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# THE INTENT ELEMENT OF INDUCED INFRINGEMENT

Timothy R. Holbrook†

## I. INTRODUCTION

The expectation when the Supreme Court granted *certiorari* in *MGM Studios Inc. v. Grokster, Ltd.*<sup>1</sup> was that the Court would explore the contours of its decision in *Sony Corp. v. Universal City Studios, Inc.*<sup>2</sup> And in fact the Court did just that, but not in the manner most expected or hoped. To the surprise of many – and consternation of some – the Court imported 35 U.S.C. § 271(b) active inducement from patent law into copyright law<sup>3</sup> just as it had imported 35 U.S.C. § 271(c) contributory infringement in *Sony*.<sup>4</sup>

In so doing, the Court avoided addressing the language in *Sony* that precluded contributory copyright infringement for devices that are “capable of substantial noninfringing uses.”<sup>5</sup> This judicial-sidestepping has interesting implications for active inducement law, now both in patent and copyright law. Particularly, the Supreme Court’s concern with the seemingly nefarious intent of *Grokster* highlights the important and uncertain role of intent in assessing infringement under section 271(b).

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† Assistant Professor of Law, Chicago-Kent College of Law. My thanks to Santa Clara University Law School and particularly the High Tech Law Institute for sponsoring this fascinating conference on third-party liability and allowing me to comment on Professor Charles W. Adams informative article. Special thanks to Namon Huddleston for assistance with preparation of this article. © 2005 Timothy R. Holbrook

1. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005).

2. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

3. *See 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. . . .”).

4. *Sony*, 464 U.S. at 439-42.

5. *Id.* at 442.

Part I of this essay discusses the intent standard and articulates what the proper standard should be – an intent to induce infringement. Part II provides a brief summary of indirect infringement in patent law under sections 271(b) and (c), followed by a summary of the *Grokster*. Part III explains the current split in authority at the Federal Circuit and explores the substantive differences between the two standards. The Essay posits that the proper standard should require that the inducer have an intent to induce infringement, not merely intent to induce acts that constitute infringement. The potential anticompetitive consequences of the broader rule and the risk of punishing innocent actors under an exceptional form of liability both commend the more exacting intent standard. Moreover, as overlooked in previous commentary, use of the narrower standard would only insulate the inducer from past liability; it would not protect the infringer from prospective relief, particularly a permanent injunction.

## II. *GROKSTER*'S IMPORTATION OF PATENT'S "INDUCEMENT" THIRD-PARTY LIABILITY INTO COPYRIGHT LAW

In order to assess the implications of the Supreme Court's importation of active inducement into patent law, a summary of the doctrinal features – and ambiguities – of active inducement is necessary. This review demonstrates that active inducement may not provide the clear answers that the Court believed it would.

### *A. A Summary of Indirect Infringement in Patent Law*

Liability for active inducement of infringement and contributory infringement are variations of third-party liability, where one party is held liable for the directly infringing acts of others. The justifications for these rules are the same as those used to rationalize joint and several liability elsewhere in tort law: difficulty in suing the direct infringers because of their large numbers, their dispersed nature, their status as the patentee's customer, or their inability to compensate the patentee.<sup>6</sup> Also, the indirect infringer may be more morally culpable

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6. See, e.g., 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. BAR J. 299, 300 (2000); see also 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 (2005).

than the direct infringers.<sup>7</sup> Indeed, the inducers may be considerably more culpable in the patent infringement context because direct infringement is a strict liability offense.<sup>8</sup>

In patent law, the rules for third-party liability have been codified.<sup>9</sup> Section 271(b) proscribes the “active inducement” of patent infringement. While ambiguous, Congress intended this provision to be a codification of the common law that had developed up to this point.<sup>10</sup> Congress also enacted a narrower version of indirect infringement, labeled contributory infringement in section 271(c). A party is liable as an infringer if she supplies a component of a patented device “knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use.”<sup>11</sup>

In contrast, copyright law has permitted third party liability but not through statutory grants of authority or codification; instead, the law has developed pursuant to common law.<sup>12</sup> In order to facilitate the development of third-party liability in copyright law, the Supreme Court adopted the contributory infringement standard of section 271(c) in *Sony*, providing liability for the sale of a good that has no other substantial use but to infringe.<sup>13</sup> There is no indirect infringement if the device is “capable of substantial noninfringing

7. *Id.*

8. This may be one reason why third party liability in copyright and patent law might differ. Direct infringers infringe a patent even if they independently create the invention. In contrast, direct copyright infringers must actually copy the work, rendering them “less innocent” than some patent infringers.

