So What Does Inducement Mean?

Jonathan Band
jband@policybandwidth.com

Last December, when the Supreme Court agreed to hear the entertainment industry's appeal in *MGM v. Grokster*, the Court appeared poised to resolve the growing controversy between the entertainment and technology industries concerning when a technology provider could be held liable for copyright infringements committed by users of that technology. Specifically, the Court seemed ready to explain exactly what it meant in its 1984 ruling in *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 442 (1984), when it stated that the sale of copying equipment did not constitute contributory copyright infringement if the equipment was "merely … capable of substantial noninfringing uses." If 90% of the uses of a product were infringing, as the entertainment industry alleged with respect to defendants Grokster and StreamCast, could the product still be "capable of substantial noninfringing uses," and could the product's manufacturer or distributor still escape contributory liability?

However, on June 27, 2005, the unanimous Court went in a different direction altogether. Rather than explicate the phrase "capable of substantial noninfringing uses," the Court held 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 taken to foster infringement, is liable for the resulting acts of infringement by third parties." *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2770 (2005). Thus, the Court decided the case on the basis of inducement, a theory that centers the defendant's intent rather than his technology's characteristics.

The inducement theory first received widespread public attention in the summer and fall of 2004 when the Senate Judiciary Committee considered S. 2560, The Inducing Infringement of Copyrights Act, as a response to the lower courts' decisions in *Grokster*. Although a secondary argument in petitioners' briefs, inducement received extensive attention in the amicus briefs filed with the Court. During the oral argument, several Justices --particularly Justice Sandra Day O'Connor – expressed interest in the inducement theory. It then became the basis for Justice Souter's opinion for a unanimous Court.

The question now becomes: what does inducement mean?

Theoretical Underpinnings

In *Sony*, the Court took the "capable of substantial noninfringing use" test directly from Section 271(c) of the Patent Act. [1] Acknowledging this borrowing by the *Sony*

[1] 35 U.S.C. § 271(c) provides that "[w]hoever offers to sell…a component of a patented machine… knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article of commerce … *suitable for substantial noninfringing use*, shall be liable as a contributory infringer."

Court, the *Grokster* Court imported the inducement rule from the Patent Act: "For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here…." *Id*. at 2780. [2]

In the Patent Act, however, active inducement and contributory infringement appear in separate subsections, 271(b) and 271(c) respectively, with the staple article doctrine constituting a limitation (or exception) to contributory infringement. In *Grokster*, by contrast, the Court merged inducement and contributory copyright infringement. The Court achieved this by redefining contributory infringement.

Prior to this case, contributory copyright infringement was typically defined as knowingly making a material contribution to a direct infringement. *See Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159 (2nd Cir. 1971). *Sony* was viewed as an exception to this rule, but the precise doctrinal basis for exception was unclear. Thus, the Ninth Circuit in both *A&M Records v. Napster,* 239 F.3d 1004 (9th Cir. 2001), and *Grokster,* 380 F.3d 1154 (9th Cir. 2004), interpreted *Sony* as going to the knowledge prong of contributory infringement – that *Sony* stood for the proposition that the distributor of a product capable of a substantial noninfringing use could not be presumed to know that the product was being used to infringe. Based on this interpretation, the Ninth Circuit concluded that if a distributor had actual knowledge of specific infringing uses at a time when the distributor could prevent the infringement, but declined to do so, the distributor could incur liability. Both Napster and Grokster had actual knowledge, but only Napster had the ability to respond to it. Since Grokster did not maintain a centralized server, it had no way to react to a claimed infringement. Accordingly, the Ninth Circuit did not find it liable for contributory infringement. By attaching *Sony* to the knowledge prong, the Ninth Circuit limited *Sony* in a way that had no real basis in the *Sony* decision, and fashioned a rule that led to inconsistent results.

