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# INDIRECT INFRINGEMENT FROM A TORT LAW PERSPECTIVE

Charles W. Adams \*

## I. INTRODUCTION

The Supreme Court's decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* incorporates the doctrine of inducing infringement from patent law into copyright law.<sup>1</sup> By utilizing the existing doctrine from patent law, the Supreme Court provided some clarification of the standards for liability for indirect infringement in copyright law. The *Grokster* decision also raises questions, however, about the proof required for inducing infringement with respect to establishing intent and the possibility of defenses based on the defendant's mental state. For example, would a defendant be liable for inducing another person to copy the plaintiff's copyrighted work if the defendant believed (albeit erroneously) that the other person had a fair use defense to a claim for copyright infringement? Principles from general tort law may suggest an answer to this question as well as to other presently unsettled questions<sup>2</sup> involving liability for the indirect infringement of patents, copyrights, and trademarks.

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I want to thank Tom Arnold, my colleague at the University of Tulsa College of Law, for directing me to many of the Restatement provisions that are discussed in this article. I also wish to express gratitude to the participants in the 2006 Intellectual Property Scholars Conference of the University of California (Boalt Hall) School of Law—particularly Mark Bartholomew, Graeme Dinwoodie, Richard Gruner, Justin Hughes, Tyler Ochoa, and John Tehranian—for their comments and suggestions on my presentation of this article at the conference.

1. See 545 U.S. 913 (2005).

2. Other unsettled questions include: whether a defendant would be liable for inducing a third person to infringe a patent if the defendant believed the patent was invalid; whether a defendant would be liable for inducing a third person to infringe a trademark if the defendant believed either that the trademark was invalid or the third person had a

The law of indirect infringement has developed separately, but along parallel tracks, in patent, copyright, and trademark law over the past hundred years. In all three areas, there are circumstances where it is impractical for the owners of intellectual property to enforce their rights against direct infringers, and the owners have sought remedies against other persons who they claimed were responsible for indirect infringement of their intellectual property rights. The applicable doctrines have varied somewhat from one field of intellectual property to another, however.<sup>3</sup> In patent law, third-party liability has been imposed for contributory infringement and inducing infringement. Copyright law has three separate doctrines for third-party liability: vicarious infringement; contributory infringement; and inducing infringement. Third-party liability in trademark law has been imposed for inducing infringement and a failure to take reasonable precautions against infringement. Although liability for the direct infringement of patents, copyrights, or trademarks is imposed on a strict liability basis,<sup>4</sup> liability for indirect infringement has generally required a showing of the third party's intent, knowledge, or control with respect to the direct infringement. The particular requirements for indirect infringement vary between patent, copyright, and trademark law, and they appear to still be evolving in the case law.

The law of indirect infringement of patents, copyrights, and trademarks is derived from common law doctrines of joint liability for concerted action, aider and abettor liability, and liability for permitting or directing the conduct of another.<sup>5</sup> These common law doctrines have evolved to produce an extensive and well-developed body of tort law that governs a person's liability for torts committed by another. Since the indirect infringement of a

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defense to trademark infringement; whether a seller of a product would be liable for copyright or trademark infringement by a third person who used the product to infringe; and whether an internet service provider would be liable for copyright or trademark infringement by a user of its network.

3. See Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 BERKELEY TECH. L.J. 1363 (2006) (discussing differences with respect to indirect infringement in trademark and copyright law).

4. See 15 U.S.C. § 1114(1)(a) (2000) (trademarks); 17 U.S.C. § 501(a) (2000) (copyrights); 35 U.S.C. § 271(a) (2000) (patents).

5. See *Grokster*, 545 U.S. at 930 (“[The] doctrines of secondary liability emerged from common law principles and are well established in the law.”).

patent, copyright, or trademark is a statutory tort,<sup>6</sup> liability for indirect infringement represents a subset of this more general body of tort law.<sup>7</sup> In general, a person's liability for a tort committed by another should be dependent upon the person's conduct, culpability, and relationship to the other person, rather than whether the tort is a statutory tort, such as the infringement of intellectual property, or a common law tort, such as trespass or negligence.

Unfortunately, the law of indirect infringement not only has become balkanized within intellectual property law between its constituent areas of patent, copyright, and trademark law, but it also has diverged from the general body of tort law. Cases and commentaries within each substantive area of intellectual property law have tended to focus on that particular area, and they generally have not considered the broader legal context in which the law of indirect infringement operates. One indication of this tendency is the peculiar specialized terminology of vicarious, contributory, and inducing infringement<sup>8</sup> used to denote the various types of indirect infringement. This specialized terminology has

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6. See *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931) ("Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee.").

7. Cf. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984) ("[V]icarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.").

8. "Vicarious" typically refers in tort law to liability imposed for any reason on a person for the torts of another. See *RESTATEMENT (THIRD) OF TORTS: APPORTIONMENT OF LIABILITY* § 13 (2000). In contrast, vicarious infringement refers to circumstances where a person is liable for indirect infringement because the person has the right and ability to supervise infringing conduct and has a direct financial interest in the infringing conduct. See *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) ("[E]ven in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.").

"Contributory" typically refers in tort law to the negligence of a plaintiff that causes harm to the plaintiff. See *RESTATEMENT (SECOND) OF TORTS* § 463 (1965). In contrast, contributory infringement has one meaning in patent law and a different meaning in copyright law. In patent law, contributory infringement refers to the sale of a component of a patented invention if the component is especially made for infringement of the patent and has no substantial noninfringing use. 35 U.S.C. § 271(c) (liability of a contributory infringer). In copyright law, contributory infringement refers to a person's inducing, causing, or contributing to infringing conduct of another with knowledge of the infringing conduct. See *Gershwin*, 443 F.2d at 1162 ("[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer.").

probably helped to promote variations in the substantive requirements for indirect infringement between patent, copyright, and trademark law.

A comparison of general tort law to the law of indirect infringement provides two important benefits. First, the more developed body of general tort law may shed light on issues in the law of indirect infringement for which precedent does not yet exist, which may help to resolve unsettled questions of indirect infringement law. Second, finding differences between general tort law principles and indirect infringement law may flag aspects of indirect infringement law that are unsound and need reexamination.

This article examines the requirements for indirect infringement in patent, copyright, and trademark law. Section II provides an overview of general tort law principles governing third-party liability for torts committed by others. Section III covers indirect infringement under patent law, where most of the intellectual property cases involving indirect infringement have arisen. Sections IV and V address indirect infringement under copyright and trademark law, respectively. This article concludes that courts should refer to and consider general tort law principles when analyzing the indirect infringement of patents, copyrights, and trademarks. Moreover, the indirect infringement of patents, copyrights, and trademarks should conform to general tort law principles in the absence of persuasive reasons otherwise.

## II. LIABILITY FOR TORTS COMMITTED BY OTHERS

There are a variety of grounds for holding a person liable for a tort committed by another. The grounds that are the most applicable to the indirect infringement of intellectual property rights are: (1) liability for aiding and abetting torts; (2) liability for inducing torts; (3) liability for permitting use of premises or instrumentalities; and (4) liability for employees and independent contractors.<sup>9</sup>

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9. Other grounds for a person's liability for another's tort found in the *Restatement (Second) of Torts* include: committing a tort in concert with another person; committing a tort in the course of giving substantial assistance to another person; acting negligently in employing the other person, (§ 877(b)); failing to exercise care in the control of another who is likely to do harm; and confiding the performance of a duty to protect a third person

### A. *Liability for Aiding and Abetting Torts*

Liability for aiding and abetting the commission of a tort by another is addressed in *Restatement (Second) of Torts* section 876(b), which provides: "For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . (b) knows that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself . . . ." <sup>10</sup> Section 876(b) is concerned with the defendant's giving of substantial assistance or encouragement to the tortfeasor, and it expressly requires the defendant to know the other person's conduct is tortious. The defendant's knowledge of the tortious nature of the tortfeasor's conduct is crucial to the defendant's liability because it provides a basis for the defendant's culpability. This knowledge requirement therefore avoids holding parties liable who are not aware they are unwittingly providing substantial assistance to a tortfeasor. The significance of the knowledge requirement for aiding and abetting liability was emphasized by Professor Ruder in the following example:

If all that is required in order to impose liability for aiding and abetting is that illegal activity under the securities laws exists and that a secondary defendant, such as a bank, gave aid to that illegal activity, the act of loaning funds to the market manipulator would clearly fall within that category and would expose the bank to liability for aiding and abetting. Imposition of such liability upon banks would virtually make them insurers regarding the conduct of insiders to whom they loan money. If it is assumed that an illegal scheme existed and that the bank's loan or other activity provided assistance to that scheme, some remaining distinguishing factor must be found in order to prevent such automatic liability. The bank's knowledge of the illegal scheme at the time it loaned the money or agreed to loan the money provides that additional factor. <sup>11</sup>

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to another person who fails to perform the duty. See RESTATEMENT (SECOND) OF TORTS §§ 876(a), (c), 877(b), (d)–(e) (1979).

10. *Id.* § 876(b).

11. David S. Ruder, *Multiple Defendants in Securities Law Fraud Cases: Aiding and Abetting, Conspiracy*, In *Pari Delicto, Indemnification, and Contribution*, 120 U. PA. L. REV. 597, 630–31 (1972). For a subsequent Supreme Court decision that eliminated private civil liability for aiding and abetting securities fraud under the federal securities statutes, see *Central Bank of Denver v. First Interstate Bank of Denver*, 511 U.S. 164, 191 (1994). See *infra* notes 43–47 and accompanying text. Civil liability for aiding and abetting other torts, such as breach of fiduciary duty, continues to be recognized, however. See, e.g., *Pavlovich v. Nat'l City Bank*, 435 F.3d 560, 570 (6th Cir. 2006) (Ohio law); *In re Sharp Int'l*

While proof of knowledge is essential for aider and abettor liability, knowledge may be inferred from circumstantial evidence.<sup>12</sup>

The comment to section 876(b) gives the following rationale for holding a defendant liable for the tort of another: "Advice or encouragement to act operates as a moral support to a tortfeasor and if the act encouraged is known to be tortious it has the same effect upon the liability of the adviser as participation or physical assistance."<sup>13</sup> The comment also provides that the defendant's assistance or encouragement must be a substantial factor in causing the tort.<sup>14</sup> In addition, the comment states that liability will be imposed regardless of whether the tortfeasor acts intentionally or merely negligently, and regardless of whether he knows the conduct constitutes a tort.<sup>15</sup> The comment also explains that to determine whether the defendant's assistance or encouragement is substantial enough for the defendant to be liable, the following factors should be considered: the nature of the act encouraged; the amount of assistance provided by the defendant; whether the defendant was present or absent at the time of the tort; the defendant's relation to the tortfeasor; and the defendant's state of mind.<sup>16</sup>

A couple of examples may help illustrate the application of section 876(b) to aider and abettor liability. A manufacturer of ammonium nitrate would not be liable to persons who were injured when the ammonium nitrate exploded, unless the manufacturer knew that the purchaser would use the ammonium nitrate as an explosive.<sup>17</sup> On the other hand, a co-conspirator who supplied ammonium nitrate to a terrorist with knowledge that the terrorist would use the ammonium nitrate as a weapon of mass destruction would be liable under section 876(b) as an aider and

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Corp., 403 F.3d 43, 49 (2d Cir. 2005) (New York law).

12. See *Aetna Cas. & Sur. Co. v. Leahey Constr. Co.*, 219 F.3d 519, 535 (6th Cir. 2000) ("For the purposes of establishing aiding and abetting liability, '[t]he requisite intent and knowledge may be shown by circumstantial evidence.'" (quoting *Metge v. Bachler*, 762 F.2d 621, 625 (8th Cir. 1985))).

13. RESTATEMENT (SECOND) OF TORTS § 876(b) cmt. d (1979).

14. *Id.*

15. *Id.*

16. *Id.*

17. *E.g.*, *Gaines-Tabb v. ICI Explosives, USA, Inc.*, 160 F.3d 613, 618 (10th Cir. 1998) (manufacturer of ammonium nitrate that was sold as fertilizer but used by Timothy McVeigh to make a bomb was not liable for negligence or products liability).

abettor.<sup>18</sup> Similarly, a gun manufacturer would not be liable for injuries caused by its products,<sup>19</sup> but a person who supplied a gun to an accomplice knowing he would use the gun to commit a tort would be liable under section 876(b) as an aider and abettor.

The application of section 876(b) is also illustrated by *Halberstam v. Welch*.<sup>20</sup> After Welch killed the plaintiff's husband during a burglary of their home, the plaintiff brought a wrongful death action against both Welch and his live-in companion, Hamilton.<sup>21</sup> The trial court entered a judgment for \$5.7 million against both defendants, and the United States Court of Appeals for the District of Columbia affirmed on the grounds that Hamilton was liable both for acting in concert with and for aiding and abetting Welch.<sup>22</sup> While Hamilton did not participate directly in the burglary or killing, the court of appeals affirmed the trial court's ruling that the evidence supported the inference that she acted in concert with Welch in his burglary enterprise by helping him dispose of stolen property and serving as his banker, bookkeeper, and secretary over a five year period.<sup>23</sup>

The court of appeals also affirmed the ruling that Hamilton was liable as an aider and abettor, because she provided substantial assistance to Welch knowing that Welch's conduct was tortious.<sup>24</sup> While there was no direct evidence that Hamilton knew of the killing, the court of appeals decided the trial court's inference that Hamilton knew Welch was involved in tortious activity was not clearly erroneous.<sup>25</sup> The court of appeals agreed that Hamilton was liable for the killing as an aider and abettor, because the killing was a natural and foreseeable consequence of Welch's tortious activity.<sup>26</sup> In applying the factors from the comment to sec-

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18. *E.g.*, *United States v. Nichols*, 169 F.3d 1255, 1260 (10th Cir. 1999) (affirming conviction of Terry Nichols in Oklahoma City bombing case for conspiring to use weapon of mass destruction and involuntary manslaughter).

