

THE INTENT ELEMENT OF “INDUCEMENT TO INFRINGE” UNDER PATENT LAW: REFLECTIONS ON *GROKSTER*†

Lynda J. Oswald*

Cite as: Lynda J. Oswald, *The Intent Element of “Inducement to Infringe”
Under Patent Law: Reflections on Grokster*,
13 MICH. TELECOMM. TECH. L. REV. 225 (2006),
available at <http://www.mttl.org/volthirteen/oswald.pdf>

INTRODUCTION	225
I. INDUCEMENT OF INFRINGEMENT UNDER THE PATENT ACT	227
II. SECONDARY LIABILITY UNDER THE COPYRIGHT ACT: <i>GROKSTER</i>	233
III. IMPLICATIONS OF <i>GROKSTER</i> FOR INDUCEMENT OF INFRINGEMENT UNDER THE PATENT ACT: WHAT “INTENT” IS REQUIRED?	238
CONCLUSION	246

INTRODUCTION

In June, 2005, the United States Supreme Court set forth an “inducement” rule in *MGM Studios, Inc. v. Grokster, Ltd.* that imposes secondary liability on “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement.”¹ The Court emphasized the limitations of the liability standard it was setting forth, stating that the target was only “purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.”² Yet, the liability standard set forth in *Grokster* is not as clear or as precise as the Court’s opinion suggested. Moreover, it has potential implications for the scope of secondary liability under the Patent Act as well.

The Copyright Act contains no statutory language referring to “inducement to infringe,” “contributory infringement,” or any other type of secondary or vicarious liability. Rather, the courts have exported these

† © 2006 by Lynda J. Oswald.

* Professor of Business Law, Stephen M. Ross School of Business at the University of Michigan. I would like to thank Thomas Rooney, J.D. 2008 (exp.), University of Michigan, for his outstanding research assistance.

1. 125 S. Ct. 2764, 2780 (2005).
2. *Id.*

theories of indirect liability from the Patent Act, where they are explicit, and have read them into copyright law.³ Thus, the *Grokster* Court drew its liability standard for inducement of copyright infringement from the inducement of infringement liability provision of the Patent Act. It is not surprising that the Court did so—the relationship between the law relating to copyright infringement and patent infringement has been closely intertwined for many decades, and the Supreme Court itself has drawn upon the intricate relationship between the two areas in crafting its copyright jurisprudence, both in *Grokster* and in earlier cases.⁴

Unfortunately, however, the contours of liability for inducement of infringement under the Patent Act have been unclear historically. The decisions of the U.S. Court of Appeals for the Federal Circuit have spawned two competing lines of cases: one imposing a broader scope of liability for inducement to infringe because of a weaker intent standard, and one imposing a narrower scope of liability because of a stronger intent standard.⁵ The Supreme Court ignored this intra-circuit split in *Grokster*, leaving unsettled both the parameters of indirect infringement liability in copyright law and the impact that *Grokster* is likely to have on the development of inducement of infringement jurisprudence under patent law.

Thus, two critical aspects of *Grokster* are its potential impact on the development of indirect liability under both copyright and patent law and, most importantly, its potential influence on our understanding of the “intent” element of inducement of infringement in both areas. As discussed below,⁶ inducement liability first evolved in the patent context through case law. It was codified in the Patent Act and imported into copyright law by the courts, even though no statutory basis for such liability exists in that context. Then, in *Grokster*, the Supreme Court

3. For an overview of secondary liability in copyright law, see Ryan Pohlman, Note, *Inducement and Grokster: Guarding Against the Pitfalls of Copyright Owners' New Weapon*, 55 DEPAUL L. REV. 1309, 1310–12 (2006).

4. For example, in *Sony Corp. of America v. Universal City Studios, Inc.*, the Court held:

If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law.

464 U.S. 417, 439 (1984). The Court went on to note, however, that “[t]he two areas of the law, naturally, are not identical twins, and we exercise the caution which we have expressed in the past in applying doctrine formulated in one area to the other.” *Id.* at 439 n.19.

5. See *infra* notes 32–39 and accompanying text.

6. See *infra* Part I.

expounded upon the meaning of intent for inducement of infringement in the copyright area. That language has since been adopted by the Federal Circuit in analyzing the intent standard for inducement in the patent area.⁷ It is worth exploring whether these incremental judicial alterations in what is fundamentally a statutory area of patent law intrude upon the proper relationship between the courts and the legislature, and whether these changes result in rational or piecemeal development of the legal standards pertaining to inducement of infringement liability in patent law.

I. INDUCEMENT OF INFRINGEMENT UNDER THE PATENT ACT

Direct infringement liability has been a statutory notion since enactment of the very first patent act in 1790.⁸ Indirect patent infringement liability, by contrast, initially developed as a form of common law. Over a century ago, the courts recognized that extending liability only to the direct infringer might well enable others whose culpability in the infringing activities is even greater to escape liability.⁹ Thus, the courts developed a doctrine of contributory liability, under which those who did not directly infringe yet nonetheless helped others to infringe by supplying a component part specially adapted to infringement could also be held liable.¹⁰ In addition, another line of cases developed, addressing situations in which the component had non-infringing uses, but was used

7. See *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1379 (Fed. Cir. 2005); *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354 (Fed. Cir. 2006) (discussed *infra* Part III).

8. See Patent Act of 1790, ch. 7, 1 Stat. 109–112, § 4.

9. The *Grokster* Court also recognized this point: “[I]t may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.” 125 S. Ct. at 2776 (citation omitted).