Here, Justice Souter stated that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement." *Grokster* at 2776. This is a new definition for contributory infringement – in essence, Justice Souter replaced knowledge with intent. And *Sony* also has a new meaning within this new understanding of contributory infringement: "*Sony* barred secondarily 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. Here, too, Justice Souter replaced knowledge with intent – *Sony* now forbids imputing intent, rather than imputing knowledge, as the Ninth Circuit suggested. Thus, although Sony *knew* that the Betamax could be used for infringing purposes, the *Sony* rule "limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product." *Id*. at 2779. Since "[t]here was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping," *id*. at 2777, and since such an unlawful objective could not be presumed, Sony was not liable for contributory infringement.

[2] 35 U.S.C. § 271(b) provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer."

In contrast, it appears that Grokster and StreamCast did intend for users to employ their software to infringe. And Justice Souter explained that "nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence…." *Id.* at 2779. If the evidence at trial demonstrates that the defendants intended to encourage infringement, they can be found liable for infringement – even if their products are capable of substantial noninfringing uses.

What is curious about this redefinition of contributory infringement is that it appears to run contrary to the Court's discussion of contributory infringement in *Sony*. In footnote 19, the *Sony* Court drew a clear distinction between the standards for contributory infringement in copyright and contributory infringement in trademark. The Court noted that contributory infringement in trademark requires intentional inducement of infringement, and observed that if this "narrow standard" applied in copyright cases, "respondents' claim of contributory infringement [in *Sony*] would merit little discussion." 464 U.S. at 439 n.19. Nonetheless, in *Grokster* the Court adopted an intentional inducement standard for contributory copyright infringement.

By redefining contributory infringement to focus on intent to induce, and reinterpreting *Sony* to forbid presuming intent from mere design or distribution, Justice Souter may have found an elegant way of preserving *Sony* while capturing "bad" actors. Moreover, under this approach, the *Sony* safe harbor could apply to the provision of services as well as the distribution of products. If the service were capable of noninfringing uses, the service provider would incur liability only if it manifested unlawful intent in some manner beyond providing the service. Of course, an Internet service provider would still be entitled to 17 U.S.C. § 512's limitations on remedies, if the provider satisfied Section 512's requirements.

Significantly, under the *Grokster* Court's new definition of contributory infringement, inducement is not a separate cause of action, as it is under the Patent Act. Rather, it is a specific form of contributory infringement that applies to technology providers. And inducement is not an exception to the *Sony* safe harbor. To the contrary, *Sony* is a limitation on inducement liability. That is, *Sony* (as interpreted by *Grokster*) teaches that a court cannot impute intent to infringe by virtue of the distribution of an infringing technology if that technology is capable of substantial noninfringing uses. Instead, the intent must be shown "by clear expression or other affirmative steps taken to foster infringement...." *Id.* at 2780.

The Contours of Inducement

Justice Souter defined the inducement rule as: "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." *Id.* What "clear expression or other affirmative steps" are sufficient to manifest an intent to induce infringement?

During the briefing of the case before the Supreme Court, two distinct theories of inducement emerged. Several information technology associations, including BSA and NetCoalition, argued that that a technology provider could incur liability for acts *other than* the design and distribution of the technology that encouraged infringement. NetCoalition, for example, argued that: 1) liability should not lie merely because a technology company profits from infringement; 2) the purpose for which a technology has been designed is irrelevant to an assessment of inducement; 3) the mere fact that a vendor maintains an ongoing relationship with its customers should not give rise to liability; 4) no act relating to design, manufacture, general advertising, routine support, or distribution of a technology should lead to liability; 5) acts other than those relating to design, manufacture, distribution, general advertising, or routine support are outside of the *Sony* defense, but do not incur secondary liability if they are facially neutral; and 6) injunctive relief should be directed only towards the inducing conduct, and not the distribution of the technology itself.[3]

By contrast, the content providers argued more broadly that if a provider engaged in a pattern of encouraging or assisting infringement, where part of the pattern was providing a technology with certain functionalities, liability could attach. Some amici argued that a business model based on encouraging mass infringement should lead to liability.

