case, and one specific split within the Federal Circuit may seep into the realm of


179. Napster estimated that at one time it had as many as fifty-seven million users. See Sam Costello, Webnoize Reports Napster Downloads Drop 36 Percent in April, May 1, 2001, http://www.infoworld.com/articles/hn/xml/01/05/01/010501hnnapster.html?p=br&s=8.

180. One analyst explained in 2001 that Napster could achieve market dominance because there were no viable alternatives. See id. No other system had the same-sized user base or offered the same amount of files. Id.


182. See infra notes 190-191 and accompanying text.


copyright law and prove problematic to future applications of the Court’s holding in Grokster.

V. IMPACT

This Part will look to current applications of the inducement doctrine in patent law as a potential guide for how courts will apply the Grokster decision and what issues might arise. It will consider two important questions: (1) what conduct constitutes inducement, and (2) what intent is necessary for inducement. The latter discussion will include talk of a current split within the Federal Circuit over what intent is required. By considering these issues, this Part will discuss potential pitfalls facing courts interpreting the Grokster opinion. As a possible solution to the inconsistencies within the Federal Circuit, as well as a way of addressing the different ways of reading the Grokster opinion, this Part will endorse Professor Lemley’s sliding scale approach to inducement liability.

A. Inducement Primer

The law of inducing patent infringement states that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.” As a matter of law, there must first be direct infringement before there can be liability for inducing infringement. The statutory definition of inducing infringement, while simple, leaves a number of unresolved legal issues which have borne themselves out within the case law. The two most prominent issues are: (1) what types of conduct constitutes inducement, and (2) what intent must a defendant have to be liable for inducing infringement.

185. See infra notes 190–257 and accompanying text.
186. See infra notes 190–241 and accompanying text.
187. See infra notes 213–254 and accompanying text.
188. See infra notes 213–254 and accompanying text.
189. See infra notes 255–257 and accompanying text.
1. When Does a Party Induce Infringement?

The majority of cases finding defendants liable for inducement involve some sort of active encouragement of third-party direct infringement. Much like the Supreme Court did in *Grokster*, these cases look for conduct that involves advertising infringing capabilities to buyers or instructing customers on infringing uses of products.\(^{192}\) In fact, the *Grokster* Court stated that "[t]he classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations."\(^{193}\) A recent copyright inducement case indicates that courts will look for similar conduct in copyright infringement cases as they do in patent infringement cases. In *AMC Technology, L.L.C. v. SAP AG*, the court held that by distributing a “Component Upgrade Guide,” the defendant was inducing its customers to copy the plaintiff’s copyrighted software code.\(^{194}\)

Other types of conduct could give rise to liability as well. For instance, some courts have applied inducement as a type of vicarious liability, holding defendants liable in instances of control over employees.\(^{195}\) In addition, where the direct infringers are suppliers or manufacturers, courts have found individuals who make business decisions that led to infringement liable.\(^{196}\)

Courts seem more likely to impose liability, however, where defendants teach infringing capabilities to customers or users. For example, a recent case found liability where licensees had received guidance from the defendant as to how to use an infringing process.\(^{197}\) Another court found liability where a defendant provided a user manual with a product that taught an infringing process.\(^{198}\) While these


\(^{195}\) See, e.g., Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1378 (Fed. Cir. 2005).

\(^{196}\) Instiutform Tech, Inc. v. CAT Contracting, Inc., 385 F.3d 1360, 1378 (Fed. Cir. 2004).

cases involve clear aiding on behalf of the defendant, courts have also found liability for assistance that was less overt. For example, in *McKesson Information Solutions, Inc. v. Bridge Medical, Inc.*, the court suggested that liability could be found where a defendant set up an infringing product for a customer and provided subsequent maintenance.\(^\text{199}\) Courts have also considered evidence that defendants provided tech support to users, despite the *Grokster* Court's statements that such ordinary acts will not indicate intent to induce infringement.\(^\text{200}\) These holdings seem to lower the level of required affirmative conduct and approach a finding that providing an infringing product itself can be inducement. Along those lines, the Federal Circuit recently stated that by designing a product capable of infringing use and by anticipating that it may be used in that infringing manner, the defendant could be liable for inducing infringement.\(^\text{201}\)

It will be important for courts to carve out definitions as to what sorts of conduct will lead to liability for inducing infringement of copyright. Many patent cases deal with defendants who provide instructions on how to use infringing products, how to modify them in ways that infringe, or how to perform a patented process.\(^\text{202}\) The *Grokster* Court seemingly recognized that defendants in copyright cases could provide similar instructions, but whether infringement occurs depends on how the user utilizes the product or process, as opposed to simply utilizing the product or process itself. The distinction is important, and indicates that courts may need to be careful when determining what conduct gives rise to liability in patent cases versus copyright cases.

