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A. Samuel Oddi

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Contributory Copyright Infringement: The Tort and Technological Tensions

A. Samuel Oddi*

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By far the most controversial of the Supreme Court's "trilogy" of cases¹ dealing with the tort of contributory infringement² of intellectual

* Professor of Law, Northern Illinois University College of Law.

1 Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417 (1984); Inwood Laboratories v. Ives Laboratories, 456 U.S. 844 (1982); Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176 (1980). In *Dawson*, the Court considered contributory patent infringement. For references analyzing contributory patent infringement and the *Dawson* case, see 4 D. CHISUM, PATENTS § 17.02[8] (1988); Oddi, *Contributory Infringement/Patent Misuse: Metaphysics and Metamorphosis*, 44 U. PITT. L. REV. 73 (1982) [hereinafter *CPI*]; Oddi, *Contributory Infringement in the United States: Theory, Application, Developments* (pts. 1 & 2), 20 INDUS. PROP. 177 (1981) [hereinafter *CPI/US*]; Oddi, *La contrefaçon indirecte aux Etats-Unis d'Amerique: theorie, application et evolution* (pts. 1 & 2), 97 LA PROPRIETE INDUSTRIELLE 190 (1981).

In the *Ives* case, the Court considered contributory trademark infringement. For references analyzing contributory trademark infringement and the *Ives* case, see 2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 25:2 (2d ed. 1984); Oddi, *Product Simulation and Contributory Trademark Infringement: A Right Suggests a Wrong*, 25 ARIZ. L. REV. 601 (1983) [hereinafter *CTI*]; Germain, *The Supreme Court's Opinion in the Inwood Case: Declination of Duty*, 70 KY. L.J. 731 (1982); Krantzow, McCarthy, Palladino, Pattishall & Swann, *Analysis of the Ives Case: A TMR Panel*, 72 TRADEMARK REP. 1 (1982); Palladino, *Trademarks and Competition: The Ives Case*, 15 J. MARSHALL L. REV. 319 (1982); Weinberg, *Drug Capsule Copying in the Wake of Ives: A Comment on Two Decisions*, 72 TRADEMARK REP. 285 (1982).

2 The term contributory infringement is used throughout this article in a generic sense to include all forms of "contributory" conduct for which liability may be imposed on a party who does not "directly" infringe the intellectual property in question by personally performing all the acts necessary to constitute direct infringement. Conduct that may be more appropriately defined as inducement of infringement has been commonly referred to as contributory infringement. See, e.g., the *Ives* case, 456 U.S. at 850-54. In an attempt to avoid any ambiguity, contributory infringement and inducing infringement will be so identified whenever such a distinction appears warranted. The Patent Act of 1952, as amended, 35 U.S.C. §§ 101-376 (1982 & Supp. IV 1986), separately defines contributory patent infringement in § 271(c) and inducement of patent infringement in § 271(b). Neither the Trademark Act of 1946 (Lanham Act), as amended, 15 U.S.C. §§ 1051-1127 (1982 & Supp. IV 1986), nor the Copyright Act of 1976, as amended, 17 U.S.C. §§ 101-810 (1982 & Supp. IV 1986) specifically refer to either contributory or induced infringement, although the Lanham Act covers a specific type of contributory trademark infringement relating to the reproduction of a trademark (e.g., on labels or wrappers) for use on goods in commerce. Trademark Act of 1946, as amended, § 32(1)(b), 15 U.S.C. § 1114(1)(b) (1982).

property³ has been *Sony Corp. of America v. Universal City Studios*⁴ (*Betamax* case). The Court, by a five-to-four majority, held that it was not contributory infringement of the Studios'⁵ copyrights for Sony to sell its Betamax type of video cassette recorder (VCR)⁶ to consumers who used them to record copyrighted works off-the-air.⁷ The Court concluded that

3 The term intellectual property is used in this article in reference to patents, trademarks and copyrights. There are, of course, various types of patents and marks as well as other forms of intellectual property. See, e.g., 35 U.S.C. § 101 (1982) (utility patents); *id.* § 171 (design patents); *id.* § 161 (plant patents); 15 U.S.C. § 1052 (1982) (trademarks); *id.* § 1053 (service marks); *id.* § 1054 (collective and certification marks). The Convention Establishing the World Intellectual Property Organization, signed at Stockholm, July 14, 1967, defines intellectual property as follows:

- literary, artistic and scientific works,
- performances of performing artists, phonogram, and broadcasts,
- inventions in all fields of human endeavor,
- scientific discoveries,
- industrial designs,
- trademarks, service marks, and commercial names and designations,
- protection against unfair competition, and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

Convention Establishing the World Intellectual Property Organization, July 14, 1967, art. 2 (viii), 21 U.S.T. 1749, T.I.A.S. No. 6932.

4 464 U.S. 417 (1984). For references analyzing contributory copyright infringement and the *Betamax* case, see 3 M. NIMMER, NIMMER ON COPYRIGHT § 12.04 (1988); Conley, *Copyright and Contributory Infringement*, 23 IDEA 185 (1983); CTT, *supra* note 1, at 616-19; Comment, *Contributory Infringement by Providing the Means: The Staple Article of Commerce Doctrine and an Alternative Analysis for Copyright Law*, 18 J. MARSHALL L. REV. 703 (1985); Note, *Contributory Infringement Liability in Universal City Studios, Inc., v. Sony Corp.: "The One and Only" Prays for Our Sins*, 14 LOY. U. CHI. L.J. 79 (1982); see also Cirace, *When Does Complete Copying of Copyrighted Works for Purposes Other than for Profit or Sale Constitute Fair Use? An Economic Analysis of the Sony Betamax and Williams & Wilkins Cases*, 28 ST. LOUIS U.L.J. 647 (1984); Gordan, *Fair Use or Market Failure: A Structural and Economic Analysis of the Betamax Case and its Predecessors*, 82 COLUM. L. REV. 1600 (1982); Sinclair, *Fair Use Old and New: The Betamax Case and its Forebears*, 33 BUFFALO L. REV. 269 (1984).

With reference to the Ninth Circuit's decision in *Universal City Studios v. Sony Corp. of Am.*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984), one commentator went so far as to say: "In the long history of its offenses, the judiciary—that much maligned branch of government—had probably never issued a decision that attracted more abuse and less sympathy." Lardner, *Annals of Law—The Betamax Case—I*, NEW YORKER, Apr. 6, 1987, at 45, 71 [hereinafter Lardner I]. See also Lardner, *Annals of Law—The Betamax Case—II*, NEW YORKER Apr. 15, 1987, at 61 [hereinafter Lardner II].