The proponents of both theories of inducement relied on Federal Circuit precedent interpreting active inducement under 35 U.S.C. § 271(b). But as one amicus observed, the Federal Circuit case law concerning inducement is far from consistent or coherent.

The inducement rule articulated by Justice Souter seems to fall in between these two general approaches. One the one hand, Justice Souter wrote that mere distribution, even with knowledge of infringing potential or actual infringement, would not be enough to subject the distributor to liability. Nor "would ordinary acts incident to product distribution, such as offering technical support or product updates, support liability in themselves." *Grokster* at 2780. Further, Justice Souter indicated that a "classic case" of inducement would involve advertising an infringing use or instructing how to engage in an infringing use. *Id.* at 2779.

On the other hand, the Court also made clear that "[p]roving that a message was sent out … is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts…." *Id.* at 2781. Internal communications can also demonstrate the defendant's "unlawful purpose." *Id.* Justice Souter then provided three examples of "other evidence" that demonstrated that the defendants "acted with a purpose to cause copyright violations…." *Id.* These examples of other evidence are troubling, and could lead to wasteful litigation if the federal courts interpret *Grokster* overbroadly.

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[3] For a detailed discussion of the briefing in *Grokster*, *see* Jonathan Band, "*The Grokster Playlist*," 10 Electronic Commerce Law Report 334 (2005).

The first example is evidence that showed that "each company aimed to satisfy a known source of demand for copyright infringement…." *Id.* While this objective certainly reflects unlawful purpose, the evidence the Court cited is quite thin – e.g., constant reference in internal email to Napster, or Grokster's derivation of its name from Napster.

The second example is the defendants' failure to attempt to develop a filtering tool to diminish infringing activity. This hints at inviting courts to scrutinize technology companies' design decisions.

The third "complement to direct evidence of unlawful objective" was that the defendants' profitability relied on infringing conduct. *Id.* Because the defendants adopted an advertising-based business model, they generated more revenue as more people used the software, and the software's utility for infringement drove its high volume use. This focus on an advertising based business model could be problematic for the many Internet companies that rely on advertising revenue.

To be sure, the opinion does include language that mitigates these examples. The Court states that "[o]f 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 closely to the *Sony* safe harbor." *Id.* at n.12. Similarly, with respect to the business model, the Court says that "[t]his evidence alone would not justify an inference of unlawful intent…." *Id.* at 2782.

Moreover, the Court's rhetoric suggests that the intent to encourage infringement must be blatant: "[i]f liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was." *Id.* Similarly, the Court referred to "unequivocal indications of unlawful purpose." *Id.* at 2781.

Thus, it is unlikely that a person can be liable for inducement if he advertises a use that he reasonably believes to be a fair use, but which turns out to be an infringement. The language of the opinion suggests that liability should attach only if the defendant had the specific intent to cause infringement: "the object of promoting its use to infringe," *id.* at 2770, "their principal object was use of their software to download copyrighted works," *id.* at 2774, "an actual purpose to cause infringing use," *id.* at 2778, "statements or actions directed to promoting infringement," *id.* at 2779, "purposeful, culpable expression and conduct," *id.* at 2780, "a message designed to stimulate others to commit violations," *id.*, "acted with a purpose to cause copyright violations," *id.* at 2781, "a principal, if not exclusive, intent on the part of each to bring about infringement," *id.*, "intentional facilitation of their users' infringement," *id.*, "unlawful objective," *id.*, "the distributor intended and encouraged the product to be used to infringe," *id.* at 2782, n.13, "a purpose to cause and profit from third-party acts of copyright infringement," *id.* at 2782, and "patently illegal objective." *Id.*

Furthermore, the Court places the inducement rule in a framework that expressly seeks to balance the goals of copyright protection and technological innovation. Justice Souter makes clear that the Court is targeting only "purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise." *Id.* at 2780. Hopefully, lower courts will take this admonition seriously, and will not impose inducement liability promiscuously. Indeed, an argument could be made that since these other forms of evidence are "complements to direct evidence of unlawful objective," *id.* at 2781, summary judgment must be granted absent direct evidence of the classic sort: a public message such as an advertisement encouraging infringement.