But there are definite limits as to what conduct constitutes inducement. Section 271(b) requires "active" inducement, and the Federal Circuit has accordingly held that to be liable a defendant must engage in some affirmative conduct, not merely standby and allow infringement to occur.\(^\text{203}\) In addition, a mere business relationship, even if

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200. See, e.g., MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1379 (Fed. Cir. 2005) (noting that the defendant provided tech support to the direct infringer and required suppliers to do the same).

201. Cross Med. Prod., Inc. v. Medtronic Sofamor Danek, Inc., 424 F.3d 1293, 1314 (Fed. Cir. 2005). The principle comes dangerously close to allowing § 271(b) to swallow § 271(c) and the substantial, non-infringing use to shield against liability for the mere selling of a product. The court in *Cross Medical*, however, was ruling only on a motion for summary judgment and also had before it further affirmative conduct on the part of the defendant. *Id*.

202. See *supra* notes 197–201 and accompanying text.

that relationship is substantial, will not alone give rise to liability.\textsuperscript{204} Control over a subsidiary or employee may be a predicate for liability in certain circumstances.\textsuperscript{205} Some courts, however, have found that selling a product itself can result in inducement liability.\textsuperscript{206} The Federal Circuit has been careful to reconcile these holdings with the \textit{Sony} shield\textsuperscript{207} to ensure that § 271(b) will not create liability for the sale of products that have substantial noninfringing uses.\textsuperscript{208} The \textit{Grokster} opinion again speaks to this issue, and it seems clear that inducement requires something more than merely selling a product with infringing uses.\textsuperscript{209} Yet, liability is more likely where a defendant continues selling a product that it knows to be infringing.\textsuperscript{210} These cases may indicate a willingness on behalf of courts to take a “sliding scale” approach to inducement liability.\textsuperscript{211} Less “active” conduct will lead to liability where the intent to induce infringement is clear, and vice versa. Professor Lemley believes that this approach could reconcile the differences within the case law regarding the requisite intent for inducement.\textsuperscript{212}

2. \textit{When Does a Party Intend to Induce Infringement?}

The Federal Circuit continues to recognize that there is a “lack of clarity” on the appropriate level of intent for inducement liability.\textsuperscript{213} On one hand, it held “that proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to find-

\textsuperscript{204} MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1332 (Fed. Cir. 2005).
\textsuperscript{205} Hockerson-Halberstadt, Inc. v. JSP Footwear, Inc., 104 F. App’x 721, 724 (Fed. Cir. 2004); Sensonics, Inc. v. Aerosonic Corp., 81 F.3d 1566, 1575 (Fed. Cir. 1996); Water Techs. Corp. v. Calco, Ltd., 850 F.2d 660, 668 (Fed. Cir. 1988).
\textsuperscript{206} See, e.g., EWP Corp. v. Reliance Universal Inc., 221 U.S.P.Q. (BNA) 542 (S.D. Ohio 1983), rev’d on other grounds, 755 F.2d 898 (Fed. Cir. 1985) (finding no evidence of promotion by defendant, but finding liability where defendant sold a product knowing it would be used to infringe).
\textsuperscript{207} As the Supreme Court described it, the \textit{Sony} shield “limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product.” Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2779 (2005).
\textsuperscript{208} See Warner-Lambert Co. v. Apotex Corp., 316 F.3d 1348, 1365 (Fed. Cir. 2003) (“Especially 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.”).
\textsuperscript{209} See \textit{Grokster}, 125 S. Ct. at 2781 n.12.
\textsuperscript{210} Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1378 (Fed. Cir. 2005). The defendant continued selling refurbished products after they were found to infringe the plaintiff’s patent in a previous International Trade Commission hearing. \textit{Id.} See also Insituform Techs, Inc. v. CAT Contracting Inc., 385 F.3d at 1360 (Fed. Cir. 2004).
\textsuperscript{211} See Lemley, supra note 184, at 243.
\textsuperscript{212} Id. \textit{See also infra} notes 255–257 and accompanying text.
\textsuperscript{213} Insituform, 385 F.3d at 1378; see also Fuji Photo Film, 394 F.3d at 1377.
ing active inducement.”