9. See 35 U.S.C. § 271(b) & (c) (2005). Some courts have concluded that the Copyright Act codified indirect liability theories in the language prohibiting parties from “authorizing” the copying of works by others. See 17 U.S.C. § 106 (2005); *Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092 (9th Cir. 1994) (en banc). Not all courts and commentators agree with this view and treat the authorization right as a second variant of direct infringement. See generally Timothy R. Holbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701, 735-38, 739-41 (2004). Regardless, copyright law does not have the express codification present in patent law, particularly as it relates to contributor infringement under § 271(c).

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

11. 35 U.S.C. § 271(c) (2005).

12. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2776 (2005).

13. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 441 (1984).

uses.”<sup>14</sup> The lower courts struggled with this in *Grokster*,<sup>15</sup> but the Supreme Court had other ideas.

### *B. The Supreme Court's View of Indirect Infringement in Grokster*

Most observers believed that the Supreme Court would use *Grokster* as a vehicle to reassess the scope and continued viability of its reasoning in *Sony*. The Court did implicitly reaffirm the analysis of *Sony* but failed to further clarify it, opting instead to embrace a theory of active inducement in copyright law. The Court reasoned that the staple article of commerce concept in section 271(c) is simply a method used to impute intent of the relevant infringer to facilitate infringement by others.<sup>16</sup> The Court recognized, however, that *Sony* does not comprise the universe of third-party liability in copyright law: “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.”<sup>17</sup> In other words, contributory infringement under section 271(c) is merely a particular type of third-party liability, but the concept itself is broader and embraces efforts by actors to induce the infringement of copyright by others. The Court concluded in *Grokster*:

We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear

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14. *Id.* at 442. The exact language of § 271(c) provides that a party is liable for contributory infringement if they sell, offer to sell, or import “a component of a patented machine” so long as the component is “not a staple article or commodity of commerce suitable for substantial noninfringing use.” 35 U.S.C. § 271(c) (2005). Thus, § 271(c) relates only to *parts* of devices, and not the devices as a whole, unlike the Supreme Court’s application of the test in *Sony*. This may explain the difficulty courts had in applying the “capable of substantial noninfringing uses” test because they were assessing the non-infringing potential of an entire device, and not merely a component. Under patent law, indirect liability for aspects of providing the entirety of the device are covered by § 271(b).

15. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1161-63 (9th Cir. 2005).

16. *Grokster*, 125 S. Ct. at 2777 (“[W]here an article is ‘good for nothing else’ but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe.” (quoting *Canada v. Michigan Malleable Iron Co.*, 124 F. 486, 489 (6th Cir. 1903)); see also Rader, *supra* note 6, at 305 (“Contributory infringement was Congress’s response to the problem of *Wallace v. Holmes*, in which the intent of the defendant to infringe is manifest from the fact that the product sold has no substantial non-infringing uses.”).

17. *Grokster*, 125 S. Ct. at 2779.

expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.<sup>18</sup>

Thus, there can be third-party liability even if the copying device is capable of substantial non-infringing uses.<sup>19</sup>

The Court thereby avoided addressing the *Sony* issue and viewed this suit as a clear case of active inducement. It is unclear, however, whether the issue of non-infringing uses truly is irrelevant, even under an inducement theory. The Court acknowledges that in order to be liable, an inducer must commit certain acts with the requisite intent.<sup>20</sup> Most of the Court's reasoning, however, focuses on the intent element; the Court afforded little time to the discussion of what acts are sufficient to constitute active inducement.