10. Charles W. Adams, *A Brief History of Indirect Liability for Patent Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 369, 371–72 (2006) (discussing *Wallace v. Holmes*, 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100), which was the first case to recognize that a person can be liable for infringement by making or selling an unpatented element for use in a patented combination or process (i.e., contributory infringement)); see *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1468–69 (Fed. Cir. 1990) (“Prior to the enactment of the Patent Act of 1952, there was no statute which defined what constituted infringement. However, infringement was judicially divided into two categories: ‘direct infringement,’ which was the unauthorized making, using or selling of the patented invention, and ‘contributory infringement,’ which was any other activity where, although not technically making, using, or selling, the defendant displayed sufficient culpability to be held liable as an infringer. Such liability was under a theory of joint tortfeasance, wherein one who intentionally caused, or aided and abetted, the commission of a tort by another was jointly and severally liable with the primary tortfeasor.”) (citations omitted).

for infringing purposes.¹¹ The courts did not want to go so far as to automatically hold liable a defendant who sold a component that had both infringing and non-infringing uses; rather, the courts required evidence that the defendant was actually encouraging infringement by the end users (i.e., the direct infringers).¹² Thus, inducement of infringement was initially treated as a subset of contributory infringement.¹³

After developing for several decades in the patent law jurisprudence, these notions of contributory infringement were codified in the Patent Act of 1952, in section 271.¹⁴ The Patent Act codified inducement of infringement in section 271(b) and contributory infringement in section 271(c),¹⁵ dividing what had previously been a single notion of secondary liability for patent infringement into two separate causes of action, and drawing a distinction between direct and indirect infringement. The two types of infringement are related, however, in the sense that under the

11. *E.g.*, *Westinghouse Elec. & Mfg. Co. v. Precise Mfg. Corp.*, 11 F.2d 209, 212 (2d Cir. 1926) (“A device capable of an infringing use, and sold with the intent that it should be so used, is an infringement of the patent, even though the same device is capable of a noninfringing use, and even though there may be a form for instructions that it shall be used in a noninfringing way.”).

12. *See* 5 DONALD S. CHISUM, *CHISUM ON PATENTS* § 17.02(1) (2006).

13. *See* Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 227 (2005).

14. *See* CHISUM, *supra* note 12, at § 17.02; Adams, *supra* note 10, at 370.

15. The legislative history stated:

The doctrine of contributory infringement has been part of our law for about 80 years. It has been applied to enjoin those who sought to cause infringement by supplying someone else with the means and directions for infringing a patent. One who makes a special device constituting the heart of a patented machine and supplies it to another with directions (specific or implied) to complete the machine is obviously appropriating the benefit of the patented invention. It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as “an expression both of law and morals.” 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. Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer. The principle of contributory infringement is set forth in the provisions of the next paragraph which is more concerned with the usual situation in which contributory infringement arises. This latter paragraph is much more restricted than many proponents of contributory infringement believe should be the case. The sale of a component of a patented machine, etc., must constitute a material part of the invention and must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement, and likewise the sale of staple articles of commerce suitable for noninfringement use does not constitute contributory infringement. The last paragraph of this section provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent.

S. REP. No. 82-1979, at 8 (1952); H.R. REP. No. 82-1923, at 9 (1952).

Patent Act secondary liability cannot exist in the absence of direct infringement by another party.¹⁶

Section 271(a) of the Patent Act addresses *direct infringement*, providing that one who practices the patented invention shall be liable for infringement.¹⁷ This is true regardless of whether the defendant was aware of the patent at the time he or she was infringing it, or whether the defendant had any intent to infringe. The defendant's lack of willfulness or bad faith only affects the availability of enhanced damages under section 284 of the Patent Act,¹⁸ and not whether liability exists in the first place. Thus, liability for direct infringement of a patent is, in effect, a strict liability provision.¹⁹

Contributory infringement was codified in section 271(c).²⁰ Contributory infringement holds liable those who supply a component of a patented invention, where the component is not technically part of the patented invention or process yet has no other substantial non-infringing use except in the patented invention or process. Section 271(c) makes explicit reference to knowledge, imposing liability where the defendant sells a component of a patented invention "*knowing* the same to be especially made or especially adapted for use in" infringing a patent.²¹

Section 271(b) essentially codified all other types of activity constituting "contributory infringement" prior to 1952,²² and so is clearly

16. *Novartis Pharm. Corp. v. Eon Labs Mfg., Inc.*, 363 F.3d 1306, 1308 (Fed. Cir. 2004) ("When indirect infringement is at issue, it is well settled that there can be no inducement or contributory infringement absent an underlying direct infringement."); *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 687 (Fed. Cir. 1986) ("Absent direct infringement of the patent claims, there can be neither contributory infringement nor inducement of infringement.") (citations omitted).

17. 35 U.S.C. § 271(a) (2000) ("[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.").

18. 35 U.S.C. § 284 (2000) (allowing the court in its discretion to increase damages up to three times the amount found or assessed); *see Vulcan Eng'g Co. v. Fata Aluminum, Inc.*, 278 F.3d 1366, 1378 (Fed. Cir. 2002) ("The rules of patent infringement are rules of business ethics, and require prudent commercial actions in accordance with law. 35 U.S.C. § 284 provides remedy to the patentee when these standards are not met, up to three times the amount of found or assessed damages.") (citation omitted).

19. *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) ("Infringement itself . . . is a strict liability offense. . . ."); *see Intel Corp. v. U.S. Int'l Trade Comm'n*, 946 F.2d 821, 832 (Fed. Cir. 1991) ("[T]here is no intent element to *direct* infringement."); *see generally* Lynda J. Oswald, *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115, 122 (2003) (discussing the underlying bases of liability under section 271 of the Patent Act).

20. 35 U.S.C. § 271(c) (2000) ("Whoever offers to sell . . . a component of a patented machine . . . knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article . . . of commerce . . . suitable for substantial noninfringing use, shall be liable as a contributory infringer.").

21. *Id.* (emphasis added).

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

broader in scope than section 271(c) liability. Section 271(b) imposes liability for *inducement of infringement*, providing that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.”²³ Inducement of infringement, therefore, applies to those who supply a product or service that does have substantial non-infringing uses if the supplier also encourages that product or service to be used in an infringing fashion. Imposition of secondary liability in the patent law arena gives patent owners protection in cases where suing the direct infringers is impracticable (such as where the direct infringers are financially incapable of compensating the patentee for its damages, or are customers of the patentee), or where the actual infringement by each direct infringer is so small that the costs of litigation would overwhelm the recovery, even though the aggregate damages caused by the direct infringement might be very large.²⁴ In such an instance, suing the indirect infringer may be a more practical and pragmatic approach; moreover, depending upon the circumstances, the indirect infringer might be more morally culpable for the infringement than the direct infringer. The flip side of the secondary liability coin is that secondary liability should not be imposed on inappropriate parties or in a way that would impede the stream of lawful commerce.²⁵

Section 271(b) has no explicit intent requirement. Rather, the statutory language on its face appears to be directed to conduct, not intent, requiring that the defendant *actively* induce infringement.²⁶ Nevertheless, the courts have read an intent requirement into the statutory language of section 271(b),²⁷ and it is now firmly ensconced in Federal Circuit jurisprudence,²⁸ making inducement of infringement under the Patent Act

23. 35 U.S.C. § 271(b) (2000).

