

Applying General Tort Law to the Indirect Infringement of Patents, Copyrights and Trademarks

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Abstract

This article examines the general tort law governing liability for torts committed by others and compares it to the law of indirect infringement for patents, copyrights, and trademarks. There are a number of circumstances in which the law imposes liability for torts committed by other persons. Liability is imposed on an aider and abettor who gives substantial assistance or encouragement to another person's commission of a tort, provided the aider and abettor actually knows the other person's conduct is tortious. Liability is also imposed on a party who induces another person to commit a tort if the inducer either knows or should know of circumstances that would make the conduct tortious. In addition, liability is imposed on a party who permits another person to commit torts on the party's premises or with the party's instrumentalities if the party knows the other person is acting or will act tortiously.

The law of indirect infringement for patents, copyrights, and trademarks originally developed out of the general tort law, but it has diverged from the general tort law in various ways. Since direct infringement is a statutory tort, liability should not be imposed for indirect infringement when the general tort law would not impose liability for other types of torts committed by other persons, unless there are sound reasons for treating infringement differently than other types of torts. Consequently, the general tort law may provide insight as to how unsettled issues in the law of indirect infringement should be resolved. In addition, identifying differences between the general tort law principles and the law of indirect infringement reveals questionable case law that should be reexamined.

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I. Introduction

The Supreme Court’s decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*¹ incorporates the doctrine of inducing infringement from patent law into copyright law. 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. However, the *Grokster* decision also raises questions 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 questions² involving liability for

¹ 125 S. Ct. 2764 (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 defense to

the indirect infringement of patents, copyrights and trademarks.

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. 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,³ liability for indirect infringement has generally required some sort of 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 be still evolving in the case law.

The law of indirect infringement of patents, copyrights and trademarks derived from common law doctrines of joint liability for concerted action, aider and abettor liability, and

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 15 U.S.C. § 1141(1)(a) (2000) (trademarks); 17 U.S.C. § 501(a) (2000) (copyrights); 35 U.S.C. § 271(a) (2000) (patents).

liability for permitting or directing the conduct of another.⁴ 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 patent, copyright, or trademark is a statutory tort,⁵ liability for indirect infringement represents a subset of this more general body of tort law.⁶ 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 have generally 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,

⁴ See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2776 (2005) (“[The] doctrines of secondary liability emerged from common law principles and are well established in the law.”)

⁵ See *Carbice Corp. of Am. v. American 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.”).

⁶ 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.”).

contributory, and inducing infringement⁷ used to denote the various types of indirect infringement. This specialized terminology has 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, and this 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 liability for torts committed by others. Section III covers indirect infringement under patent law,

⁷ “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 Publishing Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2nd 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’

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 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.⁸

A. Liability for Aiding and Abetting Torts

A significant basis for liability arises when a person aids and abets the commission of a tort by another. This basis of liability is found in *Restatement (Second) of Torts* section 876(b), which provides: “For harm resulting to a third person from the tortious conduct of another, one

infringer.”).

⁸ 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 (*Id.* § 876(a)), committing a tort in the course of giving substantial assistance to another person (*Id.* § 876(c)), acting negligently in employing the other person, (*Id.* § 877(b)), failing to exercise care in the control of another who is likely to do harm (*Id.* § 877(d)), and confiding the performance of a duty to protect a third person to another person who fails to perform the duty (*Id.* § 877(e)).

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,”⁹ Section 876(b) is based on the defendant’s giving substantial assistance or encouragement to the tortfeasor, and it expressly requires the defendant to know that 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 and avoids holding parties liable who are not aware that 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.¹⁰

While proof of knowledge is essential for aider and abettor liability, knowledge may be inferred from circumstantial evidence.¹¹

The Comment to section 876(b) gives the following rationale for holding a defendant

⁹ *Id.* § 876(b).

¹⁰ 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).

¹¹ *See Aetna Cas. and 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

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.”¹² The Comment continues that the defendant’s assistance or encouragement must be a substantial factor in causing the tort. In addition, the Comment states that liability will be imposed regardless of whether the tort is intentional or merely negligent, and regardless of whether the tortfeasor knows the conduct constitutes a tort. 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.

The application of section 876(b) is illustrated by *Halberstam v. Welch*.¹³ After Welch killed her husband during a burglary of their home, the plaintiff brought a wrongful death action against both Welch and his live-in companion, Hamilton. A judgment for \$5.7 million was entered against both defendants, and the appellate court affirmed on the ground that Hamilton was liable both for acting in concert with Welch and for aiding and abetting Welch. While Hamilton did not participate directly in the burglary or killing, the court ruled 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

knowledge may be shown by circumstantial evidence.’ ”).

¹² RESTATEMENT (SECOND) OF TORTS § 876(b) Comment a (1979) .

¹³ 705 F.2d 472 (D.C. Cir. 1983).

year period.¹⁴

The court also ruled that Hamilton was liable as an aider and abettor, because she provided substantial assistance to Welch knowing that Welch's conduct was tortious. While there was no direct evidence that Hamilton knew of the killing, the appellate court decided that the trial court's inference that Hamilton knew Welch was involved in tortious activity was not clearly erroneous.¹⁵ The court ruled 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.¹⁶ In applying the factors from the Comment to section 876(b) for determining whether Hamilton's assistance was sufficiently substantial to justify liability, the court emphasized Hamilton's state of mind as shown by her long term participation in the burglary enterprise.¹⁷

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 as follows for liability for inducing

¹⁴ *Id.* at 487.

¹⁵ *Id.*

¹⁶ *Id.* at 488. *See also* RESTATEMENT (SECOND) OF TORTS § 876(b) (1979) illustration 10 (co-conspirator to burglary is liable both for conversion and burning of house to conceal the burglary because the burning was a foreseeable consequence of the burglary).

¹⁷ 705 F.2d at 488.

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,¹⁸ 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 876(b), though, 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. In contrast, the defendant’s state of mind is only one of five factors that are to be considered in determining whether the defendant’s assistance or encouragement was sufficient to warrant liability under section 876(b). 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, while section 877(a) provides for liability if the defendant’s knowledge that the tortfeasor’s conduct is tortious is either actual or constructive. Thus, while section 877(a) requires a specific intent to induce tortious conduct, it requires only constructive knowledge that the tortfeasor’s conduct is tortious. 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.¹⁹ Section 877(a) would apply to the infringement of patents, copyrights, or trademarks,

¹⁸ RESTATEMENT (SECOND) OF TORTS § 877(a) (1979).

¹⁹ *Id.* Comment a.

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's 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,"²⁰ The Comment to this provision makes plain that liability is imposed with respect to a tortfeasor's use of either the defendant's land or chattels with the defendant's permission.²¹ While section 877(c) could potentially be applicable to patent infringement, it would more likely apply to the infringement of copyrights or trademarks.²²

D. Liability for Employees and Independent Contractors

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

²⁰ *Id.* § 877(c).

²¹ *Id.* Comment d.

²² 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 Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-62 (9th Cir. 1996) (musical recordings); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992) (t-shirts)), or a computer user might use the network of an internet service provider to infringe a copyright or

employment.²³ In contrast, the general rule is that an employer is not liable for torts committed by independent contractors.²⁴ 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, and therefore, the independent contractor rather than the employer should bear responsibility for risks associated with the independent contractor's working for the employer.²⁵ Numerous exceptions to the general rule have developed, but they generally 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.²⁶ None of these would appear to be generally applicable to the infringement of patents, copyrights, or trademarks.²⁷ Accordingly, it would seem that the general rule that an

trademark.

²³ 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.”).

