

Does *Grokster* Create a New Cause of Action that Could Implicate the Apple TV?

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INTRODUCTION

Today, copyright infringement is made possible because of the technology available in our digital world.¹ Digital technology includes computers, storage devices, and peer-to-peer (“P2P”) file-sharing services.² So if one combines these and connects them to a media player, like an Apple TV, he or she can choose from countless unauthorized files of copyrighted material to enjoy on a big screen television set. In fact, one can do this within minutes, without the tedious intermediary step of obtaining permission from the copyright holders.³ But who should be liable for the copyright infringement? The situation below illustrates the different roles involved in a typical act of copyright infringement. While reading it, one should try to decide who should be held liable:

¹ Anupam Chander & Madhavi Sunder, *Apple Rips While Grokster Burns: How MGM v. Grokster Benefits Information Technology Companies*, FINDLAW LEGAL NEWS & COMMENTARY, Jun. 29, 2005, http://writ.corporate.findlaw.com/commentary/20050629_sunder.html.

² *Id.*

³ *Id.*

College student, Billy, likes to spend his Sunday afternoons downloading free popular songs and movies he had just heard and watched on Friday and Saturday nights. On one particular Sunday afternoon, Billy decides he wants to download the new *Borat* movie,⁴ so he logs on to BitTorrent, a P2P file-distribution tool that allows his computer to trade information with another computer directly.⁵ After performing a quick search for *Borat* on BitTorrent, Billy gets a list of computers that are readily available to send him the information he wants. He selects one computer, and with the click of a button and a few seconds, Billy has the *Borat* movie downloaded onto his computer. Now he decides he wants to watch the movie, but his seventeen-inch computer screen is much too small to enjoy it. So Billy decides to watch *Borat* on his sixty-inch flat screen television for better picture, sound and viewing quality. Grabbing his new Apple TV, a set-top box (“STB”),⁶ he wirelessly transfers that digital video clip stored in his computer onto his television. With this elaborate setup, Billy enjoys the *Borat* film for free, instead of purchasing or renting it from a local retailer, and it only took a few minutes of his time.

Many courts would agree that Billy is liable for directly infringing the copyrights of *Borat*. But should hardware manufacturers of devices that help facilitate copyright infringement, like Apple, also be held liable for the direct infringement of its users? What if its products are well-known for holding unauthorized copyrighted works? Should P2P file-sharing services be held liable for the copyright infringement? If P2P file-sharing services intend to induce copyright infringement with advertisements, should they be held liable? If Apple does not intend for its products, like Apple TV, to induce copyright

⁴ BORAT: CULTURAL LEARNINGS OF AMERICA FOR MAKE BENEFIT GLORIOUS NATION OF KAZAKHSTAN (20th Century Fox 2006).

⁵ Electronic Commerce, Glossary, <http://www.martech-intl.com/best2/glossary.htm> (last visited Mar. 1, 2007) (defining peer-to-peer as a process “involving linking a series of PCs together without the use of a server”); Wikipedia.org, BitTorrent, <http://en.wikipedia.org/wiki/BitTorrent> (last visited Mar. 1, 2007) (defining BitTorrent as a peer-to-peer (P2P) file distribution protocol written by programmer Bram Cohen and debuted at CodeCon 2002).

⁶ Wikipedia.org, Apple TV, http://en.wikipedia.org/wiki/Apple_TV (last visited Mar. 1, 2007).

infringement, but the Apple TV nonetheless does, should it be held liable as a contributory infringer? What if it uses contemporary internet lingo to advertise Apple TV's ability to "Rip, Mix, Burn"⁷ videos to potential users, as it did with the iPod? Is it liable then? Perhaps, under the new "intent to induce" theory adopted by the Supreme Court in *Metro-Goldwyn-Mayer v. Grokster*.⁸

This Note shows that there are two ways to read the "intent to induce" theory announced in *Grokster III*, one of which would leave practically all manufacturers and distributors of digital technology susceptible to liability. According to the *Grokster III* Court, defendants Grokster and StreamCast were potentially liable for "inducing" copyright infringement.⁹ The Court held that "inducement" meant, "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 a third party's infringement.¹⁰ Originally, plaintiff, MGM, brought a cause of action against the defendants under the traditional theories of secondary liability, namely, contributory infringement and vicarious infringement.¹¹ However, defendants—like other P2P file-sharing services—claimed protection under *Sony Corporation of America v. Universal Studios, Inc.*¹² Essentially, this rule of law entitles products or services "capable of substantial noninfringing uses" to manufacture and distribution protection, even if they would otherwise be held responsible under the theory of contributory

⁷ See Kathy Bowrey, *Rip, Mix, Burn: The Politics of Peer to Peer and Copyright Law*, FIRST MONDAY, Jul. 22, 2005, http://www.firstmonday.org/issues/issue7_8/bowrey (citing LAWRENCE LESSIG, *THE FUTURE OF IDEAS* 9 (Random House 2001)).

⁸ (*Grokster III*), 545 U.S. 913 (2005).

⁹ *Id.* at 941. The Supreme Court could not determine the defendants' liability because the case was appealing the plaintiffs' motion for summary judgment, and the Court had to base its decision on facts accepted at the district court level. The case was therefore remanded to the district court to determine the defendants' liability. See *Grokster III*, 545 U.S. at 927.

¹⁰ *Id.* at 936–37.

¹¹ See *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd.* (*Grokster I*), 259 F. Supp. 2d 1029, 1034 (C.D. Cal. 2003), *overruled by Grokster III*, 545 U.S. 913.

¹² See *Grokster I*, 259 F. Supp. 2d at 1035 (citing *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984), stating that, "StreamCast has adduced evidence that the Morpheus program is regularly used to facilitate and search for public domain materials, government documents . . .").

infringement.¹³ However, the Court did not hold the defendants liable under either of the traditional theories, instead focusing on the inapplicability of the *Sony* defense to the defendants, and then announcing the new rule. So it left readers wondering how to properly interpret the inducement theory.¹⁴ Knowing this background of *Grokster III*, one can see that there are two ways the theory can be read. First, it can be read as a rebuttal against the *Sony* defense for claims of contributory infringement. Or, it can be read as a new cause of action under secondary liability. The first reading effectively sets boundaries on the *Sony* defense. However, allowing copyright holders to bring a wholly separate cause of action against contributory infringers under the second reading preempts defendants from using the *Sony* defense altogether. Such a reading is beneficial for copyright holders looking to pin the responsibility for copyright infringement on corporations with deep pockets. But is this the desired result?

Reading the inducement theory as a new cause of action creates liability for new technologies worthy of the *Sony* defense, like the Apple TV.¹⁵ However, it is important to understand that the *Grokster III* Court never wanted to hold digital technology producers, like Apple, liable for facilitating copyright infringement. Rather, the Court preferred to uphold the policy expressed in *Sony*: to balance the dissemination of new digital technology products, while also giving copyright holders their fair protection.¹⁶ That is, the *Grokster III* Court sought not to answer the question of *who* should be held liable, but rather, *how to prevent further copyright infringement* when using products of information technology.

¹³ *Sony*, 464 U.S. at 442.

¹⁴ *Grokster III*, 545 U.S. at 934 (stating that the Ninth Circuit reading was in error because it did not displace other theories of secondary liability and then continuing with the inducement theory after dismissing the Ninth's Circuit's reading); William Sloan Coats, Mark R. Weinstein, Erik R. Zimmerman, *Pre- and Post-Grokster Copyright Infringement Liability for Secondary and Tertiary Parties*, 842 PLI/Pat 221, 242–43 (2005).

¹⁵ Coats et al., *supra* note 14, at 243.

¹⁶ See Transcript of Oral Argument at *12–13, *Grokster III*, 545 U.S., 913 (No. 04-480) (questioning plaintiffs' proposed test for a "majority use [that is] non-infringing"). Justice Breyer argues that it presents problems for the iPod inventor who cannot gauge its unforeseen uses before he has invented it. *Id.*

This Note attempts to illustrate how the Supreme Court addresses the copyright infringement problem today, while at the same time maintaining the safe harbor of *Sony*¹⁷ for products of information technology in *Grokster III*.¹⁸ This Note argues that the *Grokster III* holding must be read as a rebuttal to the *Sony* defense under the contributory infringement theory in cases of secondary liability. To view the inducement theory as a new cause of action under secondary liability could lead to its misapplication, striking the wrong balance between dissemination and protection. In fact, it would preclude new technologies, like the Apple TV, from developing substantial noninfringing uses.¹⁹

Part I of this Note discusses the history of secondary liability. Part I.A gives the background of the original theories and the article of commerce doctrine. Part I.B discusses the *Sony* decision. Part II addresses the legal consequences of *Sony*'s inconsistent definition of "substantial noninfringing uses."²⁰ Part II.A begins with a short description of how P2P file-sharing works. Part II.B delineates the *Grokster II* and *Grokster III*²¹ decisions in the Ninth Circuit and Supreme Court. Part II.C addresses Congress' role in the *Grokster III* decision. Part III discusses the different ways to read the *Grokster III* decision and their possible implications. Part III.A uses the Apple TV to illustrate how *Grokster III* should not be read. Part III.B. reconciles the *Sony* and *Grokster III* decisions by using the Apple TV to show that the *Grokster III* holding must be read as part of contributory infringement and a rebuttal to the *Sony* decision. Part IV briefly summarizes the point of this Note that the *Grokster III* decision never intended to eliminate the *Sony* protection.

¹⁷ 464 U.S. at 442.

¹⁸ *Grokster III*, 545 U.S. 913.

¹⁹ For a discussion of other gaps in secondary liability theory by the *Grokster* decision, see Britton Payne, Note, *Super-Grokster: Untangling Secondary Liability, Comic Book Heroes and the DMCA, and a Filtering Solution for Infringing Digital Creations*, 16 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 939 (2006).

²⁰ See *Sony*, 464 U.S. at 442 (defining substantial noninfringing uses as "capable of substantial noninfringing uses" in one passage and "commercially significant noninfringing uses" in another passage).

²¹ *Grokster III*, 545 U.S. 913.

I. HOW DID COURTS HOLD MANUFACTURERS AND DISTRIBUTORS OF PRODUCTS CAPABLE OF COPYRIGHT INFRINGEMENT LIABLE IN A PRE-*GROKSTER III* WORLD?
THE HISTORY OF SECONDARY LIABILITY

Before the *Grokster III* decision, courts traditionally held producers and providers liable for third party copyright infringements under theories of vicarious liability and contributory infringement.²² P2P service users directly infringe on copyright owners' exclusive rights to reproduce, produce derivatives, distribute copies, and publicly perform or display their work under § 106 of the 1976 Copyright Act when P2P users transmit copyrighted work without owners' permission.²³ Parties are held responsible under secondary liability for this infringement if they have some degree of involvement in the direct infringement.²⁴ The theories of secondary liability were not codified in the Copyright Act. Instead, the Supreme Court and lower courts adopted them over time as needed from the Patent Act, where they are expressly stated, even though the Patent Act entitles holders to a completely different intellectual property right.²⁵ Congress has also acknowledged the theories of secondary liability for copyright law in legislative history.²⁶ The "staple articles of commerce" doctrine as construed by *Sony* is a defense to these liability theories that will also be discussed.²⁷

A. *Origins of Secondary Liability Theories and the Staple Article of Commerce Doctrine*

Vicarious liability for acts of direct infringement is imposed on a secondary party if that party has a right and ability to control infringing conduct and derives a financial benefit from that

²² Jesse M. Feder, *Is Betamax Obsolete?: Sony Corp. of America v. Universal Studios, Inc. in the Age of Napster*, 37 CREIGHTON L. REV. 859, 868–72 (2004).

²³ 17 U.S.C. § 106 (2002); *see also* Coats et al., *supra* note 14, at 226–27 (2005).

²⁴ Coats et al., *supra* note 14, at 227.