24. Lemley, *supra* note 13, at 228; *see* CHISUM, *supra* note 12, § 17.04(4)(f); *see also* Michael N. Rader, *Toward a Coherent Law of Inducement to Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for Intent Under § 271(b)*, 10 FED. CIR. B. J. 299, 300 (2001); Justin Hughes, *On the Logic of Suing One's Customers and the Dilemma of Infringement-Based Business Models*, 22 CARDOZO ARTS & ENT. L.J. 725, 728 (2005).

25. Lemley, *supra* note 13, at 228 (“[T]he law must take equal care to avoid imposing liability on those who participate in the stream of lawful commerce merely because their products can be misused.”).

26. 35 U.S.C. § 271(b) (2000).

27. The court's approach is explained at least in part by the manner in which the common law led to the development of these two statutory provisions. *See supra* notes 8–13 and accompanying text. Pre-1952 case law required a higher showing of knowledge and intent for the subset of inducement of infringement than for contributory infringement. CHISUM, *supra* note 12, § 17.04(2).

28. *See, e.g.,* *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) (“On its face, § 271(b) . . . certainly does not speak of any intent requirement to prove active inducement. However, in view of the very definition of ‘active inducement’ in pre-1952 case law and the fact that § 271(b) was intended as merely a codification of pre-1952 law, we are of the opinion that proof of actual intent to cause the acts which constitute the

more akin to an intentional tort²⁹ than to the strict liability standard of direct patent infringement.

The contours of liability for inducement of infringement under the Patent Act are murky, at best. The Federal Circuit has acknowledged a sharp intra-circuit split in its jurisprudence relating to the type of intent required to support an inducement of infringement action under section 271(b) of the Patent Act.³⁰ In sharp contravention of the Federal Circuit’s own rules of precedent,³¹ two panels of the court issued different intent standards for inducement of patent infringement within three months of each other in 1990, creating confusion in the applicable standards for inducement liability that persists even to today.

In the first of these two cases, *Hewlett-Packard v. Bausch & Lomb, Inc.*,³² the Federal Circuit imposed a lower intent standard—“proof of actual intent to cause the acts which constitute the infringement”³³—which resulted in a broader scope of inducement liability. Under the *Hewlett-Packard* standard of intent, a defendant can be held liable provided it encouraged the acts that formed the basis for the direct infringement claim. The defendant’s good faith beliefs as to the legality of its acts are irrelevant to this inquiry³⁴ and do not excuse the defendant’s actions or mitigate its liability.

In contrast, the Federal Circuit’s decision in *Manville Sales v. Paramount Systems*,³⁵ decided just three months after *Hewlett-Packard*,

infringement is a necessary prerequisite to finding active inducement.”); *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (“Although § 271(b) does not use the word ‘knowing’ the case law and legislative history uniformly assert such a requirement.”); Lemley, *supra* note 13, at 238 (stating that “the specific intent requirement is well-established in the law” and citing various Federal Circuit cases). In addition, Judge Giles Rich, the drafter of the 1952 Patent Act, stated that “the evidence must establish active inducement and that involves intent.” Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 537 (1953).

29. The necessary intent may be shown by either circumstantial or direct evidence. *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1378 (Fed. Cir. 2005) (citing *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)); *see also* *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1272 (Fed. Cir. 1986).

30. *See MEMC*, 420 F.3d at 1378 (“[T]here is a lack of clarity concerning whether the required intent must be merely to induce the specific acts [of infringement] or additionally to cause an infringement.” (quoting *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1332 (Fed. Cir. 2005))).

31. *See, e.g.*, *UMC Electronics Co. v. United States*, 816 F.2d 647, 652 n.6 (Fed. Cir. 1987) (“A panel of this court is bound by prior precedential decisions unless and until overturned *in banc*.”).

32. 909 F.2d 1464 (Fed. Cir. 1990).

33. *Id.* at 1458. By contrast, the court stated that section 271(c) requires “only proof of a defendant’s knowledge, not intent, that his activity cause infringement.” *Id.*

34. *See also* *Moba, B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1318 (Fed. Cir. 2003) (relying upon *Hewlett-Packard* in stating that “the only intent required of [the accused infringer] is the intent to cause the acts that constitute infringement”).

35. 917 F.2d 544 (Fed. Cir. 1990).

provided for a higher intent standard, thus leading to a narrower scope of liability for inducement of infringement. In the words of the *Manville* court: “It must be established that the defendant possessed specific intent to encourage another’s infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement.”³⁶ Thus, under the *Manville* standard, the defendant must have a culpable intent in order to be liable. A good faith belief that the encouraged acts are not infringing (e.g., a belief that the defendant’s product does not infringe or that the plaintiff’s patent is invalid based upon the advice of competent patent counsel) would protect the defendant from liability for inducement of infringement.³⁷

The difference between the *Manville* and *Hewlett-Packard* standards is an important one. An alleged patent inducer may in good faith believe that the acts of the direct infringers are outside the scope of the patent and thus non-infringing, or that the patent itself is invalid. Under *Manville*, the alleged inducer would have no liability; under *Hewlett-Packard*, the alleged inducer would be liable. The Federal Circuit has long recognized the inconsistency of its positions in these two cases, but has failed to reconcile the decisions.³⁸ Often, the court has been able to finesse the difference between the two lines of cases by finding that a defendant’s actions satisfied the higher standard of intent of *Manville*, and thus implicitly satisfied the lower standard of *Hewlett-Packard* as well. This allows the court to disregard the difference between the two standards in the specific case before it.³⁹

36. *Id.* at 553.