19. *E.g.*, *Hamilton v. Beretta U.S.A. Corp.*, 750 N.E.2d 1055, 1059 (N.Y. 2001) (gun manufacturer did not owe persons killed by handguns a duty of reasonable care in the marketing and distribution of handguns).

20. *See* 705 F.2d 472 (D.C. Cir. 1983).

21. *Id.* at 474.

22. *Id.* at 474, 489.

23. *Id.* at 487.

24. *Id.* at 487-88.

25. *Id.* at 488.

26. *Id.*; *see also* RESTATEMENT (SECOND) OF TORTS § 876 cmt. d, illus. 10 (1979) (co-conspirator to burglary is liable both for conversion and burning of the house to conceal the burglary because the burning was a foreseeable consequence of the burglary).



tion 876(b) for determining whether Hamilton's assistance was sufficiently substantial to justify liability, the court of appeals emphasized Hamilton's state of mind as shown by her long term participation in the burglary enterprise.<sup>27</sup>

Section 876(b) would apply to the infringement of patents, copyrights, or trademarks if a defendant gave substantial assistance or encouragement to a direct infringer, and the defendant knew the direct infringer's conduct was infringing.

### B. *Liability for Inducing Torts*

Inducing another person's tortious conduct is another basis for third-party liability. *Restatement (Second) of Torts* section 877(a) provides for liability for inducing another person to commit a tort: "For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he (a) orders or induces the conduct, if he knows or should know of circumstances that would make the conduct tortious if it were his own . . . ."<sup>28</sup> Section 877(a) overlaps with section 876(b) because in many cases a defendant may both order or induce another to commit a tort and also give substantial assistance or encouragement to the tortfeasor. Section 877(a) differs from section 876(b), however, because by requiring the defendant to order or induce the tortious conduct, section 877(a) implies that the defendant must have a specific intent to cause the tortfeasor to engage in the tortious conduct.<sup>29</sup> In contrast, the defendant's state of mind is only one of five factors to be considered in determining whether the defendant's assistance or encouragement was sufficient to warrant liability under section 876(b).<sup>30</sup> Another significant difference between sections 877(a) and 876(b) is that section 876(b) requires the defendant to have actual knowledge that the tortfeasor's conduct constitutes a breach of duty,<sup>31</sup> while section 877(a) provides for liability if the defendant's knowledge that the tortfeasor's conduct is tortious is either actual or constructive.<sup>32</sup> Thus, while section 877(a) requires a specific intent to induce tortious conduct, it requires only

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27. *Halberstam*, 705 F.2d at 488.

28. RESTATEMENT (SECOND) OF TORTS § 877(a) (1979).

29. *See id.*

30. *Id.* § 876(b) cmt. d.

31. *Id.* § 876(b).

32. *Id.* § 877(e).

constructive knowledge that the tortfeasor's conduct is tortious.<sup>33</sup> The comment to section 877(a) notes that in many situations a person giving the order or inducement would also be liable as a principal or master under the law of agency, but section 877(a) provides an independent ground for liability.<sup>34</sup>

Section 877(a) would apply to the infringement of patents, copyrights, or trademarks, if the defendant ordered or induced the direct infringement, provided that the defendant had actual or constructive knowledge that the direct infringer's conduct was infringing.

### C. *Liability for Permitting Use of Premises or Instrumentalities*

An additional basis for liability involves a defendant permitting a tortfeasor to use the defendant's property to commit torts. *Restatement (Second) of Torts* section 877(c) provides: "For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . (c) permits the other to act upon his premises or with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously . . ." <sup>35</sup> The comment to this provision makes plain that liability is imposed for a tortfeasor's use of either the defendant's land or chattels with the defendant's permission.<sup>36</sup> While section 877(c) could potentially apply to patent infringement, it more likely would apply to the infringement of copyrights or trademarks.<sup>37</sup>

### D. *Liability for Employees and Independent Contractors*

Another source of liability for torts committed by another may be found in the *Restatement (Second) of Agency*. An employer is liable for torts that its employees commit in the course of their

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33. *See id.*

34. *Id.* § 877 cmt. a.

35. *Id.* § 877(c).

36. *Id.* § 877 cmt. d.

37. Generally, a patent infringer will not commit infringing acts on another person's premises or with another person's instrumentalities. In contrast, a vendor might rent a stall at a flea market to sell merchandise that infringed copyrights or trademarks, (*see, e.g., Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996) (musical recordings); *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1145 (7th Cir. 1992) (t-shirts)), or a computer user might use the network of an internet service provider to infringe a copyright or trademark.

employment.<sup>38</sup> In contrast, the general rule is that an employer is not liable for torts committed by independent contractors.<sup>39</sup> The justification for this distinction is that unlike an employer's power over an employee, an employer's power over an independent contractor does not extend to controlling the manner in which the independent contractor works. Therefore, the independent contractor rather than the employer should bear responsibility for risks associated with the independent contractor's work.<sup>40</sup> Numerous exceptions to the general rule have developed, but they routinely fall under one of the following categories: where the harm was due to the employer's negligence in selecting or supervising the independent contractor; a non-delegable duty of the employer was involved; or the work was inherently dangerous.<sup>41</sup> None of these appear to be generally applicable to the infringement of patents, copyrights, or trademarks.<sup>42</sup> Accordingly, it seems that the general rule that an employer is subject to liability for the torts of employees, but not of independent contractors, should apply to the infringement of intellectual property.<sup>43</sup>

#### E. *Application of Common Law to Federal Statutory Liability*

Patent, copyright, and trademark law are all based on federal statutes rather than the common law. Nevertheless, the common law principles described above that govern liability for torts

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38. See RESTATEMENT (SECOND) OF AGENCY § 219(1) (1958) ("A master is subject to liability for the torts of his servants committed while acting in the scope of their employment.").

39. RESTATEMENT (SECOND) OF TORTS § 409 (1965) ("Except as stated in [sections] 410-429, the employer of an independent contractor is not liable for physical harm caused to another by an act or omission of the contractor or his servants.").

40. *Id.* § 409 cmt. b.

41. *Id.*

42. In particular circumstances, an employer's liability might be predicated on negligence in selecting or supervising an independent contractor, but some sort of duty on the part of the employer to the injured persons would have to be shown. See, e.g., *id.* §§ 412 (liability of one who is under duty to exercise reasonable care to maintain land or chattels is liable for failure to inspect contractor's work), 414 (employer who owes duty to exercise reasonable care for safety of others is liable if employer entrusts work to contractor for failure to exercise control). Liability for indirect infringement could not be based on a non-delegable duty or an inherently dangerous activity, however, because neither would apply to indirect infringement.

43. An employer might be liable for torts committed by an independent contractor, though under *Restatement (Second) of Torts* section 877(a), if the employer ordered or induced the independent contractor to commit a tort or under other provisions in sections 876 and 877 if the applicable requirements were satisfied.

committed by others have application in patent, copyright, and trademark cases to the extent they are in furtherance of and consistent with congressional intent.

Ever since the Supreme Court declared in the landmark decision *Erie Railroad Co. v. Tompkins* that “[t]here is no federal general common law,”<sup>44</sup> the authority of federal courts to develop their own common law has been restricted. For example, in *Texas Industries, Inc. v. Radcliff Materials, Inc.*, the Supreme Court held that the federal courts had no authority to create a right of contribution for antitrust cases, even though rights of contribution among joint tortfeasors were found in most states.<sup>45</sup> The *Texas Industries* Court recognized that Congress could confer authority on the courts to develop substantive law, but it was unable to find either an implied right of contribution for antitrust cases<sup>46</sup> or authority for the courts to develop one.<sup>47</sup>

Similarly, in *Central Bank of Denver v. First Interstate Bank of Denver*, the Supreme Court refused to impose private civil liability for aiding and abetting security fraud under section 10(b) of the Securities and Exchange Act of 1934.<sup>48</sup> The Court noted aiding and abetting was an ancient criminal law doctrine, and Congress had enacted a general aiding and abetting criminal statute.<sup>49</sup> It also noted that *Restatement (Second) of Torts* section 876(b) had recognized a similar civil liability for aiding and abetting.<sup>50</sup> Nevertheless, the Court decided that there was no general civil liability for aiding and abetting because Congress had not enacted such a general statute, but instead had taken a statute-by-statute approach to civil aiding and abetting liability.<sup>51</sup> After analyzing the text and background of section 10(b), the Court decided there was no express or implicit congressional intent to impose civil liability for aiding and abetting under the securities laws.<sup>52</sup>

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44. 304 U.S. 64, 78 (1938).

45. 451 U.S. 630, 634, 646 (1981).

46. *Id.* at 639–40.

47. *Id.* at 642–45.

48. 511 U.S. 164, 191 (1994).

49. *Id.* at 181.

50. *Id.*

51. *Id.* at 182.

52. *Id.* at 183–85. In the Private Securities Litigation Reform Act of 1995, Congress considered, but ultimately decided against, overturning the *Central Bank* decision. Con-

The Courts of Appeal for the Seventh and Ninth Circuits both relied on *Central Bank* in declining to impose aider and abettor liability under the Electronic Communications Privacy Act because there was no express or implied congressional intent to create secondary liability for aiders and abettors.<sup>53</sup> In contrast, in *Boim v. Quranic Literacy Institute and Holy Land Foundation for Relief and Development*, the Seventh Circuit imposed secondary liability for aiding and abetting under an international terrorism statute, 18 U.S.C. § 2333, which authorizes suits for acts of international terrorism and provides for the recovery of treble damages.<sup>54</sup> In *Boim*, an American was murdered in Israel by members of Hamas, which was designated a foreign terrorist organization by Executive Order in 1995.<sup>55</sup> The victim's parents sued not only their son's killers, but also two nonprofit organizations based in the United States that the parents claimed provided material support to Hamas.<sup>56</sup> Distinguishing *Central Bank* on the grounds that it addressed aiding and abetting liability under a particular securities statute rather than under all federal statutes, the Seventh Circuit concluded "aiding and abetting liability is both appropriate and called for by the language, structure, and legislative history of § 2333."<sup>57</sup>

The Supreme Court has opined that Congress legislates against a background of traditional common law rules, and therefore federal legislation generally incorporates those rules. This principle is exemplified by *Meyer v. Holley*, where the Court unanimously held that the Fair Housing Act imposes vicarious liability without fault on an employer for the unlawful activities of employees in accordance with traditional agency principles.<sup>58</sup> The Holleys were an interracial couple who alleged a real estate salesman prevented them from buying a house for racially dis-

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gress did, however, grant the Securities and Exchange Commission authority to bring actions for injunctive relief and money damages against aiders and abettors. S. REP. NO. 104-98, at 19 (1995), as reprinted in 1995 U.S.C.C.A.N. 679, 698; see also 15 U.S.C. § 78t(e) (2000) (authorizing SEC action against any person who knowingly provides substantial assistance to security law violations); *Howard v. SEC*, 376 F.3d 1136, 1138 (D.C. Cir. 2004) (SEC action against aider and abettor).

53. See *Freeman v. DirecTV, Inc.*, 457 F.3d 1001, 1006 (9th Cir. 2006); *Doe v. GTE Corp.*, 347 F.3d 655, 658-59 (7th Cir. 2003).

54. 291 F.3d 1000, 1001, 1028 (7th Cir. 2002).

55. *Id.* at 1002.

56. *Id.* at 1003-04.

57. *Id.* at 1018-21.

58. 537 U.S. 280, 282 (2003).

criminary reasons.<sup>59</sup> They brought an action under the Fair Housing Act against both the salesman and Meyer, the president and sole shareholder of the real estate firm.<sup>60</sup> The trial court dismissed the action against Meyer on the grounds that vicarious liability did not extend to officers and shareholders of corporate employers.<sup>61</sup> The Ninth Circuit reversed, holding that the Fair Housing Act imposed more extensive vicarious liability based on the officer's right to control the actions of the employee.<sup>62</sup> The Supreme Court disagreed with the Ninth Circuit, however, and noted that "when Congress creates a tort action, it legislates against a legal background of ordinary tort-related vicarious liability rules and consequently intends its legislation to incorporate those rules."<sup>63</sup> The Court concluded that under traditional agency principles, vicarious liability for the acts of an employee extended only to the corporate employer and not to the officers or shareholders of the corporation.<sup>64</sup> In the absence of an expression of a contrary intent, it was appropriate to infer that Congress intended this traditional rule to apply.<sup>65</sup>

The justification for applying general common law principles concerning liability for torts committed by others is especially compelling with respect to patent law because 35 U.S.C. § 271(b) and (c), the provisions in the patent statute governing contributory infringement and inducing infringement, were enacted for the purpose of codifying the common law.<sup>66</sup> The Senate Report accompanying the statute explained:

Paragraphs (b), (c), and (d) relate to the subject referred to as contributory infringement. The doctrine of contributory infringement has been part of our law for about 80 years. . . . Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion.<sup>67</sup>

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59. *Id.* at 282–83.

60. *Id.*

61. *Id.* at 283.

62. *Id.* at 284.

63. *Id.* at 285 (citing *City of Monterey v. Del Monte Dunes at Monterey, Ltd.*, 526 U.S. 687, 709 (1999)).

64. *Id.* at 286–87.

65. *Id.*

66. See *infra* text accompanying notes 73–106 (discussing further the common law development of the doctrine of contributory infringement and its codification in § 271).