²⁵ *Id.* at 226–27; *see also* Lynda J. Oswald, *The Intent Element of "Inducement to Infringe" Under Patent Law: Reflections on Grokster*, 13 MICH. TELECOMM. & TECH. L. REV. 225, 225–26 (2006).

²⁶ Feder, *supra* note 22, at 868–69.

²⁷ *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 442 (1984).

conduct.²⁸ This Note does not focus on vicarious liability because the *Sony* and *Grokster III* decisions focused on the defendants' liability under a theory of contributory infringement.²⁹ It is worthy to note, though, that vicarious liability is a cause of action copyright holders typically bring in addition to contributory infringement, but the defendants' primary defense is *Sony* and courts almost always associate that defense with contributory infringement.³⁰ So, if defendants are found not to be contributory infringers, as the defendants in *Sony*, they are also not liable for vicarious infringement.³¹ Also, if defendants are found to be contributory infringers, as the defendants in *Grokster III*, that is enough to find them liable and the court will not address the vicarious liability issue.³²

Under its traditional standard, a party is a contributory infringer if it has "knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another."³³ Depending on the alleged contributory infringer's degree of involvement in the infringing activity, knowledge of the direct infringer's conduct is satisfied by either actual or constructive knowledge of the infringing activity.³⁴ Under *Fonovisa, Inc. v. Cherry Auction, Inc.*, material contribution usually refers to

²⁸ Feder, *supra* note 22, at 869.

²⁹ See *Metro-Goldwyn-Mayer v. Grokster (Grokster III)*, 545 U.S. 913, 931 n.9 (2005) (stating that, because the Court resolved the case on an inducement theory, there was no need for it to analyze the vicarious liability claim); *Sony*, 464 U.S. at 456 (holding that the sale of VTRs to the general public did not constitute contributory infringement).

³⁰ See *Grokster III*, 545 U.S. at 931 n.9 (stating that, because the Court resolved the case on an inducement theory, there was no need for it to analyze the vicarious liability claim); *In re Aimster Copyright Litig. (Aimster II)*, 334 F.3d 643, 654 (7th Cir. 2003). The Court recognized that the differences between direct infringement, contributory infringement, and vicarious liability were not clear. Thus, when Sony used the term "vicarious liability" it did so outside the technical analysis of the vicarious copyright infringement doctrine; see also *A&M Records, Inc. v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1022–23 (9th Cir. 2001) (citing *Sony*, 464 U.S. at 435 & n.17).

³¹ See *Grokster III*, 545 U.S. at 931 n.9; *Sony*, 464 U.S. at 422.

³² See *Grokster III*, 545 U.S. at 931 n.9 (stating that, because the Court resolved the case on an inducement theory, there was no need for it to analyze the vicarious liability claim).

³³ *Gershwin Publ'g Corp. v. Columbia Artists Mgmt. Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); Feder, *supra* note 22, at 871.

³⁴ Coats et al., *supra* note 14, at 227 (citing *Sony*, 464 U.S. at 439).

providing the “site and facilities” for the direct infringement to take place.³⁵ It can also mean engaging in behavior that qualifies as “substantial participation” in the infringing act.³⁶ The copyright version of contributory infringement is derived from the tort concept of enterprise liability.³⁷ In enterprise liability, the person who knowingly participates in an enterprise, or an unlawful activity, is held to be just as responsible for the consequences that result from that enterprise as his partner or partners in that enterprise, even if his or her role is only a subsidiary one.³⁸

Traditionally, courts used secondary liability theories to hold beneficiaries of direct copyright infringement accountable for that direct copyright infringement.³⁹ However, as technology developed, courts and Congress had to increasingly consider how to construct the law so as to allow for works protected under copyright to be more easily accessible to society.⁴⁰ A prime example of the promotion of this policy was the *Sony* case, in which the courts sought to protect the advancement of technology, even where it was clear that the technology could be used to infringe copyrights.⁴¹ There, the courts had to weigh the interests of copyright holders in their right to protection against distributors’ right to competition and society’s right to copyrighted goods.⁴² So the Court again adopted another theory from patent law and used

³⁵ 76 F.3d 259, 264 (9th Cir. 1996); *see also* Coats et al., *supra* note 14, at 227; *Gershwin*, 443 F.2d at 1163.

³⁶ Coats et al., *supra* note 14, at 227 (quoting *Gershwin*, 443 F.2d at 1163).

³⁷ Feder, *supra* note 22, at 871.

³⁸ *Id.* at 871–72.

³⁹ *Id.* at 870 (“imposing cost on the beneficiary of the infringement . . . satisfies basic notions of fairness and reasonableness”); *see* Oswald, *supra* note 25 at 225–26.

⁴⁰ *See generally* *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 440 (1984) (referencing the patent law justification for adopting the staple article of commerce doctrine: “[w]hen a charge of contributory infringement is predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe a patent, the public interest in access to that article of commerce is necessarily implicated”); *see also id.* at 428–29 (stating that, under the Constitution, Congress is charged with defining the scope of a copyright holder’s monopoly).

⁴¹ *See id.* at 423 (finding that “time-shifting” was the primary, legal use of the VTR, but a survey also showed that a substantial number of interviewees were building libraries of tapes, which was not deemed legal); *see also In re Aimster Copyright Litig. (Aimster II)*, 334 F.3d 643, 647 (7th Cir. 2003).

⁴² *Sony*, 464 U.S. at 442.

the “staple article of commerce” doctrine to determine how to properly weigh these interests.⁴³

Section 271(c) of Title 35 defines a staple article of commerce by giving a narrow list of non-staple articles of commerce⁴⁴. This list only includes those items that have “no commercial use except in connection with [the] patented invention.”⁴⁵ This means that only those articles that are capable of substantial non-commercial, noninfringing uses are staple articles of commerce.⁴⁶

In *Sony*, the Court reasoned that the “staple article of commerce” doctrine could be adopted by copyright law because of the “historic kinship” that patent and copyright law shared.⁴⁷ Indeed, the kinship the *Sony* Court referred to probably was the practice of exporting secondary liability theories from patent law into copyright law.⁴⁸ As will be shown below, after *Sony*, any inquiry into whether or not a product is a “staple article of commerce” entails application of the substantive “capable of substantial noninfringing uses” standard.⁴⁹

Various lawsuits against P2P providers have applied the *Sony* holding to determine whether or not their services are entitled to protection.⁵⁰ Copyright holders have depended on interpreting the meaning of “capable of substantial noninfringing uses” to hold P2P providers liable.⁵¹

B. *Sony Corp. of America v. Universal Studios, Inc.*

In 1976, owners of copyright in television programming sued Sony for manufacturing and distributing Betamax videotape

⁴³ *Id.* at 440

⁴⁴ Feder, *supra* note 22, at 889 (quoting *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 200 (1980)).

⁴⁵ *Id.* (quoting *Dawson Chem.*, 448 U.S. at 184).

⁴⁶ *Id.*

⁴⁷ *Sony*, 464 U.S. at 439.

⁴⁸ See Coats et al., *supra* note 14, at 226–27.

⁴⁹ See *id.* at 442; Feder, *supra* note 22, at 889.

⁵⁰ See Coats et al., *supra* note 14, at 232.

⁵¹ See Feder, *supra* note 22, at 888 (giving three justifications plaintiffs have used to distinguish *Sony* from the defendants’ cases in *Napster II* and *Aimster II*).

recorders (“VTRs”).⁵² VTRs enabled consumers to make unauthorized copies of their programming by including a tuner device that could record television broadcasts, including plaintiffs’ copyrighted audiovisual work.⁵³ Consequently, copyright owners asked the trial court to find Sony liable for copyright infringement under the theory of contributory infringement.⁵⁴ Under these theories, Sony was alleged to provide consumers with the means to infringe plaintiffs’ copyrights.⁵⁵ Indeed, the district court found that some of the Betamax users were creating libraries of tapes so they could watch programs multiple times, which was an unauthorized use of the product.⁵⁶ However, the trial court also found that the primary use of the VTR was “time-shifting,” which means recording a program that was broadcast on television, watching it once at a later time, and then erasing the recording.⁵⁷ Time-shifting was considered a legitimate use of the product.⁵⁸ When the Supreme Court decided the case, it discussed the significance of these findings to determine if Sony should be held contributorily liable.⁵⁹

The issue to be decided by the Court was framed this way:

If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory.⁶⁰

The Supreme Court used vicarious liability and contributory infringement interchangeably and refused to hold Sony liable for

⁵² *Sony*, 464 U.S. at 422; Feder, *supra* note 22, at 872. The VTR is also the forerunner of the videocassette recorder (VCR). Coats et al., *supra* note 14, at 228.

⁵³ *Sony*, 464 U.S. at 422.

⁵⁴ *Id.* at 420.

⁵⁵ *Id.* at 436 (citing *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911)).

⁵⁶ *See id.* at 423.

⁵⁷ *Id.*

⁵⁸ *Id.* at 442.

⁵⁹ *Id.* at 443–47.

⁶⁰ *Id.* at 439.

contributory infringement based on a finding of constructive knowledge.⁶¹

To determine Sony's liability under contributory infringement, the Supreme Court did not address its separate elements.⁶² Instead, it applied the staple article of commerce doctrine to the issue of copyright law in this case.⁶³ It reasoned that, "[w]hen a charge of contributory infringement is predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe [an intellectual property right], the public interest in access to that article of commerce is necessarily implicated."⁶⁴ Under the doctrine, the Court found that a manufacturer of copying equipment can defeat a claim of contributory infringement if the manufacturer shows that the product is capable of "substantial noninfringing" or "commercially significant noninfringing" uses.⁶⁵ Since the Court found that the Betamax was capable of such noninfringing uses, it was shielded from contributory infringement, even if the elements of knowledge and participation were met.⁶⁶

The court did not define, or quantify, "commercially significant noninfringing" uses. In *Sony's* case, just one capability of the VTR, time-shifting, was enough to establish its "commercially significant noninfringing" use.⁶⁷ The Supreme Court determined that this potential use was substantially noninfringing for two reasons. First, the Court focused on the quantity of unauthorized use. It noted that the plaintiffs' programs collectively represented less than ten percent of the total broadcast market, and that the outcome of the litigation would have a significant impact on the

⁶¹ *In re Aimster Copyright Litig (Aimster II)*, 334 F. 3d 643, 654 (7th Cir. 2003). The Court recognized that the differences between direct infringement, contributory infringement, and vicarious liability were not clear. Thus, when Sony used the term "vicarious liability" it did so outside the technical analysis of the vicarious copyright infringement doctrine. See *A&M Records, Inc. v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1022–23 (9th Cir. 2001) (citing *Sony*, 464 U.S. at 435).

⁶² Feder, *supra* note 22, at 875.

⁶³ *Sony*, 464 U.S. at 439–40.

⁶⁴ *Id.* at 440.

⁶⁵ See *id.* at 442.

⁶⁶ *Id.*; Feder, *supra* note 22, at 876.

⁶⁷ Feder, *supra* note 22, at 876; *Sony*, 464 U.S. at 442; Coats et al., *supra* note 14, at 229.

other ninety percent.⁶⁸ This ninety percent included copyright owners who had no objection to viewers taping their programs at home.⁶⁹ Since the quantity of authorized use was significant enough to outweigh unauthorized time-shifting of the plaintiffs' programming, the Court refused to hold Sony liable for contributory infringement.⁷⁰

Second, the Court focused on quality. Even if time-shifting plaintiffs' programming was unauthorized, the Court found it was fair use and the VTR was capable of substantial noninfringing uses because it was non-commercial and did not cause plaintiffs any significant harm.⁷¹ Accordingly, Sony's sale of the Betamax VTRs was not an act of contributory infringement.⁷²

In determining Sony's liability, the Supreme Court inconsistently expressed when the "substantial noninfringing uses" protection should apply. This allowed the circuit courts to decide for themselves the significance of a product's potential or existing noninfringing uses. Eventually, different interpretations of "substantial noninfringing" uses caused a split in the circuit courts and set the stage for *Grokster III*.⁷³ In one passage, the Court stated that the technology owner must show that its product "need merely be capable of substantial noninfringing uses" in order to be protected.⁷⁴ However, in discussing Sony's liability, the Court said that the question was, "whether the Betamax is capable of *commercially significant* noninfringing uses."⁷⁵ This passage suggests that the existing noninfringing uses must be "substantial and commercially significant" to trigger protection from contributory infringement claims.⁷⁶ So, depending on how the

⁶⁸ *Sony*, 464 U.S. at 443.