Nonetheless, the possibility remains that a court could view an advertising-based business model taken together with a failure to filter as sufficient grounds to find inducement liability – or at least sufficient grounds to allow extensive discovery of internal communications to uncover an expression of intent to promote infringement. While these indicia would not appear to satisfy the Court's call for "unequivocal indications of unlawful purpose," trial courts confronted by sympathetic plaintiffs and unsympathetic defendants may interpret inducement over broadly. Such misinterpretations probably will be corrected by dispassionate courts of appeals, but by then the damage to a thinly capitalized defendant will have been done.

Another troubling feature of the inducement theory articulated by Justice Souter is that "the 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. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use." *Id.* at 2782, n.13. This means that injunctive relief can extend beyond the affirmative inducing act and encompass product distribution. Moreover, Justice Souter rejected defendants' argument that inducing conduct with respect to earlier releases of the software should not be attributed to the current release. Evidently, Justice Souter viewed the current release as "fruit of the poisonous tree."

In sum, to prove inducement:

- The plaintiff must demonstrate that the defendant distributed a technology with the objective of promoting its use to infringe copyright.
- This objective must be shown by clear expression or other affirmative steps taken to foster infringement. The expression or affirmative steps must not be merely suggestive of infringing intent; they must constitute unequivocal indications of unlawful purpose.
- Knowledge of infringing potential or actual infringing uses would not be enough to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as technical support or product updates.
- The "classic" evidence of unlawful purpose is advertising an infringing use or instructing how to engage in an infringing use. These messages can

demonstrate the defendant's unlawful purpose even if they are not actually communicated to potential users; they still reflect his intent.

- Other evidence of unlawful purpose include:
  - Aiming to satisfy a known source of demand for copyright infringement.
  - Failure to take affirmative steps to prevent infringement. This, in the absence of other evidence of intent, would be insufficient to trigger liability.
  - An advertising-based business model where revenue increases as infringing uses increase. This evidence alone would not justify an inference of unlawful purpose.
- The inducement rule should not be applied in a manner that compromises legitimate commerce or discourages innovation having a lawful promise.
- The inducement rule also should not inhibit fair use because liability should attach only if the defendant had the specific intent to cause infringement.

The Inducement Rule Compared to S. 2560

The Court's unanimous adoption of the inducement rule ended any momentum, at least in the short run, in favor of legislation creating an inducement cause of action. Nonetheless, a comparison of the inducement rule with S. 2560 helps evaluate the Court's action.

S. 2560 provided that "[w]hoever intentionally induces any violation [of the exclusive rights of the copyright owner] shall be liable as an infringer." § 2(g)(2). The bill then explained that "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(g)(1). The bill also contained a savings clause that stated that "[n]othing 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." § 2(g)(3).

The savings clause indicated that S. 2560 intended for inducement to constitute a new cause of action independent of contributory infringement. In contrast, the *Grokster* Court viewed inducement as a form of contributory infringement. Inducement under S. 2560 was broader and more open-ended than under *Grokster*. Significantly, under S. 2560, the distribution of a technology with knowledge that it could be used for infringement could conceivably have constituted inducement. The *Grokster* Court, conversely, made clear that mere distribution of technology with knowledge of actual or potential infringement could not result in inducement liability. Likewise, the *Grokster* Court sheltered ordinary acts incident to product distribution, including technical support and product updates.

Moreover, S. 2560 singled out reliance on infringement for commercial viability as an act from which a reasonable person could infer an intent to induce. While *Grokster* did consider a business model that profits from infringement as evidence of unlawful objective, the Court made clear that business model alone would not justify an inference of unlawful intent. In other words, S. 2560 places much greater weight on the business model than does the *Grokster* Court.