67. S. REP. NO. 82-1979, at 8 (1952), as reprinted in 1952 U.S.C.A.N. 2394, 2402.

Given this express statement to codify the common law, there is no need to find an implied intent or authorization for federal courts to apply general tort principles to contributory infringement and inducing infringement in patent law. Of course, the patent statute would control to the extent that it differs from the common law, but in the absence of any contrary congressional intent, the common law should be used to construe the patent statute because the Senate Report expressed the intent to codify the common law.

There is also considerable support for applying general common law principles concerning liability for torts committed by others to copyright law. In contrast to patent law, there is no express provision for indirect liability in the copyright statute. There are references to the liability of both contributory and vicarious infringers of copyrights, however, in the legislative history of the Copyright Act of 1976. The House Report addresses contributory infringement as follows:

The exclusive rights accorded to a copyright owner under section 106 are "to do and to authorize" any of the activities specified in the five numbered clauses. Use of the phrase "to authorize" is intended to avoid any questions as to the liability of contributory infringers. For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.<sup>68</sup>

The House Report also expresses the intent not to alter the existing law regarding vicarious liability for infringing performances:

The committee has considered and rejected an amendment to this section intended to exempt the proprietors of an establishment, such as a ballroom or night club, from liability for copyright infringement committed by an independent contractor, such as an orchestra leader. A well-established principle of copyright law is that a person who violates any of the exclusive rights of the copyright owner is an infringer, including persons who can be considered related or vicarious infringers. To be held a related or vicarious infringer in the case of performing rights, a defendant must either actively operate or supervise the operation of the place wherein the performances occur, or control the content of the infringing program, and expect commercial gain from the operation and either direct or indirect benefit from the infringing performance. The committee has decided that no justifica-

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68. H. REP. NO. 94-1476, at 61 (1976), as reprinted in 1976 U.S.C.C.A.N. 5659, 5674.

tion exists for changing existing law, and causing a significant erosion of the public performance right.<sup>69</sup>

The Supreme Court also has recognized the relationship of indirect liability for copyright infringement to the common law. In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, the Court stated: "Although '[t]he Copyright Act does not expressly render anyone liable for infringement committed by another,' these doctrines of secondary liability emerged from common law principles and are well established in the law."<sup>70</sup>

Similarly, while the federal trademark statutes do not expressly recognize indirect liability for trademark infringement, the Supreme Court has done so in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*:

[L]iability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another. Even if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances. Thus, if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.<sup>71</sup>

The patent statutes, the legislative history of the 1976 Copyright Act, and the *Grokster* and *Inwood* decisions provide solid support for the recognition of indirect liability for the infringement of patents, copyrights, and trademarks. Under *Meyer*, the indirect liability should be governed by the general common law principles concerning liability for torts committed by others in the absence of express or implied congressional intent to the contrary.

This section has surveyed the general law of torts relating to the circumstances when a defendant may be liable for torts committed by others, and its applicability to indirect liability for the infringement of patents, copyrights, and trademarks. The remaining sections will examine the law of indirect infringement of intellectual property and compare it to the general law of torts described in this section.

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69. *Id.* at 159–60, as reprinted in 1976 U.S.C.C.A.N. 5659, 5775–76.

70. 545 U.S. 913, 930–31 (2005) (citation omitted).

71. 456 U.S. 844, 853–54 (1982).



## III. INDIRECT PATENT INFRINGEMENT

A claim for the indirect infringement of a patent typically arises in the context of the sale of a product that does not itself infringe, but which may be used by the purchaser to infringe the patent. In many cases, the product is a component of a patented device that consists of a combination of elements, and the patent will not be infringed unless the product satisfies all the elements of the patented combination. While the manufacture or sale of the component is not infringing by itself, the component is susceptible to the purchaser's combining it with other components, thereby infringing the patent for the combination. Other cases may involve a patented process and the sale of a product that is susceptible to being used to infringe the patent for the process, but the product does not infringe unless it is actually used to do so. If there are a large number of purchasers and only one seller, it may not be feasible for the patentee to bring multiple actions against the purchasers, but it may be feasible to bring a single patent infringement action against the seller.

Indirect infringement in patent law originated in 1871 with the case of *Wallace v. Holmes*.<sup>72</sup> The patent was for a lamp consisting of a burner and a glass chimney attached to the burner.<sup>73</sup> The defendants manufactured and sold burners that were substantially the same as the burners described in the patent, but the defendants did not directly infringe the patent because they did not sell chimneys with the burners. Instead, the purchasers of the burners directly infringed the patent when they attached to the defendants' burners chimneys they had purchased separately.<sup>74</sup> Nevertheless, the Circuit Court for the District of Connecticut held that the defendants were liable for patent infringement because the defendants acted in actual concert with the makers of the glass chimneys to cause the patent to be infringed.<sup>75</sup> The court noted that a burner and chimney were "each utterly useless without the other."<sup>76</sup> While there was no direct evidence that the defendants acted in actual concert with the makers of the glass chimneys to infringe the patent, the court concluded that their actual concert

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72. See 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100).

73. *Id.* at 79.

74. *Id.* at 80.

75. *Id.*

76. *Id.*

followed from a “certain inference from the nature of the case, and the distinct efforts of the defendants to bring the burner in question into use, which can only be done by adding the chimney.”<sup>77</sup> The court explained that even though the defendants may not have had an actual pre-arrangement with any particular person to supply the chimney to be added to the burner, each sale of a burner was a proposal to the purchaser to combine it with a chimney and the purchase was consent to the proposal.<sup>78</sup> Thus, the defendants’ manufacture and sale of the burners made them active parties to the infringement.

The court in *Wallace* relied on the defendants’ acting in concert as the basis for liability for indirect patent infringement, and therefore it would fit within the rule in *Restatement (Second) of Torts* section 876(a).<sup>79</sup> Only a few years after *Wallace*, an additional basis for indirect patent infringement began to develop in the courts. In the 1878 case of *Bowker v. Dows*, the patent was for a fountain drink containing an extract called saponine that increased the foam in the drink.<sup>80</sup> The defendant sold a saponine extract to buyers who intended to combine it with the other ingredients to make the patented fountain drink.<sup>81</sup> The Circuit Court for the District of Massachusetts observed that the defendant’s manufacture and sale of the saponine extract alone would not be sufficient for indirect infringement.<sup>82</sup> Nevertheless, the court imposed liability for indirect infringement because it found that the defendant had advertised and sold the saponine extract for the purpose of inducing the purchasers to use it to infringe the patent.<sup>83</sup> The court explained:

The defendant sells an extract containing saponine to persons who intend to use it in the combination claimed in the patent, and it is advertised and sold for that very purpose. Such a sale we regard as

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77. *Id.*

78. *Id.*

79. Section 876(a) provides: “For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he (a) does a tortious act in concert with the other or pursuant to a common design with him . . . .” RESTATEMENT (SECOND) OF TORTS § 876(a) (1979). The comment to section 876(a) explains that parties act in concert “when they act in accordance with an agreement to cooperate in a particular line of conduct or to accomplish a particular result,” and that the early common law based their liability on a mutual agency between them. *Id.* § 876 cmt. a.

80. 3 F. Cas. 1070, 1071 (C.C.D. Mass. 1878) (No. 1,734).

81. *Id.*

82. *Id.*

83. *Id.*

an infringement of the patent, though the manufacture and sale of the extract of saponine would not, without more, be an infringement. Where the patent was for a combination of the burner and chimney of a lamp, and the defendant made and sold the burner intending that it should be used with the chimney, he was held by Judge Woodruff to be liable as an infringer. *Wallace v. Holmes* [Case No. 17,100]. We do not think that the law requires us to hold those persons who actually use the combination (most of them, and perhaps all, without any purpose or knowledge of infringing), as the only persons liable, to the exoneration of the only person who makes and sells the extract for the express and avowed purpose of its use in the combination.<sup>84</sup>

While the *Bowker* Court relied on *Wallace*, *Bowker* is analytically distinct from *Wallace*. Liability in *Wallace* arose from the absence of any non-infringing uses for the burners that the defendants manufactured and sold, and it was based on the defendants acting in concert with the purchasers to infringe the patent.<sup>85</sup> In contrast, the saponine extract in *Bowker* presumably had other uses (such as increasing foam in other fountain drinks) besides infringement of the patent; otherwise, the defendant's manufacture and sale of it would have been sufficient to impose liability.<sup>86</sup> Thus, liability in *Bowker* arose not merely from the defendant's manufacture and sale of the saponine extract, but from the defendant's advertising and selling the extract for the purpose of inducing the purchasers to infringe the patent.<sup>87</sup> Referring to the general tort law principles discussed above, the saponine manufacturer in *Bowker* would be liable as an aider or abettor under *Restatement (Second) of Torts* section 876(b), provided there was evidence that the manufacturer had actual knowledge of the patent and that the buyers were infringing it, because it provided substantial assistance to the direct infringers by supplying them with saponine. Alternatively, the saponine manufacturer in *Bowker* would be liable for inducing infringement under *Restatement (Second) of Torts* section 877(a) through its advertising if it knew or should have known that the buyers would use the saponine to infringe the patent.

Although the categories of indirect infringement in *Wallace* and *Bowker* are analytically distinct, subsequent cases consoli-

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84. *Id.*

85. *Wallace v. Holmes*, 29 F. Cas. 74, 80 (C.C.D. Conn. 1871) (No. 17,100).

86. *Bowker*, 3 F. Cas. at 1071.

87. *Id.*

dated them under the single heading of contributory infringement with liability based on the defendant's intent to assist another to infringe. For example, the Supreme Court approved the following statement in *Henry v. A.B. Dick Co.*: "Contributory infringement . . . has been well defined as the intentional aiding of one person by another in the unlawful making or selling or using of the patented invention."<sup>88</sup> A defendant's intent to assist another to infringe could be inferred either from the absence of noninfringing uses for a product that the defendant sold<sup>89</sup> or from evidence that the defendant induced purchasers of the product to infringe through advertising or other means.<sup>90</sup>

This consolidated version of contributory infringement is similar to the liability for aiding and abetting in *Restatement (Second) of Torts* section 876(b), where a defendant substantially assists or encourages another's tortious conduct.<sup>91</sup> Section 876(b) differs from the consolidated version of contributory infringement, however, in that section 876(b) expressly requires the defendant to have actual knowledge that the other person's conduct is tortious, while the consolidated version of contributory infringement required the defendant to intentionally aid the other person in infringing the patent.

The development of the doctrine of contributory infringement had the beneficial effect of providing redress to patentees against aiders and abettors of patent infringement.<sup>92</sup> It also led to abuse,

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88. 224 U.S. 1, 33-34 (1912) (quoting *Thomson-Houston Elec. Co. v. Kelsey Elec. Ry. Specialty Co.*, 72 F. 1016, 1017 (C.C.D. Conn. 1896)).

89. *Thomson-Houston Elec. Co. v. Ohio Brass Co.*, 80 F. 712, 723-24 (6th Cir. 1897) ("But, where the article can only be used in a patented combination, the inference of the intention of the maker and seller is certain . . ."); see also *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 932 (2005) ("In sum, where an article is 'good for nothing else' but infringement . . . there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe." (citations omitted)).

90. See *Cugley v. Bundy Incubator Co.*, 93 F.2d 932, 935 (6th Cir. 1937) (concerning sale of product with instructions to infringe patented method); *Westinghouse Elec. & Mfg. Co. v. Precise Mfg. Corp.*, 11 F.2d 209, 210 (2d Cir. 1926) (dealing with advertising that product was designed for infringing use and directions on cartons in which products were sold had instructions for infringing use).

91. RESTATEMENT (SECOND) OF TORTS § 876(b) (1979) ("For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . (b) knows that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself . . .").

92. See Charles W. Adams, *A Brief History of Indirect Liability for Patent Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 369, 370 (2006).

however, as some patentees sought to extend their patent rights beyond the legitimate scope of their patents to cover supplies and other staple materials that were used in their inventions.<sup>93</sup> The first means they used were tying arrangements with purchasers of their products in which the patentees licensed their inventions in return for agreements that the purchasers would purchase supplies for the inventions exclusively from the patentees.<sup>94</sup> Instead of enforcing the tying arrangements directly against the purchasers, patentees often relied on the doctrine of contributory infringement to enforce the tying arrangements against companies that provided supplies and other staple materials the purchasers used to infringe the patents.<sup>95</sup> Congress responded to this abuse with the Clayton Act, which prohibited tying arrangements.<sup>96</sup>

Even after the Clayton Act, patentees attempted to use the doctrine of contributory infringement against manufacturers of supplies that were used in their patented inventions. For example, in *Carbice Corp. of America v. American Patents Development Corp.*, the plaintiff was a dry ice manufacturer that had a patent on a device that used dry ice, and the plaintiff attempted to leverage its patent by asserting a claim for contributory infringement against a competing manufacturer of dry ice.<sup>97</sup> The Supreme Court might have rejected the contributory infringement claim on the grounds that the purchasers of the plaintiff's device did not directly infringe the patent by purchasing dry ice from the plaintiff's competitors because the patent did not give the plaintiff the exclusive right to sell dry ice to purchasers of its device.<sup>98</sup> Instead, the Court created the doctrine of patent misuse to prevent patentees from enlarging their exclusive rights beyond the legitimate scope of their patents.<sup>99</sup> In a series of decisions, the Court rapidly expanded the doctrine of patent misuse until it fi-

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93. *See id.*

94. *See id.*

95. *See, e.g.,* Henry v. A.B. Dick Co., 224 U.S. 1, 31-32 (1912).

96. *See* 15 U.S.C. § 14 (2000).

97. 283 U.S. 27, 29-30 (1931).

98. *Cf. Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 432-33 (1894) (holding patent for toilet paper holder was not infringed by the defendants' purchase of toilet paper used in the patented toilet paper holder).