²⁴ RESTATEMENT (SECOND) OF TORTS § 409 (1979) (“Except as stated in §§ 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.”).

²⁵ *Id.* Comment b.

²⁶ *Id.*

²⁷ In particular circumstances, an employer's liability might be predicated on negligence in selecting or supervising an independent contractor, but some sort of a duty 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

employer is subject to liability for the torts of employees, but not of independent contractors, should apply to the infringement of intellectual property.²⁸

This section has surveyed the general law of torts relating to the circumstances when a defendant may be liable for torts committed by others. 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.

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

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.

²⁸ An employer might be liable for torts committed by an independent contractor, though, under *Restatement of Torts (Second)* § 877(a) if the employer ordered or induced the independent contractor to commit a tort or under other provisions in *Restatement of Torts (Second)* §§ 876, 877 if the applicable requirements were satisfied.

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*.²⁹ The patent was for a lamp consisting of a burner and a glass chimney that was attached to the burner. 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 the defendants did not sell chimneys with the burners. Instead, the purchasers of the burners directly infringed the patent when they attached chimneys that they purchased separately to the defendants' burners. Nevertheless, the Circuit Court held that the defendants were liable for patent infringement because it found that the defendants acted in actual concert with the makers of glass chimneys to cause the patent to be infringed. The court noted that a burner and chimney were "each utterly useless without the other."³⁰ While there was no direct evidence that the defendants acted in actual concert with the makers of glass chimneys to infringe the patent, the court concluded that their actual concert was a "certain inference from the nature of the case, and the distinct efforts of the defendants to bring the burner into use, which

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

³⁰ *Id.* at 80.

can only be done by adding the chimney.”³¹ 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 a consent to the proposal. Thus, the defendants’ manufacture and sale of the burners made them active parties to the infringement.

The *Wallace* case relied on the defendant’s acting in concert as the basis for liability for indirect patent infringement, and therefore, the *Wallace* case would fit within the rule in *Restatement (Second) of Torts* section 876(a) for general tort law.³² Only a few years after the *Wallace* case, an additional basis for indirect patent infringement began to be reflected in the patent cases. In the 1878 case of *Bowker v. Dows*,³³ the patent was for a fountain drink containing an extract called saponine that increased the foam in the fountain drink. The defendant sold a saponine extract to buyers who intended to combine it with the other ingredients to make the patented fountain drink. The court observed that the defendant’s manufacture and sale of the saponine extract would not alone be sufficient for indirect infringement. Nevertheless, the court imposed liability for indirect infringement because it found that the

³¹ *Id.*

³² 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.* Comment a.

³³ 3 F. Cas. 1070 (C.C.D. Mass. 1878).

defendant had advertised and sold the saponine extract for the purpose of inducing the purchasers to use it to infringe the patent. 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 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.³⁴

While the *Bowker* court relied on the *Wallace* case, *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. 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 for the imposition of liability. 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.³⁵ Referring to the general tort law principles in the prior section, the saponine manufacturer in

³⁴ *Id.* at 1071.

³⁵ *Id.*

Bowker would be liable as an aider or abettor under *Restatement (Second) of Torts* section 876(b), because it provided substantial assistance to the direct infringers by supplying them with saponine, provided there was evidence that the manufacturer had actual knowledge of the patent and that the buyers were infringing it. 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 the *Wallace* and *Bowker* cases are analytically distinct, subsequent cases consolidated 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.*:³⁶ “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.”³⁷ A defendant's intent to assist another to infringe could either be inferred from the absence of noninfringing uses for a product that the defendant sold³⁸ or from evidence that the defendant

³⁶ 224 U.S. 1 (1912).

³⁷ *Id.* at 33-34 (1912) (quoting from *Thomson-Houston Elec. Co. v. Kelsey Elec. R. Specialty Co.*, 72 F. 1016, 1017 (C.C.D. Conn. 1896)), *overruled on other grounds*, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 515 (1917).

³⁸ *Thomson-Houston Electric 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.*, 125 S.Ct. 2764, 2777 (2005) (“In sum, where an article is ‘good for nothing else’ but infringement, . . ., there is no legitimate public interest in its unlicensed

induced purchasers of the product to infringe through advertising or other means.³⁹

This consolidated version of contributory infringement is similar to the liability for aiding and abetting in *Restatement (Second) of Torts* section 876(b),⁴⁰ where a defendant substantially assists or encourages another tortious conduct. 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. It also led to abuse, 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. 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. Instead of enforcing

availability, and there is no injustice in presuming or imputing an intent to infringe,
(Citations omitted.)

³⁹ See *Cugley v. Bundy Incubator Co.*, 93 F.2d 932, 935 (6th Cir. 1937) (sale of product with instructions to infringe patented method); *Westinghouse Elec. & Mfg. Co. v. Precise Mfg. Corp.*, 11 F.2d 209, 210 (2nd Cir. 1926) (advertising that product was designed for infringing use and directions on cartons in which products were sold had instructions for infringing use).

⁴⁰ 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, . . .”).

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 that the purchasers used to infringe the patents.⁴¹ Congress responded to this abuse with the Clayton Act,⁴² which prohibited tying arrangements.

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.*,⁴³ the plaintiff was a manufacturer of dry ice 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. The Supreme Court might have rejected the contributory infringement claim on the grounds that there was no direct infringement by the purchasers of the plaintiff's device on account of their 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.⁴⁴ Instead, the Supreme Court created the doctrine of patent misuse to prevent patentees from

⁴¹ See, e.g., *Henry v. A.B. Dick Co.*, 224 U.S. 1, 31-32 (1912), *overruled*, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917).

⁴² 15 U.S.C. § 14 (2000).

⁴³ 283 U.S. 27 (1931).

⁴⁴ Cf. *Morgan Envelope Co. v. Albany Perforated Wrapper Paper Co.*, 152 U.S. 425, 433 (1894) (patent for toilet paper holder was not infringed by purchase of toilet paper used in the patented toilet paper holder).

enlarging their exclusive rights beyond the legitimate scope of their patents.⁴⁵ In a series of decisions, the Supreme Court rapidly expanded the doctrine of patent misuse until it finally appeared to override the doctrine of contributory infringement.⁴⁶ The patent bar reacted to these Supreme Court decisions by going to Congress to secure the adoption of section 271 of title 35 of the United States Code in 1952.⁴⁷

Section 271 codified both the doctrines of contributory infringement and patent misuse so that they would no longer conflict with each other. It also subdivided the consolidated version of contributory infringement into two categories of indirect infringement. Section 271(b) imposed liability on “[w]hoever actively induces infringement of a patent,”⁴⁸ and it covered the circumstances in the *Bowker* case where the defendant advertised and sold its product for the express purpose that it would be used to infringe a patent. Section 271(c) imposed 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

⁴⁵ 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).

⁴⁶ See *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944); Rich, *supra* note 45, at 535 (describing the doctrine of contributory infringement as “completely submerged” by the doctrine of patent misuse and “*entirely dead* as a basis of recovery” (emphasis in original)).

⁴⁷ For additional discussion of the historical background of contributory infringement and the enactment of 35 U.S.C. § 271, see 5 DONALD S. CHISUM, CHISUM ON PATENTS, § 17.02 [1]-[6] (2004); Charles W. Adams, *A Brief History of Indirect Liability for Patent Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 369 (2006); Rich, *supra* note 45.