The Supreme Court viewed the intent element in this case as a slam dunk. The Court based its conclusion on a variety of facts. First, the infringers (*Grokster* and *StreamCast*) aimed "to satisfy a known source of demand for copyright infringement, the market comprising former *Napster* users."<sup>21</sup> Second, neither company attempted to filter, or even to develop filtering tools, to lessen infringing activities.<sup>22</sup> Third, the business model used by the accused infringers was to sell ads; the more use, the more money. As the primary use was infringement, facilitating infringement was the best way for these companies to make money.<sup>23</sup> In light of all these undisputed facts, the Court found that "[t]he unlawful objective is unmistakable."<sup>24</sup>

18. *Id.* at 2770.

19. Although it is curious as to whether the outcome in *Sony* would have been different under the *Grokster* approach. The Court in *Grokster* stated that there was "no evidence of state or indicated intent to promote infringing uses." *Grokster*, 125 S. Ct. at 2777. Such reasoning is an overstatement of what took place in *Sony*. There was other evidence, however, that *Sony*'s advertisements recommended creating libraries of a viewer's favorite shows. See *Sony*, 464 U.S. at 458-59 (Blackmun, J., dissenting). Creation of libraries to allow multiple viewings of the show appears to be outside the scope of the time-shifting analysis, suggesting that *Sony* attempted to induce infringement by its customers.

20. *Grokster*, 125 S. Ct. at 2780 ("The inducement rule, instead, premises liability on purposeful, culpable expression and conduct. . .").

21. *Id.* at 2781.

22. *Id.* at 2781. The Court made clear, however, that this fact alone would be insufficient for there to be liability if the device was capable of non-infringing uses because "[s]uch a holding would tread too close to the *Sony* safeharbor." *Id.* at 2781 n.12.

23. *Id.* at 2781-82. Of course, many on-line endeavors earn revenue through such advertising, so likely – or perhaps hopefully – the Court would view this fact alone as insufficient for finding the requisite intent.

24. *Id.* at 2782.

The Court thoroughly evaluated whether the intent element of inducement was satisfied, concluding that it was. Oddly, the Court never expressly articulated the proper standard of intent. Indeed, and perhaps unbeknownst to the Court, this precise issue has divided the Federal Circuit.

### III. THE INTRACIRCUIT SPLIT ON INTENT AND THE NON-INFRINGEMENT USE PHOENIX

The law of active inducement, and particularly the intent standard, is currently confused. As commentators<sup>25</sup> and the Federal Circuit itself have recognized,<sup>26</sup> there is an intracircuit split about the requisite intent. Specifically, the court has failed to clarify whether an inducer must have an intent to induce the acts that constitute infringement<sup>27</sup> or an intent to induce infringement.<sup>28</sup> To some, this may seem simply to be lexicographical chicanery with no bearing on outcomes.<sup>29</sup> There are substantive consequences that flow from these varying standards.

#### *A. The Differences between the Two Intent Standards*

For patent law, the difference between these standards is important because an accused inducer may believe the acts of the direct infringers are outside the scope of the patent or that the patent is invalid or unenforceable. Similarly, in copyright law, an accused inducer may have a good faith belief that there are substantial non-infringing uses or that the infringement by third-parties should constitute fair use. Thus, notwithstanding the apparent hope of the

25. See Adams, *supra* note 10, at 391; Mark A. Lemley, *Inducing Patent Infringement*, 39 UC DAVIS L. REV. 225, 238-39 (2005); Comment, *District Court Holds That Inducement Liability Requires Proof Of Intent To Induce Violation Of The Law*, 115 HARV. L. REV. 1246 (2002); Rader, *supra* note 6, at 300.

26. See *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1332 (Fed. Cir. 2005), *cert. granted on other grounds*, *eBay, Inc. v. MercExchange, LLC.*, 126 S. Ct. 733 (2005); *MEMC Elec. Mat'ls, Inc. v. Mitsubishi Mat'ls Silicon Corp.*, 420 F.3d 1369, 1378 n.4 (Fed. Cir. 2005); *Insituform Technologies, Inc. v. CAT Contracting, Inc.*, 385 F.3d 1360, 1378 (Fed. Cir. 2004).

27. *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir.1990) (“Proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”).

28. *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) (requiring that inducer “knew or should have known his actions would induce actual infringements.”).