On the other hand, it stated that the plaintiff must show “that the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce actual infringement[ ].” At this point, it remains uncertain whether an alleged inducer must intend to induce infringement, or must only intend to induce the acts that lead to infringement.

Evidence of intent in inducement cases can come in many forms, but courts weigh most heavily evidence that indicates that the defendant was aware of the patent before he took action. For example, in recent Federal Circuit cases the court found it important that the defendant had sought a license from the plaintiff, and in one instance had done so twice. In general, “[w]hile proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice.” Courts have interpreted § 271(b) to require more than just willful blindness, but a “specific intent and action to induce infringement . . . .”

Courts disagree, however, as to exactly what specific intent is required. In Hewlett-Packard Co. v. Bausch & Lomb Inc., the defendant Bausch & Lomb manufactured an infringing product within a division that it later sold to a third party. As part of the sale, it indemnified the buyer against liability for patent infringement. Hewlett-Packard subsequently sued Bausch & Lomb for inducing infringement by the buyer. The court required proof from the plaintiff only that Bausch & Lomb intended to cause the acts that constituted infringement. It did not require the defendant to be aware of the patent or intend to infringe it despite the fact that the defendant did know of the patent and had indemnified Bausch & Lomb against liability. Ironically, the court felt even this lower standard was not met.

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216. Fuji Photo Film, 394 F.3d at 1378 (twice seeking a license); Mentor H/S, Inc. v. Med. Device Alliance, Inc., 244 F.3d 1365, 1379 (Fed. Cir. 2001).
218. Id. at 1364 (“[M]ere knowledge of possible infringement by others does not amount to inducement . . . .”).
219. Id.
221. Id.
222. Id.
223. Id. at 1469.
224. Id.
225. Id. at 1470.
In *Manville Sales Corp. v. Paramount Systems, Inc.*, the defendant corporate secretary obtained a drawing of the plaintiff’s patented device. He gave the drawing to the company’s president, who then gave it to one of the defendant’s designers in order to create an infringing product. The plaintiff sued both officers for inducement, but the claim failed after the plaintiff could not satisfy the *Manville Sales* court’s higher standard of intent. The court required the plaintiff to prove that the officers were aware of the patent and intended to infringe it. The officers never knew of the existence of the patent until they were sued, at which point they received advice of counsel that the new product did not infringe. The court held that where the defendants did not know of the patent, and later had a good faith belief that there was no infringement, there can be no inducement liability. The holding attempted to draw the line between mere knowledge and intent, stating that “[i]t must be established that the defendant possessed specific intent to encourage another’s infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement.”

As mentioned, the Federal Circuit’s most recent guidance on this issue was to simply acknowledge a “lack of clarity” as to the proper standard. Meanwhile, courts have done their best to deal with the situation on their own. The vast majority of cases tend to lean towards the *Manville Sales* approach and require defendants to intend the legal consequence of their actions—to intend to induce actual infringement. Some courts, however, have adhered to the *Hewlett-

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227. *Id.*
228. *Id.* at 553–54.
229. *Id.* at 553.
230. *Id.*
231. See *id.* at 553–54.
232. *Manville Sales*, 917 F.2d at 553.
Packard standard, while still other courts have attempted to craft new standards, such as looking for negligence on behalf of the defendant as to whether its actions would induce infringement. Finally, some courts have required both actual intent to induce the infringing acts, and knowledge of the infringement. Those holdings may be explained by a recent case that stated that where a defendant has knowledge of the patent and it is shown that he intended to induce the specific acts that led to infringement, then it will be presumed that the defendant additionally intended to cause infringement. How the overall conflict will be resolved remains unclear, but it can be noted that most recent district court cases appear to favor the Manville Sales approach. At the very least, the Federal Circuit held that "a patentee must be able to demonstrate at least that the alleged inducer had knowledge of the infringing acts in order to demonstrate either level of intent." The Federal Circuit declined to resolve the dispute in recent cases, instead finding the result to be clear regardless of which standard is applied.


237. See, e.g., Micro Chemical, 194 F.3d 1250; see also Warner-Lambert, 316 F.3d 1348; see Lemley, supra note 184, at 240–41.