⁶⁹ *See id.*

⁷⁰ *Id.* at 446 (reasoning that a finding of contributory infringement would "frustrate the interests of broadcasters" included in the ninety percent who did not object to time-shifting).

⁷¹ *Id.* at 454 (quoting the district court opinion).

⁷² *Id.* at 456.

⁷³ Karen M. Kramer, *Metro-Goldwyn-Mayer v. Grokster—The Supreme Court's Balancing Act Between the Risks of Third-Party Liability for Copyright Infringement and Rewards of Innovation*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 169, 173 (2005).

⁷⁴ *Sony*, 464 U.S. at 442.

⁷⁵ Kramer, *supra* note 73, at 173 (emphasis added) (quoting *Sony*, 464 U.S. 442).

⁷⁶ *Id.* (citing *Sony*, 464 U.S. at 442).

deciding court interprets “substantial noninfringing uses” in *Sony*, either a nominal or strong showing of legitimate, noninfringing uses will protect manufacturers or distributors who would otherwise be implicated for contributory infringement.⁷⁷ In P2P file distribution cases of contributory infringement, Circuit Courts were split on how much weight to give evidence of legitimate noninfringing uses.⁷⁸ Therefore, while the Ninth Circuit in *Napster* and *Grokster II* focused on the “capable of substantial noninfringing uses” aspect of *Sony*, the Seventh Circuit in *Aimster* focused on the “capable of commercially significant noninfringing uses” language.⁷⁹

II. CHANGING SECONDARY LIABILITY HISTORY: THE DIGITAL WORLD AND THE *GROKSTER III* DECISION

A. What is P2P File-Sharing?

P2P file distribution systems enable their users to reproduce and distribute digital files, including digital files containing copyrighted works over the Internet.⁸⁰ Most of these are unauthorized transmittals of music and video files and they infringe on owners’ copyrights.⁸¹ Several courts determined these transmittals were not fair use primarily because users were making exact replicates of the music, which significantly conflicted with

⁷⁷ *Id.*

⁷⁸ *Id.* at 174.

⁷⁹ *Id.* at 1160; *see also id.* at 1162 n.9 (contrasting the Seventh Circuit’s interpretation of the standard in *Sony*, 464 U.S. at 1161); *see In re Aimster Copyright Litig. (Aimster II)*, 334 F.3d 643, 653 (9th Cir. 2003) (requiring a weighing of the probabilities alleged for significant noninfringing uses to show that they could actually be used as noninfringing); *see also* Seth A. Miller, *Peer-to-Peer File Distribution: An Analysis of Design, Liability, Litigation, and Potential Solutions*, 25 REV. LITIG. 181, 206 (2006) (finding that the Ninth Circuit’s reading of *Sony* differed greatly from the Seventh Circuit’s, focusing on the *capability* for substantial noninfringing uses).

⁸⁰ *See* Coats et al., *supra* note 14, at 231–32; *In re Aimster Copyright Litig. (Aimster II)*, 334 F.3d 643, 645 (7th Cir. 2003).

⁸¹ *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 917–21 (2005).

copyright owners' exclusive rights.⁸² Creators or operators of these P2P systems are not the ones who are actually reproducing or distributing digital files.⁸³ Instead, the systems create a means for users to directly receive and send digital files to each other, rather than by downloading from a single server.⁸⁴ This process of downloading from other computers occurs in three steps. First, a user (this user is called the downloader) searches for another user computer with the desired file (this user is called the uploader).⁸⁵ Then, the Internet Protocol address ("IP address") of the uploader would be communicated to the downloader.⁸⁶ Finally, the downloader directly connects to the uploader and obtains the desired file.⁸⁷ In cases of copyright infringement against P2P networks, the searchable index of downloadable files for each service was different and courts inquired into the type of searchable index employed by the service to determine how much knowledge the service had of users' infringing activity.⁸⁸

For example, even though music files were downloaded directly from other Napster users, Napster maintained the searchable index of files users downloaded from.⁸⁹ The Napster software helped users directly infringe by searching its index of files for the user's desired file, and then communicating the IP address of the uploader to the downloader.⁹⁰ In helping copyright infringers find those copyrighted files, Napster was deemed to be clearly involved with helping the copyright infringers

⁸² See *A & M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1015 (9th Cir. 2001) (finding that merely copying digital copyrighted files does not add anything to the work, and courts have been reluctant to find fair use when the original work is merely re-transmitted in a different medium (citing *Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104, 108 (2d Cir. 1998); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 351 (S.D.N.Y. 2000))).

⁸³ See *Grokster III*, 545 U.S. at 920–21 (stating that Grokster and StreamCast were sued for their users' reproduction and distribution of copyrighted work).

⁸⁴ Coats et al., *supra* note 14, at 231–32.

⁸⁵ *Id.* at 232–33.

⁸⁶ *Id.*

⁸⁷ *Id.* at 233.

⁸⁸ *Id.* at 232.

⁸⁹ See *A & M Records v. Napster, Inc. (Napster I)*, 114 F. Supp. 2d 896, 906 (N.D. Cal. 2000), *aff'd by*, *A & M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004 (9th Cir. 2001); Coats et al., *supra* note 14, at 232.

⁹⁰ *Napster I*, 114 F. Supp. 2d at 907; Coats et al., *supra* note 14, at 232–33.

communicate.⁹¹ Like Napster, Aimster also operated a central index of digital files on its server and that was also deemed illegal.⁹²

After the central index was determined to be in violation of copyright law, new P2P file-sharing services emerged⁹³ that did not maintain a central index of available files on their own servers.⁹⁴ This lack of a central index made it harder to determine how much, if any, involvement the P2P networks had in helping users directly infringe.⁹⁵ Soon after Napster, these new P2P networks used one of two means of indexing files available for download. One method used by StreamCast was a decentralized system.⁹⁶ In the decentralized system, the software allowed users to search for files in the searchable index of every individual user in the network.⁹⁷ The other type of indexing employed by Grokster allowed a few computers, called “supernode computers,” on the network to be designated as hosts for indexes.⁹⁸ These supernode computers located the computers near them on the network and compiled a list of all the files available on those computers. Downloaders would then retrieve the desired files from the supernode computers.⁹⁹ In both the decentralized and supernode indexing systems, the distributor of the file-sharing software did not maintain the infringing files on its own server.¹⁰⁰ Because the copyrighted works were being transmitted directly between the users, Grokster and StreamCast were simply providing copyright infringers with the software needed to find that network.¹⁰¹ Therefore, it was harder to determine how much

⁹¹ *Napster I*, 114 F. Supp. 2d at 907; Coats et al., *supra* note 14, at 232–33.

⁹² Feder, *supra* note 22, at 884; *Aimster I*, 252 F. Supp. 2d at 64.

⁹³ Coats et al., *supra* note 14, at 235.

⁹⁴ *Id.*

⁹⁵ *Grokster II*, 380 F.3d at 1163 (finding that the design of Grokster and StreamCast did not allow them to have actual knowledge of the direct infringement); Coats et al., *supra* note 14, at 235.

⁹⁶ Coats et al., *supra* note 14, at 235.

⁹⁷ *Id.*; *Grokster II*, 380 F.3d at 1159.

⁹⁸ Coats et al., *supra* note 14, at 235; *Grokster II*, 380 F.3d at 1163.

⁹⁹ Coats et al., *supra* note 14, at 236; *Grokster II*, 380 F.3d at 1163.

¹⁰⁰ Coats et al., *supra* note 14, at 236.

¹⁰¹ *Id.* at 235–36.

involvement the P2P file-sharing services had, and if they were in fact contributory infringers.

While the Ninth Circuit decided *Napster* and the Seventh Circuit decided *Aimster*, they both addressed the question of whether a P2P service was secondarily liable under *Sony* differently, but arrived at the same conclusion.¹⁰² How these competing approaches were resolved will be discussed in the context of the Supreme Court's ruling in *Grokster III*. Congress' role in the matter, as well as the consequences of the *Grokster III* decision will also be discussed.

B. Metro-Goldwyn-Mayer v. Grokster, Ltd.

The Ninth Circuit and Supreme Court decisions in *Grokster II* and *Grokster III* were based on the same facts, yet both took starkly different paths in determining copyright holders' rights against secondary infringers.¹⁰³ The Ninth Circuit approach and the Supreme Court decision were based on the facts accepted in the district court for purposes of defendants' summary judgment motion.¹⁰⁴ Copyright owners alleged that ninety percent of the digital files exchanged by users of defendants' software were infringing and that the copyright owners owned seventy percent of that material.¹⁰⁵ Despite these allegations, the district court granted Grokster and StreamCast partial summary judgment on the issues of contributory and vicarious infringement.¹⁰⁶ The Ninth Circuit then affirmed that ruling based on its own interpretation of *Sony*.¹⁰⁷ Conversely, the Supreme Court did not use a *Sony* interpretation to determine Grokster's and StreamCast's liability. Instead, the defendants were held potentially liable under a new

¹⁰² Feder, *supra* note 22, at 879–80.

¹⁰³ See generally *Grokster III*, 545 U.S. 913; *Grokster II*, 380 F.3d 1154.

¹⁰⁴ *Grokster III*, 545 U.S. 913; Coats et al., *supra* note 14, at 236.

¹⁰⁵ Coats et al., *supra* note 14, at 236; Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (*Grokster II*), 380 F.3d 1154, 1158 (9th Cir. 2004), *aff'g* Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (*Grokster I*), 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *rev'd* by Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (*Grokster III*), 545 U.S. 913 (2005) (citing district court opinion).

¹⁰⁶ Coats et al., *supra* note 14, at 236; *Grokster II*, 380 F.3d at 1157.

¹⁰⁷ *Grokster III*, 545 U.S. at 927–28.

theory of inducement.¹⁰⁸ The following discusses the two different approaches in *Grokster II* and *Grokster III*.¹⁰⁹

1. The Ninth Circuit Approach

In *Grokster II*, the Ninth Circuit extended the contributory infringement analysis that it developed in *Napster* by adding a timing element.¹¹⁰ Adding this timing element effectively raised the knowledge requirement for holding P2P services liable under that analysis.¹¹¹ As in *Napster*, the court first determined if the service was capable of significant lawful uses. If it was not, the defendants would not receive the *Sony* protection and plaintiffs only had to show constructive knowledge of users' direct infringement.¹¹² But, even if the service was capable of significant lawful uses, the court would not automatically give it *Sony* protection.¹¹³ Under *Napster*, if a service was found to be capable of significant lawful uses, plaintiffs had to prove "reasonable knowledge of specific infringing files" to find defendants liable.¹¹⁴ But in *Grokster II*, the court also held that defendants had to have actual knowledge at a time when they were "either materially contributing to the infringement or failing to stop it."¹¹⁵

When the Ninth Circuit applied this new rule, it first held that *Grokster's* and *StreamCast's* software were capable of substantial noninfringing uses.¹¹⁶ It focused on the "capable of substantial noninfringing uses" aspect of *Sony*, finding that *Grokster* was capable of uses such as debuting unpublished artists' works.¹¹⁷ In one case, it even led to a record deal for a band.¹¹⁸ Even if such uses only constituted ten percent of the total activities as the

¹⁰⁸ Coats et al., *supra* note 14, at 236; *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd.* (*Grokster III*), 545 U.S. 913, 941 (2005).