29. *Insituform Techs., Inc., v. Cat. Contr., Inc.*, 385 F.3d 1360, 1378 (2004) (“[W]e need not resolve any ambiguity in the case law on this point because there is sufficient evidence to support the district court’s finding under either standard.”).

Supreme Court to avoid the *Sony* issue, the non-infringing use standard may arise from the ashes. The relevance of these facts to inducement hinge entirely on the intent standard.

If the requisite intent is merely to cause the acts which constitute infringement, the accused inducer's belief about infringement, validity, or enforceability is irrelevant. The primary concern under this standard is whether the inducer wanted the third parties to engage in a certain activity. Her belief regarding whether third parties actually are infringing is irrelevant because the wrong we are seeking to redress is encouraging those acts. If those third party activities are found not to be infringing, then there will be no liability for active inducement: there must be a direct infringer for there to be indirect liability. Of course, an intent to induce infringement would satisfy this standard as well: an intent to induce infringement necessarily would mean the inducer intended to induce the acts constituting infringement. The "intent to induce the acts" standard consequently encompasses a far broader category of actors than the narrower "intent to induce infringement" approach.

In contrast, if the inducer must intend to induce infringement, then the mental state of the infringer vis-à-vis the legality of the acts becomes directly relevant. While the accused infringer may have intended to induce others to perform certain acts, her belief that those acts are non-infringing would insulate her from liability.<sup>30</sup> She would be viewed as insufficiently culpable for assessing liability. Her belief could be rooted in the belief that the acts are outside the literal or equivalent scope of the patent claims, the claims are invalid, or the patent is unenforceable.<sup>31</sup> In the copyright context, such a belief may be based on a belief that the extent of the copying is insufficient or that the use is fair.<sup>32</sup>

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30. See Rader, *supra* note 6, at 315, 321.

31. See Lemley, *supra* note 25, at 240 n.70 (noting relevance of invalidity belief but also fact that no district court has held as of yet).

32. The Federal Circuit has apparently missed this distinction. In an effort to reconcile the *Hewlett-Packard* and *Manville* standards, the court stated that knowledge of the patent plus an intent to induce the acts constituting infringement would permit a presumption of an intent to induce infringement. *MEMC Elec. Mat'ls, Inc. v. Mitsubishi Mat'ls Silicon Corp.*, 420 F.3d 1369, 1378 n.4 (Fed. Cir. 2005). It is unclear if the court is in fact creating a rebuttable presumption or simply using "presumption" in a vernacular fashion. If the former, then likely the presumption could be rebutted by demonstrating that the accused inducer believed the patents were not infringed, invalid, or unenforceable. If the latter, then the court failed to consider the role that the accused inducer's belief could have on liability.

This version of intent would make active inducement akin to willful infringement in patent law.<sup>33</sup> If a party willfully infringes a patent, a court may enhance the damages award up to treble damages.<sup>34</sup> Willfulness is generally found when an infringer has actual notice of the patent and chooses, nonetheless, to infringe.<sup>35</sup> Willfulness can be negated if the patentee has a good faith belief that she is not infringing or that the patent is invalid or unenforceable.<sup>36</sup> Traditionally, this belief is memorialized in an opinion letter from counsel. As such, opinion letters may now become relevant to the assessment of active inducement if the accused infringer must intend to induce third party infringement.<sup>37</sup> If an accused indirect infringer can evince a good faith belief of non-infringement, then she should be able to avoid liability.

The shield from liability would only be retrospective, however. The indirect infringer should not be immunized from prospective relief if her belief is later shown to be unfounded at trial. Previous commentators have suggested that a good faith belief would act as a complete defense.<sup>38</sup> However, there is no reason for this to be the case. The accused infringer's belief will eventually be vindicated or rejected at trial. If the accused infringer is correct that the acts of third parties are not infringing or that the patent is invalid or unenforceable, then she will be not be liable at all: there can only be infringement for inducement if there are, in fact, direct infringers.<sup>39</sup> On the other hand, if her belief is shown to be incorrect at trial, there is no reason to shield her from prospective relief. If she continues her activities from that point forward, her acts would constitute active inducement. Consequently, there is no reason to completely shield her from prospective remedies, particularly a permanent injunction.