⁴⁸ 35 U.S.C. § 271(b).

invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent.”⁴⁹ Section 271(c) excluded from its scope the sale of “a staple article or commodity of commerce suitable for substantial noninfringing use.”⁵⁰ Thus, section 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. By excluding the sale of staple articles from the scope of contributory infringement, section 271(c) avoids the abuses of the doctrine of contributory infringement that led to the development of the doctrine of patent misuse. Finally, section 271(d) limits the scope of patent misuse by excluding circumstances where liability is imposed under paragraphs (b) or (c).⁵¹

In terms of the provisions in the *Restatement (Second) of Torts*, section 271(b) is analogous to the provision for inducing infringement in *Restatement (Second) of Torts* section 877(a), and section 271(c) is analogous to the provision for aider and abettor liability in *Restatement (Second) of Torts* section 876(b). *Restatement (Second) of Torts* section 876(b) differs from section 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 section 271(c) requires the sale of a component that is especially made or adapted for use in

⁴⁹ *Id.* § 271(c).

⁵⁰ *Id.*

⁵¹ *Id.* § 271(d).

infringement of a patent and excludes the sale of a staple article that is suitable for substantial noninfringing use.

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, and therefore, most of the time, selling a component with no substantial use other than for infringement would 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 section 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 that the defendant had actual knowledge that the buyer was using the staple article to infringe a patent? It would seem that the history behind the enactment of section 271 would preclude such a result. The Senate Report accompanying section 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 in the case.⁵²

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

⁵² S. Rep. No. 82-1979 (1952), at 8, as *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402.

The Supreme Court addressed the mental state required for contributory infringement under section 271(c) in *Aro Manufacturing Co. v. Convertible Replacement Co.*⁵³ The *Aro* case involved a patent for automobile convertible tops, and it arose out of the defendant's sale of replacements for fabric portions of wornout convertible tops to automobile owners. 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. By a 5-4 majority, the Supreme Court held that the defendant's liability for contributory infringement under section 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.⁵⁴ The Court held that the defendant not only must have been aware of the patent but also it must have known that the automobile manufacturer was not licensed under the patent at the time that the defendant sold the fabric replacements to the automobile owners in order for the defendant's sales to constitute contributory infringement. This result is consistent with *Restatement (Second) of Torts* § 876(b), which requires both that a defendant gave substantial assistance or encouragement to another person and that the defendant knew that the other person's conduct constituted 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.⁵⁵

⁵³ *Aro Mfg. Co. v. Convertible Replacement Co.*, 377 U.S. 476 (1964).

⁵⁴ *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.").

⁵⁵ RESTATEMENT (SECOND) OF TORTS § 876(b) (1979).

While the defendant’s knowledge of infringement is required for liability for contributory infringement under section 271(c), there is no requirement of an intent to cause infringement under this provision.⁵⁶ In contrast, there is an intent requirement for inducing infringement under section 271(b). In a number of recent cases, the Court of Appeals for the Federal Circuit has acknowledged an apparent lack of clarity concerning the precise contours of this intent requirement,⁵⁷ and the issue has been discussed in several law review articles.⁵⁸ The controversy concerns “whether the required intent must be merely to induce the specific acts [constituting infringement] or additionally to cause an infringement.”⁵⁹

The apparent lack of clarity arises from two decisions of the Federal Circuit from 1990 – *Hewlett-Packard Co. v. Bausch & Lomb Inc.*⁶⁰ and *Manville Sales Corp. v. Paramount Systems*,

⁵⁶ *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.”) (emphasis in original) (Rich, J.); Rich, *supra* note 45, at 538 (“[Section 271(c) gives rise to liability without any further proof of intent or inducement or joint action with the direct infringer.”).

⁵⁷ *See* *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1364 n.4 (Fed. Cir. 2006) and cases cited therein.

⁵⁸ Charles W. Adams, *A Brief History of Indirect Liability for Patent Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 369, 390-94 (2006); Timothy R. Holbrook, *The Intent Element of Indirect Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 399 (2006); Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225 (2005); Michael N. Rader, *Toward a Coherent Law of Intent to Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for Intent Under § 271(b)*, 10 FED. CIR. B.J. 299 (2000); Recent Cases, *Patent Law—Active Inducement of Infringement—District Court Holds that Inducement Liability Requires Proof of Intent to Induce Violation of the Law*, 115 HARV. L. REV. 1246 (2002).

⁵⁹ *Insituform Techs. Inc. v. Cat Contracting, Inc.* 385 F.3d 1360, 1378 (Fed. Cir. 2004).

⁶⁰ 909 F.2d 1464 (Fed. Cir. 1990).

*Inc.*⁶¹ In the *Hewlett-Packard* case, the patentee asserted claims for direct infringement and inducing infringement against the owner of a division that its owner sold while the alleged infringement was occurring. The patentee asserted the claim for direct infringement against the owner of the division for the period before the sale and the claim for inducing infringement against the former owner for the period after the sale. With respect to the direct infringement, the owner admitted infringement but raised the defense of patent invalidity, and it denied liability for inducing infringement. The trial court decided that the owner of the division was liable for direct infringement before the sale, but the owner was not liable for inducing infringement after the sale, and the Federal Circuit affirmed.

In an opinion by Judge Rich, the Federal Circuit held that “proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”⁶² The Federal Circuit concluded that the owner was not liable for inducing infringement, because there was no proof of this intent. Focusing on the owner’s motives, the Federal Circuit decided that the owner was merely interested in selling the division for the highest possible price, and the owner did care not whether the division continued to infringe the patent after the sale or not. Because the Federal Circuit ruled that the owner did not intend to induce the acts which constituted the infringement, it did not need to address whether there were additional reasons that the defendant was not liable for inducing infringement. Had the court done so, it might have decided that the owner was also not liable for inducing infringement

⁶¹ 917 F.2d 544 (Fed. Cir. 1990).

⁶² *Hewlett-Packard*, 909 F.2d at 1469.

because the owner believed the patent was invalid, as the owner had asserted in defending against the direct infringement claim

The *Manville* case involved the personal liability of corporate officers for patent infringement by their corporation based on their inducing infringement by the corporation. 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."⁶³ The Federal Circuit decided that the corporate officers were not liable for inducing patent infringement by their corporation, because there was no basis for concluding that they knew or should have known that their actions would induce actual infringements. The officers had no way of knowing that 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 their corporation's accused product did not infringe.

The difference between the standards in the *Hewlett-Packard* and *Manville* cases is the second part of the *Manville* standard: that the defendant knew or should have known that the defendant's actions would induce actual infringements. The standards in *Hewlett-Packard* and *Manville* are not really inconsistent, however, because the *Hewlett-Packard* case did not purport to rule that the intent to induce the acts that constituted infringement was sufficient for inducing

⁶³ *Manville*, 917 F.2d at 553 (emphasis in original).

infringement.⁶⁴ Instead, the *Hewlett-Packard* case held that this intent was only “a necessary prerequisite” to inducing infringement.⁶⁵

The *Manville* standard has two mental state components: a specific intent to induce the acts constituting infringement and a mental state of knowledge that the conduct being induced was infringing. The *Manville* standard closely tracks the provisions of *Restatement (Second) of Torts* section 877(a),⁶⁶ under which a defendant is subject to liability for inducing tortious conduct of another if the defendant knows or should know of circumstances that would make the conduct tortious if the conduct were the defendant’s own. In addition, the knowledge component for inducing infringement in *Manville* is similar to the requirement that the Supreme Court mandated for contributory infringement in *Aro*, except that the Supreme Court required the defendant to have actual knowledge of the direct infringement in *Aro*,⁶⁷ while the *Manville* case allows liability to be based on either actual or constructive knowledge.