¹⁰⁹ *Grokster II*, 380 F.3d at 1157; Coats et al., *supra* note 14, at 236.

¹¹⁰ *Grokster II*, 380 F.3d at 1161.

¹¹¹ *See id.* at 1161–62; Coats et al., *supra* note 14, at 236.

¹¹² *Grokster II*, 380 F.3d at 1161–62; Coats et al., *supra* note 14, at 236.

¹¹³ *Grokster II*, 380 F.3d at 1161–62.

¹¹⁴ *Grokster II*, 380 F.3d at 1161 (citing *Napster II*, 239 F.3d 1004).

¹¹⁵ Coats et al., *supra* note 14, at 236; *Grokster II*, 380 F.3d at 1162.

¹¹⁶ Coats et al., *supra* note 14, at 237; *Grokster II*, 380 F.3d at 1162.

¹¹⁷ *Grokster II*, 380 F.3d at 1161.

¹¹⁸ *Id.* (referring to Wilco receiving a new recording contract after the successful debut of its work on *Grokster*).

plaintiffs alleged, that was not enough to prove that the software was not incapable of substantial lawful uses.¹¹⁹ Instead, the ten percent represented a substantial number of lawful uses.¹²⁰ This reading of *Sony* differed from the Seventh Circuit's interpretation of *Aimster*, which favored the *Sony* passage stating that the product must be "capable of commercially significant noninfringing uses."¹²¹

Under *Aimster*, the Seventh Circuit would weigh the alleged commercial viability of the substantial noninfringing uses against the infringing uses.¹²² However, the Ninth Circuit reasoned that this case was distinguished from *Aimster* because Grokster and StreamCast actually brought forth evidence showing legitimate uses.¹²³ The record deal that resulted from debuting the band's work and the fact that Grokster had been used to share public domain works created a sufficient probability that they had actual noninfringing uses and were therefore entitled to the *Sony* protection.¹²⁴ Because the defendants' software was capable of substantial noninfringing uses, the plaintiffs would have to show that the defendants had actual knowledge of infringement in order to hold them liable.¹²⁵

The design of Grokster and StreamCast played a significant role in the court's determination of their liability for contributory infringement.¹²⁶ The Ninth Circuit held that the defendants did not have actual knowledge of the direct infringement¹²⁷ because the design of Grokster's and StreamCast's systems did not allow them

¹¹⁹ *Id.* at 1162.

¹²⁰ *Id.* at 1162 n.10.

¹²¹ *Id.* at 1160; *see also id.* at 1162 n.9 (contrasting the Seventh Circuit's interpretation of the standard in *Sony*, 464 U.S. at 1161); *see In re Aimster Copyright Litig. (Aimster II)*, 334 F.3d 643, 653 (9th Cir. 2003) (requiring a weighing of the probabilities alleged for significant noninfringing uses to show that they could actually be used in noninfringing ways); *see also Miller, supra* note 79, at 206 (finding that the Ninth Circuit's reading of *Sony* differed greatly from the Seventh Circuit's, focusing on the *capability* for substantial noninfringing uses).

¹²² *See Aimster II*, 334 F.3d at 653.

¹²³ *Grokster II*, 380 F.3d at 1162 and n.10.

¹²⁴ *Id.* at 1161–63.

¹²⁵ Coats et al., *supra* note 14, at 237; *Grokster II*, 380 F.3d at 1162.

¹²⁶ *Grokster II*, 380 F.3d at 1163.

¹²⁷ Coats et al., *supra* note 14, at 237; *Grokster II*, 380 F.3d at 1163.

to retain lists of the infringing files.¹²⁸ So, even if both were to shut down their own computers, users would still be able to conduct their illegal activities using the defendants' software.¹²⁹ Therefore, Grokster's and StreamCast's relationship with users ended when users downloaded the product.¹³⁰ Thus, the court held that there was no way to know of or control the infringements by the time the plaintiffs notified the defendants about the infringing activity occurring.¹³¹ As such, the plaintiffs could not materially contribute to the infringing activity, or stop them. Therefore, plaintiffs failed to establish the requisite element of actual knowledge.

To end the contributory infringement inquiry, the Ninth Circuit agreed with the district court that Grokster and StreamCast did not materially contribute to the infringing activities.¹³² While Napster had the means to know and track the copyrighted material being exchanged, the defendants could not, under *Fonovisa*, provide the "site and facilities" for the infringement because of the software's design.¹³³ Thus, plaintiffs could not satisfy the elements of knowledge and material contribution and the Ninth Circuit affirmed the district court's ruling on the issue of contributory infringement.¹³⁴

¹²⁸ *Grokster II*, 380 F.3d at 1163 (citing the district court's finding that even if Grokster and StreamCast "closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption" (quoting *Grokster I*, 259 F. Supp. 2d at 1041)).

¹²⁹ Miller, *supra* note 79, at 207.

¹³⁰ See *Grokster II*, 380 F.3d at 1163 (finding that because no file indices resided on the defendants' computers, they did not have the ability to suspend the user accounts).

¹³¹ *Id.* (noting that it is the users of the software who create the network and provide the access).

¹³² Coats et al., *supra* note 14, at 238; *Grokster II*, 380 F.3d at 1163.

¹³³ *Grokster II*, 380 F.3d at 1163. See *supra* notes 96–101 for a discussion of the design of Grokster and StreamCast.

¹³⁴ *Id.* at 1163–64 (after agreeing with the district court that defendants do not materially contribute to copyright infringement, the contributory infringement claim was exhausted).

2. Supreme Court Decision

Instead of resolving the split among the Circuit Courts on interpreting *Sony*,¹³⁵ the Supreme Court introduced the theory of inducement to hold the defendants liable, and vacated the summary judgment in favor of Grokster and StreamCast.¹³⁶ The issue decided before the Court was, “under what circumstances [is] the distributor of a product capable of both lawful and unlawful use . . . liable for acts of copyright infringement by third parties using the product[.]”¹³⁷

Although the Court did not dismiss the Ninth Circuit’s interpretation of *Sony*, it held that the Ninth Circuit erred in finding that *Sony* shielded the defendants from contributory infringement.¹³⁸ The *Sony* defense could not shield defendants who were liable for intent to induce infringement.¹³⁹ Here, the Court adopted yet another theory of indirect liability from the Patent Act: “inducement to infringe.”¹⁴⁰ According to the Court, Grokster and StreamCast were liable under this theory and “inducement” means “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 a third party’s infringement.¹⁴¹

The Supreme Court held that the Ninth Circuit misapplied the *Sony* decision when it held that Grokster’s and StreamCast’s capability for noninfringing uses precluded liability for contributory copyright infringement.¹⁴² According to the Court, plaintiffs had intended to induce infringement so they were still liable for contributory copyright infringement, and the *Sony* defense did not apply.¹⁴³ The Supreme Court found that the Ninth

¹³⁵ See generally *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 933 (2005) (the parties and many amici asked the Court to clarify the phrase “capable of commercially significant noninfringing uses”).

¹³⁶ Coats et al., *supra* note 14, at 239; *Grokster III*, 545 U.S. at 941–42.

¹³⁷ *Grokster III*, 545 U.S. at 918–19.

¹³⁸ *Id.* at 933–34.

¹³⁹ Coats et al., *supra* note 14, at 239; *Grokster III*, 545 U.S. at 933–34.

¹⁴⁰ Miller, *supra* note 79, at 211.

¹⁴¹ *Grokster III*, 545 U.S. at 919.

¹⁴² *Id.* at 933–34.

¹⁴³ *Id.* at 938–40 (illustrating that Grokster and StreamCast had intent to induce).

Circuit “read *Sony*’s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties’ infringing use of it”¹⁴⁴ Improperly, the Ninth Circuit had broadened the scope of *Sony* to protect distributors from any secondary liability theory.¹⁴⁵ However, the Supreme Court held that the court should have inquired further once it determined that the device was capable of substantial noninfringing uses.¹⁴⁶

To satisfy the element of intent to induce, the Court adopted the patent law’s theory of intentional inducement of infringement.¹⁴⁷ According to this theory, the plaintiff must prove that the defendant knowingly aided and abetted another’s direct infringement.¹⁴⁸ The Court then referenced several patent cases to demonstrate what constituted intent. For example, according to *Fromberg, Inc. v. Thornhill*, evidence of improper purpose would suffice, such as the defendant’s advertising or instruction to entice or persuade another party to infringe.¹⁴⁹ The Court also explained what would not be considered an intent to induce infringement. For example, in *Sony*, there was no evidence suggesting defendants intended to promote infringing uses of their product.¹⁵⁰ Instead, defendants only had “mere knowledge” that some users would use the products to infringe.¹⁵¹ Thus, the Court concluded that there must be evidence of “purposeful, culpable expression and conduct” to be held liable for intent to induce.¹⁵²

¹⁴⁴ *Id.* at 934.

¹⁴⁵ Coats et al., *supra* note 14, at 242; *Grokster III*, 545 U.S. at 934 (stating that the Ninth Circuit reading was in error because “*Sony* did not displace other theories of secondary liability”).

¹⁴⁶ See *Grokster III*, 545 U.S. at 933–36 (continuing with the inducement theory after dismissing the Ninth’s Circuit’s reading).

¹⁴⁷ See *id.* at 934–36.

¹⁴⁸ *Id.* at 936. (citing *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (C.A. Fed. 1988) (liability for inducement where one “actively and knowingly aid[s] and abet[s] another’s direct infringement” (emphasis omitted))).

¹⁴⁹ *Id.* (citing *Fromberg, Inc. v. Thornhill*, 315 F.2d 407, 412–13 (C.A.5 1963) (demonstrations by sales staff of infringing uses for a patented device supported liability for inducement)); Coats et al., *supra* note 14, at 240.

¹⁵⁰ *Grokster III*, 545 U.S. at 936 (citing *Sony*, 464 U.S. at 439 n.19).

¹⁵¹ *Id.*

¹⁵² Coats et al., *supra* note 14, at 240 (quoting *Grokster III*, 545 U.S. at 937).

Evidence of Grokster's and StreamCast's intent to induce included three main factors.¹⁵³ First, Grokster and StreamCast courted Napster users. Some of their courting included making initial versions of their software compatible with Napster's software, advertising to former Napster users,¹⁵⁴ and Grokster had also attempted to direct web searches for Napster to its own site.¹⁵⁵ Second, neither Grokster nor StreamCast attempted to develop filtering tools to diminish infringement.¹⁵⁶ Third, both services indirectly benefited financially from the infringement; their business model provided that advertising revenue would increase with the increase of traffic on the website, which was mostly the result of infringing use.¹⁵⁷ The Court noted that neither the second nor the third factor alone would satisfy the inducement inquiry, but because the defendants took active steps to induce infringement, the last two factors strengthened the showing of improper intent.¹⁵⁸ The defendants' evidence therefore satisfied the intent to induce inquiry for purposes of summary judgment.¹⁵⁹

The Court held that Grokster and StreamCast were not protected from liability by the *Sony* decision because the evidence of improper intent overcame the fact that their products had both infringing and noninfringing capabilities.¹⁶⁰ This demonstrates that the Court focused on the technology providers' intent and condemned their bad conduct, rather than attacking the technology itself.¹⁶¹ Unlike *Sony*, where the primary purpose of the Betamax was time-shifting, or fair use,¹⁶² the Court found that the main functions of the services at issue were to assist in the infringing

¹⁵³ Coats et al., *supra* note 14, at 240–41; *Grokster III*, 545 U.S. at 939–40.

¹⁵⁴ Coats et al., *supra* note 14, at 241; *Grokster III*, 545 U.S. at 939.

¹⁵⁵ *Grokster III*, 545 U.S. at 939; Coats et al., *supra* note 14, at 241.