5 Universal City Studios was joined by Walt Disney Productions in bringing the contributory infringement action against Sony; however, the prime mover in the litigation was Universal. See Lardner I, *supra* note 4, at 50. Mr. Lardner provides a fascinating report of this litigation including the events leading up to it, the economic and legal strategies involved, its aftermath, and the personalities of the various individuals involved. Of particular background interest is the fact that Music Corporation of America (M.C.A.), the parent company of Universal City Studios, had invested millions of dollars in a videodisc playback only system, called "Disco Vision," which used a laser beam to decipher an audio/visual work recorded on a vinyl disc that was played-back via a television set. In September of 1976, prior to filing the *Betamax* suit, M.C.A. had been negotiating with Sony to manufacture its videodisc players. Indeed, Sidney Sheinberg, president of M.C.A., and Len Wasserman, Chairman of M.C.A., while negotiating with respect to the manufacture of "DiscoVision," advised Akio Morita, Chairman of Sony, that unless the Betamax was taken from the market, M.C.A. would be forced to sue Sony. Illustrative perhaps of the different styles of conducting business, Lardner reports Morita's response as follows:

Morita told Wasserman and Sheinberg that he found it hard to understand how they could discuss a business deal and threaten a lawsuit at the same time. It was his policy and Japanese tradition, he said, that "when we shake hands we will not hit you with the other hand."

Id. at 47. Lardner reports that by the end of 1981, M.C.A. had lost a total of approximately \$30 million in its development of its videodisc system. *Id.* at 70.

6 In the *Betamax* opinion "VTR" is used to indicate a "video tape recorder." This latter term has generally now been replaced with "video cassette recorder." Accordingly, in this article "VCR" will be used to indicate a video recorder whether in "Beta" or "VHS" versions.

7 464 U.S. at 456.

such recording by consumers was permissible "fair use," because the VCRs were "widely used for legitimate, unobjectionable purposes," namely, "private, noncommercial time-shifting in the home,"⁸ and hence did not constitute direct infringement of the Studios' copyrights. Absent such direct infringement, there could be no contributory infringement by Sony.⁹

The *Betamax* decision may be characterized as a victory for the VCR industry and their users¹⁰ in eliminating the broad-based employment of contributory infringement. Nonetheless, *Betamax*, in the long run, may be viewed as a mere failure on the part of the copyright owners to prove substantial direct infringement.¹¹

While there is no question that copy technology creates significant worries for copyright owners, there is no inherent tension between copyright and technology.¹² More often than not technology is sympathetic and complementary rather than antagonistic and antithetical to copyright.¹³ Copyright owners, however, clearly understand that copy technology is technically indifferent to their copyrighted works; indeed, a significant part of such copy technology's value may reside in this indifference.¹⁴

8 *Id.* at 442. Lardner attributes Sony's Chairman Morita with having coined the term "time-shifting." Lardner I, *supra* note 4, at 55.

9 The sine qua non of direct infringement is contributory infringement: "In a word, if there is no [direct] infringement of a patent there can be no contributory infringer." *Mercoird Corp. v. Mid-Continent Co.*, 320 U.S. 661, 677 (1944) (Frankfurter, J., dissenting on other grounds), *quoted in* *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526 (1972).

10 See Lardner II, *supra* note 4, at 75-81, for a discussion of the lobbying efforts undertaken after the *Betamax* decision.

11 This is in view of the majority's equivocation on applying a technical capability standard and the minority's position that the scope of protection offered to copyright owners should depend on the extent to which consumers used their VCR's "fairly" or "unfairly." For further elaboration, see *infra* text accompanying notes 60-73.

12 In this article, "technology" is used in the general sense to include both patentable and unpatentable inventions. Incentives for the creation of such inventions are provided by the federal patent system and state trade secret protection. See *infra* note 17 and text accompanying notes 17 and 338-39.

13 The copyright statute, however, lags behind the development of new media for fixing copyrighted works. The Copyright Acts have been repeatedly amended over the past two hundred years to define new copyrightable subject matter. This history is summarized by Professor Goldstein:

The first federal copyright law, the Act of May 31, 1790, was also closely patterned after the English Statute. The Act's original subject matter, charts and books, was gradually expanded as new economic interests and technologies pressed for recognition. Prints were added in the Act of 1802, musical compositions in the Act of 1831, photographs and negatives in the Act of 1865, paintings, drawings, chromos, and statuary in the Act of 1870, and motion pictures in the Act of 1912, the last expansion of coverage until sound recordings were added in 1971.

P. GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 652 (2d ed. 1981). See also *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 460-61 (1984). The Copyright Act of 1976 was amended in 1980 to include a definition of "computer program." 17 U.S.C. § 101, amended by Act of Dec. 12, 1980, Pub. L. No. 96-517, § 117, 94 Stat. 3014. Computer programs have been held to fall within the "literary works" category of copyrightable subject matter. 17 U.S.C. § 102(c)(1) (1982). See *infra* note 279.

14 See, e.g., *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973), *aff'd without opinion*, 420 U.S. 376 (1975) (where the National Library of Medicine and the National Institute of Health photocopied over 200,000 separate articles from plaintiff's copyrighted journals rather than purchasing additional copies of the journals. Liability was denied on the ground of fair use.).

Consequently tension is created between copyright owners whose works are easily copied and technology owners whose equipment permits such copying. The availability of a contributory infringement action may provide copyright owners with a potent weapon to enforce their copyrights against unauthorized copying by owners of copy equipment within their own homes or offices.¹⁵ Indiscriminately broad application of the doctrine, however, would exacerbate tensions between copyright and technology. A more productive approach would examine the underlying policies and tort principles supporting the doctrine. Proposed legislative solutions¹⁶ also miss the mark by creating conflict between the development of patentable and copyrightable subject matter.¹⁷

This article examines the tort of contributory copyright infringement along with its underlying tensions. Part I examines the general tort theory underlying contributory copyright infringement and its application to copyright law as evidenced by *Betamax*.¹⁸ Part II identifies various factors that bear upon the scope of contributory copyright infringement with reference to their relevance in the *Betamax* case. Part III examines the tensions between copyright owners and developers of copy technology. Additionally, Part III addresses the public interest in having access to both copyrighted works and copy technology. Finally, Part IV explores solutions to these tensions in light of the constitutional mandates "[t]o promote the Progress of Science [as embodied in copyrightable works] and useful Arts [as embodied in patentable inventions]."¹⁹

15 Otherwise, as a practical matter, it would be impossible for copyright owners to protect against individual consumers using copy technology to the extent of direct infringement within the privacy of their homes or offices. One of the principal rationales for the doctrine of contributory infringement is to avoid the difficulty of suing individual direct infringers. See *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 188-89 (1980) (discussing *Wallace v. Holmes*, 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100)).