Even though there is no real inconsistency between the *Hewlett-Packard* and *Manville*

⁶⁴ *Applera Corp. v. MJ Research Inc.*, 2004 WL 350476, *4 (D.Conn.). The student commentary in *Recent Cases*, *supra* note 58 at n.40, refers to the possibility that the *Hewlett-Packard* court may have intended the requirement of intent to induce the acts constituting infringement to be only a necessary and not a sufficient prerequisite for liability. It then dismissed this possibility with the statement: “Courts have not generally understood *Hewlett-Packard* and its progeny in this manner.” *Id.* The single case that the commentary cited for this statement provides no support for this conclusion, however.

⁶⁵ *Hewlett-Packard*, 909 F.2d at 1469 (“[P]roof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”).

⁶⁶ RESTATEMENT (SECOND) OF TORTS § 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 own, . . .”).

⁶⁷ *See supra* note 54 and accompanying text.

standards, several subsequent Federal Circuit cases have noted an apparent conflict between them. The first case to do so was *Insituform Technologies, Inc. v. Cat Contracting, Inc.*,⁶⁸ where the court stated that there was “lack of clarity concerning whether the required intent must be merely to induce the specific acts or additionally to cause an infringement.”⁶⁹ This statement was followed by citations to the *Manville* and *Hewlett-Packard* cases with parenthetical quotations from each of them, including the statement in *Hewlett-Packard* that an intent to cause the acts constituting infringement was a “necessary prerequisite” to inducing infringement. Although the *Insituform* decision quoted *Hewlett-Packard* correctly, the court appeared to interpret the quoted statement as saying that an intent to cause the acts constituting infringement was sufficient for liability for inducing infringement.⁷⁰ The Federal Circuit continued that it was

⁶⁸ 385 F.3d 1360 (Fed. Cir. 2004).

⁶⁹ *Id.* at 1378.

⁷⁰ For similar misinterpretations of the language from *Hewlett-Packard*, see *SEB, S.A. v. Montgomery Ward & Co.*, 412 F. Supp. 2d 336, 344 (S.D.N.Y. 2006) (“In contrast, the court in *Hewlett-Packard* held that the plaintiff only needs to show that the alleged infringer had an ‘actual intent to cause the acts which constitute the infringement. . . .’”); Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 238 (2005) (“The court said that Bausch & Lomb could be liable for inducement so long as H-P could prove it ‘actual[ly] inten[ded] to cause the acts which constitute the infringement.’ ”); Michael N. Rader, *Toward a Coherent Law of Intent to Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for Intent Under § 271(b)*, 10 FED. CIR. B.J. 299, 320 (2000) (“[T]he standard articulated . . . by the *Hewlett-Packard* court [was] that inducement requires only “actual intent to cause the acts which constitute the infringement.”); John R. Thomas, *Of Text, Technique, and the Tangible: Drafting Patent Claims Around Patent Rules*, 17 J. MARSHALL J. COMPUTER & INFO. L. 219, 228-29 (1998) (“Recent decisions have variously required that the defendant specifically knew or should have known his action would induce actual infringements, more general ‘knowledge of an infringement controversy,’ or merely that the defendant possess ‘actual intent to cause the acts which constitute the infringement.’” (Footnotes omitted)).

unnecessary to resolve any ambiguity in the case law, because there was sufficient evidence to affirm the trial court's finding of liability for inducing infringement under either standard. The court then delineated the evidence that established both the defendant's intent to induce the acts constituting infringement and the defendant's knowledge that the acts were infringing.

Similarly, in *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*⁷¹ and *Golden Blount, Inc. v. Robert H. Peterson Co.*,⁷² the Federal Circuit said that there was a lack of clarity with respect to the intent required for inducing infringement, but then went on to affirm the trial courts' finding of liability after reviewing the evidence presented of the respective defendants' intent to induce the acts constituting infringement and their knowledge that the acts were infringing.⁷³ Both the *Insituform* and *Fuji Photo* opinions appeared to characterize the knowledge component in *Manville* as an intent requirement, because they each referred to evidence of the defendants' awareness of the patent and the charges of infringement as proof of the intent to induce infringement, rather than as proof of the defendants' knowledge of the infringing activities.⁷⁴

The other two cases in which the Federal Circuit has referred to a lack of clarity with

⁷¹ 394 F.3d 1368 (Fed. Cir. 2005).

⁷² 438 F.3d 1354 (Fed. Cir. 2006).

⁷³ 438 F.3d at 1364 n.4; 394 F.3d at 1377-78.

⁷⁴ 394 F.3d at 1378 ("This court has acknowledged the relevance of [evidence of the plaintiff's infringement contentions and the defendant's twice seeking a license from the plaintiff] supporting proof of intent for inducement."); 385 F.3d at 1378 ("On [evidence of knowledge of accusations of infringement], the court determined that the intent requirement was met."). For a similar characterization of the knowledge component of *Manville* as an intent requirement, see Timothy R. Holbrook, *The Intent Element of Indirect Infringement*, 22 SANTA

respect to the intent required for inducing infringement were both concerned with whether the defendant intended to induce the acts constituting infringement, rather than whether the defendant had knowledge that the acts constituted patent infringement. In *Mercexchange, L.L.C. v. eBay, Inc.*,⁷⁵ the Federal Circuit found there was no evidence that the defendant intended to induce the acts constituting infringement,⁷⁶ and it therefore reversed the judgment holding the defendant liable for inducing infringement. In *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*,⁷⁷ the Federal Circuit found that there were genuine issues of material fact concerning whether the defendant intended to induce the acts constituting infringement, and therefore, it reversed a summary judgment for the defendant.

Thus, although there is language repeated in several recent Federal Circuit opinions and law review articles suggesting that the case law with respect to the intent required for inducing infringement is in disarray, the Federal Circuit has managed to apply the holdings from *Hewlett-Packard* and *Manville* in a consistent manner. To reiterate, the mental state that *Hewlett-Packard* requires for liability for inducing infringement under section 271(b) is a specific intent by the defendant to induce the direct infringer's acts that constitute infringement,⁷⁸ and *Manville* requires in addition that the defendant knew or should have known that the direct infringer's acts

CLARA COMPUTER & HIGH TECH. L.J. 399, 404 (2006).

⁷⁵ 401 F.3d 1323 (Fed. Cir. 2005), *vacated and remanded on other grounds*, eBay, Inc. v. Mercexchange, L.L.C., 126 S. Ct. 1837 (2006).

⁷⁶ *Id.* at 1332-33.

⁷⁷ 420 F.3d 1369 (Fed. Cir. 2005).

⁷⁸ *Hewlett-Packard*, 909 F.2d at 1469.

would be infringing.⁷⁹ These requirements are substantially the same as those found in *Restatement of Torts (Second)* section 877(a) for tort liability for inducing another's tortious conduct that results in harm to a third person. In contrast, the mental state required for liability for contributory infringement under section 271(c) is the defendant's knowledge that "the combination for which his component was especially designed was both patented and infringing."⁸⁰

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 component of a product that is used by a purchaser to infringe a patent for the product or the sale of a product that is used by a purchaser to infringe a patented method.⁸¹ 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

⁷⁹ *Manville*, 917 F.2d at 553.

⁸⁰ *Aro Mfg. Co. v. Convertible Replacement Co.*, 377 U.S. 476, 488 (1964).

⁸¹ Other contexts in which indirect patent infringement claims have arisen have included a defendant's sale of a business that continued to infringe a patent after the sale, and where a patentee sought to hold corporate officers personally liable for a corporation's infringement of a patent. *See Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544

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.⁸² 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)⁸³ and 877(a).⁸⁴

The doctrine of vicarious copyright infringement developed out of a series of dance hall cases in which dance hall proprietors were held to be liable for copyright infringement by orchestras that were performing at the dance halls. Liability was imposed on the dance hall proprietors even though the orchestras were independent contractors, rather than employees of the proprietors,⁸⁵ the proprietors did not participate in the selection of the infringing music,⁸⁶ and

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

⁸² 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.”).