99. *See Carbice*, 283 U.S. at 33-34; Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 526 (1953) (noting that the doctrine of patent misuse was first pronounced in the *Carbice* case).

nally appeared to override the doctrine of contributory infringement.<sup>100</sup> The patent bar reacted to these decisions in 1952 by approaching Congress about securing the adoption of 35 U.S.C. § 271.<sup>101</sup>

Section 271 codifies both the doctrines of contributory infringement and patent misuse so they no longer conflict with each other. It also subdivides the consolidated version of contributory infringement into two categories of indirect infringement. Section 271(b) imposes liability on “[w]hoever actively induces infringement of a patent,”<sup>102</sup> and it covers the circumstances in the *Bowker* case where the defendant advertised and sold its product for the express purpose that purchasers of the product would use the product to infringe a patent. Section 271(c) imposes liability on the seller of “a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent.”<sup>103</sup> Section 271(c) excludes from its scope the sale of “a staple article or commodity of commerce suitable for substantial noninfringing use.”<sup>104</sup> Thus, § 271(c) would cover the sale of the patented device in the *Carbice* case, but not the sale of dry ice, which would be excluded because it is a “staple article or commodity of commerce,” rather than a material part of the patented invention.<sup>105</sup> By excluding the sale of staple articles from the scope of contributory infringement, § 271(c) avoids the abuses of the doctrine of contributory infringement that led to the development of the doctrine of patent misuse. Finally, § 271(d) limits the scope of patent misuse by excluding circumstances where liability is imposed under paragraphs (b) or (c).<sup>106</sup>

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100. See *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666–69 (1944); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944); Rich, *supra* note 99, at 535–36 (describing the doctrine of contributory infringement as “completely submerged” by the doctrine of patent misuse and “entirely dead as a basis of recovery”).

101. For additional discussion of the historical background of contributory infringement and the enactment of 35 U.S.C. § 271, see generally 5 DONALD S. CHISUM, CHISUM ON PATENTS § 17.02 [1]–[6] (2004); Adams, *supra* note 92; Rich, *supra* note 99.

102. 35 U.S.C. § 271(b) (2000).

103. *Id.* § 271(c).

104. *Id.*

105. See *id.*

106. See *id.* § 271(d).

Section 271(b) is analogous to the provision for inducing infringement in *Restatement (Second) of Torts* section 877(a), and § 271(c) is analogous to the provision for aider and abettor liability in section 876(b). *Restatement (Second) of Torts* section 876(b) differs from § 271(c), however, in that it provides for liability if the aider and abettor "gives substantial assistance or encouragement" to the person committing the tort, while § 271(c) requires the sale of a component that is especially made or adapted for use in infringement of a patent, and excludes the sale of a staple article that is suitable for substantial noninfringing use.<sup>107</sup>

It is difficult to conceive of a circumstance where the sale of a component with no substantial noninfringing use would not substantially assist an infringer; therefore, selling a component with no substantial use other than for infringement would almost always constitute "substantial assistance" to an infringer. On the other hand, an aider and abettor might give substantial assistance to an infringer by providing a staple article because the staple article may be of substantial assistance for infringement, even though it also has substantial noninfringing uses. Therefore, the standard for contributory infringement under § 271(c) appears narrower than the standard for aider and abettor liability under *Restatement (Second) of Torts* section 876(b). Would it be possible to hold a defendant liable as an aider and abettor under section 876(b) for selling a staple article if there was proof the defendant had actual knowledge that the buyer was using the staple article to infringe a patent? It would seem the history behind the enactment of § 271 would preclude such a result. The Senate Report accompanying § 271 stated:

Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion. . . . [Section 271(c)] is much more restricted than many proponents of contributory infringement believe should be the case.<sup>108</sup>

It would be contrary to this legislative intent to extend liability for contributory infringement beyond the scope of § 271(c) to cover sales of products with substantial noninfringing uses.

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107. Compare *id.* § 271(c), with *RESTATEMENT (SECOND) OF TORTS* § 876(b) (1979).

108. S. REP. NO. 82-1979, at 8 (1952), as reprinted in 1952 U.S.C.C.A.N. 2394, 2402.

The Supreme Court addressed the mental state required for contributory infringement under § 271(c) in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*<sup>109</sup> *Aro* involved a patent for automobile convertible tops, and it arose out of the defendant's sale of replacements for fabric portions of worn-out convertible tops to automobile owners.<sup>110</sup> The automobile owners were liable for direct infringement because the automobile manufacturer (Ford) had not obtained a license from the patentee for the convertible tops.<sup>111</sup> By a 5-4 majority, the Court held that the defendant's liability for contributory infringement under § 271(c) depended on the defendant's knowledge not only that the fabric replacements were "especially made or especially adapted for use" in the convertible tops, but also that the use in the convertible tops would be infringing.<sup>112</sup> The Court held that in order for the defendant's sales to constitute contributory infringement the defendant not only must have been aware of the patent but it also must have known that the automobile manufacturer was not licensed under the patent at the time the defendant sold the fabric replacements to the automobile owners.<sup>113</sup> This result is consistent with *Restatement (Second) of Torts* section 876(b), which requires both that a defendant gives substantial assistance or encouragement to another person and that the defendant knows the other person's conduct constitutes a breach of duty in order for the defendant to be liable for harm to a third person resulting from the other person's conduct.<sup>114</sup>

While a defendant's knowledge of infringement is required for liability for contributory infringement under § 271(c), there is no requirement of an intent to cause infringement under this provision.<sup>115</sup> In contrast, there is an intent requirement for inducing infringement under § 271(b).<sup>116</sup>

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109. See 377 U.S. 476, 481 (1964).

110. *Id.* at 478-79.

111. *Id.* at 484.

112. *Id.* at 488 ("[A] majority of the Court is of the view that § 271(c) does require a showing that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing.").

113. *Id.* at 491.

114. RESTATEMENT (SECOND) OF TORTS § 876(b) (1979).

115. See, e.g., *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) ("Section 271(c) . . . made clear that only proof of a defendant's *knowledge*, not *intent*, that his activity cause infringement was necessary to establish contributory infringement."); Rich, *supra* note 99, at 538-39 ("[Section 271(c)] gives rise to liability with-



The Court of Appeals for the Federal Circuit recently analyzed the intent requirement for inducing infringement under § 271(b) in *DSU Medical Corp. v. JMS Co. Ltd.*<sup>117</sup> The plaintiffs in *DSU Medical* were the owner and the exclusive licensee of a patent for a guard for medical needles that protected users from accidental needle-stick injuries.<sup>118</sup> The defendants were the Australian manufacturer of another needle guard (which was called a Platypus after the distinctive mammal from Australia, probably because the guard resembled the duck bill of a platypus when used) and a Japanese medical supply business that sold the Platypus needle guards in the United States.<sup>119</sup>

The defendants' Platypus needle guard was a stand-alone product that required no attachment to a needle assembly before use.<sup>120</sup> The Australian manufacturer sold them to the Japanese medical supply business in an open-shell configuration, and the Japanese medical supply business generally closed the Platypus guards around needle assemblies in Malaysia before distributing them in the United States.<sup>121</sup> The claims in the patent required the guard to enclose either a needle assembly or a slot for receiving a needle assembly.<sup>122</sup> Consequently, the Platypus guards could only infringe the patent when they were in a closed-shell configuration.<sup>123</sup> The jury returned a verdict finding that the Japanese medical supply business directly infringed the patent, but that the Australian manufacturer did not either contributively infringe or induce infringement.<sup>124</sup> With respect to contributory infringement, the Federal Circuit decided, although the Platypus needle guards had no substantial non-infringing uses and the Australian manufacturer had knowledge of the patent, there was no contributory infringement for the Australian manufacturer's sales to the Japanese medical supply business because

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out any further proof of intent or inducement or joint action with the direct infringer.”).

116. *Hewlett-Packard*, 909 F.2d at 1469.

117. *See* 471 F.3d 1293 (Fed. Cir. 2006).

118. *Id.* at 1297–98.

119. *Id.* at 1298–99.

120. *Id.* at 1298.

121. *Id.* at 1299. The Australian manufacturer also shipped a smaller number of Platypus guards to the United States, but all of them were shipped in the open-shell configuration. *Id.* at 1302.

122. *Id.* at 1300.

123. *See id.* at 1301–02.

124. *Id.* at 1302.

the sales did not occur in the United States, as § 271(c) expressly requires.<sup>125</sup>

The court then turned to the Australian manufacturer's liability for inducing infringement under § 271(b). While most of the opinion was based on a decision by a three-judge panel, the entire Federal Circuit decided the issue addressing the intent required for inducing infringement in order to resolve conflicting precedent.<sup>126</sup> The conflict was between two Federal Circuit decisions from 1990—*Hewlett-Packard Co. v. Bausch & Lomb Inc.*<sup>127</sup> and *Manville Sales Corp. v. Paramount Systems, Inc.*<sup>128</sup>

In *Hewlett-Packard*, the patentee asserted claims for direct infringement and inducing infringement against Bausch & Lomb, which owned the division that was sold while the alleged infringement was occurring.<sup>129</sup> The patentee asserted the claim for direct infringement against Bausch & Lomb for the period before the sale and the claim for inducing infringement against the purchaser for the period after the sale.<sup>130</sup> With respect to the direct infringement, Bausch & Lomb admitted infringement but raised the defense of patent invalidity and it denied liability for inducing infringement.<sup>131</sup> The trial court decided Bausch & Lomb was liable for direct infringement before the sale, but not liable for inducing infringement after the sale, and the Federal Circuit affirmed.<sup>132</sup>

The *Hewlett-Packard* Court held that “proof of actual intent to cause the acts which constitute the infringement is a necessary

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125. *Id.* at 1303–04; 35 U.S.C. § 271(c) (2000) (“Whoever offers to sell or sells *within the United States* . . . a component of a patented machine . . . knowing the same to be especially made . . . for use in an infringement of such patent . . . shall be liable as a contributory infringer.” (emphasis added)). The Federal Circuit ruled that there was also no contributory infringement shown with respect to the products that the Australian manufacturer had shipped to the United States because there was no evidence of direct infringement. *DSU Medical Corp.*, 471 F.3d at 1304. The products the Australian manufacturer had shipped to the United States were sold in an open-shell configuration, and there was no evidence offered that those products had ever actually been closed. *Id.* In order for the products to directly have infringed the patent, it was necessary for them to have been closed. *Id.* at 1303.

126. *DSU Medical Corp.*, 471 F.3d at 1304.

127. 909 F.2d 1464 (Fed. Cir. 1990).

128. 917 F.2d 544 (Fed. Cir. 1990).

129. *Hewlett-Packard*, 909 F.2d at 1467.

130. *Id.*

131. *Id.*

132. *Id.* at 1467, 1470.

prerequisite to finding active inducement.”<sup>133</sup> The court concluded Bausch & Lomb was not liable for inducing infringement because there was no proof of this intent.<sup>134</sup> Focusing on the Bausch & Lomb’s motives, the court decided the company was merely interested in selling the division for the highest possible price, and did not care whether or not the division continued to infringe the patent after the sale.<sup>135</sup> Because the court ruled that Bausch & Lomb did not intend to induce the acts that constituted the infringement, it did not need to address whether there were additional reasons Bausch & Lomb was not liable for inducing infringement. Had the court done so, it might have decided Bausch & Lomb also was not liable for inducing infringement because it believed the patent was invalid, as the company had asserted in defending against the direct infringement claim.

*Manville* involved the personal liability of corporate officers for patent infringement by the corporation based on their inducing infringement by the corporation.<sup>136</sup> In reversing a judgment with respect to the officers’ liability for inducing infringement, the Federal Circuit held: “The plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts *and* that he knew or should have known his actions would induce actual infringements.”<sup>137</sup> The court decided that the corporate officers were not liable for inducing patent infringement by the corporation because there was no basis for concluding they knew or should have known their actions would induce actual infringements.<sup>138</sup> The officers had no way of knowing their actions would induce infringement before the suit was filed because they were not aware of the patent until after the suit was filed, and they were not liable for inducing patent infringement after the suit was filed because of their good faith belief, based on advice of counsel, that the accused corporation’s product did not infringe.<sup>139</sup>

The difference between the standards in *Hewlett-Packard* and *Manville* is the second part of the *Manville* standard—that the

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133. *Id.* at 1469.

134. *Id.*

135. *Id.*

136. *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 549 (Fed. Cir. 1990).

137. *Id.* at 553.

138. *Id.* at 553–54.

139. *Id.* at 553.

defendant knew or should have known the defendant's actions would induce actual infringements.<sup>140</sup> The standards in *Hewlett-Packard* and *Manville* are not really inconsistent, however, because the *Hewlett-Packard* court did not purport to rule that the intent to induce the acts that constituted infringement was *sufficient* for inducing infringement.<sup>141</sup> Instead, the *Hewlett-Packard* court held this intent was only "a necessary prerequisite" to inducing infringement.<sup>142</sup>

In *DSU Medical Corp.*, the plaintiff argued the trial court erred by instructing the jury, in accordance with *Manville*, that the defendant must have both caused the acts that constituted direct infringement and known or should have known that the acts would cause the direct infringement.<sup>143</sup> Relying on the Supreme Court's decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*<sup>144</sup> concerning inducing infringement of a copyright, the Federal Circuit held that "the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement. Beyond that threshold knowledge, the inducer must have an affirmative intent to cause direct infringement."<sup>145</sup> Accordingly, the appellate court ruled that the trial court had correctly instructed the jury, and it affirmed the judgment.<sup>146</sup>

In summary, the mental state required for inducing infringement under 35 U.S.C. § 271(b) is a specific intent by the defendant to induce the direct infringer's acts that constitute infringement and in addition, that the defendant knew or should have known the direct infringer's acts would be infringing. These requirements are substantially the same as those found in *Restatement (Second) of Torts* section 877(a) for tort liability for inducing another's tortious conduct that results in harm to a third per-

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140. *Id.*

141. See *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).

142. *Id.* ("[P]roof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement."). Judges Michel and Mayer filed a concurring opinion in which they stated it was not necessary for the Federal Circuit en banc to address the intent requirement for inducing infringement because there was no actual conflict between *Hewlett-Packard* and *Manville*. *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293, 1311 (Fed. Cir. 2006) (Michael, C.J., & Mayer, J., concurring).