¹⁵⁶ *Grokster III*, 545 U.S. at 939; Coats et al., *supra* note 14, at 241.

¹⁵⁷ Kramer, *supra* note 73, at 180; *Grokster III*, 545 U.S. at 939–40.

¹⁵⁸ Coats et al., *supra* note 14, at 241; *Grokster III*, 545 U.S. at 939–40 & n.12.

¹⁵⁹ *Grokster III*, 545 U.S. at 941.

¹⁶⁰ *Id.* (distinguishing *Sony* because Sony's liability was "based solely on distributing a product with [both] lawful and unlawful uses, with knowledge that some users would follow the unlawful course," whereas Grokster's "words and deeds" went beyond distribution).

¹⁶¹ Kramer, *supra* note 73, at 182.

¹⁶² See *Grokster III*, 545 U.S. at 943 (Ginsburg, J., concurring) (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 447–55, 774 (1984)).

activity.¹⁶³ The copyright owners submitted abundant evidence of statements and actions to demonstrate intent to facilitate infringement.¹⁶⁴ Therefore, if an alleged secondary infringer acted with an improper intent, it would not be shielded by *Sony*.¹⁶⁵ After determining Grokster's and StreamCast's liability, the Court declined the plaintiffs' invitation to further substantiate the "capable of substantial noninfringing uses" standard in *Sony*.¹⁶⁶ However, Justice Ginsburg and Justice Breyer provided some guidance in its interpretation in their concurring opinions.¹⁶⁷

C. Congress' Role in the Grokster III Case

While the *Grokster* case was being decided in the courts, Congress was considering enacting a bill to directly address the P2P problem, the "Inducing Infringement of Copyrights Act 2004" ("Induce Act").¹⁶⁸ Introduced in June 2004, after the district court ruled in *Grokster I* but before the Supreme Court granted certiorari, the bill was discussed in the U.S. Senate for the next year.¹⁶⁹ Both lobbyist and senator sponsors were enraged that the district court had given Grokster and StreamCast *Sony* immunity, so they pushed for this bill to target companies that made and distributed file-sharing software.¹⁷⁰ Effectively, the Induce Act would add a new cause of action under the copyright statute,

¹⁶³ *Id.* at 941 (majority opinion).

¹⁶⁴ *See id.* at 922–27; *see also* Miller, *supra* note 79, at 211–12.

¹⁶⁵ Coats et al., *supra* note 14, at 242; *Grokster III*, 545 U.S. at 935 (stating that, "where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability").

¹⁶⁶ Coats et al., *supra* note 14, at 242; *Grokster III*, 545 U.S. at 934.

¹⁶⁷ *Grokster III*, 545 U.S. at 942–65.

¹⁶⁸ *See* S. 2560, 108th Cong. (2004) (as introduced, June 22, 2004).

¹⁶⁹ *See Protecting Copyright and Innovation in a Post-Grokster World: Hearing Before the Committee on the Judiciary*, 109th Cong. (2005) (statement of Marybeth Peters, Register of Copyrights) [hereinafter *Protecting Copyright and Innovation Hearing*] (stating that there were no parties advocating a resumption of discussions on the Induce Act after the Court ruled in *Grokster*), available at <http://www.copyright.gov/docs/regstat092805.html> (last visited Mar. 26, 2007).

¹⁷⁰ *See, e.g.*, Grant Gross, *Bill Targets Firms That 'Induce' Copyright Violations*, MACWORLD, July 6, 2004, <http://www.macworld.com/news/2004/07/06/induce> (quoting Senator sponsor Orin Hatch on the Induce Bill: "It is illegal and immoral to induce or encourage children to commit crimes").

allowing a copyright owner to sue anyone who “intentionally aids, abets, induces, or procures” a third-party to commit infringement.¹⁷¹ Intent would be inferred from “all relevant information” that is “reasonably available to the alleged inducer, including whether the [inducer’s] activity relies on infringement for its commercial viability.”¹⁷² Any inducer found liable under the Act would be subject to all the remedies provided for copyright infringement.¹⁷³

Like the plaintiffs in *Grokster*, this bill focused on the current “primary purpose” of the technology.¹⁷⁴ This required examination of both the probability of alleged potential uses and existing uses to determine whether or not a product or service was intended to be used primarily to infringe.¹⁷⁵ However, one can draw from the *Sony* example to see how this is problematic. If this bill were enacted twenty-two years ago, the VTR would be obsolete.¹⁷⁶ Evidence that Sony actively encouraged infringement would be determined by its primary uses and any probable capabilities at the time.¹⁷⁷ According to Justice Breyer in *Grokster*

¹⁷¹ S. 2560, 108th Cong. § 2 (as introduced June 22, 2004); Steve Seidenberg, *Congress Might Run Roughshod Over Sony Ruling*, CORPORATE LEGAL TIMES, Sept. 2004, at 6.

¹⁷² S. 2560, 108th Cong. § 2 (as introduced June 22, 2004); Seidenberg, *supra* note 171, at 6.

¹⁷³ Seidenberg, *supra* note 171, at 6.

¹⁷⁴ Cf. Reply Brief For Motion Picture Studio and Recording Co. Petitioners at 8, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, No. 04-480 (U.S. March 18, 2005) (stating that “a defendant should be liable whenever infringement is the principal or primary use”). The Induce Act would require looking at all relevant *available* evidence to determine whether or not an alleged inducer is inducing users to infringe. Both the Induce Act and the plaintiffs in *Grokster* thus wanted to weigh the probability of all alleged potential noninfringing uses against infringing uses. For the Induce Act, this would determine the alleged inducer’s “intent,” and for the plaintiffs in *Grokster*, this would determine the “primary purpose” of the product or service. *Id.*

¹⁷⁵ *Id.* (defining primary use: “[w]here the primary use is infringement, the defendant is fairly said to be in the business of infringement, not ‘substantially unrelated’ commerce”).

¹⁷⁶ See Kramer, *supra* note 73, at 173.

¹⁷⁷ See *id.* However, it is worth noting that analog media, like the videocassettes VTR’s used, degrade with every copy and cannot survive in the long run. Digital pirating of music and video clips, on the other hand, is as good as the original copy. So, while the production of the VTR set the stage for a video rental market, digital pirating precludes, and has substantially reduced, the market for purchasing physical copies of music and video clips. But this is not to say that a viable market for purchasing digital copies does not exist. iTunes and Napster have been extremely successful in the combat against

III, ninety-one percent of the VTRs' uses were unauthorized, so Sony would have been enjoined from manufacturing any more of them.¹⁷⁸ Moreover, had this been the rule of law then, unforeseen noninfringing uses, like the video rental market, would be precluded even before they were thought up.¹⁷⁹ Thus, the Induce Act would effectively remove from the "substantial noninfringing uses" inquiry, the unforeseen noninfringing uses a product may be capable of; these potential uses could not be used to weigh with current noninfringing uses against current infringing uses in determining whether the product should be given protection under *Sony*.¹⁸⁰

After the Supreme Court's ruling in *Grokster III* was announced, discussions over the bill did not resume.¹⁸¹ Some believed that the inducement theory was the Court's own version of the Induce Act, accommodating products capable of "commercially significant noninfringing uses"¹⁸² and products capable of potential noninfringing uses.¹⁸³ However, like the Induce Act, the inducement theory adopted by the Court may limit the significance of the *Sony* protection. One of the primary differences between the Induce Act and the inducement theory is that the Induce Act would limit the *Sony* inquiry to "commercially

digital piracy. Thus, the *Sony* test is still applied the same way for videocassettes and digital copying. But their effects on the market for physical copies were extremely different in both cases. *Id.*

¹⁷⁸ See *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 950–51 (2005) (Breyer, J., concurring) (determining that approximately nine percent of the VTR's uses were authorized).

¹⁷⁹ See *id.* at 954–55 (Breyer, J., concurring) (reasoning that there may be unforeseen noninfringing uses of P2P software that may develop later, like the video rental market after the VTR was determined to have noninfringing uses).

¹⁸⁰ See, e.g., Seidenberg, *supra* note 171, at col. 1 (finding that under the Induce Act, Sony would not have been liable as a contributory infringer, but would have been found guilty of inducing infringement. That would lead to the injunction against any further sale of VTRs).

¹⁸¹ See *Protecting Copyright and Innovation Hearing*, *supra* note 169.

¹⁸² *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

¹⁸³ See *Protecting Copyright and Innovation Hearing*, *supra* note 169. (stating that "[t]he Court's ruling struck an appropriate balance between the rights of copyright holders and the flexibility necessary to enable and encourage technologists to continue to develop new products"); see also, Kramer *supra* note 73 at 177–78 (copyright holders would want a test for "commercially significant noninfringing uses" while technologists would want a test for "capable of substantial noninfringing uses").

significant noninfringing” uses, whereas the inducement theory may halt the *Sony* inquiry altogether, if read inappropriately.¹⁸⁴ The factors used to hold Grokster and StreamCast liable were seen as a way to balance the worries of both the critics and proponents of the Induce Act.¹⁸⁵ They were meant to clearly illustrate the intent to induce, but because the theory is new, it is not clear how those factors would be applied to other products capable of both infringing and noninfringing uses.¹⁸⁶ Another important difference is that, according to the Court, evidence that the product could have been designed differently would not be nearly as probative without other evidence of clear, affirmative steps to induce.¹⁸⁷ Had the Court not imposed this limitation on the intent to induce, many technologies would potentially be susceptible to the theory, since it could be alleged that they could have been designed in another way to prevent infringing uses.¹⁸⁸ Also, the lack of filters could be used as evidence that the producers intended to induce infringement. Such evidence would probably weigh heavily against evidence of commercially significant noninfringing uses, especially in the case of the Apple TV.

The Apple TV enables digital content, such as digital music clips and video clips, to be streamed from any computer running Mac OS X or Microsoft Windows onto an enhanced-definition or high-definition widescreen television.¹⁸⁹ In a way, it acts like Grokster and StreamCast because it does not store the digital

¹⁸⁴ See Kramer, *supra* note 73 at 181–82 (for a discussion of the Court’s conflicting interpretations of the *Sony* defense). For a discussion on the Court’s inducement theory, see *infra* Part IV.

¹⁸⁵ See *Protecting Copyright and Innovation Hearing*, *supra* note 169 (discussing the balancing of rights of the opposing parties).

¹⁸⁶ See *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 940 (2005) (stating that, “[Grokster’s] unlawful objective is unmistakable”); see also *id.* at 936 n.11 (stating that, “[i]nducement has been codified in patent law.” This shows that the theory did not exist in copyright law before this case).

¹⁸⁷ See *id.* at 939 n.12.

¹⁸⁸ See Chander & Sunder, *supra* note 1 (determining that it was crucial that the Court did not hold that a company could be liable strictly because the product could have been designed differently. Products like the iPod could have been found to have been designed differently and therefore liable).

¹⁸⁹ Wikipedia.org, Apple TV, http://en.wikipedia.org/wiki/Apple_TV (last visited Feb. 27, 2007).

content itself.¹⁹⁰ Instead, like other STBs, it converts the digital content found on up to five nearby computers into analogue pictures and sounds;¹⁹¹ that is, into the information one watches or hears on his or her television set. Thus, like the defendants in *Grokster III*, Apple supplies copyright infringers with the unit they need to further infringe copyrights. So if Apple advertised “Rip, Mix, Burn” to potential Apple TV users, like it did to its iPod users, should it be held liable for inducing infringement?