16 See *infra* notes 298-305 and accompanying text discussing a federal statute that would require that the latest development in audio recording equipment include a "jamming" device that would render the recorder incapable of recording appropriately encoded copyrighted works.

17 The incentive to create certain types of technology is lessened to increase the incentive for the creation of certain types of copyrighted works. A serious question arises whether such a proposal is fully compatible with the dual goals of the patent/copyright clause of the Constitution empowering Congress "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8, cl. 8. Written in a style typical of the late nineteenth century, this clause may be dissected into two parallel subclauses, with "Science," "Authors," and "Writings" referring to copyrights ("Science" at that time meaning "knowledge" in general) and with "useful Arts," "Inventors," and "Discoveries" referring to patents. See 1 E. LIPSCOMB, WALKER ON PATENTS § 2:1 (3d ed. 1984); see also Fenning, *The Origin of the Patent and Copyright Clause of the Constitution*, 17 GEO. L.J. 109 (1928-1929).

The statute may also reduce the incentives to create even unpatentable technology, which the tort of misappropriation of trade secrets traditionally protected. See RESTATEMENT OF TORTS § 757 (1939). In *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), the Supreme Court recognized that both the federal patent system and the state protection of trade secrets could provide incentives to invent: "Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict." *Id.* at 484.

18 464 U.S. 417 (1984). This article will identify instances where the doctrine of contributory infringement diverges from general tort theory and where different rules are applied among the respective titles of intellectual property, and will attempt to indicate any policy reasons that might justify such differences in application.

19 U.S. CONST. art. I, § 8, cl. 8.

I. The Tort of Contributory Infringement

Writing for the majority in the *Betamax* case, Justice Stevens agreed with the observation of the district court that "the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn" ²⁰ Justice Stevens partially attributed the lack of clarity to "the fact that an infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of the copyrighted work without actual authority from the copyright owner." ²¹ A more plausible reason for the confusion is the failure to consider the underlying tort theory justifying the imposition of liability (especially if injunctive relief is sought) upon those having some causal relationship with the ultimate infringement of a copyrighted work. Clarity, however, does not seem to be significantly advanced by Justice Stevens' far-reaching generalization: "For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another." ²² One would expect that the "circumstances in which it is just" would comport with general tort theory for imposing liability on persons contributing to the harm, unless particular policy reasons justify deviation from the general tort rules when intellectual property is involved. Indeed, one would expect a certain degree of consistency among the principal titles of intellectual property (patents, trademarks, copyrights), unless again the nature of the respective titles of protection justifies a different treatment. ²³

A. Intellectual Property and Tort Theory

The theory underlying contributory infringement parallels that of trespass upon a property interest. Federal law defines or treats intellectual property in the form of patents, ²⁴ copyrights ²⁵ and trademarks, in a

²⁰ 464 U.S. at 435 n.17 (quoting *Sony Corp. of Am. v. Universal City Studios*, 480 F. Supp. 429, 457-58 (C.D. Cal. 1979)).

²¹ *Id.*

²² *Id.* at 435.

²³ Different statutory provisions would be the most obvious reason for variance. For example, the Patent Act of 1952, as amended, defines induced infringement, 35 U.S.C. § 271(b) (1982), and contributory infringement, *id.* § 271(c), while the Copyright Act of 1976, as amended, does not. In addition, history has played a role in how the theories have developed. The doctrine of patent misuse has significantly limited induced and contributory infringement in patent law. See *infra* text accompanying notes 207-33.

²⁴ "Subject to the provisions of this title, patents shall have the attributes of personal property." 35 U.S.C. § 261 (1982). Note, however, the whole "bundle of sticks" is not granted to the patentee, who receives only the "right to exclude others from making, using, or selling the invention." *Id.* § 154. In particular, the patentee does not acquire the right to use the patented invention; indeed, the patent of another may bar its use.

²⁵ While not specifically defining a copyright as property, the Copyright Act of 1976, as amended, refers throughout to the ownership of a copyright and states with respect to the transfer of ownership that a copyright "may be bequeathed by will or pass as personal property by applicable laws of intestate succession." 17 U.S.C. § 201(d) (1982). The exclusive rights granted to a copyright owner are:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based on the copyrighted work;

more qualified sense,²⁶ as intangible personal property; thus infringement constitutes a trespass tort.²⁷ Direct infringement comprises completion of all the acts necessary to constitute infringement by a single party.²⁸ Liability for direct infringement is imposed on a strict liability basis.²⁹ Such direct infringement of a property interest results naturally in property solutions being sought to redress the trespass, which normally would involve an injunction to bar the trespass from continuing.³⁰

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

Id. § 106

26 The Trademark Act of 1946 (Lanham Act), as amended, does not define a trademark as property; however, by registration under the Act:

A certificate of registration of a mark upon the principal register provided by this chapter shall be prima facie evidence of the validity of the registration, registrant's ownership of the mark, and of registrant's exclusive right to use the mark in commerce in connection with the goods or services specified in the certificate, subject to any conditions and limitations stated therein.

Trademark Act of 1946 (Lanham Act), as amended, § 7(b), 15 U.S.C. § 1057(b) (1982). The United States Supreme Court in the Trade-Mark Cases, 100 U.S. 82 (1879), considered a trademark to be property but held that trademarks did not qualify as "writings" or "discoveries" which would authorize Congress to legislate with regard thereto on the basis of U.S. CONST. art. I, § 8, cl. 8. *See also* CTI, *supra* note 1, at 608-09.

27 *E.g.*, Thomson-Houston Elec. Co. v. Ohio Brass Co., 80 F. 712, 721 (6th Cir. 1897): "An infringement of a patent is a tort analogous to trespass or trespass on the case." As stated by Justice Stevens in *Betamax*: "[A]nyone who trespasses into his exclusive domain by using or authorizing the use of the copyrighted work in one of the five ways set forth in the statute, 'is an infringer of the copyright.'" Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 433 (1984).

28 The Patent Act of 1952, as amended, defines direct patent infringement as follows: "Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a) (1982).