143. *DSU Medical Corp.*, 471 F.3d at 1304–05.

144. 545 U.S. 913 (2005); see *infra* text accompanying notes 197–204.

145. *DSU Medical Corp.*, 471 F.3d at 1306.

146. *Id.* at 1297, 1306.

son.<sup>147</sup> In contrast, the mental state required for liability for contributory infringement under § 271(c) is the defendant's knowledge that "the combination for which his component was especially designed was both patented and infringing."<sup>148</sup>

The next section examines the mental states required for indirect liability for copyright infringement and compares them to the general tort standards for indirect liability.

#### IV. INDIRECT COPYRIGHT INFRINGEMENT

The contexts in which claims for indirect copyright infringement arise differ from the contexts for indirect patent infringement. Typically, indirect patent infringement claims arise out of the sale of a product component used by a purchaser to infringe a patent for the product, or the sale of a product used by a purchaser to infringe a patented method.<sup>149</sup> In contrast, indirect copyright infringement claims mostly arise in two other contexts.

In the first context, the defendant has control of premises where copyright infringement is occurring and receives financial benefit from the copyright infringement. Liability is imposed under the heading of vicarious copyright infringement, and it is based on an extension of the agency principle of respondeat superior.<sup>150</sup> In the second context, the defendant either materially contributes to or induces copyright infringement by another person and the defendant knows of the infringement. Liability is imposed under the heading of contributory copyright infringement, and the standard for it is similar to that set out in *Restatement (Second) of Torts* sections 876(b)<sup>151</sup> and 877(a).<sup>152</sup>

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147. See RESTATEMENT (SECOND) OF TORTS § 877(a) (1979).

148. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964).

149. For other contexts in which indirect patent infringement claims have arisen, see *supra* text accompanying notes 129-39.

150. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-62 (9th Cir. 1996) ("The concept of vicarious copyright liability was developed in the Second Circuit as an outgrowth of the agency principles of respondeat superior.").

151. RESTATEMENT (SECOND) OF TORTS § 876(b) (1979) ("For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . (b) knows that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself . . .").

152. *Id.* § 877(a) ("For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he (a) orders or induces the conduct, if he knows or should know of circumstances that would make the conduct tortious if it were his

The doctrine of vicarious copyright infringement developed out of a series of cases in which dance hall proprietors were held liable for copyright infringement by orchestras that were performing at the dance halls. In one instance, liability was imposed on the dance hall proprietors even though the orchestras were independent contractors rather than employees.<sup>153</sup> In another case, the court imposed liability even though proprietors did not participate in the selection of the infringing music.<sup>154</sup> In other cases, liability attached even when the proprietors neither intended to infringe nor knew of the copyright infringement by the orchestras.<sup>155</sup> Summarizing these cases, the Second Circuit concluded in *Shapiro, Bernstein & Co. v. H.L. Green Co.* that liability for vicarious copyright infringement could be predicated on the defendant's right and ability to supervise the infringing activity when combined with the defendant's direct financial interest in the exploitation of the copyrighted materials.<sup>156</sup> The policy behind imposing liability on the defendant when these conditions were satisfied was to encourage the defendant to police the conduct of the infringer and thereby promote enforcement of copyright law.<sup>157</sup> In upholding a finding of vicarious copyright infringement in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, the Second Circuit summarized the holding in the *Shapiro* case as follows: "[E]ven in the absence of an employer-employee relationship one may be vicariously liable if he has the right and

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own. . . .").

153. See *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929).

154. See *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191, 198 (1931) ("One who hires an orchestra for a public performance for profit is not relieved from a charge of infringement merely because he does not select the particular program to be played.").

155. See *Remick Music Corp. v. Interstate Hotel Co. of Neb.*, 58 F. Supp. 523, 533 (D. Neb. 1944) ("Neither formal intent by the proprietor to infringe, nor his knowledge of the program actually rendered, is required."), *aff'd*, 157 F.2d 744, 749 (8th Cir. 1946); *Buck v. Pettijohn*, 34 F. Supp. 968, 968 (E.D. Tenn. 1940) ("The defendant is liable in damages for the wrongful act of the orchestra, although he may not have authorized or knew that this composition was played, for the reason that he received benefits to his business by this orchestral performance."); *Buck v. Russo*, 25 F. Supp. 317, 321 (D. Mass. 1938) ("It is settled that knowledge of the particular selections to be played is immaterial and intention to infringe was unnecessary." (citing *Jewell-LaSalle Realty Co.*, 283 U.S. 191)).

156. 316 F.2d 304, 307 (2d Cir. 1963).

157. *Id.* at 308; see also *Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1324-26 (D. Mass. 1994) (discussing the policy behind vicarious liability for copyright infringement).

ability to supervise the infringing activity and also has a direct financial interest in such activities.”<sup>158</sup>

The Ninth Circuit followed *Shapiro* in *Fonovisa, Inc. v. Cherry Auction, Inc.*<sup>159</sup> There, the court held that the complaint stated a claim for vicarious copyright infringement against the operators of a swap meet on account of the vendor’s sale of counterfeit copyrighted recordings at the meet.<sup>160</sup> In addition, in *A&M Records, Inc. v. Napster, Inc.*, the Ninth Circuit affirmed the lower court’s decision that the plaintiffs had demonstrated a likelihood of success with respect to a vicarious copyright infringement claim.<sup>161</sup>

In other cases, courts have found the elements of vicarious copyright infringement were not satisfied.<sup>162</sup> Other courts have noted the existence of the theory of vicarious copyright infringement but decided it was unnecessary to address it.<sup>163</sup>

The doctrine of contributory copyright infringement originated in *Kalem Co. v. Harper Bros.*, where the Supreme Court grounded the doctrine “on principles recognized in every part of the law.”<sup>164</sup>

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158. 443 F.2d 1159, 1162 (2d Cir. 1971) (citing *Shapiro*, 316 F.2d 304).

159. 76 F.3d 259, 261–64 (9th Cir. 1996).

160. *Id.* at 262–64.

161. 239 F.3d 1004, 1022–24 (9th Cir. 2001).

162. See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 437–38 (1984) (“This case . . . plainly does not fall in [the vicarious copyright infringement] category.”); *Ellison v. Robertson*, 375 F.3d 1072, 1078–79 (9th Cir. 2004) (finding there was no showing that the defendant received a direct financial benefit from the copyright infringement); *Religious Tech. Ctr. v. Netcom On-Line Comm’n Servs., Inc.*, 907 F. Supp. 1361, 1377 (N.D. Cal. 1995) (finding no basis for vicarious copyright infringement claim); *Demetriades v. Kaufmann*, 690 F. Supp. 289, 292–93 (S.D.N.Y. 1988) (same). The defendant’s production of the film did not directly infringe the copyright on the novel, because the copyright law at the time did not extend to derivative works. See *Harper & Bros. v. Kalem*, 169 F. 61, 63 (2d Cir. 1909) (the series of photographs taken by the defendant . . . do not infringe copyrighted book or drama . . .”). Compare Act of Mar. 3, 1891, ch. 565, § 1, 26 Stat. 1106 (repealed 1909) with Act of Mar. 4, 1909, ch. 320, § 1(b), 35 Stat. 1075, 1075 (repealed 1976) (adding broad derivative work provision). In contrast, the jobbers’ exhibition of the films constituted direct infringement of the copyright owner’s exclusive right to dramatize the work. 225 U.S. at 61 (“[I]f the exhibition has or was founded on a dramatizing of *Ben Hur*, this copyright was infringed. We are of the opinion that *Ben Hur* was dramatized by what was done.”).

163. See e.g., *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 n.9 (2005) (finding no need to analyze the vicarious copyright infringement theory because the Court resolved the case on an inducement theory); *In re Aimster Copyright Litig.*, 334 F.3d 643, 654–55 (7th Cir. 2003) (reasoning that whether defendant was a vicarious copyright infringer was academic because of the likelihood that defendant was liable for contributory copyright infringement).

164. 222 U.S. 55, 63 (1917) (citing *Rupp & Whittgerfeld Co. v. Elliot*, 131 F. 730, 732 (6th Cir. 1904)).

The defendant produced a film version of the novel, *Ben Hur*, and then advertised and sold films to jobbers who infringed the plaintiff's copyright by publicly exhibiting the films.<sup>165</sup> In holding the defendant liable for contributory infringement of the copyright, Justice Holmes explained:

The defendant not only expected but invoked by advertisement the use of its films for dramatic reproduction of the story. That was the most conspicuous purpose for which they could be used, and the one for which especially they were made. If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law.<sup>166</sup>

In a subsequent case, Justice Cardozo described the controlling principle from *Kalem* as follows: "One who sells a film with the intention that the buyer shall use it in the infringement of a copyrighted drama is himself liable as an infringer."<sup>167</sup>

*Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.* involved a claim against an advertising agency and a broadcasting company that ran ads for hit records at suspiciously low prices.<sup>168</sup> In denying several of the defendants' motions for summary judgment, the district court emphasized the common law origins of contributory copyright infringement:

Since infringement constitutes a tort, common law concepts of tort liability are relevant in fixing the scope of the statutory copyright remedy, and the basic common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor is applicable in suits arising under the Copyright Act.<sup>169</sup>

Approving of *Screen Gems*, the Second Circuit phrased the standard for contributory copyright infringement in *Gershwin* as follows: "[O]ne who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."<sup>170</sup> The Ninth Circuit has characterized the quoted language from *Gershwin* as the classic statement of the doctrine of contributory

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165. *Id.* at 60–61.

166. *Id.* at 62–63 (citing *Rudd*, 131 F. at 732).

167. *Underhill v. Schenck*, 143 N.E. 773, 776 (N.Y. 1924) (citing *Kalem*, 222 U.S. 55).

168. *See* 256 F. Supp. 399, 401–02 (S.D.N.Y. 1966).

169. *Id.* at 401, 403 (citation omitted).

170. 443 F.2d 1159, 1162 (2d Cir. 1971) (citation omitted).



copyright infringement,<sup>171</sup> and numerous cases have quoted this language with approval.<sup>172</sup>

While this language from *Gershwin* appears to require a contributory infringer to have actual knowledge of the direct infringement, the *Gershwin* Court muddied the waters by presenting *Screen Gems* as an example of contributory copyright infringement, and stating that the *Screen Gems* Court had ruled that the defendants could be held liable for contributory copyright infringement upon a showing that they “had knowledge, or reason to know” of the infringement.<sup>173</sup> As a result of the *Gershwin* Court’s aside about *Screen Gems*, the Ninth and Eleventh Circuits have determined that constructive knowledge of direct infringement is sufficient to invoke liability for contributory infringement.<sup>174</sup>

The Supreme Court examined the scope of contributory copyright infringement in *Sony Corp. of America v. Universal City Studios, Inc.*<sup>175</sup> This case concerned whether Sony was liable for contributory infringement because it sold video tape recorders to consumers who used them to infringe the plaintiffs’ copyrights.<sup>176</sup> The Court began its analysis by eliminating a number of possible grounds for imposing liability on Sony. The Court first observed that it could not impose liability on Sony under *Kalem* because the defendant in *Kalem* sold the infringing work itself to the direct infringer, while Sony supplied a piece of equipment that had both infringing and noninfringing uses.<sup>177</sup> The Court next stated

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171. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

172. See e.g., *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004); *Cable/Home Commc’n Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845 (11th Cir. 1990); *Religious Tech. Ctr. v. Netcom On-Line Commc’n Servs., Inc.*, 907 F. Supp. 1361, 1373 (N.D. Cal. 1995); *Demetriades v. Kaufmann*, 690 F. Supp. 289, 293 (S.D.N.Y. 1988).

173. See *Gershwin*, 443 F.2d at 1162; see also *Screen Gems*, 256 F. Supp. at 405 (stating that the evidence was sufficient to show that radio stations had either actual or constructive knowledge of direct infringement).

174. *Ellison*, 357 F.3d at 1076 (“We have interpreted the knowledge requirement for contributory copyright infringement to include both those with *actual knowledge* and those who *have reason to know* of direct infringement.” (citing *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001))); *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987) (“The standard of knowledge is objective: ‘Know, or have reason to know.’” (quoting *Gershwin*, 443 F.2d at 1162)). For a discussion of the knowledge requirement for contributory copyright infringement, see Sverker K. Högberg, Note, *The Search for Intent-Based Doctrines of Secondary Liability in Copyright Law*, 106 COLUM. L. REV. 909 (2006).

175. See 464 U.S. 417 (1984).

176. *Id.* at 419–20.

177. *Id.* at 436–37.

that liability could not be imposed for vicarious copyright infringement because Sony had no control over the consumers or their uses of the video tape recorders.<sup>178</sup> The Court also ruled that Sony did not intentionally induce its customers to infringe the plaintiffs' copyrights, and that it did not supply its equipment to persons it knew were engaging in continuing infringement of the copyrights.<sup>179</sup>

After eliminating all these possible grounds for liability, the Court then framed the issue as whether liability<sup>180</sup> should be imposed because of Sony's sale of "equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material."<sup>181</sup> Noting that there was no precedent in copyright law for imposing liability on this ground, the Court then looked to patent law for an analogy in order to resolve the issue of Sony's liability for contributory infringement.<sup>182</sup> Turning to the staple article of commerce doctrine from patent law in 35 U.S.C. § 271(c),<sup>183</sup> the Court decided the doctrine struck an appropriate balance between the rights of copyright holders and the rights of others to manufacture products.<sup>184</sup> The Court, therefore, held that the sale of copying equipment would not constitute contributory copyright infringement if the equipment was either widely used for noninfringing purposes or was capable of substantial noninfringing uses.<sup>185</sup> Finding that the video tape recorders had substantial

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178. *Id.* at 437–38.