Although *Grokster III* was sufficient to preclude a primary purpose rule, it could also preclude the development of products like the Apple TV.¹⁹² The Court’s opinion in *Grokster III* raises the issue of whether inducement is a new theory of liability under copyright law or an extension of contributory infringement.¹⁹³ The majority opinion seems to indicate that inducement is an element of contributory infringement¹⁹⁴ but the theory may be viewed as a new theory of liability because it draws from patent law cases to define intent to induce.¹⁹⁵ The Court stated that it was adopting the rule from patent law just as it adopted the “staple article of commerce doctrine” in *Sony*, and under patent law, inducement and contributory infringement are separate causes of action.¹⁹⁶ Therefore, it is not unreasonable to think the Court is creating a new theory for secondary liability in copyright law.¹⁹⁷ Moreover, the Court refused to further clarify the inducement standard’s relationship to *Sony* after it found defendants liable under the

¹⁹⁰ *Id.*

¹⁹¹ *Id.*

¹⁹² See *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 934 (2005) (declining requests to revisit *Sony*); Chander & Sunder, *supra* note 1 (stating that the Court did not adopt the “principal use” test).

¹⁹³ Coats et al., *supra* note 14, at 242.

¹⁹⁴ See *id.*; *Grokster III*, 545 U.S. at 930 (stating that, “[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement”).

¹⁹⁵ See *Grokster III*, 545 U.S. at 935 (referencing patent law cases to illustrate intent to induce).

¹⁹⁶ Compare 35 U.S.C. § 271(b) (inducement), with § 271(c) (contributory); see also Coats et al., *supra* note 14, at 242–43.

¹⁹⁷ Compare *Grokster III*, 545 U.S. at 935 (stating that the *Sony* analysis reflected patent law’s traditional article of commerce doctrine), with *id.* at 936 & n.11 (stating the rule of inducement was developed in early cases and then references patent cases. It also says that inducement was codified in patent law); Coats et al., *supra* note 14, at 242–43.

theory,¹⁹⁸ so we do not know whether it was a separate cause of action defendants were held potentially liable under, or a rebuttal to the *Sony* defense.

If the inducement theory is a new cause of action and plaintiffs have evidence against manufacturers and distributors similar to the evidence that implicated Grokster and StreamCast, it seems reasonable for copyright holders to try and find defendants liable under this theory before going through the traditional contributory infringement theory.¹⁹⁹ Holding defendants liable under a new cause of action preempts defendants from using the *Sony* defense.²⁰⁰ However, reading the new inducement theory in this way creates liability for new technologies worthy of the *Sony* defense, whether they have commercially significant noninfringing uses or the capability for substantial noninfringing uses. Although any staple article of commerce can be used to illustrate this point, the Apple TV will be used because it is one of the newest products of digital technology today.

III. POST-*GROKSTER III* WORLD: HOW DO COURTS NOW HOLD MANUFACTURERS AND DISTRIBUTORS OF PRODUCTS CAPABLE OF COPYRIGHT INFRINGEMENT LIABLE?

A. *The Apple TV Illustrates How Grokster III Should Not Be Read*

A “fake complaint” was brought by the Electronic Frontier Foundation (“EFF”) when the Induce Act was being considered by Congress.²⁰¹ It was meant to show how the Induce Act could be used to hold Apple responsible for secondary liability if it were implemented.²⁰² However, drawing from some of the arguments in this complaint may show that Apple could also be held liable for

¹⁹⁸ *Grokster III*, 545 U.S. at 934.

¹⁹⁹ See *Grokster III*, 545 U.S. at 935 (stating, “*Sony*’s staple-article rule will not preclude [intent to induce] liability”); Coats et al., *supra* note 14, at 242–43.

²⁰⁰ See *Grokster III*, 545 U.S. at 934–35 (holding that protection under *Sony* from traditional contributory infringement will not preclude a finding of intent to induce).

²⁰¹ See generally Cindy A. Cohn & Jason M. Schultz, *Prelude to a Fake Complaint*, ELEC. FRONTIER FOUND., June 24, 2004, http://www.eff.org/IP/Apple_Complaint.php.

²⁰² See *id.* (“If this bill had been law in 2000, there would be no iPod.”).

contributory infringement with the Apple TV under the *Grokster III* decision, if the decision is not read properly.

If one applies the main factors used to hold *Grokster* and *StreamCast* liable under the inducement theory before considering the *Sony* defense or traditional contributory liability, it is possible that Apple will be held liable for *Grokster*-like behavior. Recall that *Grokster* and *StreamCast* courted copyright infringing users, refused to develop filtering tools and indirectly derived revenue from the high volume of infringing uses.²⁰³ Also, recall that the Supreme Court expressly stated that the last two factors standing alone would not be enough to give rise to liability.²⁰⁴ In applying the first factor, one might argue that Apple courted copyright infringing users. Apple advertised to its iPod customers that they could “Rip, Mix, and Burn” their music or videos.²⁰⁵ For iPods, this meant taking music or videos users had on their hard drive, mixing the tracks onto a playlist, and burning them onto the iPod.²⁰⁶ This clearly satisfies the elements of direct copyright infringement.²⁰⁷ Moreover, the iPod’s wide success as the most popular MP3-player on the market can be at least attributed to the copyright infringers’ exposure to advertising.²⁰⁸ Based on the iPods’ success in facilitating unauthorized downloads of copyrighted musical works, it crossed the digital music clip world and entered the digital video clip world, first with the Video iPod, and now with the Apple TV.²⁰⁹ Although, at the time of this note, statistics for the success of the Apple TV are unavailable, it has the potential to play anything the iPod can play on a much larger scale.²¹⁰ Because the Apple TV acts only as a medium and not a storage device, it can receive and send countless numbers of digital

²⁰³ See *Grokster III*, 545 U.S. at 938–40.

²⁰⁴ *Id.* at 939–41 & n.12.

²⁰⁵ See Bowrey, *supra* note 7; Cohn & Schultz, *supra* note 201.

²⁰⁶ See Bowrey, *supra* note 7.

²⁰⁷ See Cohn & Schultz, *supra* note 201.

²⁰⁸ See Lev Grossman, *How Apple Does It*, TIME, Oct. 24, 2005, at 66, 70; Bowrey, *supra* note 7 (citing LAWRENCE LESSIG, THE FUTURE OF IDEAS 9 (Random House 2001)).

²⁰⁹ See Lev Grossman, *supra* note 208, at 66, 70; Richard Siklos, *Cool, a Video iPod. Want to Watch ‘Lost’?*, N.Y. TIMES, Oct. 16, 2005.

²¹⁰ See Peter Cohen, *Apple ‘It’s Showtime!’ Event—Live Coverage*, MACWORLD, Sept. 12, 2006, at <http://macworld.com/news/2006/09/12/showtime/index.php?pf=1>.

music and video clips to one's television.²¹¹ While Apple programmed the Apple TV so that it could only play music or videos downloaded from Apple's iTunes, within days of its release in March 2007, hackers were able to easily break into the Apple TV operating system and program the Apple TV to transmit digital media they had on their hard drive.²¹² These hackers even left instructions for other Apple TV purchasers to do the same.²¹³ This weak attempt to install filters shows that Apple made it too easy for hackers to reprogram the Apple TV.²¹⁴ Apple did not and cannot reasonably expect Apple TV users to spend thousands of dollars to transfer only legal downloads after spending \$299 on the Apple TV itself.²¹⁵ According to *Grokster III*, and the supplied patent law cases, the product's capability to transmit endless amounts of illegal downloads, coupled with its advertisement

²¹¹ Wikipedia.org, Apple TV, http://en.wikipedia.org/wiki/Apple_TV (last visited Mar. 28, 2007).

²¹² John P. Falcone, *Review: Apple TV Best for iTunes Addicts*, CNN.COM, Mar. 27, 2007, <http://www.cnn.com/2007/TECH/ptech/03/27/apple.tv/index.html> (discussing Apple TV's capability to only play iTunes media). The Apple TV was officially released on March 21, 2007, and within 10 days of its release, hackers were able to play non-iTunes media. See Electronista.com, *Apple TV Hack Boots Full Mac OS X*, Mar. 31, 2007, <http://www.electronista.com/articles/07/03/31/apple.tv.full.mac.os.x/>; The Something Awful Forums, *We Just Got Xvid Working on the Apple TV*, <http://forums.somethingawful.com/showthread.php?s=&threadid=2391956>; AppleTVHacks.net, *Apple TV Running on a Macbook*, Mar. 27, 2007, <http://www.appletvhacks.net/2007/03/27/apple-tv-running-on-a-macbook/>; AppleTVHacks.net, *Booting the Apple TV from a USB Drive*, Mar. 26, 2007, <http://www.appletvhacks.net/2007/03/26/booting-the-apple-tv-from-a-usb-drive/>. It is worthy to note that as of the writing of this note in April 2007, it is mostly savvy hackers that can reprogram the Apple TV to play digital content on their hard drives, but the more hackers keep working on reprogramming Apple TV's operating system to play non-iTunes media, and re-writing parts of its operating system, the more the hackers' programming instructions become easier to implement. Hence, instructions for reprogramming the Apple TV will probably eventually be easy enough for any layperson to do it, also. See Engadget.com, *How-To: Play DivX and Xvid on Your Apple TV*, Apr. 10, 2007, <http://www.engadget.com/2007/04/10/how-to-play-divx-and-xvid-on-your-apple-tv> (finding that earlier hacks were less practical for most people who were not proficient at computer programming, and then giving newer and easier instructions for reprogramming the Apple TV to play non-iTunes media).

²¹³ Electronista.com: *Apple TV Hack*, *supra* note 212; Something Awful, *supra* note 212; AppleTVHacks.net: *Apple TV/Macbook*, *supra* note 212; AppleTVHacks.net: *Apple TV/USB*, *supra* note 212.

²¹⁴ Something Awful, *supra* note 212 (poster discussing her surprise that Apple did not put more protection in the Apple TV to prevent hackers from reprogramming it).

²¹⁵ See Cohn & Schultz, *supra* note 201.

campaign, are clear expressions of steps taken by Apple to encourage infringement.²¹⁶

With respect to the second factor, Apple refused to adequately engineer an interactive media product that was not capable of playing music or video clips in the MP3 format illegal P2P file-sharing services used.²¹⁷ Apple designed the Apple TV to only use iTunes, yet hackers were easily able to re-program it to play other digital files soon after it was released. Apple could have designed the Apple TV with better code encryption.²¹⁸ While it may not prevent hackers from eventually figuring out how to re-write the instructions for the Apple TV to play non-iTunes media, it probably would have slowed them down, taking longer than ten days to reprogram it.²¹⁹ However, Apple chose not to design the iPod or the Apple TV in a more effective way because playing only authorized and protected files would be far less popular on the market and therefore less commercially viable.²²⁰ This is evidenced by Sony's Networked Walkman, and its own experience with its advanced audio coding ("AAC") format.²²¹ The iPod's ability to play unprotected MP3 files was used to attract infringing users and increase its commercial value.²²² Knowing the Apple TV's high probability for transmitting copyright infringing files and learning from the commercial success of iPods, Apple chose not to make the Apple TV in a way that would not let

²¹⁶ See, e.g., *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 934 (2005) ("contributory liability for patent infringement may be found where a good's 'most conspicuous use is one which will co-operate in an infringement when sale to such user is invoked by advertisement' of the infringing use") (citing *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48–49 (1912)); *Thomson-Houston Elec. Co. v. Kelsey Elec. R. Specialty Co.*, 75 F. 1005, 1007–08 (2d Cir. 1896) ("relying on advertisements and displays to find defendant's 'willingness . . . to aid other persons in any attempts which they may be disposed to make towards [patent] infringement'"); see also *Grokster III*, 545 U.S. at 940 n.13 ("Inducement liability goes beyond [encouraging], and 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").

²¹⁷ See Cohn & Schultz, *supra* note 201.

²¹⁸ *Something Awful*, *supra* note 212.

²¹⁹ See Cohn & Schultz, *supra* note 201.

²²⁰ *Something Awful*, *supra* note 212 (poster opines that Apple probably wanted the Apple TV to be hacked into).