The Trademark Act of 1946 (Lanham Act), as amended, provides:

(1) Any person who shall, without the consent of the registrant—(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive

15 U.S.C. § 1114(1)(a) (1982).

The Copyright Act of 1976, as amended, provides: "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118, or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright." 17 U.S.C. § 501(a) (1982). *See supra* note 25 (listing the "exclusive rights of section 106).

29 With regard to patents, in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) (*Aro II*), the Court stated with respect to direct infringement under 35 U.S.C. § 271(a): "Not only does that provision [section 271(a)] explicitly regard an unauthorized user of a patented invention as an infringer, but it has often and clearly been held that unauthorized use, without more, constitutes infringement [citing Supreme Court cases]." *Id.* at 484 (citations omitted). For the text of 35 U.S.C. § 271(a) (1982), *see supra* note 28. With regard to trademarks, *see* *Saxlehner v. Siegel-Cooper Co.*, 179 U.S. 42, 43 (1900). *See also* Trademark Act of 1946 (Lanham Act), as amended, § 32(1)(a), 15 U.S.C. § 1114(1)(a) (1982), quoted *supra* note 28; 2 J. MCCARTHY, *supra* note 1, § 22:30, 23:31n; Pattishall, *The Impact of Intent on Trade Identity Cases*, 65 Nw. U.L. REV. 421 (1970). With regard to copyrights, users of VCR's would be the direct infringers in *Betamax*; *see also* 17 U.S.C. § 501(a) (1982), quoted *supra* note 28; 3 M. NIMMER, *supra* note 4, § 13-08.

30 The intellectual property statutes expressly provide for injunctive relief against infringement. *See* Patent Act of 1952, as amended, 35 U.S.C. § 283 (1982); Trademark Act of 1946 (Lanham Act),

Contributory infringement involves conduct by a party other than the direct infringer, where such conduct itself falls somewhat short of being direct infringement.³¹ There must, however, be a causal relationship between the direct infringement and the conduct of the contributory infringer.³² Depending upon how one defines contributory infringement, the scope of the underlying property right in the intellectual property may be expanded or contracted accordingly.³³ Moreover, as contributory infringement also involves a trespass tort, one would expect property solutions, particularly injunctive relief.³⁴

Contributory infringement principally imposes liability on two underlying tort theories: 1) for engaging in concerted³⁵ conduct resulting in direct infringement; 2) for inducing³⁶ someone else to commit direct infringement. Of particular importance is the extension in intellectual property of the concerted conduct theory to include "implied concerted" conduct based upon the sale of an article of a particular nature that is ultimately used in direct infringement.³⁷

Five identifiable factors define the scope of protection afforded under the doctrine of contributory infringement. These factors are either inherent or have been judicially or legislatively engrafted on this tort. These factors which bear upon the scope of contributory infringement are as follows: 1) the standard for direct infringement, because a holding of direct infringement is an essential element in the tort of contributory infringement;³⁸ 2) the type of contributory conduct and the necessary fault standard with respect to such conduct;³⁹ 3) whether the owner of the intellectual property has "misused" it so as to extend the monopoly granted beyond the scope of the grant;⁴⁰ 4) the nature of the

as amended, § 34, 15 U.S.C. § 1116 (Supp. IV 1986); Copyright Act of 1976, 17 U.S.C. § 502 (1982). Such injunctions may have nationwide effect.

31 As stated by Justice Holmes in reference to an unauthorized production of a motion picture (*Ben Hur*): "If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act." *Kalem Co. v. Harder Bros.*, 222 U.S. 55, 63 (1911). In *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980), Justice Blackmun stated: "[Contributory infringement] exists to protect patent rights from subversion by those who, without directly infringing the patent themselves, engage in acts designed to facilitate infringement by others." *Id.* at 188.

32 This is a requirement for holding one liable for the tort of another unless based on vicarious liability. See *RESTATEMENT (SECOND) OF TORTS* § 875 (1979), quoted *infra* note 252. In the *Betamax* case Justice Blackmun implied the causal relationship between the seller of VCR's and their users: "In a case of this kind, however, causation can be shown indirectly: it does not depend on evidence that particular Betamax owners relied on particular advertisements." *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 489 (1984) (Blackmun, J., dissenting).

33 See *infra* Part II (discussing the factors that bear upon the scope of contributory infringement).

34 In *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980) an injunction was obtained against the sale of an unpatented chemical; in the trademark case, *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844 (1982), an injunction was denied against the sale of look-a-like capsules containing an unpatented chemical because of the failure to prove "suggestion" by significant infringing use of the trademark.

35 See *infra* text accompanying notes 133-41 for a discussion of the concerted conduct theory of liability.

36 See *infra* text accompanying notes 180-206 for a discussion of the inducement theory of liability.

37 See *infra* text accompanying notes 142-79 for a discussion of the implied concerted conduct theory of liability.

38 See *infra* text accompanying notes 80-128.

39 See *infra* text accompanying notes 129-206.

40 See *infra* text accompanying notes 207-39.

article being sold for use in direct infringement—the “staple article of commerce doctrine;”⁴¹ and 5) whether the accused contributory infringer has a duty to the owner of intellectual property.⁴² These factors sometimes overlap and tend to become interdependent in defining the scope of protection that a court is willing to grant to an intellectual property owner.⁴³

An overview of the respective approaches taken by the majority and minority on the question of contributory copyright infringement in the *Betamax* decision will be given here to set the stage for its critique in view of the five factors identified.

B. *The Betamax Approach—Majority and Minority*

The *Betamax* majority⁴⁴ agreed with the district court that Sony had not induced infringement by users of its VCR's because, in essence, there were no personal contacts with such users, directly or indirectly, by the means of its advertisements to encourage such infringement.⁴⁵ So finding, the majority posited that “[i]f vicarious liability is to be imposed upon Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge that its customers may use this equipment”⁴⁶ to directly infringe copyrights. Finding no precedent for such a theory of liability in copyright law, the majority turned to patent law because of the “historic kinship between patent law and copyright law.”⁴⁷ The majority presented less-than-overwhelming evidence in support of this “historic kinship,” citing dicta from a few Supreme Court decisions to illustrate the “kinship,” while citing dicta from other cases cautioning against unreasoned transfer from one to the other.⁴⁸

41 See *infra* text accompanying notes 240-49.

42 See *infra* text accompanying notes 250-72.

43 For example, whether or not contributory infringement exists may depend upon the characterization of the product being sold as a staple or a nonstaple and may also define the line between misuse and permissible conduct on the part of the intellectual property owner. See *infra* text accompanying notes 240-44.