After S. 2560 met with harsh criticism from the technology industry, Senators Hatch and Leahy, the bill's sponsors, asked the Copyright Office to propose inducement legislation. The Copyright Office proposal centered entirely on the defendant's business model. The Copyright Office proposal would have imposed liability on:

> whoever manufacturers, offers to the public, provides, or otherwise traffics in any product or service … that is a cause of individuals engaging in infringing public dissemination of copyrighted works shall be liable as an infringer where such activity:
> a) relies on infringing public dissemination for its commercial viability;
> b) derives a predominant portion of its revenues from infringing public dissemination; or
> c) principally relies on infringing public dissemination to attract individuals to the product or service.[4]

As with S. 2560, technology companies observed that the commercial viability test was too easy to meet. Given the narrow profit margins for many technology products, particularly new technologies, even a small amount of revenue from infringing activity might make the difference between profit and loss. Moreover, a distributor may not know with any accuracy how much revenue it receives from infringing activity, nor the extent of that activity's contribution to the distributor's profitability. While *Grokster* treated the defendant's business model as evidence of intent to induce, it did not treat this evidence as dispositive, unlike S. 2560 and the Copyright Office proposal.

The Copyright Office proposal was narrower than *Grokster*'s species of inducement in one critical respect. The Copyright Office proposal applied only to infringing public dissemination – that is, to infringements of the right of distribution to the public, public display, and public performance. As a practical matter, this meant that the Copyright Office proposal applied to technologies enabling infringement on the Internet, but not private copying, *e.g.*, a CD burner in a personal computer.

The opposition to the Copyright Office's proposal prompted the staff of the Senate Judiciary Committee to propose yet another draft inducement bill. The staff draft targeted intentional inducement, which was defined as "conscious and deliberate affirmative acts which a reasonable person would expect to result in widespread

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[4] U.S. Copyright Office, Recommended Statutory Language, Sept. 9, 2004.

violations" of the copyright owner's rights.[5] The draft then listed a variety of acts that would not, by themselves, constitute intentional inducement. These acts included:

- the defendant's actual or constructive knowledge that a third party used the defendant's technology to infringe;
- advertising or promoting a technology when doing so does not encourage use of the technology to infringe;
- providing information on the use of the technology through user guides or customer support, when the information does not encourage use of the technology for infringing purposes;
- third party product reviews and criticism; and
- providing venture capital or financial services.

As with the Copyright Office proposal, the staff draft did not reach infringements that were private, noncommercial, and not distributed to the public.

The staff draft's list of acts that, by themselves, did not constitute inducement was remarkably similar to that created by the Supreme Court. In particular, mere distribution of a product with knowledge that infringement might result, as well as customer support for the product, would not result in liability under either *Grokster* or the staff draft. The staff draft, however, made no mention of either business models or failure to take preventative measures. This silence cuts in two ways. On the one hand, the staff draft did not invite courts to consider these features, as the *Grokster* Court did by highlighting them as evidence of intent. On the other hand, the staff draft did not limit the weight a court could accord such evidence, as the *Grokster* Court did by stating that each feature, by itself, was insufficient to impose liability. Thus, under the staff draft, a business model that profited from infringement, or a failure to take measures to prevent infringement, could be sufficient by itself to trigger liability.

Even though the substantive tests for inducement under *Grokster* and the staff draft appear quite similar, Justice Souter's opinion contains a gloss on inducement that signals to lower courts the spirit in which the rule should be applied. He wrote that the inducement rule "does nothing to compromise legitimate commerce or discourage innovation having a lawful promise." *Grokster* at 2780. Earlier in his opinion, he noted that the case required the balancing of 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." *Id*. at 2775. In short, Justice Souter made clear that inducement liability should not be imposed in a manner that would "limit further development of beneficial technologies." *Id*. This gloss on inducement would have been difficult, if not impossible, to include in a statute, and hopefully will prevent abuse of the concept.

Groskter* on *Sony

[5] Staff of Senate Comm. on the Judiciary, 108th Cong., Staff Discussion Draft on Inducing Infringement of Copyrights Act of 2004 (Sept. 24, 2004).