²²¹ See Chander & Sunder, *supra* note 1; see also Cohn & Schultz, *supra* note 201.

²²² See Cohn & Schultz, *supra* note 201.

copyright infringing users infringe. Thus, Apple encourages these users to increase the amount of infringement they perpetuate.²²³

Lastly, Apple derives a large portion of its revenue from the high volume of infringing uses. Apple has just begun selling the Apple TV, so there are not enough sales figures to determine its success as of yet.²²⁴ But one can look to the success of all the iPods Apple sold in the 2006 fiscal year to gauge Apple's financial benefit from exploiting illegal P2P file-sharing.²²⁵ These devices accounted for forty percent of Apple's 4.36 billion dollars in total sales by the end of the quarter.²²⁶ It also has an estimated seventy percent of the U.S. market in MP3 players.²²⁷ These figures indicate that a substantial portion of Apple's revenue is derived from iPods. Furthermore, most of the music stored on iPods are not legal, but illegal downloads. From October 2005 to September 2006 (the end of Apple's fiscal year), Apple sold about 130,000,000 songs on iTunes²²⁸ and 39,409,000 iPods.²²⁹ Plugging these figures into the equation developed by an amicus brief in *Grokster III*, the average iPod holds about three songs bought from iTunes.²³⁰ Apple indeed financially benefits from infringing uses of its product. With this knowledge, Apple intends to do the same on a much larger scale with the Apple TV.

²²³ See *id.*

²²⁴ Wikipedia.org, Apple TV, http://en.wikipedia.org/wiki/Apple_TV (last visited Feb. 22, 2007).

²²⁵ Steve Dowling, *Apple Reports Second Quarter Results*, APPLE, Apr. 19, 2006, <http://www.apple.com/pr/library/2006/apr/19results.html>; see also Suzanne Vranica, *Marketers Aim New Ads at Apple video Users*, WALL ST. J. ONLINE, Jan. 31, 2006, <http://online.wsj.com/article/SB113867199829460498.html> (stating that "Apple doesn't release sales figures for the video iPod").

²²⁶ See Dowling, *supra* note 225.

²²⁷ See Nick Wingfield, *Keeping iPod Humming Along*, WALL ST. J. ONLINE, Jul. 15, 2006, <http://online.wsj.com/article/SB115291714677107410.html> (stating that the iPod's share in the U.S. MP3 market is more than seventy percent).

²²⁸ Liz Einbinder, *iTunes Music Store Downloads Top 50 Million Songs*, Mar. 15, 2004, <http://www.apple.com/pr/library/2004/mar/15itunes.html> (discussing iTunes users as downloading 2.5 million songs per week and an annual run rate of 130 million songs per year).

²²⁹ Wikipedia.org, iPod sales graph, http://en.wikipedia.org/wiki/Image:Ipod_sales.svg.

²³⁰ See Chander & Sunder, *supra* note 1 (providing the calculation for Apple iPods sold from amicus brief). We cannot take the number of videos sold into consideration since not all iPods are capable of holding videos.

It is important to note that the *Grokster III* Court held that, without evidence of intent, a court would be unable to find contributory infringement liability if the only evidence of inducement was that a product capable of substantial noninfringing uses could have been designed differently to bar copyright infringement.²³¹ With evidence of active steps to induce, the fact that the software could have been designed differently would heighten and further substantiate a contributory infringement claim.²³² Arguably, Apple took those affirmative steps to induce by distributing a product intended for infringing use and also advertising that use.²³³ In light of this evidence, the design of the software further infers a contributory infringement claim.

If a court finds Apple liable under the inducement theory without first considering the traditional contributory liability theory, Apple cannot use the fact that the Apple TV is capable of substantial noninfringing uses as a defense. With respect to contributory infringement, the Court makes it clear that the *Sony* defense will not protect a defendant from liability when the plaintiff has evidence of wrongful intent.²³⁴ Since there is evidence of intent to induce here, Apple may be held liable without a *Sony* defense to shield it.

*B. The Correct Post-Grokster III World:
Reconciliation of Sony and Grokster III*

1. The Importance of the Traditional Contributory
Liability Inquiry

The Supreme Court intended the *Grokster III* holding to be read as a rebuttal to the *Sony* defense under the theory of contributory liability. As shown above, finding a defendant liable under *Grokster III* without an inquiry into traditional contributory

²³¹ See *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 938 n.12 (2005).

²³² See *id.* at 939.

²³³ *Fromberg*, 315 F.2d at 412–13 (finding advertising to entice another to infringe may constitute inducement).

²³⁴ *Grokster III*, 545 U.S. at 934–35 (referencing the inducement theory and stating that, “*Sony*’s staple-article rule will not preclude liability”).

infringement could preclude the development of any product capable of both infringing and noninfringing uses, as long as it promotes a use capable of being deemed infringing.²³⁵ But, the *Grokster III* Court clearly intended to maintain the *Sony* defense, as it expressly stated that it wanted to protect technologies capable of disseminating information widely and rapidly, like the iPod.²³⁶ Determining the liability of these producers of information technology, though, does not require revisiting *Sony*, but rather a proper reading of *Grokster III*.²³⁷ *Grokster III* must be read as a limit on the *Sony* defense, no matter how *Sony* is defined. To give copyright owners and innovators a new theory of liability without giving them proper boundaries on how it should be applied would probably strike the wrong balance between innovation and dissemination.²³⁸

The traditional contributory infringement test is an important prelude to testing for contributory liability under the inducement theory.²³⁹ It prevents evidence of constructive knowledge from being used as evidence of “clear expression” or “affirmative steps to foster infringement.”²⁴⁰ The patent cases the Court uses as examples to meet this standard are insufficient because it is not immediately apparent how they are applicable in a copyright context.²⁴¹ In fact, liability for inducement to infringe under the Patent Act has been unclear in patent cases. There has been a split in the circuit courts for a decade between competing patent cases.

²³⁵ See *supra* Part III.

²³⁶ *Grokster III*, 545 U.S. at 957 (Breyer, J., concurring) (noting that *Sony* shelters MP3 players); see also Transcript of Oral Argument at 12–13, *Grokster III*, 545 U.S. 913, (No. 04-480) (questioning plaintiffs’ proposed test for a “majority use [that is] noninfringing.” Justice Breyer argues that it presents problems for the iPod inventor who cannot gauge its unforeseen uses before he has invented it).

²³⁷ Kramer, *supra* note 73, at 185 (stating that the failure to clarify the scope of the *Grokster* holding will create some controversy in the courts, which may affect technology communities).

²³⁸ *Id.* (citing Brief in Support of Issuance of Writ of Certiorari by Amici Curiae Law Professors at 7, *Grokster III*, 545 U.S. 913 (No. 04-480)).

²³⁹ Compare Coats et al., *supra* note 14, at 243 (stating that inducement and contributory infringement are separate theories under patent law), with Chander & Sunder, *supra* note 1.

²⁴⁰ *Grokster III*, 545 U.S. at 919.

²⁴¹ See, e.g., Coats et al., *supra* note 14, at 243 (stating that inducement and contributory infringement are separate theories under patent law).

Some circuit courts focus on patent cases imposing a broader scope of liability for infringement because of a weaker intent standard, while other circuit courts focus on patent cases imposing a narrower scope of liability because of a stronger intent standard.²⁴² The traditional contributory infringement test, however, provides a sufficient background to make the inducement theory applicable to copyright law.²⁴³ Indeed, “intent to induce” is supposed to be a high standard since the providers’ actions must be affirmative, and not merely passive or ambiguous.²⁴⁴ Going through the traditional contributory infringement test first assures that these steps are clearly affirmative and allows the courts to differentiate between evidence of intent, actual knowledge, constructive knowledge and mere knowledge.

2. The Apple TV Illustrates How *Grokster III* Must Be Read

Understanding that the inducement theory is a rebuttal to the *Sony* defense, plaintiffs would initially bring a case for contributory infringement against defendants in its traditional form. Defendants would assert the *Sony* defense and the court would consider that defense first.²⁴⁵ While the Court’s majority opinion in *Grokster III* does not give any indication of how *Sony* should be applied, one may look to the concurring decisions in *Grokster III* to determine whether or not the *Sony* protection applies to the Apple TV.²⁴⁶ As illustrated by *Sony* and the circuit

²⁴² Oswald, *supra* note 25, at 226.

²⁴³ Compare Coats et al., *supra* note 14, at 243 (stating that inducement and contributory infringement are separate theories under patent law), with Chander & Sunder, *supra* note 1.

²⁴⁴ See *Grokster III*, 545 U.S. at 937 (stating that “[t]he inducement rule . . . premises liability on purposeful, culpable expression and conduct”).

²⁴⁵ See, e.g., *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1160 (9th Cir. 2004), *aff’g*, *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *rev’d by*, *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913 (2005); *In re Aimster Copyright Litig. (Aimster II)*, 334 F.3d 643, 647 (7th Cir. 2003); *A&M Records, Inc. v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1118 (9th Cir. 2001).

²⁴⁶ See generally *Grokster III*, 545 U.S. at 914–15 (clarifying the “capable of substantial noninfringing uses” rule).

courts, determining the level of knowledge is important to a finding of contributory liability.²⁴⁷

Under both concurring opinions, the Apple TV would be entitled to the *Sony* protection. Like the VTR, the Apple TV is capable of noninfringing uses, such as what could be described as, “place-shifting.”²⁴⁸ Place-shifting means downloading music or video clips from a legal source—for example, a purchased CD or iTunes—onto one’s hard drive, and using the Apple TV to place that digital content on the television screen.²⁴⁹ Though, like the VTR, the Apple TV could be used for infringing purposes, such as transferring unauthorized copies of music and movies and loading them onto one’s TV.²⁵⁰ As will be shown below, even if Apple knew that many buyers would use the Apple TV for transferring unauthorized copyrighted work, it would still be insufficient to

²⁴⁷ See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (stating that, “[i]f vicarious liability is to be imposed on [petitioners] in this case, it must rest on the fact that they have sold equipment with constructive knowledge There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory.”); see also *Grokster II*, 380 F.3d 1154; *Aimster II*, 334 F.3d 643; *Napster II*, 239 F.3d 1004.

²⁴⁸ See *Sony*, 464 U.S. at 442 (stating that “one potential use of the Betamax plainly satisfies [the capable of commercially significant noninfringing uses] standard . . . private, noncommercial time-shifting”); *Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (1999) (defining “space-shifting” as taking one’s legally owned music or audiovisual recording and putting it on another device for personal use). In this case, the Ninth Circuit extended the doctrine of *Sony* to space-shifting. The court ruled that this was legitimate and constituted substantial noninfringing use. This decision paved the way for other companies, like Apple, to enter the MP3 player market. See Lauren Elizabeth, *Contributory Infringement*, EVERYTHING2, Dec. 9, 2005, http://everything2.com/index.pl?node_id=1768993. However, at least in Apple iPod’s case, most of the files contained in the average iPod is not legal and whether or not that portion of legal files actually constitute a “substantial noninfringing use” has not been determined or affirmed by the Supreme Court. See Chander & Sunder, *supra* note 1. That is why defining “substantial noninfringing uses” is the single most important question technology innovators want answered. See *Grokster III*, 545 U.S. at 934 (rejecting the request of parties and amici to revisit *Sony*).

²⁴⁹ *Recording Indus. Ass’n. of Am.*, 180 F.3d at 1079. Note that space-shifting is the legal term for “Rip, Mix, Burn.” The combination of “rip,” “mix” and “burn” is derived from internet lingo that could also mean “ripping” off unauthorized copies of copyrighted work. See Bowrey, *supra* note 7.