238. See MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silison Corp., 420 F.3d 1369, 1378 n.4 (Fed. Cir. 2005). The court was then careful to say that indemnification clauses in sales contracts will not lead to a presumption of knowledge or intent to induce, unless the "primary purpose is to overcome the deterrent effect that the patent laws have on would-be infringers." Id. (quoting Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464, 1470 (Fed. Cir. 1990)) (internal quotation marks omitted). See also nCube Corp. v. Seachange Intern., Inc., 436 F.3d 1317, 1324–25 (Fed. Cir. 2006); Aventis Pharm., Inc. v. Barr Labs., Inc., 411 F. Supp. 2d 490, 515 (D.N.J. 2006).

239. See supra notes 226–234 and accompanying text.


241. See, e.g., Golden Blount, Inc. v. Robert H. Peterson Co., 438 F.3d 1354, 1365 n.4 (Fed. Cir. 2006); Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1377–78 (Fed. Cir. 2005).
B. Finding a Common Ground Between Patents and Copyrights

The Grokster case seems to mimic the recent Federal Circuit cases, and had the Court addressed the intent issue it likely would have found the necessary intent under either standard. The evidence in Grokster indicated that the defendants corresponded with users by providing explicit examples of how to download and use copyrighted materials. It also showed that the defendants intended to entice users it knew to be looking for copyrighted material. Under the specific facts of Grokster, the distinction between Manville Sales and Hewlett-Packard is unlikely to be material.

That may not always be the case however. A closer look at Grokster can show how easily the analysis of intent to induce infringement can make the same issues surrounding the Sony shield relevant. For all the comparisons made in Grokster between the software's infringing versus noninfringing uses, the difference between the two is only in the content the user actually downloads. The acts taken by the user to obtain that content do not differ in any material way. So what if the defendants in Grokster had not specifically mentioned Napster users, mentioned downloading of copyrighted material, or used copyrighted material as examples in their explanations of the software's use? What if they had merely shown users how to download content and then left it up to the users to choose which content to download? Presumably, the Court would not have found intent to induce in those circumstances, but that is not made clear.

In such an instance, the intent standard that the court chooses could become extremely important. If a plaintiff need only show that the defendant intended to induce the act that led to infringement, rather than actually induce infringement, then by merely showing users how to use the Grokster and StreamCast software to download music, the necessary intent would be present. On the other hand, if actual intent to induce infringement is necessary, then plaintiffs will have to show that defendants specifically intended for users of their software to download copyrighted material.

In Grokster, the facts were such that this potential issue was immaterial. Future defendants, however, are sure to be more careful in choosing their promotional materials and business strategies, and so
the evidentiary issue may not always be so easy. While the Court clearly stated that the *Sony* safe harbor should not be engulfed by the theory of inducing infringement of copyright, the threat of that happening is certainly present. For this reason, in situations like *Grokster*, where a product’s noninfringing versus infringing uses require virtually identical actions on behalf of the actual user, courts should be careful to ensure that the evidence shows a defendant actually intended to encourage users to infringe copyright as opposed to merely showing that the defendant explained a usage of the product which the user independently used to infringe.

In addition, the distinction between the two standards is important in making sure that the new inducing infringement of copyright theory does not swallow the still-standing *Sony* shield. Future scenarios like *Grokster* may arise where the overwhelming majority of a product’s users are implementing the product in an infringing fashion. In such situations, a difficult scenario may face software distributors, who will know that every time their software is downloaded or installed, infringement is likely to result. Under *Manville Sales*, such a distributor is not liable absent a showing of “clear expression or other affirmative steps taken” to induce that infringement. Under the *Hewlett-Packard* standard, however, the act of selling the product itself could be considered inducement where a defendant becomes nearly certain that future users will infringe, regardless of any noninfringing uses. The result is a distributor’s inability to sell its product regardless of any lawful potential. While *Grokster* does not specifically require evidence beyond the mere sale of a product, courts should recognize the potential pitfall and refuse to interpret it in that way.

The results so far send mixed signals. In *Monotype Imaging*, Judge St. Eve did not reference the open issue of necessary intent for inducement liability in patent law. Instead, she focused her analysis on the types of evidence the Supreme Court set forth in *Grokster*. But Judge St. Eve explicitly rejected the argument that intent could be imputed from knowledge of infringing acts, suggesting a standard in line with that set forth in *Manville Sales*. In *AMC Technology*, however, where the defendant was charged with inducement due to the distribution of instructions on upgrading a product, the court held that the act of distributing the guide showed intent to induce infringement.