37. In *Manville*, the company had relied upon the opinion of counsel that its device did not infringe and so it was not liable for infringement. *See also* Ferguson Beauregard/Logic Controls v. Mega Systems, LLC, 359 F.3d 1327, 1341–42 (Fed. Cir. 2003) (“[*Manville*] makes clear that ‘it must be established that the defendant possessed specific intent to encourage another’s infringement and not merely that the defendant had knowledge of the acts alleged to constitute infringement.’” (quoting *Manville*, 917 F.2d at 553)).

38. *Manville*, however, is clearly the favored approach. Lemley, *supra* note 13, at 240 n.71.

39. *See, e.g.*, MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1378 n.4 (Fed. Cir. 2005) (“We need not resolve that ambiguity in this case, however, because it is undisputed that [the defendant] had knowledge of the . . . patent. Thus, assuming that [the plaintiff] is able to demonstrate that [the defendant] had intent to induce the specific acts constituting infringement, intent additionally to cause an infringement can be presumed.”); MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1332 (Fed. Cir. 2005) (noting that there is a “lack of clarity” about the intent required for inducement, and that at a minimum the patentee must show “that the alleged inducer had knowledge of the infringing acts in order to demonstrate either level of intent”); Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1377–78 (Fed. Cir. 2005) (noting the lack of clarity in the standard, but finding that “substantial evidence supports the jury’s finding of intent under either” standard); Insituform Technologies, Inc. v. CAT Contracting, Inc., 385 F.3d 1360, 1378 (Fed. Cir. 2004) (finding “sufficient evidence” to support the lower court’s finding of intent under either standard).

The level of intent required under section 271(b) thus was uncertain at the time that the Supreme Court decided *Grokster*, and remains uncertain today. Interestingly, the Supreme Court never discussed, or even acknowledged, this intra-circuit split when it imported section 271(b) liability into copyright law. It is not clear whether the Court was aware of this split, or whether it considered the effect the split might have on the rule it set forth in *Grokster*. This leaves open, then, the question of what effect *Grokster* has on our understanding of the intent element of inducement of infringement in the patent arena.

II. SECONDARY LIABILITY UNDER THE COPYRIGHT ACT: *GROKSTER*

The facts in *Grokster* were very typical of cases involving indirect liability for patent infringement. Defendants Grokster, Ltd. and StreamCast Networks, Inc. distributed free software that permitted computer users to share electronic files through peer-to-peer networks. They developed their software in the wake of Napster's disastrous and failed attempts to protect its Internet file-sharing service against copyright infringement litigation brought by music publishers and record companies.⁴⁰ Grokster and StreamCast gambled that technology differences would save them from Napster's fate. While Napster had used a central server system to maintain an index of available files and had mediated file transfers between users,⁴¹ Grokster's and StreamCast's software allowed computer users to communicate directly over peer-to-peer networks.⁴² Because Grokster and StreamCast did not have central servers, they argued that they had no knowledge of which files were copied or when files were copied, and hence had little or no control over the users' behavior. Nonetheless, neither Grokster nor StreamCast attempted to filter out copyrighted files or prevent users from downloading them,⁴³ and both distributed promotional materials advertising the availability of specific copyrighted songs over their networks.⁴⁴

The plaintiffs in *Grokster* consisted of the major movie studios and record companies, and various music publishers and songwriters. The plaintiffs claimed that the defendants' software enabled the unauthorized

40. See *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001).

41. *Napster*, 114 F. Supp. 2d at 905–08.

42. *MGM Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2770 (2005).

43. *Id.* at 2774 (“[T]here is no evidence that either company made an effort to filter copyrighted material from users’ downloads or otherwise impede the sharing of copyrighted files.”).

44. *Id.*

transfer of copyrighted works, such as music and video files, and that the defendants intended, promoted, and profited from these acts of infringement. Thus, the plaintiffs argued, the defendants should be held secondarily liable for the direct infringement of the copyrighted works by their users.

The technology at issue could facilitate the transfer of any type of electronic file, both infringing and non-infringing. However, the plaintiffs produced evidence that defendants' software was predominantly used to distribute copyrighted works without the permission of the copyright owners and without paying royalties.⁴⁵ The plaintiffs also produced evidence of the defendants' active steps to encourage this extensive direct infringement by end users,⁴⁶ as well as the financial dependence of the defendants' business models upon such infringement.⁴⁷

The District Court granted summary judgment for the defendants, finding that secondary liability could not attach where the defendants did not have actual knowledge of specific acts of infringement.⁴⁸ A unanimous panel of the Ninth Circuit affirmed,⁴⁹ based in large part upon the Ninth Circuit's own prior interpretations of the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*⁵⁰ In *Sony*, the Supreme Court held that the manufacturer of a VCR could not be liable for contributory copyright infringement, even if some (or many) of the consumers used the product to infringe copyrights, because the VCR was capable of commercially significant non-infringing uses. The Ninth Circuit interpreted *Sony* to mean that contributory liability could not attach if a product had any substantial non-infringing use unless the distributor had actual knowledge of the infringement and failed to respond to that knowledge.⁵¹ If a distributor actually knew of specific infringing uses at a time when the infringer could prevent the infringement but declined to

45. *Id.* at 2772 (Plaintiffs' "evidence gives reason to think that the vast majority of users' downloads are acts of infringement, and because well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the [defendants'] networks each month, the probable scope of copyright infringement is staggering.").

46. *Id.* ("The record is replete with evidence that from the moment [plaintiffs] began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement.").

47. *Id.* at 2774 ("[T]he business models employed by [defendants] confirm that their principal object was use of their software to download copyrighted works.").

48. *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003).

49. *MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir. 2004).

50. 464 U.S. 417 (1984).

51. *Grokster*, 125 S. Ct. at 2775. The Ninth Circuit also found that the defendants were not liable under a vicarious liability theory because they did not "monitor or control the use of the software, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement." *Id.* The Ninth Circuit interpreted *Sony* similarly in *Napster. A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

do so, the distributor could incur liability. Because Grokster and StreamCast did not maintain central servers, they could not respond to an infringement and hence, the Ninth Circuit concluded, could not be liable for contributory infringement.⁵²

The Supreme Court rejected the Ninth Circuit's interpretation of *Sony*, unanimously vacated the Ninth Circuit's judgment, and remanded the case for further proceedings. The *Grokster* Court held: "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."⁵³ As in *Sony*, the *Grokster* Court turned explicitly to patent law for guidance in setting forth the parameters of secondary liability for copyright law. In so doing, the Court highlighted once again the rather odd and tortuous relationship between secondary liability in patent law and secondary liability in copyright law.