44 Justice Stevens, joined by Chief Justice Burger, and Justices Brennan, White and O'Connor.

45 Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 438 (1984).

46 *Id.* at 439.

47 *Id.*

48 The court cited three cases in support of this “kinship”: (1) *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 157-58 (1948) (an antitrust case analogizing copyright law to patent law with regard to tie-ins, i.e. conditioning the right to perform one copyrighted work on taking other works); (2) *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932) (holding that patents and copyrights should be treated the same with respect to the permissibility of a state's taxing royalties on copyrights); (3) *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 657-58 (1834) (recognizing the statutory basis for the grant of copyrights and patents). In cautioning against treating patents and copyrights identically, the Court cited two cases: (1) *Mazor v. Stein*, 347 U.S. 201, 218 (1954) (indicating the difference in protection afforded under copyrights and patents: “[T]he copyright protects originality rather than novelty or invention—conferring only ‘the sole right of multiplying copies.’”) (footnote omitted); and (2) *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345, 351 (1908) (recognizing “that there are differences between the patent and copyright statute in the extent of protection guaranteed by them,” but holding that the copyright statute did not authorize the copyright owner to condition a license under the copyrighted work on resale at a minimum price.). Cf. *Heaton-Peninsular Button-Fastener Co. v. Eureka Speciality Co.*, 77 F. 288 (6th Cir. 1896) (holding that a patent owner could condition the use of its patented invention on the purchase of unpatented materials). See *infra* text accompanying note 214.

The *Betamax* majority recognized the dangers of predating contributory infringement on the sale of an article of commerce as implicating the public interest and concluded: "Indeed, a finding of contributory infringement is normally the functional equivalent of holding that the disputed article is within the monopoly granted to the patentee."⁴⁹ In elaborating on this point in a footnote the court stated: "It seems extraordinary that the Copyright Act confers upon all copyright owners collectively, much less the two respondents in this case, the exclusive right to distribute VTR's simply because they may be used to infringe copyrights."⁵⁰ The majority accordingly adopted the "staple article of commerce doctrine" from patent law, and posited that this doctrine "must strike 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."⁵¹

The majority then formulated in the negative, the standard for contributory infringement in three different ways. There is no contributory infringement: (1) "if the product is *widely used* for legitimate, unobjectionable purposes;"⁵² (2) if the product is "*merely . . . capable of substantial noninfringing uses*;"⁵³ and (3) if the product is "*capable of commercially significant noninfringing uses*."⁵⁴ Presumably, the Court was announcing the same standard in its three formulations; one would expect that "widely," "substantial" and "commercially significant" might have the same meaning in establishing the quantity of noninfringing uses. On the other hand, one may not expect the same qualitative standard to be expressed in each of these three formulations. It is unclear, however, whether the majority adopted a technical capability standard or a user capability standard. A technical capability standard would inquire whether a VCR is capable of recording noncopyrighted works off-the-air as well as copyrighted ones, while a user capability standard would examine the subjective motivations of the individual users of VCR's.

Rather than simply holding that VCR's were obviously technically capable of noninfringing uses, the majority reasoned that it "need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement,"⁵⁵ nor did it need to "give precise content to the question of *how much use* is commercially sig-

49 464 U.S. at 441.

50 *Id.* at 442. That copyright owners should have such an "extraordinary" right was expressed by Sidney Sheinberg, the President of Universal Pictures and M.C.A., as early as 1976, when Betamax had just started to be marketed:

The issue is: Should Sony be able to sell this product? We're crazy to let them. All we do is sell somebody the right to see the privilege of seeing—a motion picture or a television program. This machine was made and marketed to copy copyrighted material. It's a copyright violation. It's got to be.

Lardner I, *supra* note 4, at 45.

51 464 at 442. See *infra* notes 240-49 and accompanying text discussing the "staple article of commerce doctrine."

52 *Id.* (emphasis added).

53 *Id.* (emphasis added).

54 *Id.* (emphasis added).

55 *Id.* (emphasis in original).

nificant.”⁵⁶ The majority then concluded that “private, noncommercial time-shifting in the home”⁵⁷ is one potential use for the Betamax that would satisfy this standard. The majority then undertook a fair use analysis⁵⁸ and concluded that the copying within the home for time-shifting is permissible under the fair use doctrine. Thus, because of fair use by users, there was substantial noninfringing use, i.e., insubstantial direct infringement by Betamax owners, and accordingly Sony was not a contributory infringer.⁵⁹

The minority opinion, written by Justice Blackmun,⁶⁰ argued that user capability controlled and proof of the quantum of direct infringement should constitute the standard for contributory infringement. On the question of inducing infringement, Justice Blackmun reasoned that causation need not be shown directly but could be shown indirectly, even in the absence of evidence that certain Betamax owners relied on particular Sony advertisements.⁶¹ The dissent argued that the gap in direct causation could be implied from the nature of the article being sold, the Betamax. With this implication, the dissent would apply the trademark standard for contributory infringement adopted by the Court in *Inwood Laboratories v. Ives Laboratories*⁶² to inquire whether Sony “suggested, even by implication,” that its purchasers use the Betamax to infringe copyrighted works.⁶³

To satisfy the “suggestion” standard, the dissent asserted that “[o]ff-the-air recording is not only a foreseeable use for the Betamax, but indeed is its intended use.”⁶⁴ However, the minority then seemingly combined two theories of contributory infringement based upon the sale of VCR’s: “Sony has *induced and materially contributed* to the infringing conduct of Betamax owners.”⁶⁵ By eliminating the requirement of a personal nexus between seller and buyer and then bridging the causation gap by jumping from foreseeability of use to intended use, the minority effectively proposed a negligence standard: Because Sony should have

⁵⁶ *Id.* (emphasis added).

⁵⁷ *Id.*

⁵⁸ See *infra* notes 102-28 and accompanying text discussing “fair use” and its application to the Betamax case.

⁵⁹ 464 U.S. at 456.

⁶⁰ *Id.* at 457 (Blackmun, J., dissenting, joined by Justices Marshall, Powell and Rehnquist).

⁶¹ *Id.* at 489. See *supra* note 32 for the text of Justice Blackmun’s reasoning with respect to this issue.

⁶² 456 U.S. 844 (1982). See *infra* notes 194-204 and accompanying text for a discussion of the *Ives* standard for contributory trademark infringement.