245. See supra note 120 and accompanying text.
246. See supra notes 226–232 and accompanying text.
247. See supra notes 162–170 and accompanying text.
because the defendant knew it did not have the right to copy the plaintiff’s code when it instructed users how to do so.\textsuperscript{249} The holding is analogous to the approach taken by the court in \textit{MEMC Electronics}.\textsuperscript{250} It suggests that courts will impute knowledge of infringement where a party intends to induce acts that result in direct infringement and when that party is aware of the applicable copyright. This holding brings us closer to the danger zone mentioned above.\textsuperscript{251}

Despite the potential for multiple readings of the \textit{Grokster} opinion, it seems probable that courts will require a showing of intent beyond the mere selling of a product where infringing use is likely. A contrary ruling would render meaningless the Court’s requirement of evidence showing “clear expression or \textit{other} affirmative steps taken . . .”\textsuperscript{252} Most of the evidence cited by the Court goes to intent, as opposed to focusing on the conduct itself.\textsuperscript{253} Furthermore, the first case applying the \textit{Grokster} opinion rejects the proffered evidence as an insufficient showing of intent, refusing to impute the intent merely from conduct alone.\textsuperscript{254}

\textbf{C. Sliding Scale}

One effective way to bring clarity and stability to this issue would be to take a sliding scale approach to analyze evidence of inducement against a defendant. Professor Lemley offered this approach as a solution to the discrepancy within the Federal Circuit between the holdings in \textit{Manville Sales} and \textit{Hewlett-Packard}.\textsuperscript{255} He said that where the defendant is shown to have a greater involvement in the infringing acts of the direct infringer, then courts should require a less stringent showing of intent.\textsuperscript{256} On the other hand, where the defendant plays less of a role in the infringement, the courts should require a stronger showing of intent to induce infringement before finding liability.\textsuperscript{257}

In effect, this approach would reconcile the holdings in \textit{Manville Sales} and \textit{Hewlett-Packard}, and potentially clarify the Court’s holding in \textit{Grokster}. While the Court did not explicitly require a showing of

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{250} See supra note 200 and accompanying text.
\item \textsuperscript{251} See supra note 200 and accompanying text.
\item \textsuperscript{252} Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2770 (2005) (emphasis added).
\item \textsuperscript{253} See supra notes 142–161 and accompanying text.
\item \textsuperscript{254} See supra notes 162–171 and accompanying text.
\item \textsuperscript{255} See Lemley, supra note 184, at 241–46.
\item \textsuperscript{256} Id.
\item \textsuperscript{257} Id.
\end{enumerate}
\end{footnotesize}
advertisement or promotion of infringing uses beyond the mere sale of the product, it weighed that evidence most heavily. A sliding scale interpretation says that because it is the users who have searched for and downloaded the copyrighted material, a strong showing of the service providers intent to induce is necessary to hold the provider liable. In a case like *Monotype Imaging*, the evidence of intent was insufficient for liability when taken in context with the defendant's involvement. Accordingly, Professor Lemley's sliding scale approach to inducement liability is a good fit for both patent and copyright law.

VI. CONCLUSION

While the Supreme Court's decision may or may not mark the end of the *Grokster* saga, it clearly changed the legal landscape in the battle between copyright owners and technology providers by giving copyright owners a new avenue with which to pursue liability. This new theory focuses not on the technology at issue, nor on the defendant's knowledge or control, but on whether the provider, through "clear expression or other affirmative steps taken," induced its users to infringe copyright. By dipping into patent law to give copyright owners this new weapon, the Court likely triggered a merge between the two bodies of law on the subject of inducement. As a result, courts will be charged with applying the law in a way that gives clarity to potential litigants, and maintains the longstanding protection the Court provided to technology distributors in *Sony*. One way to do so is to adopt a sliding scale approach when analyzing a defendant's intent and affirmative conduct.

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258. *See supra* notes 159–161 and accompanying text.
259. *See supra* notes 128–161 and accompanying text.
260. *See supra* note 120 and accompanying text.
261. *See supra* notes 182–183 and accompanying text.
262. *See supra* notes 190–257 and accompanying text.
263. *See supra* notes 255–257 and accompanying text.

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