Grokster provides an apt example of why the courts and legislature felt the need to adopt secondary infringement liability, first in patent law, and then in copyright law. *Grokster* is, in fact, the prototypical inducement case: many small, individual infringers, each inflicting a small injury and each relatively judgment-proof, and one or a few alleged inducers, each possessing significantly deeper pockets. The direct infringers in *Grokster* are the multitude of individual users of the peer-to-peer networks, who use the networks to illegally download copyrighted materials. Identifying and taking action against these individual users is cumbersome, expensive, and offensive to those whom the copyright holders would like to have become lawful, paying consumers of the copyrighted materials.⁵⁴ The courts (followed in the patent arena by the legislature) have recognized that in instances such as these, it is not only

52. *Grokster*, 380 F.3d 1154 (9th Cir. 2004).

53. 125 S. Ct. at 2780. However, the *Grokster* Court did not overrule *Sony*, expressly leaving consideration of *Sony* to a later day. The Court stated:

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

Id. at 2778–79.

54. See, e.g., Hughes, *supra* note 24, at 728. This, of course, has not prevented the music industry from targeting specific individuals in highly publicized litigation, in an effort to deter other potential infringers. See, e.g., Katie Dean, *RIAA Legal Landslide Begins*, WIRED NEWS, Sep. 8, 2003, <http://www.wired.com/news/digiwood/0,1412,60245,00.html> (noting that on September 9, 2003, the RIAA filed suits against 261 people accused of illegally distributing copyrighted music files on peer-to-peer networks).

the direct infringers who should be held liable but those who encourage and enable such direct infringement as well. While the injury inflicted by each individual direct infringer may be very small, the aggregated injury made possible by the machinations of the inducer of that direct infringement may be crushingly large.

However, the *Grokster* Court's treatment of secondary liability in the copyright context was unclear, and meshes uneasily, at best, with its earlier holding in *Sony*. In *Sony*, the U.S. Supreme Court imported the "capable of substantial non-infringing use" test directly from the contributory infringement language of section 271(c) of the Patent Act, to create copyright liability for the sale of a good that has no substantial use but to infringe. The *Sony* adaptation was not exact, however, since section 271(c) applies to a component of a patented machine, while the *Sony* Court applied the test to the device (VCR) as a whole.⁵⁵

The *Grokster* Court acknowledged the *Sony* Court's borrowing of the Patent Act's contributory infringement language, and went one step further by also importing the inducement rule from section 271(b) of the Patent Act.⁵⁶ The Court acknowledged limits to the rule it was setting forth, recognizing "the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential."⁵⁷ The Court qualified its holding by stating that:

[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 . . . support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.⁵⁸

The *Grokster* Court did little to clarify *Sony* or the role of intent in indirect copyright infringement liability. By stating that "[o]ne infringes

55. One commentator notes that under patent law, the VCR would have been addressed under section 271(b), not section 271(c), and speculates that this may be part of the cause of the confusion in the cases. Timothy R. Holbrook, *The Intent Element of Induced Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH L. J. 399, 402 n.14 (2006).

56. *Grokster*, 125 S. Ct. 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. We adopt it here . . .").

57. *Id.*

58. *Id.* This theme of protecting the free flow of commerce is a recurring one in Supreme Court copyright jurisprudence. *See, e.g.*, *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (noting the importance of "striking a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce").

contributorily by intentionally inducing or encouraging direct infringement,"⁵⁹ the *Grokster* Court essentially redefined contributory infringement in the copyright context by replacing the knowledge requirement found in the statutory language of the Patent Act (which the court was purportedly borrowing for copyright purposes) with an intent element instead. The *Grokster* Court also recharacterized *Sony*, redefining the case as prohibiting imputation of intent, rather than knowledge.⁶⁰ The Court indicated that although Sony knew its product could be used for infringing purposes, the *Sony* rule "limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product."⁶¹ Sony was not liable for infringement because "[t]here was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping"⁶² and because no such unlawful objective could be presumed.

However, the *Grokster* Court went on to explain that "nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law."⁶³ The Court concluded that if the evidence at trial indicates that Grokster and StreamCast intended to encourage inducement, then they could be held liable for infringement even if their products were capable of substantial non-infringing uses.⁶⁴

Although the *Grokster* Court did not determine the liability of the defendants for inducement of infringement of copyright (leaving that factual determination to the lower court on remand), the Court made it abundantly clear that inducement in the copyright context hinges on culpable intent and an unlawful objective.⁶⁵ The Court, in fact, specifically referred to inducement of infringement as "fault-based liability"⁶⁶ and stated that inducement requires an "intent to bring about infringement."⁶⁷

Grokster clearly redefined the intent element of inducement of infringement in the copyright context, but the exact scope of that redefinition remains unclear. The Court set forth a rule based on both

59. *Grokster*, 125 S. Ct. at 2776.

60. *Id.* at 2778 ("Sony barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement.").

61. *Id.* at 2779.

62. *Id.* at 2777.

63. *Id.* at 2779.

64. *Id.*

65. *Id.* at 2780.

66. *Id.* at 2779.

67. *Id.* at 2782.

expression and conduct.⁶⁸ Although the Court treated *Grokster* as a case of active inducement, it did not define what “clear expression or other affirmative steps”⁶⁹ would generally suffice to make a showing of inducement liability. On the one hand, mere distribution, even with knowledge of infringing potential or actual infringement, is not sufficient to subject the distributor to liability, nor “would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves.”⁷⁰ However, an alleged inducer could be held liable if it engaged in conduct or statements that “clearly voiced the objective . . . of encourag[ing] infringement.”⁷¹ A “classic case” of inducement would include advertising an infringing use or instructing others how to engage in an infringing use.⁷²

The *Grokster* Court also indicated that the intent necessary to support secondary liability for copyright infringement must be obvious: “If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.”⁷³ It would appear, then, that the *Grokster* Court intended liability to attach only if the defendant had specific intent to cause infringement.⁷⁴

III. IMPLICATIONS OF *GROKSTER* FOR INDUCEMENT OF INFRINGEMENT UNDER THE PATENT ACT: WHAT “INTENT” IS REQUIRED?

What, if anything, does *Grokster* tell us about the appropriate parameters of the intent element for inducement of infringement under the

68. *Id.* (“The inducement rule, instead, premises liability on purposeful, culpable expression and conduct . . .”).