⁸³ 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, . . .”).

⁸⁴ RESTATEMENT (SECOND) OF TORTS § 877(a) (1979) (“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, . . .”).

⁸⁵ *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929).

⁸⁶ *Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 198 (1931) (“One who hires an

the proprietors neither intended to infringe nor knew of the copyright infringement by the orchestras.⁸⁷ Summarizing these cases, the Second Circuit concluded in *Shapiro, Bernstein & Co. v. H.L. Green Co.*⁸⁸ that liability for vicarious copyright infringement could be predicated on the defendant's right and ability to supervise the infringing activity together with the defendant's direct financial interest in the exploitation of the copyrighted materials. The policy for imposing liability when these conditions were satisfied was that placing responsibility on the defendant would encourage the defendant to police the conduct of the infringer and thereby promote enforcement of the copyright law.⁸⁹ In upholding a finding of vicarious copyright infringement in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*,⁹⁰ 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 ability to supervise

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.").

⁸⁷ See *Remick Music Corp. v. Interstate Hotel Co.*, 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 (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.").

⁸⁸ 316 F.2d 304 (2nd Cir. 1963).

⁸⁹ *Id.* at 308. See also *Polygram Int'l Publishing, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1324-26 (D. Mass. 1994) (discussing policy for vicarious liability for copyright infringement).

⁹⁰ 443 F.2d 1159 (2nd Cir. 1971).

the infringing activity and also has a direct financial interest in such activities.”⁹¹

The Ninth Circuit followed *Shapiro in Fonovisa, Inc. v. Cherry Auction, Inc.*⁹² The court held that a complaint stated a claim for vicarious copyright infringement against the operators of a swap meet on account of the sale of counterfeit copyrighted recordings by vendors at the swap meet. In addition, in *A&M Records, Inc. v. Napster, Inc.*,⁹³ the Ninth Circuit affirmed a decision that the plaintiffs had demonstrated a likelihood of success with respect to a vicarious copyright infringement claim. In other cases, courts have found that the elements of vicarious copyright infringement had not been satisfied⁹⁴ or else have noted the existence of the theory of vicarious copyright but decided that it was unnecessary to address it.⁹⁵

⁹¹ *Id.* at 1162.

⁹² 76 F.3d 259, 261-63 (9th Cir. 1996)

⁹³ 239 F.3d 1004, 1022-24 (9th Cir. 2001).

⁹⁴ *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 437-38 (1984) (“This case . . . plainly does not fall into [the vicarious copyright infringement] category.”); *Ellison v. Robertson*, 375 F.3d 1072, 1078-79 (9th Cir. 2004) (no showing that the defendant received a direct financial benefit from the copyright infringement); *Religious Tech. Ctr. v. Netcom On-Line Committee. Servs.*, 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).

⁹⁵ *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 125 S. Ct. 2764, 2776 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*, 334 F.3d 643, 654-55 (7th Cir. 2003) (whether defendant was a vicarious copyright infringer was academic because of the likelihood that defendant was liable for contributory copyright infringer). *See also Polygram Int’l Publishing, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1324-26 (D. Mass. 1994) (court found that evidence was not sufficient to find direct infringement but it went on to find vicarious copyright infringement in order to create a full record for appellate review).

The doctrine of contributory copyright infringement originated in *Kalem Co. v. Harper Brothers*,⁹⁶ where the Supreme Court grounded the doctrine “on principles recognized in every part of the law.”⁹⁷ 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 displaying the films. Holding that the defendant was 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.⁹⁸

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.”⁹⁹

*Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*¹⁰⁰ involved a claim against an advertising agency and a broadcasting company that ran ads for hit records at suspiciously

⁹⁶ 222 U.S. 55 (1911).

⁹⁷ *Id.* at 63.

⁹⁸ *Id.* at 62-63.

⁹⁹ *Underhill v. Shenck*, 143 N.E. 773, 776 (N.Y. 1924).

¹⁰⁰ 256 F. Supp. 399 (S.D.N.Y. 1966).

low prices. In denying in part the defendants' motion for summary judgment, the district court emphasized the common law origins of contributory copyright infringement. The court held:

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 tort-feasor is applicable in suits arising under the Copyright Act.¹⁰¹

Approving the *Screen Gems* case, the Second Circuit phrased the standard for contributory copyright infringement in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*,¹⁰² 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.”¹⁰³ The Ninth Circuit has characterized the quoted language from *Gershwin* as the classic statement of the doctrine of contributory copyright infringement,¹⁰⁴ and numerous cases have quoted this language with approval.¹⁰⁵

While the language from *Gershwin* quoted above appears to require a contributory infringer to have actual knowledge of the direct infringement, the *Gershwin* court muddled the

¹⁰¹ *Id.* at 403.

¹⁰² 443 F.2d 1159 (2nd Cir. 1971).

¹⁰³ *Id.* at 1162.

¹⁰⁴ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

¹⁰⁵ *E.g.*, *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004); *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845 (11th Cir. 1990); *Religious Tech. Ctr. v. Netcom On-Line Committee. Servs.*, 907 F. Supp. 1361, 1373 (N.D. Cal. 1995);

waters by presenting the *Screen Gems* case as an example of contributory copyright infringement and stating that the *Screen Gems* court had ruled that the defendants could be liable for contributory copyright infringement upon a showing that they “had knowledge, or reason to know” of the infringement.¹⁰⁶ As a result of the *Gershwin* court’s aside with respect to the *Screen Gems* case, the Ninth and Eleventh Circuits have decided that constructive knowledge of direct infringement is sufficient for liability for contributory infringement.¹⁰⁷

The Supreme Court examined the scope of contributory copyright infringement in *Sony Corp. of Am. v. Universal City Studios, Inc.*¹⁰⁸ This case concerned whether Sony was liable for contributory infringement on account of Sony’s sale of video tape recorders to consumers who used them to infringe the plaintiffs’ copyrights. The Supreme Court began its analysis by eliminating a number of possible grounds for imposing liability on Sony. The Court first observed that liability could not be imposed 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 was not itself infringing but instead had both infringing and noninfringing

Demetriades v. Kaufmann, 690 F. Supp. 289, 293 (S.D.N.Y. 1988).

¹⁰⁶ See *Gershwin*, 443 F.2d at 1162. See also *Screen Gems*, 256 F. Supp. at 405 (evidence was sufficient to show that radio stations had either actual or constructive knowledge of direct infringement).

¹⁰⁷ *Ellison v. Robertson*, 375 F.3d 1072, 1076 (9th Cir. 2004) (“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.”) (emphasis in original); *Casella v. Morris*, 820 F.2d 362, 364 (11th Cir. 1987) (“The standard of knowledge is objective: ‘Know, or have reason to know.’”). 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).

¹⁰⁸ 464 U.S. 417 (1984).

uses.¹⁰⁹ The Court next stated 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.¹¹⁰ The Court also ruled that Sony did not intentionally induce its customers to infringe the plaintiffs' copyrights.¹¹¹ In addition, the Court ruled that Sony did not supply its equipment to persons that it knew were engaging in continuing infringement of the copyrights.¹¹²

After eliminating all these possible grounds for liability, the Court then framed the issue before it as whether liability¹¹³ 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."¹¹⁴ Noting that there was no precedent in copyright

¹⁰⁹ *Id.* at 436-37.