⁶³ 464 U.S. at 489. The courts have had considerable difficulty with the actual wording of the *Ives* standard. In *Ives*, the Supreme Court evidently approved the standard established by the Second Circuit in the first appeal of *Ives*, 601 F.2d 631 (2d Cir. 1979). The wording used by the Second Circuit was: “suggested, even if only by implication.” *Id.* at 636. In the second appeal to the Second Circuit, the wording was altered somewhat to: “a suggestion, at least by implication.” 638 F.2d 538, 543 (2d Cir. 1981). See *CTI, supra* note 1, 650-51, for a possible explanation for the variation in wording between the two decisions. The majority in *Betamax* stated the *Ives* standard to be: “intentionally induc[e].” 464 U.S. at 439 n.19 (citing the *Ives* case, 456 U.S. at 855). For further discussion of this issue, see *infra* notes 194-204 and accompanying text.

⁶⁴ 464 U.S. at 490.

⁶⁵ *Id.* (emphasis added) (footnotes omitted).

known that its Betamax recorders would be used for infringing purposes, it should be liable for such infringement on the basis of those sales.⁶⁶

Justice Blackmun, however, fully appreciated the need for at least some qualitative limitation of such an expansive rule. Although Justice Blackmun objected to the wholesale importation of the "staple article of commerce" doctrine of patent law into copyright law, he recognized "that many of the concerns underlying the 'staple article of commerce' doctrine" were present in copyright law as well.⁶⁷ He then agreed with the district court that "if liability for infringement were imposed on the manufacturer or seller for every product used to infringe . . . the 'wheels of commerce' would be blocked."⁶⁸

The minority then postulated its standard in a negative and a positive formulation: (1) There is no contributory infringement "if a *significant* portion of the product's use is *noninfringing*,"⁶⁹ (2) There is contributory infringement "[i]f *virtually all* of the product's use . . . is to infringe. . . ."⁷⁰ Presumably, these formulations are the converse of one another. If a "significant portion" of use is not infringing, then "virtually all" use is not infringing and vice versa. The question of technical capability is excluded. It thus becomes simply a question of the amount of direct infringement that has occurred through the use of a VCR.

Justice Blackmun stated that his approach was "very different" from that of the majority.⁷¹ However, in both approaches the question of liability for contributory infringement depended on the quantum of direct infringement. Only the result was different, with the majority finding fair use and hence an insignificant amount of direct infringement, while the dissent found unfair use and hence a significant amount of direct infringement.

Both the majority and minority appreciated the tensions created by finding contributory infringement for the sale of a copying device such as a VCR. The majority emphasized the impact on free competition if liability were imposed,⁷² while Justice Blackmun found the majority's analysis flawed in that it failed to separate the question of liability "from the difficulty of fashioning an appropriate remedy."⁷³

In any event, even the minority had difficulty with entirely enjoining the sale of VCR's. If liability were imposed, the dissent would look to

66 At an earlier point Justice Blackmun stated: "It is undisputed in this case that Sony had reason to know the Betamax would be used by some owners to tape copyrighted works off the air." *Id.* at 489.

67 *Id.* at 491.

68 *Id.*

69 *Id.*

70 *Id.* (emphasis added).

71 *Id.* at 493.

72 *Id.* at 440-441. In *Betamax*, the Studios sought an injunction against the continued sale of Betamax. With respect to remedies, the majority stated:

The request for an injunction below indicates that respondents seek, in effect, to declare VTR's contraband. Their suggestion in this Court that a continuing royalty pursuant to a judicially created compulsory license would be an acceptable remedy merely indicates that respondents, for their part, would be willing to license their claimed monopoly interest in VTR's to Sony in return for a royalty.

Id. at 441 n.21.

73 *Id.* at 494.

alternative remedies short of a property solution, such as, the payment of royalties or the requirement that VCR's be rendered technically incapable of recording copyrighted works off-the-air.⁷⁴ These proposed solutions imply that copyrights, at least in this context, are somewhat less than "property" and that the Court should implement some "quasi property"⁷⁵ or "compulsory license"⁷⁶ solution. If a remedy less than an injunction were granted, this would avoid the necessity of a narrow definition of contributory infringement or a broad one of fair use to avoid interference with the "rights of others freely to engage in substantially unrelated areas of commerce."⁷⁷ Both the majority and minority opinions, however, failed to address the policy issue of why the burden should be placed upon the developer of technology to protect copyright owners from how and why that technology is used, when it may be used in noninfringing or infringing ways, depending upon the personal intervention of the user.

In the following part of this article the five factors,⁷⁸ that bear upon the scope of protection traditionally provided in contributory infringement will be analyzed with particular reference to the "trilogy" of cases dealing with contributory infringement of intellectual property.⁷⁹

II. Scope of Contributory Infringement

A. *Standard for Direct Infringement*

The sine qua non of contributory infringement is direct infringement just as the commission of a tort by one person is the sine qua non for imposing liability on another person for contributing to the commission of that tort.⁸⁰ If, as has been the case in patent law, a strict standard for direct infringement is imposed, this narrows the scope of contribu-

74 After listing royalties and a "jamming" device, Justice Blackmun went on to say: "Even were an appropriate remedy not available at this time, the Court should not misconstrue copyright holders' rights in a manner that prevents enforcement of them when, through development of better techniques, an appropriate remedy becomes available." 464 U.S. at 494 (footnote omitted). Justice Blackmun also mentioned the possibility of "even some form of limited injunction." *Id.* at 499.

75 In *International News Serv. v. Associated Press*, 248 U.S. 215, 236 (1918), a "quasi property" theory was applied to prevent a competitor from "misappropriating" the "hot" news of another. The underlying rationale appears to be "commercial morality" and protecting the investment of the news gathered, by not permitting the copier "to reap where it has not sown. . . ." *Id.* at 239. Any relief provided in *Betamax* would go beyond competitors; the parties were not competitors and presumably the same relief would also be available to other marketers of VCR's.

76 The majority indicated that awarding royalties would be judicially creating a compulsory license. See *supra* note 72. Compulsory licenses are available under Copyright Act of 1946 with respect to certain types of activities: certain cable broadcasts (17 U.S.C. § 111 (1982)); certain phonorecords of musical works (*id.* § 115 (1982 & Supp. 1986)); jukeboxes (*id.* § 116 (1982)). However, no general right to a compulsory license is provided under the Copyright Act, the Patent Act or the Trademark Act. Cf. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("Compulsory licensing is a rarity in our patent system. We decline to manufacture such a requirement out of § 271(d)") (footnote omitted).

77 464 U.S. at 442.