69. *Id.* at 2770.

70. *Id.* at 2780.

71. *Id.* at 2777.

72. *Id.* at 2779. The Court stated that “[p]roving a message was sent out . . . is the pre-eminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts . . .” *Id.* at 2781. The Court provided three examples of “other evidence” (or “complement[s] to direct evidence of unlawful objective”) that demonstrated that these defendants “acted with a purpose to cause copyright violations . . .” *Id.* First, “each company . . . aim[ed] to satisfy a known source of demand for copyright infringement . . .” *Id.* Second, the defendants failed to develop a filtering tool to reduce infringing activity, *id.*, though the Court noted that “in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.” *Id.* at 2781 n.12. Third, the defendants’ business plans and profitability depended upon infringing conduct, though the Court noted that “[t]his evidence alone would not justify an inference of unlawful intent . . .” *Id.* at 2781–82.

73. *Id.* at 2782.

74. *Id.* at 2778 (in other words, “an actual purpose to cause infringing use”).

Patent Act? There are already early suggestions in the Federal Circuit's jurisprudence that the circle is being closed on this issue. *Grokster* looked explicitly to patent law for the intent standard for inducement of infringement in the copyright area. At least two post-*Grokster* panels of the Federal Circuit have cited *Grokster* in assessing liability for inducement of infringement in the patent law area.⁷⁵ Given that *Grokster* itself is such an opaque decision, we should be concerned that if the new standards set in the copyright arena are now applied back to patent law, we will end up with less clarity in both areas of the law.

Grokster is more similar to the *Manville* line of cases in patent law, which require a culpable intent to encourage direct infringement, than to the *Hewlett-Packard* line of cases, which impose inducement of infringement liability for encouraging infringing acts regardless of the defendant's good faith beliefs. Moreover, because *Grokster* rests on policy grounds of protecting "legitimate commerce" and the promotion of "innovation having a lawful promise,"⁷⁶ the culpability standard articulated by the Court in the copyright arena would seem, on its face, to translate seamlessly to the patent law arena. The same public policy considerations that drove the analysis in *Grokster* apply in the patent law area as well; in fact, the Court has noted elsewhere the importance of not allowing patent liability rules to impede "the wheels of commerce."⁷⁷

One should proceed down this path only with extreme caution. There are real dangers in treating patent law and copyright law as parallel areas of intellectual property law. Although the *Sony* Court referred to the

75. In *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, the Federal Circuit reversed the trial court's grant of summary judgment of non-infringement based on inducement of infringement and remanded for further proceedings. The court specifically quoted *Grokster*'s language regarding intent: "Evidence of active steps taken to encourage direct infringement, such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe" 420 F.3d 1369, 1379 (quoting *Grokster*, 125 S. Ct. at 2768). In *MEMC*, the evidence showed that the alleged inducer had actual knowledge of the plaintiff's patent, and the evidence contained email communications between the alleged inducer and direct infringer enabling the direct infringer to purchase and use the accused product, as well as emails indicating that the alleged inducer was not only aware of the potentially infringing activities of the direct infringer but intended to encourage those activities. *Id.* at 1379-80. In *Golden Blount, Inc. v. Robert H. Peterson Co.*, the court cited both *MEMC* and *Grokster* regarding the intent standard for inducement of infringement. *Golden Blount*, 438 F.3d 1354, 1365 n.4 (Fed. Cir. 2006).

76. *Grokster*, 125 S. Ct. at 2768.

77. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48 (1912) ("[A] sale of an article which, though adapted to an infringing use, is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer. Such a rule would block the wheels of commerce."), *overruled on other grounds by* *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517 (1917). *See also* *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (quoting the "wheels of commerce" language of *Henry* in the context of copyright law).

“historic kinship between patent law and copyright law,”⁷⁸ the Court also noted that they are not “identical twins.”⁷⁹ In fact, I would characterize the relationship as more that of extended family members than of siblings. Fundamentally, the parameters of liability in each area, even for direct infringement, are distinct. Direct infringement under the Patent Act leads to strict liability; even independent creation of an invention identical to the patented invention can result in infringement liability. On the other hand, direct liability under copyright law does not attach where the defendant independently created an identical work; rather, the defendant must have inappropriately and illegally copied the protected work in order to be held liable. Because the scope of direct infringement is so different in the two areas, it would be naïve to assume the scope of indirect liability should be coterminous between copyright and patent law.

Furthermore, because the level of legal protection given to patents is substantially higher than that given to copyrights, the “hoops” that a patentee must jump through in order to obtain and enforce its limited monopoly are much higher than those that a copyright holder must go through to obtain relief from illegal copying. The trade-off between the legal formalities attached to obtaining each type of intellectual property protection and the degree of legal protection and relief given are careful and considered policy choices, and certainly not ones which the courts should set aside or dismiss too easily.

The dangers of importing secondary liability from patent law wholesale into copyright law also ought to be readily apparent. The history of sections 271(b) and 271(c) of the Patent Act makes clear that these notions of secondary liability developed in a context very specific to patent law.⁸⁰ Moreover, indirect infringement in the patent and copyright areas typically arises in very different factual circumstances. In the patent area, indirect infringement is usually tied to the infringement of a specific patent, and so is more bounded in scope.⁸¹ Indirect infringement in the copyright area, on the other hand, more commonly arises from the development of technology that is capable of being used to infringe the exclusive rights of copyright holders⁸² (such as the VCR in *Sony* or the peer-to-peer networks in *Grokster*). This can lead to “open-ended” liability for indirect infringement in the copyright area, as opposed to the more finite liability attached to a specific patent in the patent law area.⁸³

78. *Sony*, 464 U.S. at 439.

79. *Id.* at 439 n.19.

80. See Adams, *supra* note 10, at 383–86 (discussing development of contributory liability and inducement of infringement under patent law).