²⁵⁰ See *Sony*, 464 U.S. at 423–24; Chander & Sunder, *supra* note 1. As users “shift” music and video clips from one device onto another (convenient) device, users would also “shift” their music and video clips from one room to another room.

hold Apple contributorily liable because its noninfringing uses would be deemed significant under both readings of *Sony*.²⁵¹

Justice Ginsburg argues in her concurring opinion that the defendants' software in *Grokster III* did not meet the *Sony* standard.²⁵² She focuses on the "commercially significant noninfringing uses" passage of *Sony* and argues that Grokster's evidence of noninfringing uses do not give rise to a reasonable belief that those uses would become substantial in the future.²⁵³ While Sony offered evidence that the VTR's substantial noninfringing uses had reasonable prospects for developing,²⁵⁴ Grokster's or StreamCast's evidence of noninfringing uses was anecdotal and could not outweigh the evidence offered by plaintiffs that Grokster and StreamCast were overwhelmingly used for infringement.²⁵⁵ As opposed to Grokster and StreamCast's evidence, though, Apple's evidence of noninfringing uses—legal digital file-downloading (and then transferring)—is commercially viable, as is evidenced by iTunes' success, especially since more video distributors are jumping on board iTunes.²⁵⁶

Under Justice Breyer's reading of *Sony*, the iPods' capability for "commercially significant noninfringing uses" and "substantial noninfringing uses" are both important.²⁵⁷ He takes both into consideration because *Sony* used the word "capable" for the general inquiry into whether a product was "capable of substantial noninfringing uses" in the future, and it also used the word "commercial" to qualify the legal inquiry that needed to be satisfied by the VTR.²⁵⁸ Applying this rationale to the Apple TV,

²⁵¹ See *Grokster III*, 545 U.S. at 949–50 (Breyer, J., concurring).

²⁵² *Grokster III*, 545 U.S. at 948 (Ginsburg, J., concurring).

²⁵³ *Id.*

²⁵⁴ *Id.* at 943.

²⁵⁵ *Id.* at 946.

²⁵⁶ See, e.g., Apple.com, 1 Billion Songs, Jan. 10, 2006, <http://www.apple.com/uk/itunes/1billion/> (stating that the one billion songs sold since iTunes opened is a major force against piracy, and that iTunes is the most popular video download store).

²⁵⁷ See *Grokster III*, 545 U.S. at 955 (Breyer, J., concurring) (stating that, "the foreseeable development of such uses, when taken together with an estimated [unforeseen] 10% non-infringing material, is sufficient to meet *Sony*'s standard").

²⁵⁸ *Id.* at 948 (stating that the *Sony* Court wrote that a product "need merely be capable of substantial non-infringing uses," (emphasis omitted) but that the legal question in

actual evidence exists to show that its noninfringing uses are commercially viable.²⁵⁹ Moreover, with Apple's interactive media products constantly expanding—from its first portable player's capacity to hold digital music, to a player capable of holding pictures, and then videos, and now Apple TV—there is nothing to indicate that more similar noninfringing uses of the product will not continue as a consequence of its character.²⁶⁰

Continuing with the Ninth Circuit's reading of contributory infringement, the Apple TV will still be protected under *Sony*.²⁶¹ Once it is determined that the product is capable of substantial noninfringing uses, plaintiffs must prove that Apple had actual knowledge of specific acts of infringement to be held liable for contributory infringement.²⁶² The strongest evidence against Apple showing intent to induce is its capability to transfer large amounts of digital music and video clips, which are both authorized and unauthorized, and its original advertisement to "Rip, Mix, Burn."²⁶³ While other evidence could be used to show actual knowledge for another producer's alleged contributory infringement, this is the strongest evidence against Apple that could be used to test its actual knowledge. However, at most, its advertisement campaign and Apple TV's capacity to transfer large

Sony's particular case was, "whether [Sony's VTR] is *capable of commercially significant noninfringing uses*" (alteration in original).

²⁵⁹ See, e.g., *1 Billion Songs*, *supra* note 256.

²⁶⁰ See Grossman-Cupertino, *supra* note 208 (inquiring into what Apple would come up with in 2006); see also *Grokster III*, 545 U.S. at 955. Justice Breyer also argued that the ten percent of authorized sharing done on Grokster and StreamCast was comparable to the amount of authorized use that the Court found to be significant in *Sony*, which was about nine percent. If we take the calculated figures for authorized use above, authorized music uses in an iPod amount to about 0.03 percent. See *supra* notes 228–229. Their capacity for noninfringing uses is nonetheless commercially significant. And their potential for unforeseen non-infringing uses is also viable. Thus, Justice Breyer would agree that it should be entitled to the *Sony* defense.

²⁶¹ Note that, even if in practice, courts would consider the inducement theory before applying the traditional contributory infringement test, the traditional test would eventually be applied and it would still differentiate between the different types of knowledge and liabilities.

²⁶² See *A&M Records, Inc., v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1021 (9th Cir. 2001).

²⁶³ See *supra* notes 231–232 (finding under patent law cases cited in *Grokster III*, this could constitute inducement).

amounts of digital content would show that Apple had constructive knowledge of the infringement.²⁶⁴ Unlike Napster and Grokster, Apple does not have any direct involvement in the infringing activity based on this evidence.²⁶⁵ It does not maintain any significant relationship with its customers and its advertisement is not a set of directions on *how* to obtain unauthorized copies of digital files.²⁶⁶ In fact, like the defendants in *Sony*, Apple may only have had mere knowledge of actual infringing uses.²⁶⁷ Mere knowledge exists when a defendant distributes a product knowing it *can* be used to infringe without having any involvement with the infringement occurring, and it is highly arguable that Apple did this.²⁶⁸ Evidence that Apple tried to prevent copyright infringement by designing it only to play digital clips bought on iTunes at most shows that Apple had mere knowledge that the product could be used to infringe, but does not show that it encouraged direct infringement.

If one also extends the knowledge inquiry and applies the Ninth Circuit timing test in *Grokster III*, Apple did not have actual knowledge at a time when it could prevent the infringing conduct because its relationship with its customers ended after they purchased the product.²⁶⁹ This is also why Apple could not have

²⁶⁴ See *Napster II*, 239 F.3d at 1020 n.5 (determining that evidence of constructive knowledge included Napster's promotion of the site with advertisements of infringing files).

²⁶⁵ *Grokster III*, 545 U.S. at 938–40; *Napster II*, 239 F.3d at 1021–22 (finding that Napster's central database index helped copyright infringers infringe); Coats et al., *supra* note 14, at 234, 241.

²⁶⁶ See *supra* notes 201–216. See also Bowrey, *supra* note 7.

²⁶⁷ See *Grokster III*, 545 U.S. at 937.

²⁶⁸ *Id.* (finding that the *Sony* Court did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe); see also *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 416, 439 n.19 (1984). Recall that “Rip, Mix, Burn” could also mean space-shifting (see *supra* note 249), which many people in the Internet community are aware of. This leaves only the fact that it built an iPod with a large capacity to be used against Apple. This is evidence of mere knowledge since Apple would only be distributing a product capable of infringement.

²⁶⁹ *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster Ltd. (Grokster II)*, 380 F.3d 1154, 1162–63 (9th Cir. 2004) (finding that Grokster did not have knowledge at a time when it could materially contribute to the infringing activity because the system's architecture would not allow it to maintain an ongoing relationship with its users).

“substantially participated” in the infringement or have provided the “site and facilities” for the conduct to continue.²⁷⁰

3. The Inducement Doctrine as a Rebuttal to the *Sony* Defense

Taking what was learned from the application of traditional contributory infringement above, the elements of the inducement theory will again be applied. First, Apple did not court copyright infringing users with its advertisement or by building the Apple TV with a large capacity. This is evidence of constructive knowledge at best and intent requires a stronger showing, such as the direct assistance Grokster gave copyright infringing users.²⁷¹ Inquiry into the next two factors requires the first element to succeed as evidence of Apple’s intent to induce because those are the affirmative steps Apple would be making to encourage infringement.²⁷² But now that the requisite intent is not met, the fact that the Apple TV could have been designed differently to bar copyright infringement, or that it receives a large portion of its revenue from the iPod’s infringing uses will not by themselves prove contributory infringement.²⁷³ Unless evidence of the last two factors is probative enough, Apple is most likely shielded from liability under *Sony*.²⁷⁴ Moreover, because Apple took affirmative steps to prevent copyright infringement, including advertised use of the Apple TV with iTunes, it is likely that evidence of the last two factors would not be enough to implement Apple.

IV. CONCLUSION

The Supreme Court meant for the *Grokster III* holding to be read as a rebuttal to the *Sony* defense under the theory of contributory liability. The contributory liability theory provides

²⁷⁰ *Id.*

²⁷¹ See *supra* notes 153–159 and accompanying text.

²⁷² *Grokster III*, 545 U.S. at 938–41 & n.12.

²⁷³ See *id.*

²⁷⁴ *Id.* at 935 (holding that, “where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*’s staple-article rule will not preclude liability.” Apple does not meet this standard).

significant background in differentiating between the actual knowledge, constructive knowledge, mere knowledge, and intent a producer may have to determine its ultimate liability. To apply the inducement theory as a separate theory of secondary liability would give plaintiffs a new cause of action like the “fake complaint” drawn up by the EEF.²⁷⁵ Misunderstanding the inducement theory would probably eliminate the balance *Sony* intended to maintain: between protecting innovation and providing for dissemination.²⁷⁶ Reading the decision inaccurately would preclude the distribution of products worthy of the *Sony* defense. And indeed, a number of cases that have applied the *Grokster III* decision properly read the inducement theory as a part of the traditional test for contributory infringement.²⁷⁷ In *Grokster III*, the majority opinion did not revisit the *Sony* decision, but it did not intend to overrule it either.²⁷⁸ The Court did not intend for the *Grokster III* decision to enjoin the distribution of interactive media players, like the Apple TV.²⁷⁹ Of course, whether a product is entitled to the *Sony* protection because it is capable of commercially significant noninfringing uses or because it is capable of substantial noninfringing uses is for the courts to decide on a case-by-case basis.²⁸⁰ The different theories of contributory infringement, though, set boundaries on that entitlement.²⁸¹ And it is those boundaries that limit the abuse of *Sony* and allow

²⁷⁵ See *supra* note 201.

²⁷⁶ *Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 416, 442 (1984).

²⁷⁷ *Arista Records, Inc. v. Flea World, Inc.*, No. 03-2670, 2006 WL 842883 (D.N.J. Mar. 31, 2006); *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006); see *Monotype Imaging, Inc. v. Bitstream Inc.*, 376 F. Supp. 2d 877 (N.D. Ill. 2005).

²⁷⁸ See *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd. (Grokster III)*, 545 U.S. 913, 934 (2005).

²⁷⁹ *Grokster III* at 957 (Breyer, J., concurring) (noting that *Sony* shelters MP3 players); see also Transcript of Oral Argument at 12–13, *Grokster III*, 545 U.S. 913, (No. 04-480) (questioning plaintiffs’ proposed test for a “majority use [that is] noninfringing.” Justice Breyer argues that it presents problems for the iPod inventor who cannot gauge its unforeseen uses before he has invented it).

²⁸⁰ See *Grokster III*, 545 U.S. at 934 (majority opinion) (holding that it will not revisit *Sony* and quantify its holding to settle the split in the courts. Instead, it will leave it to further consideration when it may be required).

²⁸¹ See, e.g., *id.* at 934–95 (stating that nothing in *Sony* precludes evidence of intent to hold a producer liable); *A&M Records, Inc., v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1020–21 (9th Cir. 2001) (requiring a showing of actual knowledge of infringing activity to overcome a *Sony* defense).

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legitimate technologies to further develop.²⁸² Manufacturers and distributors of digital technology today, like Apple CEO Steve Jobs, are therefore freer to continue re-inventing products of information technology.

²⁸² See generally *Grokster III*, 545 U.S. at 934 (stating that the Ninth Circuit's view of *Sony* "was error, converting the case from one about liability resting on imputed intent to one about liability on any theory." But *Sony* did not displace other theories of secondary liability).