179. *Id.* at 439 n.19.

180. While the Court referred to the imposition of "vicarious liability," it is evident that it was using this term in a general sense, rather than to refer to vicarious copyright infringement as exemplified by the dance hall cases. The Court had already eliminated vicarious copyright infringement as a basis for Sony's liability. In addition, there is no requirement of either constructive or general knowledge for vicarious copyright infringement. See Högberg, *supra* note 174, at 921 n.72 ("Although the Court referred to 'vicarious liability,' this term seems to be a synonym for secondary liability in general.")

181. *Sony*, 464 U.S. at 439. In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, the Court characterized the issue in *Sony* as whether liability should have been imposed "on a theory of contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe." 545 U.S. 913, 931 (2005). The issue framed in *Sony*, however, was actually whether liability should be imposed on account of Sony's constructive knowledge of direct infringement, rather than Sony's actual knowledge that some of its customers would engage in direct infringement.

182. See *Sony*, 464 U.S. at 439.

183. See *supra* notes 78–79 and accompanying text.

184. See *Sony*, 464 U.S. at 442.

185. *Id.*

noninfringing uses, the Court concluded that Sony's sales did not constitute contributory infringement.<sup>186</sup>

Instead of looking to the patent statute for an analogy, the *Sony* Court should have relied on the general principles of vicarious liability it referenced earlier in the opinion.<sup>187</sup> Congress enacted the patent statute in 1952 to rescue the doctrine of contributory infringement from being severely undermined by the doctrine of patent misuse as a result of a line of Supreme Court opinions in which the Court had ruled that a patentee's assertion of contributory infringement constituted patent misuse.<sup>188</sup> This line of Supreme Court opinions had no connection with copyright law, and there is no evidence of any legislative intent for applying the patent statute to copyright law. The only explanation the Court gave for referring to patent law was what it called "the historic kinship between patent law and copyright law."<sup>189</sup> The kinship between the law of indirect copyright infringement and general tort law principles was closer than with patent law, however, because the law of indirect infringement of copyright derived from general tort law principles. Accordingly, general tort law principles should have been controlling in *Sony*. Had the Court relied on general tort law instead of the patent statute, it would have reached the same result as it ultimately concluded there was no contributory infringement under either general tort law or the patent statute.<sup>190</sup>

It is important to recognize the limits of the *Sony* decision. The Court could certainly have inferred Sony's actual knowledge of its customer's copyright infringement if the equipment it sold was not capable of any substantial noninfringing uses. On the other hand, the Court could not necessarily have inferred actual knowledge if the equipment did have any substantial noninfringing uses. Because it decided that the equipment did have substantial noninfringing uses, the Court was unwilling to impose liability on

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186. *Id.* at 456 ("The Betamax is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondents' copyrights.").

187. *See id.* at 435.

188. *See supra* text accompanying notes 88–96.

189. *Sony*, 464 U.S. at 439. For a vigorous criticism of the Court's reliance on patent law in *Sony* and *Grokster*, see David Nimmer & Peter Menell, *Copyright's "Staple Article of Commerce" Doctrine: Patently Misguided*—The 35th Annual Brace Lecture, 53 J. COPYRIGHT SOC'Y 365 (2006).

190. *Sony*, 464 U.S. at 456.

Sony in the absence of any proof that Sony either was in a position to control copyright infringement by its customers,<sup>191</sup> intentionally induced copyright infringement by its customers,<sup>192</sup> or supplied its equipment to customers with actual knowledge that they were engaging in copyright infringement.<sup>193</sup>

The Court addressed inducing infringement in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*<sup>194</sup> In *Grokster*, the Court reversed the Ninth Circuit's decision that the defendants could not be liable for contributory copyright infringement for their distribution of products that were capable of substantial noninfringing uses unless the defendants had actual knowledge of specific instances of infringement and failed to act on that knowledge.<sup>195</sup> The Court decided that *Sony's* limitation on liability for contributory copyright infringement arising from the sale of products with substantial noninfringing uses did not preclude liability for inducing infringement.<sup>196</sup> Again turning to patent law for an analogy,<sup>197</sup> the Court held: "[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."<sup>198</sup> The Court continued:

[M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct . . . .<sup>199</sup>

The Court also explained:

It is not only that encouraging a particular consumer to infringe a copyright can give rise to secondary liability for the infringement that results. Inducement liability goes beyond that, and the distribution of a product can itself give rise to liability where evidence shows

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191. *See id.* at 437–38.

192. *Id.* at 439 n.19.

193. *Id.*

194. *See* 545 U.S. 913 (2005).

195. *Id.* at 927, 941.

196. *Id.* at 935.

197. *Id.* at 936 ("For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright.")

198. *Id.* at 936–37.

199. *Id.* at 937.

that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use.<sup>200</sup>

The Court then reviewed the evidence in the summary judgment record. It decided that the evidence showed the defendants' unlawful objective was unmistakable, and that there was substantial evidence of all the elements required for inducing infringement.<sup>201</sup>

The case law on contributory copyright infringement and inducing infringement is similar to the general tort law principles of aiding and abetting liability and inducing tortious conduct found in *Restatement (Second) of Torts* sections 876(b) and 877(a). The *Gershwin* Court blurred the distinction between aiding and abetting liability and inducing tortious conduct, but the Supreme Court appeared to recognize a distinction between these two grounds for liability in both *Sony* and *Grokster*.<sup>202</sup> The Supreme Court has not addressed, however, whether actual or constructive knowledge is required for either contributory copyright infringement or inducing infringement. While the Ninth and Eleventh Circuits have ruled that constructive knowledge is sufficient,<sup>203</sup> these courts did not distinguish between contributory copyright infringement and inducing infringement. Under *Restatement (Second) of Torts* section 876(b), actual knowledge should be required for contributory infringement, and under section 877(a), constructive knowledge should be sufficient for inducing infringement.

The Supreme Court also has not addressed whether Sony's limitation on liability for contributory copyright infringement arising from the sale of a product having substantial noninfringing uses should apply where the seller has actual knowledge that particular customers are using the product for infringement. As

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200. *Id.* at 940 n.13.

201. *See id.* at 940.

202. *See Grokster*, 545 U.S. at 940 n.13 (noting that inducing infringement goes beyond encouraging a particular consumer to infringe a copyright); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) 439 n.19 (finding that Sony neither intentionally induced infringement nor supplied products to individuals that it knew were continuing infringement).

203. *See Ellison v. Robertson*, 357 F.3d 1072, 1077 (9th Cir. 2004); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996); *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987).

noted previously, this limitation should apply in patent law because of the legislative intent to restrict liability for contributory patent infringement to the sale of products with no substantial noninfringing uses.<sup>204</sup> It is less clear whether this limitation should apply in copyright law, however, because of the absence of a similar legislative intent. Moreover, the Court declared in *Grokster* that “the [*Sony*] case was never meant to foreclose rules of fault-based liability derived from the common law.”<sup>205</sup> Thus, it may be that a court should impose liability for contributory copyright infringement under the common law aider and abettor principles in *Restatement (Second) of Torts* in section 876(b) on a seller of products that have substantial noninfringing uses. For a court to impose liability, there would have to be evidence of both the seller’s providing substantial assistance to buyers to infringe copyrights, and the seller’s actual knowledge that the buyers were using the products to infringe the copyrights.

While general tort law supports imposition of liability for contributory copyright infringement and inducing infringement, it does not appear to support liability for vicarious copyright infringement. Consequently, there appears to be a need to re-examine the doctrine of vicarious copyright infringement. *Restatement (Second) of Agency* section 219 provides that employers are liable for the torts of their employees committed in the course of their employment,<sup>206</sup> but *Restatement (Second) of Torts* section 409 provides that employers are generally not liable for torts committed by independent contractors. The common law’s distinction between employees and independent contractors is made on account of the difference in employers’ power to control the manner in which work is done by employees and independent contractors. Liability for vicarious copyright infringement arises out of the defendant’s control over the direct infringer and the defendant’s direct financial interest in the infringing activities.<sup>207</sup> It

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204. RESTATEMENT (SECOND) OF TORTS § 876(b) (1979); RESTATEMENT (SECOND) OF TORTS § 877(a) (1979).

205. *Grokster*, 545 U.S. at 934–35.

206. RESTATEMENT (SECOND) OF AGENCY § 219(1) (1958) (“A master is subject to liability for the torts of his servants committed while acting in the scope of their employment.”).

207. *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (“[E]ven in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.” (citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963))).

seems that if a defendant truly exercises control over a direct infringer's activities, it should be treated as an employer and liable under *Restatement (Second) of Agency* section 219. On the other hand, if the defendant's degree of control is not sufficient for the defendant to be liable as an employer, it should not be liable for vicarious copyright infringement when it would not be subject to liability for other torts the direct infringer may commit.<sup>208</sup>

*Restatement (Second) of Torts* section 877(c) offers an alternative ground that might have been used in the cases imposing liability on dance hall proprietors for copyright infringement by orchestras they hired. Section 877(c) provides for liability if a defendant permits another person to use the defendant's premises or instrumentalities, but it includes a requirement that the defendant must have actual or constructive knowledge that the other person is acting or will act tortiously.<sup>209</sup> Treating dance hall proprietors like landlords, rather than employers, would not have precluded their being held liable for copyright infringement by the orchestras, but it would have limited the proprietors' liability to circumstances where they had actual or constructive knowledge of the copyright infringement.<sup>210</sup>

208. *Cf. Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 488 n.29 (Blackmun, J., dissenting) ("Courts have premised liability in these cases on the notion that the defendant had the ability to supervise or control the infringing activities. This notion, however, is to some extent fictional; the defendant cannot escape liability by instructing the performers not to play copyrighted music, or even by inserting a provision to that effect into the performers' contract." (citations omitted)).

209. RESTATEMENT (SECOND) OF TORTS § 877(c) (1979) ("For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . (c) permits the other to act upon his premises or with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously. . . .").

210. *See id.* *Restatement (Second) of Torts* section 877(d) provides for liability if a defendant "controls, or has a duty to use care to control, the conduct of the other, who is likely to do harm if not controlled, and fails to exercise care in the control . . ." *Id.* § 877(d). The Comment to this provision indicates that it is directed to cases involving insane or dangerous persons; accordingly, it would not be applicable to indirect infringement. *Id.* § 877(d) cmt. e.

Another possible basis for liability might be the following exception in *Restatement (Second) of Torts* section 427B to the general rule of non-liability of employers for the torts of independent contractors:

One who employs an independent contractor to do work which the employer knows or has reason to know to be likely to involve a trespass upon the land of another or the creation of a public or a private nuisance, is subject to liability for harm resulting to others from such trespass or nuisance.

*Id.* § 427B. Although section 427B is limited to trespass and nuisance, it would not be unreasonable to extend it to copyright infringement; then, it might provide support for the results in the dance hall cases, if the proprietors had reason to know that copyright in-

The doctrine of vicarious copyright infringement has begun to metastasize from its origins in the dance hall cases to cases involving computer networks.<sup>211</sup> As a consequence, Congress has enacted safe harbor provisions in 17 U.S.C. § 512 to protect Internet service providers and others from open-ended liability for copyright infringement by users of their networks.<sup>212</sup> For example, § 512(c) exempts an Internet service provider from liability for copyright infringement arising out of the storage of material on the service provider's system if the service provider lacks actual or constructive knowledge of copyright infringement or if the provider acts expeditiously to remove the material after obtaining knowledge of the copyright infringement.<sup>213</sup> Unfortunately, this provision may not be completely effective in protecting operators of computer networks who lack actual or constructive knowledge of infringing activity from liability for vicarious copyright infringement.<sup>214</sup>

Instead of allowing the anomalous doctrine of vicarious copyright infringement to expand beyond its origins in the dance hall cases and then rely on § 512 to protect computer network opera-

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fringement by the orchestras was likely.

211. See, e.g., *Ellison v. Robertson*, 357 F.3d 1072, 1078–79 (9th Cir. 2004); *In re Aimster Copyright Litig.*, 334 F.3d 643, 654–55 (7th Cir. 2003); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022–24 (9th Cir. 2001); *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 856–58 (C.D. Cal. 2006); *Marobie-FL, Inc. v. Nat'l Ass'n of Fire & Equip. Distribs.*, 983 F. Supp. 1167, 1178–79 (N.D. Ill. 1997); *Religious Tech. Ctr. v. Netcom On-Line Comm'n. Servs., Inc.*, 907 F. Supp. 1361, 1375–76 (N.D. Cal. 1995); Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1367 (2004) (“In recent years, the doctrine has far outgrown the employment and independent contracting contexts, and the financial interest that a defendant must have in a third party's infringing activities in order to be held liable has become more attenuated.”); Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 GEO. L.J. 1833, 1843–72 (2000); Kelly Tickle, Comment, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L. REV. 391 (1995).

212. See S. REP. NO. 105–190, at 19–20 (1998); Lemley & Reese, *supra* note 211, at 1369; Jason Kessler, Note, *Correcting the Standard for Contributory Trademark Liability Over the Internet*, 39 COLUM. J. L. & SOC. PROBS. 375, 396–97 (2006).

213. 17 U.S.C. § 512(c) (2000).