81. *Id.* at 397–98.

82. *Id.*

83. *Id.* at 398.

This broader scope of liability, coupled with the weaker form of intellectual property protection, argues for a higher intent standard in copyright law than in patent law.

All of this suggests that the courts should avoid looking to *Grokster* as a barometer of what the scope of secondary liability in the patent law area should be. The courts have already stretched the bounds of indirect infringement by importing patent law notions of indirect liability into the copyright law arena; importing those distorted notions of indirect infringement from the copyright law area back into patent law will only further muddy the already murky waters of secondary liability.

If we ignore the impact of *Grokster* on patent law, however, we are still left with a vexing question: what should the scope of inducement of infringement in the patent law area be in light of the Federal Circuit's intra-circuit split in *Manville* and *Hewlett-Packard*? This issue has drawn the attention of several commentators in recent years, and *Grokster* has served to heighten this scrutiny.

Recently, Professor Lemley proposed a "sliding scale" inquiry for liability for inducement of patent infringement in which the variables of conduct and intent "interact."⁸⁴ Under his proposal, the less egregious the defendant's conduct, the more specific the intent to induce infringement must be to support liability,⁸⁵ and vice versa—the more egregious the defendant's conduct, the less intent that would be required for liability to attach. In Lemley's view, direct infringers would be held strictly liable, even if they did not know and could not possibly have known, that they were infringing. This, of course, comports with current doctrine.⁸⁶ Indirect infringement, on the other hand, would require some element of knowledge or intent. The more "integrally involved" the defendant is in causing or encouraging the direct infringement, the closer the defendant's culpability is to that of the direct infringer.⁸⁷ The difficulty, as Lemley acknowledges, is in striking a balance between avoiding imposition of liability on a defendant who did not intend to cause an act that turns out to be infringing, on the one hand, and avoiding letting "the mastermind escape while punishing the servant,"⁸⁸ on the other.

It is unclear why a direct infringer who did not know and could not have known of his infringement should be held strictly liable, while an indirect infringer who knows most of his end users are infringing, albeit without his direct encouragement, should escape liability. Lemley finesses this issue by noting that patent law statutorily is a strict liability

84. Lemley, *supra* note 13, at 242–43.

85. *See id.* at 242–44.

86. *See supra* notes 78–80 and accompanying text.

87. Lemley, *supra* note 13, at 242.

88. *Id.*

tort, and he leaves it at that.⁸⁹ But, if Congress makes clear its intent of making direct infringement a strict liability tort, why should the court read a lesser standard into indirect infringement liability?

Professor Lemley's argument is premised upon his notion that patents are "inherently probabilistic" rights.⁹⁰ A high percentage of patents are held to be invalid when challenged in court, and the scope of invalid patents is hard to determine within any precision.⁹¹ Thus, Lemley argues, just because a defendant knows of the existence of a patent, his actions do not necessarily indicate an intent to infringe upon the patent; rather, the defendant may believe he successfully designed around the patent, that the patent is invalid, or that the patent's claims do not cover the acts that the defendant is assisting another to do.⁹² If it turns out that those beliefs are wrong, Lemley argues, there is certainly direct infringement by the end users, but it is far less clear that there is inducement to infringe as well.

Professor Holbrook also addressed this topic recently. He argues that an inducer should be liable only when there is an intent to induce infringement, and not merely the intent to induce the acts that lead to infringement.⁹³ This is essentially an argument for the *Manville* standard over the *Hewlett-Packard* standard. Holbrook argues that this higher standard is necessary so as to avoid both the potential anticompetitive consequences of the *Hewlett-Packard* rule and the risk of punishing innocent actors (i.e., those defendants whose actions resulted in indirect infringement even though the defendants did not intend the infringement).⁹⁴ He contends that the rights of the patentee can be adequately protected under such a rule provided that the rule is only applied so as to insulate the inducer from past liability and not to protect the inducer from prospective relief, including a permanent injunction.⁹⁵

Holbrook's argument is premised upon his position that third party liability in patent law should be the exception, not the rule, and that we should avoid penalizing a "good" actor who truly believes that the other parties involved (i.e., the end users) are not directly infringing.⁹⁶ He argues that this rule is pro-competitive because it encourages parties to enter the market if they have a good faith belief that there is no infringement, and also creates an incentive to challenge potentially invalid

89. *Id.* at 243 n.78.

90. *Id.* at 243.

91. *Id.*

92. *Id.*

93. Holbrook, *supra* note 55, at 400.

94. *Id.* at 408–09.

95. *Id.* at 409.

96. *Id.* at 408.

patents.⁹⁷ The *Hewlett-Packard* standard, he argues, would chill competition by holding parties liable even if they viewed the patent as invalid or not infringed, and the “public would pay the price in terms of reduced competition, potentially higher prices, and even worse the existence of invalid patents.”⁹⁸

Both Lemley’s and Holbrook’s proposals are problematic in some aspects. First, there is a pragmatic concern: how do we know when the defendant’s intent is “clear,” as Lemley posits, or when the defendant believes she is acting in good faith, as Holbrook discusses? We ought to be wary of any rule that might create a disincentive for parties to explore the potentially infringing ramifications of their actions. It could be countered that lack of full exploration of these issues would evidence a lack of good faith, but that raises issues of judicial efficiency and economy. We ought to be equally wary of rules that impose too great a burden upon the courts to inquire into the mental state of defendants. If the standard is a subjective one—did this defendant actually intend to encourage another to infringe?—problems of proof can quickly become insurmountable. An objective standard—evaluating what the defendant knew or *should have known*—can help avoid the problem of a defendant who carefully constructs her behavior and limits her actual knowledge to avoid imposition of liability.

Second, a defendant who believes a patent is most likely invalid is not necessarily left with the Hobbesian choice of either foregoing his own invention or risking a suit for infringement should he proceed. Rather, a party who believes an existing patent to be invalid or his actions to be non-infringing can often, though not always, choose to challenge the validity of that patent in court through a declaratory judgment prior to acting and thus prior to incurring potential liability for infringement. There are obviously costs associated with this strategy, both in terms of litigation costs and delay, and it is only available when an “actual controversy” exists between the parties.⁹⁹ Nonetheless, the law has long been clear that patents are presumed valid until proven otherwise.¹⁰⁰ Thus, it seems neither remarkable nor unfair that a defendant who chooses to forego pursuing a declaratory judgment action, in favor

97. *Id.* at 408–09.