A good faith belief of noninfringement under this intent standard would be similar to a laches defense. Laches is an equitable defense

33. Cf. Rader, *supra* note 6, at 331.

34. 35 U.S.C. § 284 (2005); *see also* Read Corp. v. Portec Inc., 970 F.2d 816, 826 (Fed. Cir. 1992).

35. *See generally* Timothy R. Holbrook, *Possession in Patent Law*, 59 SMU L. REV. \_\_\_\_ (forthcoming 2006) (draft on file with author).

36. *See, e.g.,* Read Corp., 970 F.2d at 828.

37. Rader, *supra* note 6, at 315.

38. *Id.* at 330 ("First, enabling alleged inducers to *escape liability* by obtaining a noninfringement opinion from counsel, as suggested in *Manville Sales*, would result in highly uneven patent protection across different industries." (emphasis added)).

39. *See, e.g.,* Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc., 424 F.3d 1293, 1312 (Fed. Cir. 2005).

to infringement where the patentee unreasonably and inexcusably delays bringing suit and the alleged infringer suffers material prejudice attributable to the delay.<sup>40</sup> Unlike in other civil areas, laches is not a complete defense to patent infringement; it only precludes liability for pre-suit damages.<sup>41</sup> The infringer still is subject to a permanent injunction, as well as damages that may accrue after the lawsuit is filed.<sup>42</sup> Similarly, the conclusion that a good faith belief in non-infringement precludes pre-trial damages, but the accused infringer remains subject to a permanent injunction if the fact-finder determines that the accused inducer's belief is erroneous. A party should not be permitted to continue to induce infringement once their belief has been rejected by a court.

The differing standards of intent, therefore, have significant implications. The "intent to induce the acts" standard is far broader and risks liability for parties who genuinely believe they are not running afoul of a patent. In contrast, the "intent to induce infringement" standard provides a safe harbor for those who believe their acts are not infringing, although this harbor only protects against past damages and not prospective relief.

*B. Does the Grokster Opinion Implicitly Provide the Appropriate Intent Standard?*

The Supreme Court in *Grokster* spilled a considerable amount of ink discussing the "unlawful" intent of the accused infringers in this case.<sup>43</sup> The Court's analysis, however, does not expressly or implicitly establish which intent standard is the correct one. The factors relied upon by the Court suggest that it believed the defendants possessed an intent to induce infringement, perhaps supporting that standard. An intent to induce infringement, however, necessarily satisfies a requirement for an intent to induce the acts constituting infringement.<sup>44</sup> Thus, although the Court applied the narrower standard, that application does not necessarily answer the question.

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40. A.C. Aukerman Co. v. R.L. Chades Const. Co., 960 F.2d 1020, 1028 (Fed. Cir. 1992) (en banc).

41. *Id.*

42. *Id.* at 1040-41.

43. See *supra* notes 20-24 and accompanying text.

44. See *supra* Section III.A.

*C. Requiring an Intent to Induce Infringement is the Better Standard*

What then is the appropriate standard? In my view, the narrower “intent to induce infringement” standard is appropriate.

The statutory structure of sections 271(b) and (c) suggest that the requirement should be an intent to induce infringement. As the Supreme Court noted, intent in the contributory infringement context is presumed by the absence of a non-infringing use of the good. The focus is on *infringing* uses; the presumed intent under contributory infringement is, therefore, that of inducing actual infringement, not merely the acts that constitute infringement.<sup>45</sup> If the good has both infringing and non-infringing uses, intent cannot be presumed. Of course, because an intent to induce infringement necessarily satisfies the broader standard articulated in *Hewlett-Packard*, this statutory argument is not conclusive. It does demonstrate the narrow focus of indirect liability under the statute and the reality that indirect infringement liability should be exceptional. Using the broader intent standard risks swallowing section 271(c) altogether. An intent to induce any acts that might result in an infringement would fall under section 271(b) even if there are considerable non-infringing uses.

Third-party liability should be the exception and not the rule. While designed to allow patentees to seek recovery in circumstances where it may be impractical to do so, the doctrine should not create a windfall for patentees against innocent parties. There always are *direct* infringers that the patentee could pursue, even if doing so is impractical. Indirect liability should be reserved for parties who truly are culpable.