214. Section 512(c) applies only to liability arising from the *storage* of infringing material on a computer network, and some network owners may become liable for vicarious copyright infringement on account of the *transmission* of infringing material. See Lemley & Reese, *supra* note 211, at 1369–71. In addition, § 512(c) provides that the safe harbor does not apply if the service provider receives a financial benefit directly attributable to the infringing activity. See Kessler, *supra* note 212, at 396–97. *But see* *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (N.D. Cal. 2001) (holding that eBay came within the safe harbor provision in 17 U.S.C. § 512(c)).



tors from liability for infringement, courts should restrict the doctrine of vicarious copyright infringement to the dance hall cases<sup>215</sup> (and in the Ninth Circuit, to swap meets<sup>216</sup> and *Napster*<sup>217</sup>). As the Supreme Court ruled in *Meyer v. Holley*, traditional vicarious liability rules should apply in the absence of contrary legislative intent.<sup>218</sup> Accordingly, in place of vicarious copyright infringement, courts should use the general tort law principles in *Restatement (Second) of Torts* section 877(c) to impose liability on computer network operators for copyright infringement by users of their networks only if the computer network operators have either actual or constructive knowledge of the copyright infringement.<sup>219</sup>

## V. INDIRECT TRADEMARK INFRINGEMENT

Until recently, claims for indirect infringement of trademarks typically arose in the context of the sale of unlabeled products to retailers who affixed counterfeit trademarks on the products before selling them to consumers. Courts have imposed liability under the heading of contributory trademark infringement, and the standard for contributory trademark infringement is similar to that set out in *Restatement (Second) of Torts* sections 876(b) and 877(a).

The doctrine of contributory trademark infringement appears to have originated in *Société Anonyme de la Distillerie de la Li-*

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215. See Alfred C. Yen, *Third-Party Copyright Liability After Grokster*, 91 MINN. L. REV. 184, 229–30 (2006) (“Future courts should . . . restrict the application of vicarious copyright liability, perhaps to the general contours of respondeat superior, in order to avoid contradicting *Grokster*’s reliance on fault.”). Limiting vicarious liability for copyright infringement to the dance hall cases would not conflict with the congressional intent expressed in H.R. REP. NO. 94-1476, at 159–60 (1976), as reprinted in 1976 U.S.C.C.A.N. 5659, 5775–76, because the House Judiciary Committee stated only that it had decided not to change the existing law concerning the public performance right, and it did not indicate the existing law should be extended. See *supra* text accompanying note 62.

216. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261–64 (9th Cir. 1996) (holding that the plaintiff stated a claim for vicarious copyright infringement against the operator of a swap meet).

217. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022–24 (9th Cir. 2001) (stating the plaintiff showed a likelihood of success for vicarious copyright infringement claim against Napster).

218. See 537 U.S. 280, 285–87 (2003).

219. See Yen, *supra* note 215, at 1892 (“Whatever the wrongs embodied in copyright infringement, they are not serious enough to warrant ISP liability unless knowing assistance in that infringement is present.”).

*quer Benedictine de L'Abbaye de Fecamp v. Western Distilling Co.*,<sup>220</sup> and *Hostetter Co. v. Brueggeman-Reinert Distilling Co.*<sup>221</sup> After the defendant in *Société Anonyme* was enjoined from selling Benedictine liquor in bottles that violated the plaintiff's trademark, the defendant sold its stock of Benedictine liquor in bulk to a third party along with its bottles, labels, and wrappers.<sup>222</sup> It notified its customers that the third party would be filling their orders in the future.<sup>223</sup> The court found the defendant guilty of contempt, holding: "A party who, while resting under an injunction restraining him from doing a given act, counsels, advises, and procures another to do the act, violates the letter as well as the spirit of the restraining order."<sup>224</sup>

In *Hostetter*, the defendant sold to its customers, in bulk, a counterfeit bitters drink that resembled the plaintiff's trademarked Hostetter's Bitters.<sup>225</sup> It advised the customers to refill bottles that originally contained Hostetter's Bitters with the defendant's counterfeit bitters drink and then put them on the market as genuine Hostetter's Bitters.<sup>226</sup> Normally, a claim for trademark infringement requires proof of the likelihood of confusion from the use of a trademark in commerce.<sup>227</sup> The defendant's customers were aware that the defendant was the source of the counterfeit bitters drink, and so there was no likelihood that the defendant's customers were confused by the sale.<sup>228</sup> Relying on *Société Anonyme*, however, the *Hostetter* Court issued an injunction, holding: "[A] person who counsels and advises another to perpetrate a fraud, and who also furnishes him the means of consummating the same, is himself a wrong-doer, and, as such, is liable for the injury inflicted."<sup>229</sup>

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220. 42 F. 96 (C.C.E.D. Mo. 1890).

221. 46 F. 188 (C.C.E.D. Mo. 1891).

222. *Société Anonyme*, 42 F. at 96–97.

223. *Id.*

224. *Id.* at 97.

225. *Hostetter*, 46 F. at 188.

226. *Id.* For a brief history of Hostetter's Bitters and the drink's distinctive bottles, see Frank Baxter, *A Century of Hostetter's Bitters or . . . It Pays to Advertise*, BOTTLES & EXTRAS available at <http://www.fohbc.com/images/hostetters.pdf> (last visited Nov. 7, 2007).

227. See 15 U.S.C. § 1114(1)(a) (2007) (setting forth a cause of action for using other's registered marks); *id.* § 1125(a)(1) (setting forth a cause of action for false designation of origin).

228. See *Hostetter*, 46 F. at 188.

229. *Id.* at 189; see also *Coca Cola Co. v. Gay-Ola Co.*, 200 F. 720, 722–23 (6th Cir.

*William R. Warner & Co. v. Eli Lilly & Co.* involved a similar scenario.<sup>230</sup> The plaintiff manufactured a pharmaceutical preparation under the name Coco-Quinine, and the defendant manufactured a substantially similar preparation, which it sold to druggists under the name of Quin-Coco at lower prices than the plaintiff's preparation.<sup>231</sup> The druggists, in turn, substituted the defendant's Quin-Coco for the plaintiff's Coco-Quinine in dispensing it to consumers.<sup>232</sup> The Supreme Court held that the plaintiff had established a claim for unfair competition:

That no deception was practiced on the retail dealers, and that they knew exactly what they were getting is of no consequence. The wrong was in designedly enabling the dealers to palm off the preparation as that of the respondent. One who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury.<sup>233</sup>

The *Restatement of Torts* had three sections dealing with contributory trademark infringement. Section 713 was entitled "Inducing Fraudulent Marketing," and its black letter provided: "One fraudulently markets his goods as those of another if, though making no misrepresentation himself, he intentionally induces his purchasers so to market them."<sup>234</sup> The Illustration for this section was based on the facts in *William R. Warner* case.<sup>235</sup>

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1912) ("[I]n a suit for unfair competition, it is not necessary to show that the immediate purchasers were deceived as to the origin of the goods; but even if they thoroughly understand that they are buying the counterfeit, and not the genuine, the manufacturer of the counterfeit will be enjoined from selling it to dealers with the purpose and expectation that it shall be used by the dealers to deceive the consumer."); *N.K. Fairbank Co. v. R.W. Bell Mfg. Co.*, 77 F. 869, 878 (2d Cir. 1896) ("It has been said more than once in this case that the manufacturer ought not to be held liable for the fraud of the ultimate seller; that is, the shopkeeper or the shopkeeper's assistant. But that is not the true view of the case. The question is whether the defendants have or have not knowingly put into the hands of the retail dealers the means of deceiving the ultimate purchasers." (quoting *Lever v. Goodwin*, (1897) 36 Ch. 1, 3)); *Enoch Morgan's Sons Co. v. Whittier-Coburn Co.*, 118 F. 657, 662 (C.C.N.D. Cal. 1902) ("We have, then, the case of a manufacturer who is careful always to sell its goods as its own, but who puts them up in a style of package so similar to that used by one of its competitors, earlier in the market, that unscrupulous dealers, who purchase from the manufacturer in order to sell at retail to consumers, are enabled to delude a large number of such retail purchasers by palming off upon them the goods of the manufacturer as those of its competitor. That this is unfair competition seems apparent, both on reason and authority." (quoting *N.K. Fairbank Co. v. R.W. Bell Mfg. Co.*, 77 F. 869, 878 (2d Cir. 1896)).

230. See 265 U.S. 526 (1924).

231. *Id.* at 527-30.

232. *Id.* at 530.

233. *Id.* at 530-31 (citations omitted).

234. RESTATEMENT OF TORTS § 713 (1938).

235. See *id.* illus. 1.

Section 738 was entitled "Inducing or Aiding One's Purchasers to Infringe on Resale," and its black letter provided: "One who induces or aids persons who purchase goods directly or indirectly from him to market them in such a manner as to infringe another's trade-mark or trade name infringes it himself."<sup>236</sup> Lastly, section 739 was entitled "Contributory Infringement," and its black letter provided: "One who supplies third persons with labels, stamps, wrappers or containers bearing designations identical with or confusingly similar to another's trade-mark or trade name is subject to liability under the same conditions as the third persons who use the labels, stamps, wrappers or containers."<sup>237</sup>

The authors of the *Restatement (Second) of Torts* deleted the chapter entitled "Confusion of Source," in which these sections were included, as well as two other chapters dealing with unfair trade practices. The American Law Institute decided that while the rules relating to liability for harm from unfair trade practices had developed from tort law principles, the influence of tort law had decreased in the fields of unfair competition and trade regulation; therefore these fields no longer belonged in the *Restatement of Torts*.<sup>238</sup> The Institute added that if it was decided later that a restatement was needed for these fields, it would prepare separate restatements on the particular subjects.<sup>239</sup> In 1995, the Institute adopted the *Restatement (Third) of Unfair Competition*.<sup>240</sup>

The next major development in the law of contributory trademark infringement was the Supreme Court's decision in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*<sup>241</sup> There, the plaintiff manufactured and sold a patented prescription drug in colored capsules under a registered trademark.<sup>242</sup> After the patent expired, generic drug manufacturers began manufacturing and selling the drug in capsules that copied the appearance of plaintiff's capsules.<sup>243</sup> The plaintiff alleged that some pharmacists had dispensed generic drugs they had mislabeled with the plaintiff's reg-

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236. *Id.* § 738.

237. *Id.* § 739.

238. See RESTATEMENT (SECOND) OF TORTS div. 9, introductory note, at 1 (1979).

239. *Id.* at 2.

240. RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995).

241. See 456 U.S. 844 (1982).

242. *Id.* at 846.

243. *Id.* at 847.

istered trademark, and that the generic drug manufacturers had contributed to the mislabeling by their use of look-alike capsules.<sup>244</sup> The trial court ruled that the plaintiff had not presented sufficient evidence to establish a claim for contributory trademark infringement, and the Supreme Court affirmed that judgment by reversing the Second Circuit's contrary decision.<sup>245</sup> The Court held:

[I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily [sic] responsible for any harm done as a result of the deceit.<sup>246</sup>

*Restatement (Third) of Unfair Competition* section 27 sets out the standard for contributory trademark infringement by manufacturers and distributors as follows:

One who markets goods or services to a third person who further markets the goods or services in a manner that subjects the third person to liability to another for infringement under the rule stated in section 20 is subject to liability to that other for contributory infringement if: (a) the actor intentionally induces the third person to engage in the infringing conduct; or (b) the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated.<sup>247</sup>

This provision is similar to the standard from *Inwood*, but it differs from *Inwood* in one respect. Under *Inwood*, liability is imposed if a manufacturer or distributor continues to supply goods with actual or constructive knowledge that the purchaser is engaging in trademark infringement.<sup>248</sup> In contrast, *Restatement (Third) of Unfair Competition* section 27 provides that a manufacturer or distributor may avoid liability by taking reasonable precautions against the purchaser's trademark infringement if the purchaser's trademark infringement could be reasonably anticipated.<sup>249</sup> The Reporter's Note explains that a manufacturer would not be required to stop supplying goods to a particular purchaser who had engaged in trademark infringement if the manufacturer

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244. *Id.* at 851.

245. *Id.* at 851, 858-59.

246. *Id.* at 854.

247. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

248. *Inwood*, 456 U.S. at 854.

249. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27(b) (1995).

reasonably believed that less drastic precautions would deter future infringement.<sup>250</sup>

In addition, *Restatement (Third) of Unfair Competition* section 26 provides for contributory trademark infringement by printers, publishers, and other suppliers as follows:

(1) One who, on behalf of a third person, reproduces or imitates the trademark, trade name, collective mark, or certification mark of another on goods, labels, packaging, advertisements, or other materials that are used by the third person in a manner that subjects the third person to liability to the other for infringement under the rule stated in section 20 is subject to liability to that other for contributory infringement.

(2) If an actor subject to contributory liability under the rule stated in Subsection (1) acted without knowledge that the reproduction or imitation was intended by the third person to confuse or deceive, the actor is subject only to appropriate injunctive relief.<sup>251</sup>

The Seventh Circuit analyzed contributory trademark infringement by an owner and operator of flea markets in *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*<sup>252</sup> The court referred to *Restatement (Second) of Torts* section 877(c), which imposes tort liability for permitting another person to act upon the defendant's premises or with the defendant's instrumentalities with actual or constructive knowledge that the other person is acting or will act tortiously.<sup>253</sup> The court noted that section 877(c) imposed the same duty on landlords and licensors as the Supreme Court had imposed on manufacturers and distributors in *Inwood*.<sup>254</sup> Accordingly, the court held that the *Inwood* standard applied to contributory trademark infringement by the owner and operator of flea markets, and that the defendant must have actual or constructive knowledge of trademark infringement by vendors at its flea markets to be liable for contributory trademark infringement.<sup>255</sup> The court declined to apply the doctrine of vicarious liability for contributory copyright infringement that

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250. *Id.* § 27 reporter's note cmt. d.