By finding direct evidence of inducement, the *Grokster* Court managed to decide the case without interpreting *Sony*'s staple article rule. But interpretation of *Sony* can still be relevant to inducement. The Court explained that *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. This suggests that if a technology is *not* capable of substantial noninfringing uses, then intent to promote infringement can be inferred from the act of design and distribution. When direct evidence of inducement is present, as in *Grokster*, a court need not explore whether the technology is capable of substantial noninfringing uses, because liability can be imposed by virtue of the direct evidence of inducement. If, however, such evidence is absent, a court would need to wade into the staple article rule to determine whether to infer intent from the distribution of the technology.

While Justice Souter's opinion does not consider the staple article rule, the two concurring opinions offer two different interpretations of the phrase "capable of substantial noninfringing uses." Justice Breyer, in an opinion joined by Justices O'Connor and Stevens, argued that *Sony* prevents contributory liability for product distribution "unless the product in question will be used almost exclusively to infringe copyrights…." *Id*. at 2791. In his view, this standard would be met if 10% of the uses were noninfringing.

Justice Ginsburg, in an opinion joined by Chief Justice Rehnquist and Justice Kennedy, rejected this interpretation as departing from the facts and holding of *Sony*. Nonetheless, Justice Ginsburg appeared to require a showing of overwhelming infringing use before imposing liability on the distributor: "there was evidence that Grokster's and StreamCast's products were, and had been for some time, overwhelmingly used to infringe, … and that this infringement was the overwhelming source of revenue from the products…." *Id*. at 2786. She acknowledged that the absolute number of noninfringing uses of defendants' software may be large, but those uses were "dwarfed" by the number of infringing uses. *See id.* While Justice Ginsburg did not offer a specific benchmark, "overwhelming" infringing use represents a far more stringent standard than one requiring only "that a product [be] used 'principally' for infringement…." *Id*. at 2778. This weaker, 50% of use threshold was advocated by the petitioners and their amici. *Id.*

In other words, while the concurring opinions disagreed with one another, they both articulated a narrower standard than that sought by petitioners. Six justices (now five, with Justice O'Connor's retirement), would require a showing of at least overwhelming infringing use that dwarfs noninfringing use before denying the distributor *Sony*'s safe harbor. This narrow standard ensures that *Sony* "leaves breathing room for innovation and a vigorous commerce." *Id.*

At the same time, advocates of a sweeping, Breyer-like interpretation of *Sony* were also disappointed. With Justice O'Connor's retirement, only two sitting justices seem willing to sanction products with noninfringing uses of just 10%, even if that 10%

represents millions of uses. Moreover, even these two justices believe that *Sony* does not protect distributors who intend to induce infringement.

The First Post-*Grokster* Decision

On July 12, 2005, just two weeks after the *Grokster* decision, a federal district court in Illinois has issued the first post-*Grokster* secondary liability copyright decision in *Monotype Imaging, Inc.v. Bitstream Inc.,* 376 F. Supp. 2d 877 (N.D. Ill. 2005). The opinion suggests that the lower courts may have some difficulty understanding the Supreme Court's decision. Monotype develops software that generates human readable typeface designs on computer screens and printers. These programs are termed fonts. Bitstream developed TrueDocs, a program that allows the recipient of an electronic document to replicate the typeface of the original even if the fonts used to create the original are not installed on his computer. TrueDocs evidently performs this function by copying the font used to create the original document. Bitstream preinstalls its fonts, and those of its partners, in TrueDocs. Users also have the ability to copy additional fonts into TrueDocs. Monotype alleged that TrueDocs users employed TrueDocs to copy Monotype fonts without authorization. On this basis, Monotype alleged that Bitstream was contributorily liable for the users' infringement of its copyright in its fonts.