Truly culpable parties are those that intend to induce infringement and not those who simply intend to induce the acts that constitute infringement. To hold otherwise would penalize a “good” actor who holds a belief that the others are not directly infringing. Such behavior is pro-competitive – it encourages parties to enter the market if they have such a belief. Allowing these parties to enter the market may create incentives to challenge otherwise potentially invalid patents. The *Hewlett-Packard* standard would create a chilling effect on competition because a party would be liable even if

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45. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2777 (2005) (“The doctrine was devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another’s patent, and so may justly be held liable for that infringement.”).

they viewed the patent as invalid or not infringed. The public would pay the price in terms of reduced competition, potentially higher prices, and even worse the existence of invalid patents. Challenging such patents benefits the public by removing these burdensome patents.

The narrower intent standard articulated in *Manville* would not reduce the value of patents significantly. A good faith belief would only guard against past liability and would not preclude prospective relief against the inducer. While the patentee may not be able to recoup past damages, she will be able to prevent the inducer from inducing future infringement. Such prospective relief mitigates some of the reduction in the value of the patent that attends the use of the narrower standard. If the patentee sues in a timely fashion, then the lost damages may not be terribly significant and the true strength of the patent – preliminary and permanent injunctive relief – will remain available. The threat of an injunction also facilitates settlement negotiations, so the patentee will not lose all negotiation leverage.

In contrast to my position, a previous commentator has urged the broader “intent to induce the acts” approach. In his view, use of this standard better protects the patentees’ rights in their inventions. The use of opinion letters, according to Mr. Rader, would allow inducers to insulate themselves from liability too easily.<sup>46</sup> Moreover, the relevance of opinion letters would blur the line between willful infringement and active inducement. Maintaining this distinction is particularly important, in his view, because a good faith belief in the willfulness context only precludes the enhancement of damages and not *all* damages as may be the case in the inducement context.<sup>47</sup> Interestingly, as Professor Mark Lemley has questioned, potentially every inducer under the narrower standard could *ipso facto* be a willful infringer.<sup>48</sup> Finally, in Mr. Rader’s opinion, the *Hewlett-Packard* standard “limits the opportunistic behavior of would-be inducers by giving patentees the power to compel settlement by forcing corporate officers to face the prospect of personal liability.”<sup>49</sup>

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46. Rader, *supra* note 6, at 332 (“In a sense, obtaining an opinion of counsel regarding inducement would serve largely the same purpose [as labels denouncing infringement]—enabling a would-be inducer to forge ahead with the harmful activity, by having it rubber-stamped by an outside law firm.”).

47. *But see supra* notes 38-42 and accompanying text (demonstrating that a good faith belief would only immunize infringers from past infringement and not prospective relief).

48. *See* Lemley, *supra* note 25, at 240 n.70; *see also* 35 U.S.C. § 284 (2005).

49. Rader, *supra* note 6, at 332.

He, therefore, concludes that the broader “intent to induce the acts” approach is better.

These arguments are not persuasive. They reflect an exceedingly pro-patentee viewpoint and fail to consider the potential anti-competitive consequences of affording such a powerful tool to patent owners. To begin, there exists no inherent value in maintaining a distinction between willfulness and inducement. The two doctrines ultimately are trying to answer the same question: is this party one who is morally culpable in some way? In the case of willfulness, the answer informs whether and to what extent the court should enhance damages as a form of punishment.<sup>50</sup> In the case of active inducement, the answer tells us whether this party should be liable for the infringing acts of others. That one is an enhancement and the other a defense to past damages does not suggest a need to keep them distinct. A finding of active inducement also will not mandate an enhancement of damages. The law is clear that willfulness is a necessary prerequisite for enhanced damages, but a finding of willfulness does not mandate enhanced damages.<sup>51</sup> Consequently, an active inducer will not automatically be subject to enhanced damages as a willful infringer.