78 See *supra* text accompanying notes 38-42 (identifying the factors).

79 *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984); *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844 (1982); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

80 See RESTATEMENT (SECOND) OF TORTS § 875 (1979), quoted *infra* note 252.

tory infringement accordingly.⁸¹ Direct infringement is defined in the Patent Act as "making," "using" or "selling" the claimed invention.⁸² From as early as *Prouty v. Ruggles*⁸³ through, at least, *Deepsouth Packing Co. v. Laitram Corp.*,⁸⁴ the Supreme Court has interpreted these terms narrowly.⁸⁵ Indeed, the Supreme Court in *Dawson Chemical Co. v. Rohm & Haas Co.*⁸⁶ urged that contributory infringement is needed by patent owners because of the overly rigorous standard imposed for direct infringement.⁸⁷

In addition, statutory and common law exceptions may preclude a finding of direct infringement and thus exclude contributory infringement. In patent law, for example, the "repair/reconstruction" doctrine has also imposed a significant limitation to finding direct infringement once a patented product has been marketed with the authorization of the patent owner.⁸⁸ The patent owner not only gives an implied license to the purchaser to use the invention but also an implied license to "repair" it. This has been broadly interpreted by the Supreme Court in *Aro Manufacturing Co. v. Convertible Top Replacement Co. (Aro I)*⁸⁹ to permit any repair short of a "second creation" of the patented invention before it can be considered an impermissible infringing reconstruction.⁹⁰

The standards for direct infringement in trademark and copyright cases are more ambiguous, perhaps inherently so because of the nature of the subject matter.⁹¹ In trademark law, "likelihood of confusion" is the statutory⁹² as well as common law⁹³ standard, and courts have gener-

81 For a discussion of the strict standard for direct patent infringement, see *CPI*, *supra* note 1, at 108-11.

82 35 U.S.C. § 271(a) (1982). See *supra* note 28 for the text of this provision.

83 41 U.S. (16 Pet.) 336 (1842).

84 406 U.S. 518 (1972) (holding that it was not direct infringement ("making") to package separately the parts of a patented machine and ship them to a foreign country for assembly).

85 Recently Congress has agreed that the standard of *Deepsouth* was too strict. Section 271 has been amended to overrule *Deepsouth*, defining infringement to include supplying "in or from the United States all or a substantial portion" of a patented invention or a "nonstaple" for use in a patented invention, even though the invention itself is completed outside of the United States. 35 U.S.C. § 271(f) (Supp. IV 1986), added by amendment Pub. L. No. 98-622, Title I, § 101(a), 98 Stat. 3383 (1984). The Court of Appeals for the Federal Circuit has gone further and found infringement when the accused infringer had tested "significant, unpatented assemblies of elements . . . enabling the infringer to deliver the patented combination in parts to the buyer, without testing the entire combination. . . ." *Paper Converting Mach. Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 19-20 (Fed. Cir. 1984).

86 448 U.S. 176 (1980).

87 "This protection [contributing infringement] is of particular importance in situations, like the oil lamp case itself, where enforcement against direct infringers would be difficult, and where the technicalities of patent law make it relatively easy to profit from another's invention without risking a charge of direct infringement." *Id.* at 188.

88 See generally 4 D. CHISUM, *supra* note 1, § 16.03; *CPI/US*, *supra* note 1, at 200-03.

89 365 U.S. 336 (1961).

90 See *Wilbur-Ellis Co. v. Kuhler*, 377 U.S. 422 (1964) (permissible repair to resize and relocate 6 out of 35 parts of a patented canning machine); see also *Dana Corp. v. American Precision Co.*, 3 U.S.P.Q. (BNA) 1852 (Fed. Cir. 1987) (permissible repair to rebuild clutches by production line method using new (no more than four) and used parts randomly selected).

91 Although the standard for direct infringement of intellectual property may range from the rigid to the ethereal, direct infringement is applied on a strict liability basis. See *supra* note 29. The "no fault" theory provides a distinct advantage to those asserting contributory infringement against intermediaries who provide consumers with the means to directly infringe.

92 Trademark Act of 1946 (Lanham Act), as amended, § 32(1)(a), 15 U.S.C. § 1114 (1982); see *supra* note 28 for the text of this provision. State trademark acts generally follow the same formula-

ally adopted a multi-factor test to assist in this determination.⁹⁴ Other limitations on direct trademark infringement, such as "collateral use"⁹⁵ or "fair use,"⁹⁶ are related to the ultimate standard of likelihood of confusion and have not played a significant role in defining the scope of contributory infringement in trademark law.

Copyright law may even be more ethereal in its standard for direct infringement. The Copyright Act defines copyright infringement merely as a violation of one of the exclusive rights specified in section 106⁹⁷ of the Copyright Act.⁹⁸ The ultimate resolution of the issue may depend upon a determination of whether the "expression" of the work has been copied rather than its underlying "idea."⁹⁹ Recent cases dealing with the alleged infringement of computer software show the difficulty of applying the idea/expression dichotomy in a highly technical setting.¹⁰⁰

The Copyright Act subjects the "exclusive rights" to certain express exceptions.¹⁰¹ The "fair use" doctrine, as now codified in section 107 of the Copyright Act, provides one of the most significant exceptions to direct infringement.¹⁰² However, in the words of Justice Blackmun in the

tion, 46 states having adopted the Model State Trademark Act, which provides in section 11(a): "Such use is likely to cause confusion or mistake or to deceive." See UNITED STATES TRADEMARK ASSOC., STATE TRADEMARK AND UNFAIR COMPETITION LAW (1987); 2 J. MCCARTHY, *supra* note 1, § 22:3.

93 See 2 J. MCCARTHY, *supra* note 1, §§ 22:30, 22:31.

94 See, e.g., *McGregor-Doniger, Inc. v. Drizzle, Inc.*, 599 F.2d 1126 (2d Cir. 1979) (listing eight factors: strength of the work, similarity of the works, proximity of products, quality of defendant's product, bridging the gap between markets, actual confusion, good faith, and sophistication of buyers). See also *In re E.I. DuPont DeNemours & Co.*, 476 F.2d 1357 (C.C.P.A. 1973) (listing 13 factors to be considered in testing likelihood of confusion under § 2(d) of the Lanham Act, 15 U.S.C. § 1052 (1982), for registration purposes).

95 See, e.g., *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924) (Holmes, J.).

96 Regarding the fair use defense to trademark infringement, see 1 J. MCCARTHY, *supra* note 1, § 11:17 (truthful description); *id.* § 13:3 (using own name); *id.* § 14:7 (geographic origin).