The court first concluded that there was no credible evidence that TrueDocs' users had, in fact, copied Monotype's fonts. In the absence of direct infringement, there can be no contributory infringement. The court nonetheless proceeded to discuss contributory infringement in some detail. (Since there was no direct infringement, the entire discussion of contributory infringement is *dicta*.) It found that Bitstream had no knowledge of actual infringing uses of TrueDocs, although Bitstream executives knew the product had the technical capability of such infringing uses. Citing *Grokster* and *Sony*, the district court then stated that "[t]he Supreme Court has recognized that a court may impute culpable intent as a matter of law from the characteristics or uses of an accused product." Id. at But the district court got this exactly backwards. In *Grokster*, the Supreme Court stated that "*Sony*'s rule <u>limits</u> imputing culpable intent as a matter of law from the characteristics or uses of a distributed product." *Grokster*, 125 S.Ct. at 2779 (emphasis supplied).

After stating this erroneous premise, the district court listed three factors identified by the Seventh Circuit in *In re Aimster*, 334 F.3d 643 (7th Cir. 2003), as relevant to determining whether the alleged contributory infringer acted with culpable intent: 1) the respective magnitudes of infringing and noninfringing uses; 2) whether the defendant encouraged the infringing uses; and 3) the efforts made by the defendant to eliminate or reduce infringing uses. The district court found that none of these three factors were present here. (*Aimster* nowhere lists these three factors; rather, the district court inferred them from Judge Posner's rambling opinion.)

The district court then applied the *Grokste*r Court's intentional inducement theory to the facts before it. It found that the defendant did not have knowledge of any infringement, "let alone act with the 'purposeful, culpable expression and conduct' that the Supreme Court found present in the *Grokster* defendants' conduct." The district court turned to the three features of evidence that the Court identified in *Grokster*, and found none of them here. In particular, it distinguished Bitstream's neutral advertisements that TrueDoc could be used with any fonts from "the situation in *Grokster* where the defendants specifically targeted an audience that was seeking to download copyrighted material."

Two aspects of the decision are troubling. First, as noted above, the district court got the *Sony* rule, as explicated by the *Grokster* Court, exactly backwards. Although this error had no harmful result in this case, the fact of the error suggests that district courts may have difficulty understanding the Supreme Court's holdings in this area.

Second, the district court considered the "*Aimster* Factors" for determining culpable intent separately from *Grokster*'s intentional inducement theory. But the second and third factors -- whether the defendant encouraged the infringing uses and the defendant's efforts to eliminate or reduce infringing uses – are elements of *Grokster*'s test for intentional inducement. And the first factor -- the respective magnitudes of infringing and noninfringing uses – has relevance after *Grokster* only if Justice Ginsburg's interpretation of "capable of substantial noninfringing use" is followed and the product is overwhelmingly used for infringing purposes. Only then could a court impute culpable intent from the uses of the product. Yet the district court failed to understand the relationship between *Grokster* and the "*Aimster* Factors." Hopefully district courts outside of the Seventh Circuit will not feel a need to consider the "*Aimster* Factors."

On the other hand, when the district court finally applied *Grokster*, it correctly distinguished the neutral advertising here from the *Grokster* defendants' targeting a market of known infringers.

Practical Guidance

It remains to be seen what impact the inducement test will have on legitimate companies. If the lower courts apply inducement in the narrow manner the Supreme Court seems to suggest, it should not interfere with design and distribution of mainstream information technology products and services. But if the lower courts misapply inducement, or allow plaintiffs to engage in fishing expeditions looking for incriminating email, it could become extremely burdensome.

Until the standards for inducement are fleshed out, technology companies can take the following measures to reduce the likelihood of inducement liability:

- Take care in advertisements, product descriptions, and manuals not to appear to encourage infringing activity.
- Obtain opinion letters from copyright counsel concluding that uses encouraged through public communications are not infringing.

- Include statements in manuals, browse-wrap licenses, etc., encouraging users not to infringe.
- Train employees to be careful in internal communications – to avoid even joking references to infringing uses of the product.
- Explore the feasibility of reducing infringement by technological measures. If such measures are determined to be ineffective, maintain proper documentation of the research.

Since this inducement standard applies to everyone – not just technology companies – all entities should adopt these policies.