Next, the suggestion that inducers can immunize themselves by getting a “rubber stamped” opinion letter is grossly overstated. At a minimum, it suggests that lawyers would readily violate their ethical obligations to their clients by essentially lying about their opinions on infringement, validity, and enforceability. Admittedly, in many cases, there are ambiguities which a lawyer could shade in favor of their client to avoid liability, but this reality is not a reason to reject the relevance of an opinion letter altogether. This argument also assumes that the opinion letter would act as a complete shield to liability for the accused inducer. If the relevance of the accused inducer’s belief is limited to past damages, however, then the risk of rubberstamping by opinion letters is mitigated. The possibility of a permanent injunction would act as a check on the attorney being overly optimistic about the likelihood of defeating an infringement suit. The

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50. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 383 F.3d 1337, 1342 (Fed. Cir. 2004) (en banc) (“The concept of “willful infringement” is not simply a conduit for enhancement of damages; it is a statement that patent infringement, like other civil wrongs, is disfavored, and intentional disregard of legal rights warrants deterrence.”).

51. See *Read Corp. v. Portec Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992) (“[A] finding of willful infringement does not mandate that damages be enhanced, much less mandate treble damages.”).

client is relying on the opinion to plan its business operations and would want an honest assessment of the risk that they may have to shut operations down or alter them to avoid infringement.

Rader proffers a third reason to prefer the *Hewlett-Packard* standard: “it limits the opportunistic behavior of would-be inducers by giving patentees the power to compel settlement by forcing corporate officers to face the prospect of personal liability.”<sup>52</sup> This argument is derivative of the two preceding points: that inducing officers can game the system by obtaining opinion letters to shield themselves from liability. The availability of injunctive relief to the infringer belies this argument. There seems to be no reason to pierce the veil if the officers in fact believe the induced activities will not be infringing: these officers should not be viewed as culpable for encouraging pro-competitive behavior. The *Manville* standard serves to protect the interest of shareholders while affording some flexibility to corporate officers to act reasonably, likely pursuant to an opinion letter.<sup>53</sup>

Professor Mark Lemley has eschewed this dichotomous view of the intent standard and has offered an alternative, sliding-scale approach to active inducement. In his view, “[t]he clearer the defendant’s intent to facilitate patent infringement, the less direct his contribution need be.”<sup>54</sup> Similarly, if the inducer is highly entangled in the direct infringer’s acts, then the requisite intent would be lower. Professor Lemley, therefore, would make active inducement like inequitable conduct, where the more material the undisclosed reference is, the less need to demonstrate an intent to deceive because intent can be inferred.<sup>55</sup> The need for affirmative acts and some level of intent set floors beyond which there can be no liability.<sup>56</sup>

52. Rader, *supra* note 6 at 322.

53. See Lemley, *supra* note 25, at 244-45 (arguing for the *Manville* standard for corporate officers).

54. *Id.* at 243.

55. See, e.g., *Abbot Labs. v. Torpharm, Inc.*, 300 F.3d 1367, 1380 (Fed. Cir. 2002) (“While the intent to deceive may be inferred from the surrounding circumstances rather than by direct evidence, the intent necessary to establish inequitable conduct is based on a sliding scale related to materiality of the omission.”); *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1256 (Fed. Cir. 1997) (“The more material the omission or the misrepresentation, the lower the level of intent required to establish inequitable conduct, and vice versa.”); see also Lemley, *supra* note 25, at 244 (noting comparison to inequitable conduct).

56. Lemley, *supra* note 25, at 243-44.

I agree with this approach up to a point, but still believe that a good faith belief that the induced acts are non-infringing should provide a safe harbor for past damages. Thus, the good faith belief would be a threshold that would need to be overcome. If no such belief is demonstrated, then the courts could apply the Lemley sliding scale approach. But the safe harbor must be maintained to properly cabin the potential breadth of the inducement doctrine.

#### IV. CONCLUSION

The intent requirement for active inducement of patent – and now copyright – infringement is in a state of disarray. The Supreme Court appeared to believe that the standard was fairly well-defined and would eliminate the need to consider the availability of non-infringing substitutes. Such hope may be – and should be – short-lived because the intent aspect of active inducement should take into account the belief of the inducer. A good faith belief of non-infringement, invalidity, or unenforceability should shield inducers from past damages, although they would still be subject to prospective relief. This balanced approach protects not only the patentee's interests, but also encourages pro-competitive behavior that a broader rule would inhibit.