¹¹⁰ *Id.* at 437-38.

¹¹¹ *Id.* at 439, n. 19.

¹¹² *Id.*

¹¹³ 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 also* Högborg, *supra* note 107, at 921 n.92 ("Although the Court referred to 'vicarious liability,' this term seems to be a synonym for secondary liability in general.").

¹¹⁴ 464 U.S. at 439. In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 125 S. Ct. 2764, 2777 (2005), the Court characterized the issue before it in *Sony* as whether liability should have been imposed "of a theory of contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe." The issue framed in *Sony*, however, was actually whether liability should be imposed on account of Sony's constructive

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. Turning to the staple article of commerce doctrine from patent law in section 271(c) of Title 35,¹¹⁵ the Court decided that it struck an appropriate balance between the rights of copyright holders and the rights of others to manufacture products. It 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.¹¹⁶ Finding that the video tape recorders had substantial noninfringing uses, the Court concluded that Sony's sales did not constitute contributory infringement.¹¹⁷

Instead of looking to the patent statute for an analogy, the *Sony* Court should have relied on the general principles of vicarious liability that it had referenced earlier in the opinion.¹¹⁸ The patent statute was enacted 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 patent opinions in which the Court had ruled that a patentee's assertion of contributory

knowledge of direct infringement, rather than Sony's actual knowledge that some of its customers would engage in direct infringement.

¹¹⁵ See *supra* note 49 and accompanying text.

¹¹⁶ *Sony*, 464 U.S. at 442.

¹¹⁷ *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 respondent's copyrights.").

¹¹⁸ *Id.* at 455 ("For vicarious liability is imposed in virtually all areas of the law . . .").

infringement constituted patent misuse.¹¹⁹ 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.”¹²⁰ 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, these 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, because it ultimately concluded that there was no contributory infringement under either the general tort law or the patent statute.

It is important to recognize the limits of the *Sony* decision. Certainly Sony’s actual knowledge of copyright infringement by its customers could have been inferred if the equipment it sold was not capable of any substantial noninfringing uses. Actual knowledge could not necessarily be inferred, however, 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 Sony, in the absence of any proof that Sony either was in a position to control copyright infringement by its customers,¹²¹ intentionally induced copyright

¹¹⁹ See *supra* text accompanying notes 45-46.

¹²⁰ *Sony*, 464 U.S. at 439.

¹²¹ *Id.* at 437-38.

infringement by its customers,¹²² or supplied its equipment to customers with actual knowledge that they were engaging in copyright infringement.¹²³

The Court addressed inducing infringement in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*.¹²⁴ In *Grokster*, the Court reversed the Ninth Circuit's decision that the defendants could not be liable for contributory copyright infringement on account of 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. 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 of inducing infringement.¹²⁵ Again turning to patent law for an analogy,¹²⁶ 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.”¹²⁷ The Court continued:

¹²² *Id.* at 439, n. 19.

¹²³ *Id.*

¹²⁴ 125 S. Ct. 2764 (2005).

¹²⁵ *Id.* at 2779.

¹²⁶ *Id.* at 2780 (“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.”).

¹²⁷ *Id.*

[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 conduct¹²⁸

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 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.¹²⁹

The Court then reviewed the evidence in the summary judgment record and decided that it showed that the defendants' unlawful objective was unmistakable and that there was substantial evidence of all the elements required for inducing infringement.

The case law on contributory copyright infringement and inducing infringement described above has a great deal of similarity to the general tort law principles of aiding and abetting liability and inducing tortious conduct found in *Restatement (Second) of Torts* sections 876(b)¹³⁰ and 877(a).¹³¹ The *Gershwin* court blurred the distinction between aiding and

¹²⁸ *Id.*

¹²⁹ *Id.* at 2782, n.13.

¹³⁰ 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, . . .”).

¹³¹ RESTATEMENT (SECOND) OF TORTS § 877(a) (1979) (“For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he (a) orders or induces

abetting liability and inducing tortious conduct, but the Supreme Court appeared to recognize a distinction between these two grounds for liability in both the *Sony*¹³² and *Grokster*¹³³ cases. 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, these courts did not distinguish between contributory copyright infringement or 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 has also not addressed whether the limitation from *Sony* on liability for contributory copyright infringement arising from the sale of a product having no substantial noninfringing uses should apply where the seller has actual knowledge that particular customers are using the product for infringement. As noted previously,¹³⁴ 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. It is less clear whether this limitation should apply in copyright law, however, because of the absence of any legislative intent with respect to copyright law. Moreover, the Court declared in *Grokster* that

the conduct, if he knows or should know of circumstances that would make the conduct tortious if it were his own, . . .”).

¹³² See *Sony*, 464 U.S. at 439 n.19 (finding that Sony neither intentionally induced infringement nor supplied products to individuals that it knew were continuing infringement).

¹³³ See *Grokster*, 125 S.Ct. at 2782 n.19 (noting that inducing infringement goes beyond encouraging a particular consumer to infringe a copyright).

¹³⁴ See *supra* text accompanying note 52.

“the [*Sony*] case was never meant to foreclose fault-based liability derived from the common law.”¹³⁵ Thus, it may be that liability for contributory copyright infringement should be imposed on a seller of products having substantial noninfringing uses under the common law aider and abettor principles in section 876(b). For liability to be imposed, there would have to be evidence of the seller’s providing substantial assistance to buyers to infringe copyrights as well as the seller’s actual knowledge that the buyers were using the products to infringe the copyrights.

While the 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, and this suggests that the doctrine of vicarious copyright infringement should be reexamined. *Restatement (Second) of Agency* section 219¹³⁶ provides that employers are liable for the torts of their employees committed in the course of their employment, but *Restatement (Second) of Torts* section 409¹³⁷ 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

¹³⁵ *Grokster*, 125 S.Ct. at 2779.

¹³⁶ 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.”).

¹³⁷ RESTATEMENT (SECOND) OF TORTS § 409 (1979) (“Except as stated in §§ 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.”).

and its direct financial interest in the infringing activities.¹³⁸ It would seem 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. But 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 that the direct infringer may commit.¹³⁹

Restatement (Second) of Torts section 877(c)¹⁴⁰ provides an alternative ground that might have been used in some cases for 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. Treating dance hall proprietors like landlords, rather than

¹³⁸ *Gershwin Publishing Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2nd 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.”).

¹³⁹ *Cf. Sony*, 464 U.S. at 488 n. 39 (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, [citations omitted]. 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.”).

¹⁴⁰ 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, . . .”). *Id.* § 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. . . .” 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.

employers, would not have precluded their being liable for copyright infringement by the orchestras, but it would have limited their liability to circumstances where they had actual or constructive knowledge of the copyright infringement.

The doctrine of vicarious copyright infringement has begun to metastasize from its origins in the dance hall cases to cases involving computer networks.¹⁴¹ As a consequence, Congress has enacted safe harbor provisions in section 512 of title 17 in order to protect Internet service providers and others from open-ended liability on account of copyright infringement by users of their networks.¹⁴² For example, section 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 acts expeditiously to remove the material after obtaining knowledge of the

¹⁴¹ See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022-24 (9th Cir. 2001); *Ellison v. Robertson*, 375 F.3d 1072, 1078-79 (9th Cir. 2004); *In re Aimster*, 334 F.3d 643, 654-55 (7th Cir. 2003); *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 856-58 (C.D. Cal. 2006); *Marobie-FI, Inc. v. National Ass'n of Fire & Equip. Distribs.*, 983 F.Supp. 1167 (N.D. Ill. 1997); *Religious Tech. Ctr. v. Netcom On-Line Committee. Servs.*, 907 F. Supp. 1361, 1375-76 (N.D. Cal. 1995); Mark A. Lemley & R. Anthony Reese, *Reducing 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."); Comment, Kelly Tickle, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L. REV. 391 (1995); Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 GEO. L.J. 1833, 1843-80 (2000).