98. *Id.*

99. To bring a declaratory judgment action under the Declaratory Judgment Act, 28 U.S.C. § 2201, the plaintiff must show it: (1) has a “reasonable apprehension” of an infringement lawsuit; and (2) produces or practices, or is prepared to produce or practice, the allegedly infringing device or method. *Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 887–88 (Fed. Cir. 1992).

100. 35 U.S.C. § 282 (2000) (“A patent shall be presumed valid. . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”).

of undertaking affirmative, potentially infringing action and waiting to see if the patentee objects, must bear the risk of liability should the patent turn out to be valid and infringed.

Moreover, both commentators' arguments seem to highlight an important issue: which party should bear the risks of an incorrect assessment of whether a particular behavior infringes? We can put the risk of a good faith, but mistaken, belief as to non-infringement upon the patentee, such as would occur if the alleged inducer were excused from liability because of a lack of intent to induce. Or, we can place the risk on the alleged infringer or inducer, such as would occur if the alleged inducer were held liable for acts that led to direct infringement by another.

The issue of where the risk of loss should fall is already answered in part by the statutory provision for infringement damages under the Patent Act. Section 284 on its face evidences a desire to compensate the patentee for the injury it has suffered, awarding damages adequate to compensate the patentee for its loss.¹⁰¹ Section 284 also evidences legislative intent that the courts have the freedom to punish egregious wrongdoers and deter future wrongdoers by imposing enhanced damages at its discretion.¹⁰²

Holbrook dismisses this argument by stating that there is no point in having a distinction between willfulness and inducement because both sections 271(b) and 284 address the same question of whether this party is "morally culpable in some way."¹⁰³ Yet, it seems to me that these two sections address very different concerns. Section 284 reaches the issue of whether a party, already determined to have been liable for infringement, should pay enhanced damages in addition to the actual cost of injury in an effort to punish and deter wrongdoers. Section 271(b), on the other hand, addresses the question of whether an inducer should be held liable for infringement and compensate the patent holder for its losses, i.e., the actual damages incurred in the first place.

The choice of where the risk of injury should fall is highlighted by the effect on liability of an opinion letter from competent patent counsel as to non-infringement (a common strategy for demonstrating good faith). Another commentator, Rader, has argued for the broader *Hewlett-Packard* standard ("intent to induce the acts") on the grounds that the narrower *Manville* standard would allow inducers to shield themselves

101. 35 U.S.C. § 284 (2000) ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement . . .").

102. *Id.* ("[T]he court may increase the damages up to three times the amount found or assessed.")

103. Holbrook, *supra* note 55, at 410.

from liability too easily through the use of opinion letters.¹⁰⁴ Indeed, when we consider the effect of an opinion letter under *Manville* and *Hewlett-Packard*, the effect of the differing standards is clear. Under *Hewlett-Packard*, the existence of an opinion letter from competent patent counsel stating there was no infringement would have no effect upon the defendant's liability as an inducer (though it could create a cause of action for the inducer against the attorney). Under *Manville*, however, the existence of such a letter, if it turned out to be incorrect, would not lead to liability because the accused inducer would lack the requisite intent to encourage infringement by another.

Again, it becomes a question of where the risk should fall. Is it fairer to place the risk of an incorrect opinion letter upon the alleged inducer, who would potentially have a cause of action for indemnification against the attorney if the letter were the result of legal malpractice or negligence? Or is it fairer to place the risk upon the patent holder, who is left with no recourse against either the attorney or the inducer if the incorrect letter did indeed lead to infringement? It seems fundamentally wrong to leave the patent holder with no recovery for its loss. Moreover, prospective relief, such as a permanent injunction against further infringement, does not compensate the patent holder for the losses it has already suffered.

Rader argues that the Federal Circuit should adopt the *Hewlett-Packard* standard, not just on the procedural ground of *stare decisis*, but on the substantive grounds that the patent system seeks to find a balance between benefiting society through early and complete public disclosure of inventions and the harms created by giving inventors even limited monopolies.¹⁰⁵ Infringement law, he argues, helps the patent system achieve its goals by giving patent holders the necessary tools to enforce their rights in court. Inducement law, in particular, is important in this regard, because it allows patentees a remedy in situations where the remedy against direct infringers might be hard to find or difficult to enforce.

Patent law, by policy and design, grants broad rights to patent holders in return for their full disclosure of their inventions to the public for exploitation after the patent term has expired. The strict liability regime for direct infringement reflects Congressional intent in this regard. A significantly lesser standard of liability for indirect infringers, such as that contemplated by *Manville*, throws the integrity of the system into question. To the extent that concerns about indirect liability are driven by

104. Rader, *supra* note 24, at 314–15. Holbrook rejects this argument, stating that it is not likely that inducers can easily immunize themselves by getting a pro forma opinion letter and that we should not so easily discount the ethical obligations of the attorney. Holbrook, *supra* note 55, at 410.

105. Rader, *supra* note 24, at 327–29.

246 *Michigan Telecommunications and Technology Law Review* [Vol. 13:225

the high degree of likelihood that granted patents may be invalid,¹⁰⁶ it seems the solution ought to be a reevaluation of the Patent and Trademark Office's patent-granting procedures, not a diminution of the legal rights afforded patent holders.

CONCLUSION

At the end of the day, the Supreme Court's opinion in *Grokster* does little to help resolve some of the seemingly intractable problems surrounding the intent element of inducement of infringement in patent law. The opinion leaves many of the questions regarding the intent element of inducement of infringement in copyright law unanswered as well. To resolve the vexing issue of the proper standard for the intent element of inducement of infringement in both areas, the courts and, preferably, the legislature, must spend more time confronting the very different philosophical underpinnings of these two areas of intellectual property law and the very different policy choices each area represents.

106. See Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. ECON. PERSP. 72, 75-76 (2005) (discussing the probabilistic nature of patents and stating that only 0.1% of all patents are litigated to trial, but of those, one-half are invalidated).