251. *Id.* § 26.

252. *See* 955 F.2d 1143 (7th Cir. 1992).

253. RESTATEMENT (SECOND) OF TORTS § 877(c) (1979) ("For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . (c) permits the other to act upon his premises or with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously. . . .")

254. *Hard Rock*, 955 F.2d at 1149.

255. *Id.*

had developed out of the dance hall cases.<sup>256</sup> The court noted that the Supreme Court had stated in *Sony* that there were fundamental differences between copyright and trademark law, and that the standard for contributory infringement in trademark law was narrower than for copyright law.<sup>257</sup>

The Ninth Circuit approved *Hard Rock* in *Fonovisa, Inc. v. Cherry Auction, Inc.*, which involved contributory trademark infringement by an operator of a swap meet.<sup>258</sup> The *Fonovisa* court cited *Restatement (Second) of Torts* section 877(c), and it applied the *Inwood* standard to the swap meet.<sup>259</sup>

The Ninth Circuit took a strange turn, however, in *Lockheed Martin Corp. v. Network Solutions, Inc.*<sup>260</sup> The *Lockheed* case was brought against Network Solutions, Inc. ("NSI"), the registrar of Internet domain names, for contributory trademark infringement because NSI registered domain names to third parties that infringed or diluted Lockheed's service mark for "Skunk Works."<sup>261</sup> The court distinguished *Inwood* on the grounds that *Inwood* dealt with a product being supplied by its manufacturer, while NSI supplied a service that was akin to the routing of mail by the United States Postal Service.<sup>262</sup> The court then turned to the *Hard Rock* and *Fonovisa* decisions for precedential guidance, stating that those decisions instructed that in contributory infringement cases outside the *Inwood* context of manufacturers supplying products, courts should "consider the extent of control exercised by the defendant over the third party's means of infringement."<sup>263</sup> The court explained: "Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of *Inwood Lab's* 'supplies a product' requirement for contributory infringement."<sup>264</sup> The court

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256. *Id.* at 1150.

257. *Id.* at 1150 (citing *Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984)).

258. *See* 76 F.3d 259, 261 (9th Cir. 1996).

259. *Id.* at 265.

260. *See* 194 F.3d 980 (9th Cir. 1999).

261. *Id.* at 983.

262. *Id.* at 984-85. It is not clear why the distinction between products and services should be significant for purposes of contributory trademark infringement. *Restatement (Third) of Unfair Competition* section 27 applies the *Inwood* standard to marketers of either goods or services. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

263. *Lockheed*, 194 F.3d at 984.

264. *Id.*

then went on to affirm summary judgment in favor of NSI on the grounds that NSI did not exercise sufficient direct control and monitoring to warrant an extension of *Inwood* to the supplier of a service.<sup>265</sup>

The *Lockheed* Court's interpretation of *Hard Rock* and *Fonovisa* is incorrect.<sup>266</sup> Both cases expressly relied on *Inwood* and the provision in *Restatement (Second) of Torts* section 877(c) that imposes tort liability for permitting another person to act upon the defendant's premises or with the defendant's instrumentalities with actual or constructive knowledge that the other person is acting or will act tortiously.<sup>267</sup> Neither *Inwood* nor section 877(c) requires direct control and monitoring for liability for contributory trademark infringement. In addition, the *Hard Rock* Court rejected application of the vicarious liability doctrine from copyright law, which was the source of the control requirement, which was the source of the control requirement.<sup>268</sup> The *Lockheed* Court's introduction of a control requirement adds confusion to the analysis of contributory infringement, particularly for computer network operators, because it is not clear what degree of control is required. In addition, the degree of control with respect to computer networks is generally technology-dependent and, therefore, a control standard may require a complicated analysis of the underlying technology. Furthermore, a control requirement provides an incentive for a computer network operator to limit its monitoring and control of the network to avoid exposure to liability. Finally, a control requirement directs attention away from a defendant's intent and knowledge, which generally have been critical for finding the defendant liable for a tort committed by another. Although the *Lockheed* decision was not supported by precedent and appears unwise, a number of courts have followed it.<sup>269</sup>

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265. *Id.* at 986.

266. The *Lockheed* decision is criticized in Kessler, *supra* note 212, at 387 ("This 'direct control and monitoring' rule that the court derived from *Hard Rock* and *Fonovisa* is completely misplaced. Extent of control is not a factor in the *Hard Rock* test and should not have been considered by the court in *Lockheed*." (citation omitted)).

267. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264–65 (9th Cir. 1996); *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148–49 (7th Cir. 1992).

268. *Hard Rock*, 955 F.2d at 1151.

269. See *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007) (holding that the plaintiff failed to state a claim because it did not allege facts sufficient to



Except for the *Lockheed* decision and the cases following it, the case law on contributory trademark infringement tracks fairly closely the general tort law principles of aiding and abetting liability and inducing tortious conduct found in *Restatement (Second) of Torts* sections 876(b) and 877(a). The first part of the *Inwood* standard, which imposes liability on “a manufacturer or distributor [who] intentionally induces another to infringe a trademark,”<sup>270</sup> is substantially the same as the provision for inducing tortious conduct in *Restatement (Second) of Torts* section 877(a). The main difference is that the *Inwood* standard does not expressly include a requirement for the defendant to have actual or constructive knowledge that the other person’s conduct is infringing. Courts should probably read the requirement of actual or constructive knowledge into the *Inwood* standard to avoid imposing liability on a defendant who either had a good-faith belief the other person was not infringing the trademark, or else had no reason to know that the other person was infringing the trademark.

The second part of the *Inwood* standard, which imposes liability on “a manufacturer or distributor [that] . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement,”<sup>271</sup> is analogous to the aiding and abetting liability found in *Restatement (Second) of Torts* section 876(b). *Inwood* imposes liability if the defendant has either actual or constructive knowledge of trademark infringement, however, while section 876(b) provides for liability only if the de-

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show direct control and monitoring); *Habeeba’s Dance of the Arts, Ltd. v. Knoblauch*, 430 F. Supp. 2d 709, 714–15 (S.D. Ohio 2006) (holding that the complaint stated a claim for contributory trademark infringement against YMCA because, facts alleged in the complaint supported the inference that YMCA had enough control over the direct infringer to have prevented infringement); *SB Designs v. Reebok Int’l, Ltd.*, 338 F. Supp. 2d 904, 914 (N.D. Ill. 2004) (granting summary judgment on a contributory trademark infringement claim because there was no evidence that defendant controlled or monitored the website that allegedly infringed plaintiff’s trademark); *GEICO v. Google, Inc.*, 330 F. Supp. 2d 700, 705 (E.D. Va. 2004) (denying motion to dismiss a claim for contributory trademark infringement because the complaint alleged that the Internet search engine operator monitored and controlled infringing third-party advertisements); *Size, Inc. v. Network Solutions, Inc.*, 255 F. Supp. 2d 568, 572–73 (E.D. Va. 2003) (dismissing a contributory trademark infringement action against NSI because NSI did not supply a product and did not monitor or control use of domain names); *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 688–91 (D. Md. 2001) (affirming summary judgment because defendant did not directly monitor and control activities of an infringing website).

270. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

271. *Id.*

defendant has actual knowledge of the infringement.<sup>272</sup> The distinction between actual and constructive knowledge is probably not significant in the context of contributory trademark infringement as a practical matter because in most cases a defendant that has reason to know a customer is infringing a trademark will also have actual knowledge of the infringement.

The provisions for contributory trademark infringement in the *Restatement (Third) of Unfair Competition*<sup>273</sup> are also very similar to the general tort law principles of aiding and abetting liability and inducing tortious conduct found in the *Restatement (Second) of Torts*. *Restatement (Third) of Unfair Competition* section 27 was based on *Inwood*, and because *Inwood* conforms to the general tort law principles of aiding and abetting liability and inducing tortious conduct found in *Restatement (Second) of Torts*, section 27 does so as well. As noted previously, the main difference between section 27 and *Inwood* is that *Inwood* imposes liability on a manufacturer or distributor that continues to supply goods to a customer it knows or has reason to know is infringing, while section 27 imposes liability only if the manufacturer or distributor fails to take reasonable precautions against the infringement in circumstances where it can reasonably anticipate infringement.<sup>274</sup> Both formulations are broader than the requirement of actual knowledge in the provision for aiding and abetting liability in *Restatement (Second) of Torts* section 876(b),<sup>275</sup> but the differences are probably not significant as a practical matter because in most cases a manufacturer could reasonably anticipate its customers' infringement if it has actual knowledge of the infringement.

*Restatement (Third) of Unfair Competition* section 26 provides for contributory infringement by printers, publishers, and other suppliers who reproduce or imitate a trademark on labels, packaging, or advertisements that their customer uses for trademark infringement.<sup>276</sup> This provision resembles the one for aiding and abetting liability in *Restatement (Second) of Torts* section 876(b) because a supplier of labels, packaging, or advertisements gener-

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272. Compare *id.* at 854–55, with RESTATEMENT (SECOND) OF TORTS § 876(b) (1979).

273. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 26, 27 (1995).

274. See *supra* text accompanying notes 248–50.

275. See RESTATEMENT (SECOND) OF TORTS § 876(b) (1979).

276. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 26 cmt. a (1995).

ally would be providing substantial assistance to the trademark infringement. In addition, the provision in *Restatement (Third) of Unfair Competition* section 26(2) that limits the liability to injunctive relief if the printer, publisher, or other supplier that acted without knowledge of the customer's intention to reproduce or imitate the trademark to confuse or deceive essentially imposes an actual knowledge requirement.<sup>277</sup> By the time a court issues an injunction, the defendant will have actual knowledge of the infringement, and a defendant will not be subject to a judgment for damages unless he had actual knowledge.

*Hard Rock* and *Fonovisa*, dealing with the liability of operators of flea markets and swap meets for contributory trademark infringement, are consistent with the general tort law principles in *Restatement (Second) of Torts*. This is not surprising because the opinions in both cases relied on *Restatement (Second) of Torts* section 877(c), which provides for liability if a defendant permits another person to use the defendant's premises or instrumentalities with actual or constructive knowledge that the other person is acting or will act tortiously.<sup>278</sup>

Section 877(c) also could be applied to impose liability on a computer network operator that permits persons to use the network if the operator had actual or constructive knowledge of trademark infringement by users of the network. Unfortunately, the Ninth Circuit in *Lockheed* ignored section 877(c) and the general tort principles on which it was based when it imposed a control requirement,<sup>279</sup> instead of a requirement of actual or constructive knowledge of infringement for contributory trademark infringement by computer network operators. Hopefully, other courts will not follow *Lockheed*.

## VI. CONCLUSION

As the Supreme Court emphasized in *Sony*, vicarious liability is not limited to intellectual property law, but applies "in virtu-

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277. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 26(2) (1995).

278. See *Fonovisa, Inc. v. Cherry Auction, Inc.* 76 F.3d 259, 264-65 (9th Cir. 1996); *Hard Rock Café Licensing Corp. v. Concession Serv's Inc.*, 955 F.2d 1143, 1148-49 (7th Cir. 1992).

279. See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

ally all areas of the law."<sup>280</sup> *Restatement (Second) of Torts* sections 876 and 877 encapsulate general tort law principles that the common law has developed to govern liability for the conduct of another person. Section 876(b) imposes liability on an aider and abettor who gives substantial assistance or encouragement to another to commit a tort with actual knowledge that the other person's conduct is tortious.<sup>281</sup> Section 877(a) imposes liability on a person who orders or induces another person's tortious conduct with either actual or constructive knowledge that the conduct is tortious.<sup>282</sup> Section 877(c) imposes liability on a person who permits another person to act upon his premises or with his instrumentalities with either actual or constructive knowledge that the other person is committing or will commit a tort.<sup>283</sup> These provisions provide the legal context into which the law of indirect infringement of intellectual property should fit.

Although the law of indirect infringement derives from common law principles, it has developed separately in the areas of patent, copyright, and trademark law and independently of general tort law. Nevertheless, the law of indirect infringement conforms to general tort law for the most part. Even though it is governed by statute, the law of indirect infringement of patents probably conforms most closely to general tort law. The only significant difference between indirect infringement of patents and general tort law is the limitation of contributory infringement in 35 U.S.C. § 271(c) to the sale of products having no substantial noninfringing uses. In contrast, *Restatement (Second) of Torts* section 876(b) would extend aider and abettor liability to the giving of substantial assistance to patent infringement with actual knowledge of the infringement.

There is a major discrepancy between indirect infringement in copyright law and the general tort law, however. This is the doctrine of vicarious liability for copyright infringement that developed in the dance hall cases and was extended in *Napster* to a computer network operator.<sup>284</sup> Vicarious liability for copyright infringement was never sound in principle, but the imposition of li-

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280. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984).

281. See *RESTATEMENT (SECOND) OF TORTS* § 876(b) (1979).

282. See *id.* § 877(a).

283. See *id.* § 877(c).

284. See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022–24 (9th Cir. 2001).

ability on the dance hall proprietors for copyright infringement committed by orchestras was relatively benign because there were only a limited number of such cases and they had little significance. The extension of vicarious liability to computer network operators is more serious, and it has generated undesirable uncertainty in an important part of the world's economy. The lack of precedent in general tort law for vicarious liability without either actual or constructive knowledge of the tortious conduct provides additional support for limiting or overruling the troublesome doctrine of vicarious liability for copyright infringement.

It would be anomalous if a defendant were to be indirectly liable for another person's direct infringement of intellectual property rights, but not for other torts the other person committed, or vice versa. Consequently, the law of indirect infringement should be interpreted so that it is consistent with general tort law whenever possible.