¹⁴² See S. Rep. No. 105-190, at 20 (1988); Lemley & Reese, *supra* note 129, at 1369; Jason Kessler, Note, *Correcting the Standard for Contributory Trademark Liability Over the Internet*, COLUM. J. L. & SOC. PROBS. 375, 396-97 (2006).

copyright infringement.¹⁴³ 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.¹⁴⁴

Instead of allowing the anomalous doctrine of vicarious copyright infringement to expand beyond its origins in the dance hall cases and then rely on section 512 to protect computer network operators from liability for it, courts should restrict the doctrine of vicarious copyright infringement to dance hall cases (and in the Ninth Circuit, to swap meets¹⁴⁵ and Napster¹⁴⁶). In place of vicarious copyright infringement, courts should use the general tort law principles in *Restatement (Second) of Torts* section 877(c) and impose liability on computer network operators on account of copyright infringement by users of their networks only if the computer network operators have either actual or constructive knowledge of the copyright infringement.¹⁴⁷

¹⁴³ 17 U.S.C. § 512(c) (2000).

¹⁴⁴ 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 141, at 1369-71. In addition, section 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 142, at 396-97. But see *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (N.D. Cal. 2001) (eBay came within safe harbor provision in 17 U.S.C. § 512(c)).

¹⁴⁵ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-64 (9th Cir. 1996) (claim for vicarious copyright infringement stated against operator of a swap meet).

¹⁴⁶ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022-24 (9th Cir. 2001) (likelihood of success shown for vicarious copyright infringement claim against Napster).

¹⁴⁷ See Yen, *supra* note 141, at 1892 (“Whatever the wrongs embodied in copyright infringement, they are not serious enough to warrant ISP liability unless knowing assistance in

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. Liability has been imposed 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)¹⁴⁸ and 877(a).¹⁴⁹

The doctrine of contributory trademark infringement appears to have originated in *Societe Anonyme de la Distillerie de la Liquer Benedictine de L'Abbaye de Fecamp v. Western Distilling Co.*,¹⁵⁰ and *Hostetter Co. v. Brueggeman-Reinert Distilling Co.*¹⁵¹ After the defendant in *Societe 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 and notified its customers that the third party would be filling their orders in the future. 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,

that infringement is present.").

¹⁴⁸ 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, . . .").

¹⁴⁹ RESTATEMENT (SECOND) OF TORTS § 877(a) (1979) ("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, . . .").

¹⁵⁰ 42 F. 96 (CC.E.D. Mo. 1891).

¹⁵¹ 46 F. 188 (CC.E.D. Mo. 1891).

advises, and procures another to do the act, violates the letter as well as the spirit of the restraining order.”¹⁵²

In *Hostetter*, the defendant sold a counterfeit bitters drink that resembled the plaintiff’s trademarked Hostetter’s Bitters in bulk to the defendant’s customers and 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.¹⁵³ Normally, a claim for trademark infringement requires proof of the likelihood of confusion from the use of a trademark in commerce.¹⁵⁴ 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. Relying on *Societe 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 wrongdoer, and, as such, is liable for the injury inflicted.”¹⁵⁵

¹⁵² *Societe Anonyme*, 42 F. at 97.

¹⁵³ 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*, <http://www.fohbc.com/images/hostetters.pdf>.

¹⁵⁴ See 15 U.S.C. §§ 1114(1)(a) (registered marks) (2000). See also *id.* §1125(a)(1) (false designations of origin).

¹⁵⁵ *Hostetter*, 46 F. at 189. See also *Coca Cola Co. v. Gay-Ola Co.*, 200 F. 720, 722-23 (6th Cir. 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.”); *Enoch Mogan’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

*William R. Warner & Co. v. Eli Lilly & Co.*¹⁵⁶ involved a similar scenario. 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. The druggists in turn substituted the defendant's Quin-Coco for the plaintiff's Coco-Quinine in dispensing it to consumers. 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. [Citations omitted]. One who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury.¹⁵⁷

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

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."); *N. K. Fairbank Co. v. R. W. Bell Mfg. Co.*, 77 F. 869, 878 (2nd 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 from *Lever v. Goodwin*, 36 L.R. 1, 3 (Ch. Div. 1997)).

¹⁵⁶ 265 U.S. 526 (1924).

¹⁵⁷ *Id.* at 530-31.

misrepresentation himself, he intentionally induces his purchasers so to market them.”¹⁵⁸ The Illustration for this section was based on the facts in the *William R. Warner* case.¹⁵⁹ 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.”¹⁶⁰ 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.”¹⁶¹

The Chapter entitled “Confusion of Source” in which these sections were included was omitted from the *Restatement (Second) of Torts* along with 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 torts law principles, the influences of tort law had decreased in the fields of unfair competition and trade regulation, and

¹⁵⁸ RESTATEMENT OF TORTS § 713 (1938)

¹⁵⁹ *See id.* Illustration.

¹⁶⁰ *Id.* § 738.

¹⁶¹ *Id.* § 739.

therefore these fields no longer belonged in the *Restatement of Torts*.¹⁶² The Institute indicated that if it was decided later than a restatement was needed for these fields, separate restatements on the particular subjects would be prepared.¹⁶³

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.*¹⁶⁴ The plaintiff manufactured and sold a patent prescription drug in colored capsules under a registered trademark. After the patent expired, the generic drug manufacturers began manufacturing and selling the drug in capsules that copied the appearance of plaintiff's capsules. The plaintiff alleged that some pharmacists had dispensed generic drugs that they had mislabeled with the plaintiff's registered trademark, and that the generic drug manufacturers had contributed to the mislabeling by their use of look-alike capsules. 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. 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.¹⁶⁵

¹⁶² RESTATEMENT (SECOND) OF TORTS Div. 9, Interference with Advantages Economic Relations Introductory Note (1979).

¹⁶³ The Institute adopted the *Restatement (Third) of Unfair Competition* in 1995.

¹⁶⁴ 456 U.S. 844 (1982).

¹⁶⁵ *Id.* at 854.

Restatement (Third) of Unfair Competition section 27¹⁶⁶ 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 § 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.¹⁶⁷

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. In contrast, 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. 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 reasonably believed that less drastic precautions would deter future infringement.¹⁶⁸

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

¹⁶⁶ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

¹⁶⁷ *Id.*

¹⁶⁸ *Id.* Reporter's Note Comment d.

(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 § 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.¹⁶⁹

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.*¹⁷⁰ The appellate court referred to *Restatement (Second) of Torts* section 877(c),¹⁷¹ 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. 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*. 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 for the

¹⁶⁹ *Id.* § 26.

¹⁷⁰ 955 F.2d 1143 (7th Cir. 1992).

¹⁷¹ 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, . . .”).

defendant to be liable for contributory trademark infringement.¹⁷² The court rejected application of the doctrine of vicarious liability that had developed for contributory copyright infringement out of the dance hall cases. 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.¹⁷³

The Ninth Circuit approved *Hard Rock* in *Fonovisa, Inc. v. Cherry Auction, Inc.*,¹⁷⁴ which involved contributory trademark infringement by an operator of a swap meet. The *Fonovisa* court cited to *Restatement (Second) of Torts* section 877(c), and it applied the *Inwood* standard to the swap meet.¹⁷⁵

The Ninth Circuit took a strange turn, however, in *Lockheed Martin Corp. v. Network Solutions, Inc.*¹⁷⁶ The *Lockheed* case was brought against Network Solutions, Inc. (“NSI”), the registrar of Internet domain names, for contributory trademark infringement on account of NSI’s registering domain names to third parties that infringed or diluted Lockheed’s service mark for “Skunk Works.” The court distinguished *Inwood* on the grounds that *Inwood* dealt with a product being supplied by its manufacturer, while the court ruled that NSI supplied a service that

¹⁷² *Hard Rock*, 955 F.2d at 1149.

¹⁷³ *Id.* at 1150 (citing to *Sony*, 464 U.S. at 439 n.19).

¹⁷⁴ 76 F.3d 259 (9th Cir. 1996).

¹⁷⁵ *Id.* at 265.

¹⁷⁶ 194 F.3d 980 (9th Cir. 1999).

was akin to the routing of mail by the United States Postal Service.¹⁷⁷ The court then turned to the *Hard Rock* and *Fonovisa* decisions for precedential guidance, and it stated that these decisions taught that in cases involving contributory infringement 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.”¹⁷⁸ 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.”¹⁷⁹ The court then went on to affirm the 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.

The *Lockheed* decision's interpretation of the *Hard Rock* and *Fonovisa* cases is incorrect.¹⁸⁰ 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

¹⁷⁷ 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. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

¹⁷⁸ *Lockheed*, 194 F.3d at 984.

¹⁷⁹ *Id.*

¹⁸⁰ The *Lockheed* decision is criticized in Kessler, *supra* note 142, 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*.”).

knowledge that the other person is acting or will act tortiously.¹⁸¹ Neither *Inwood* nor section 877(c) requires direct control and monitoring for liability for contributory trademark infringement. In addition, the *Hard Rock* case rejected application of the vicarious liability doctrine from copyright law with its control requirement.¹⁸² *Lockheed'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 so 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 the defendant's intent and knowledge which generally have been critical for a defendant's liability for a tort committed by another. Although the *Lockheed* decision was not supported by precedent and appears unwise, it has been followed in several district court opinions.¹⁸³

¹⁸¹ *Fonovisa*, 76 F.3d at 264-65; *Hard Rock*, 955 F.2d at 1148-49.

¹⁸² *Hard Rock*, 955 F.2d at 1151.

¹⁸³ *Habeeba's Dance of the Arts, Ltd. v. Knoblauch*, ___ F. Supp. 2d ___, 2006 WL 120971, * 3-4 (S.D. Ohio) (complaint stated claim for contributory trademark infringement against YMCA because facts alleged in complaint supported inference that YMCA had enough control over direct infringer to have prevented infringement); *SB Designs v. Reebok Int'l, Ltd.* 338 F. Supp. 2d 904 (N.D. Ill. 2004) (granting summary judgment on contributory trademark infringement claim because there was no evidence that defendant controlled or monitored 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 claim for contributory trademark infringement because complaint alleged that Internet search engine operator monitored and

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)¹⁸⁴ and 877(a).¹⁸⁵ The first part of the *Inwood* standard that imposes liability on “a manufacturer or distributor [who] intentionally induces another to infringe a trademark”¹⁸⁶ is substantially the same as the provision for inducing tortious conduct in *Restatement (Second) of Torts* section 877(a), except 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. The requirement of actual or constructive knowledge should probably be read into the *Inwood* standard in order to avoid imposing liability on a defendant who either had a good faith belief that 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 that imposes liability on “a manufacturer or

controlled infringing third-party advertisements); *Size, Inc. v. Network Solutions, Inc.*, 255 F. Supp. 2d 568, 572-73 (E.D. Va. 2003) (dismissing 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, 688-90 (D. Md. 2001) (affirming summary judgment because defendant did not directly monitor and control activities of infringing website).

¹⁸⁴ 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, . . .”).

¹⁸⁵ RESTATEMENT (SECOND) OF TORTS § 877(a) (1979) (“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, . . .”).

¹⁸⁶ *Inwood*, 456 U.S. at 854.

distributor [that] continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement” is analogous to the aiding and abetting liability found in *Restatement (Second) of Torts* section 876(b). However, *Inwood* imposes liability if the defendant has either actual or constructive knowledge of trademark infringement, while section 876(b) provides for liability only if the defendant has actual knowledge of the infringement. The distinction between actual and constructive knowledge is probably not very significant in the context of contributory trademark infringement as a practical matter, because in most cases a defendant that has reason to know that 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*¹⁸⁷ 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*. Since *Restatement (Third) of Unfair Competition* section 27 was based on *Inwood*, it bears basically the same resemblance to the general tort law principles of aiding and abetting liability and inducing tortious conduct found in *Restatement (Second) of Torts* that *Inwood* does. As noted previously,¹⁸⁸ 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 that it knows or has reason to know is infringing,¹⁸⁹ while section 27 imposes liability only if the

¹⁸⁷ RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 26, 27 (1995).

¹⁸⁸ *See supra* text accompanying notes 167-68.

¹⁸⁹ *Inwood*, 456 U.S. at 854.

manufacturer or distributor fails to take reasonable precautions against the infringement in circumstances where infringement can be reasonably anticipated. 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), but the differences are probably not very significant as a practical matter, because in most cases the reason a manufacturer could reasonably anticipate infringement by its customers is that 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 are used by their customer for trademark infringement. This provision closely resembles the provision for aiding and abetting liability in *Restatement (Second) of Torts* section 876(b), because generally a supplier of labels, packaging or advertisements 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 acted without knowledge that the customer intended the reproduction or imitation of the trademark to confuse or deceive essentially imposes an actual knowledge requirement. 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 it had actual knowledge of the infringement.

The *Hard Rock* and *Fonovisa* cases dealing with the liability of operators of flea markets and swap meets for contributory trademark infringement are completely consistent with the general tort law principles in the *Restatement (Second) of Torts*. This is not surprising because

the opinions in both cases relied on *Restatement (Second) of Torts* section 877(c),¹⁹⁰ 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.¹⁹¹

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

VI. Conclusion

As the Supreme Court emphasized in *Sony*, imposing liability on one person for the conduct of another person is not limited to intellectual property law but is done “in virtually all areas of the law.”¹⁹² *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

¹⁹⁰ 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, . . .”).

¹⁹¹ *Fonovisa*, 76 F.3d at 264-65; *Hard Rock*, 955 F.2d at 1148-49.

¹⁹² *Sony*, 464 U.S. at 435.

person. Section 876(b) imposes liability on an aider and abettor who gives substantial assistance or encouragement for another to commit a tort with actual knowledge that the other person's conduct is tortious. Section 877(a) imposes liability on a person who orders or induces tortious conduct by another person with either actual or constructive knowledge that the conduct is tortious. 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. The *Restatement's* provisions provide the legal context into which the law for the indirect infringement of intellectual property should fit.

Although the law of indirect infringement derived 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 the general tort law for the most part. Even though it is governed by statute, the patent law of indirect infringement probably conforms most closely to the general tort law. The only significant difference between the patent law of indirect infringement and general tort law is the limitation for 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 the *Napster* case to a computer network operator. Vicarious liability for copyright infringement was never sound in principle,

but the imposition of liability for copyright infringement committed by orchestras on the dance hall proprietors was relatively benign since 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, though, and it has generated undesirable uncertainty in an important part of the world's economy. The absence of precedent in general tort law for vicarious liability in the absence of 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 that the other person committed, or vice versa. Consequently, the law of indirect infringement should be interpreted so that it is consistent with the general tort law whenever possible.