97 17 U.S.C. § 106 (1982). See *supra* note 25 for a list of the exclusive rights of section 106.

98 17 U.S.C. § 501(a) (1982). See *supra* note 28 for the text of this provision.

99 As stated by Judge Learned Hand: "Obviously, no principle can be stated as to when an imitation has gone beyond copying the idea, and has borrowed its 'expression.' Decisions must therefore inevitably be ad hoc." *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir. 1960); see also *Sid & Marty Kroft Television Prod., Inc. v. McDonald's Corp.*, 562 F.2d 1157 (9th Cir. 1977); *Nicols v. Universal Pictures Corp.*, 45 F.2d 119 (2d Cir. 1930), *cert. denied*, 282 U.S. 902 (1931).

100 *Whelan Assocs. v. Jaslow Dental Laboratory*, 797 F.2d 1222 (3d Cir. 1986); *Apple Computer v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983); *Williams Elecs., Inc. v. Artic Int'l*, 685 F.2d 870 (3d Cir. 1982). Cf. *Plains Cotton Coop. Assoc. v. Goodpasture Computer Serv.*, 807 F.2d 1256 (5th Cir. 1987); *Synercom Technology, Inc. v. University Computing Co.*, 462 F. Supp. 1003 (N.D. Tex. 1978).

101 The exclusive rights of section 106 are made subject to 17 U.S.C. §§ 107-118 (1982 & Supp. IV 1986). Sections 106-112 define limitations on exclusive rights and sections 113-118 relate to the scope of exclusive rights.

102 Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by production in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include— (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107 (1982).

Betamax case: "The doctrine of fair use has been called, with some justification, 'the most troublesome in the whole law of copyright.'"¹⁰³ As if this point needed any further demonstration, the majority and dissent in *Betamax* proceeded to disagree over the doctrine's application as a general principle and how each and every one of the factors were to be taken into account in its application.¹⁰⁴ They even disagreed over the relevancy of "authorized time-shifting," where copyright owners have consented, at least by implication, to the recording of their works off-the-air for later replay. The majority concluded that the Studios lacked standing to represent a class consisting of all copyright owners and only had an interest in protecting their own copyrighted works.¹⁰⁵ The majority reasoned that if the Studios were to prevail, broadcasters who are only capable of reaching their markets via time-shifting would suffer. The dissent, on the other hand, argued that while an injunction against the sale of VCR's may harm copyright owners who authorized time-shifting, their concerns could be accommodated by "fashioning an appropriate remedy."¹⁰⁶ The dissent did not mention the potential interest of VCR purchasers who, even though authorized to record certain copyrighted works, may be required to pay higher prices for VCR's used in whole or at least in part to record such authorized programs.¹⁰⁷

More specifically with respect to fair use under section 107 of the Copyright Act, the majority considered the most critical element of fair use analysis to be whether the recording was being undertaken for commercial or noncommercial (nonprofit making) reasons.¹⁰⁸ The dissent took a different tack and looked to whether the recording constituted a "productive" use of the work as compared to a "nonproductive" one, with time-shifting for the convenience of the viewer classified as non-productive.¹⁰⁹ The dissent's position, however, gives some meaning to the first sentence of section 107, which gives examples of "fair use," "such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research . . ."¹¹⁰ All of these are productive purposes as envisioned by the dissent.¹¹¹

103 *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 475 (1982) (quoting *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939)).

104 See *supra* note 102 for the text of section 107 identifying the four factors. See *infra* notes 112-24 for a discussion of both the *Betamax* majority and dissent's analysis of these factors.

105 464 U.S. at 446.

106 *Id.* at 493-94.

107 Although a royalty rate could take into account the fact that a certain percentage of VCR use was to record "authorized" off-the-air works, VCR manufacturers would presumably pass on royalty payments to purchasers. This would result in "overpayment" by consumers who only recorded "authorized" works and "underpayment" by those who recorded only "unauthorized" works. The end result would be for the noninfringers to subsidize the infringers. But see Laeffler, *The Betamax Case: Another Compulsory License in Copyright Law*, 13 U. Tol. L. Rev. 651, 680-81 (1982) (recommending a legislative compulsory license for home recording).

108 464 U.S. at 442, 448-49.

109 *Id.* at 447-80.

110 17 U.S.C. § 107 (1982). See *supra* note 102 for the text of this provision. But see HOUSE COMM. ON THE JUDICIARY, COPYRIGHT LAW REVISION, H.R. Rep. 1476, 94th Cong., 2d Sess. 68-70 (1976) (not fair use if classroom use but the purpose for multiple copies was to avoid purchasing originals).

111 464 U.S. at 495.

With respect to the four factors of section 107 to be considered in a fair use analysis, the majority, in an essentially summary fashion, disposed of the first three. As to factor (1) — “purpose and character of the use of the copyrighted work” — the majority concluded that, because the unauthorized time-shifting copying is for noncommercial purposes, a presumption of fairness should apply as compared to a presumption of unfairness if for commercial purposes.¹¹² The dissent, on the other hand, interpreted this factor within its productive versus nonproductive construct, with the intent of the section being construed to encourage copying only for the purpose of benefitting others.¹¹³ When the only interest served by home recording was that of the recorder in time-shifting, this, Justice Blackmun asserted, “involved no such humanitarian impulse.”¹¹⁴

In one sentence the majority dispatched the next two factors, concluding that when the “nature of the copyrighted work” (factor (2)) is considered in light of the fact that time-shifting merely permits the viewer to delay what was available free of charge, the “amount and substantiality” of copying (factor (3)) loses its “ordinary effect of militating against fair use.”¹¹⁵ The point of the majority evidently is that the nature of the work may be determined by its availability at one time without charge and that somehow this bears upon also the question of how much is copied. One may conclude from this analysis that the time-shifting motive of the recorder seems determinative of both factors (2) and (3) without any further investigation.

The dissent, however, focused on the type of work being recorded rather than on the motive for recording in analyzing factor (2) and found this factor to be contrary to a finding of fair use because of the entertainment nature of the works recorded off the air.¹¹⁶ Moreover, the dissent argued since the entire copyrighted works were being recorded for a nonproductive purpose, it was “even more devastating to the Court’s interpretation,” and concluded that the quantity of copying might in itself preclude a finding of fair use under factor (3).¹¹⁷

The final and often most problematic factor in a fair use analysis is the “effect of the use upon the potential market for or the value of the copyrighted work.” The dissent emphasized the potential market and identified such *potential* detrimental effects to the Studios as limiting their ability to market their works in movie theaters or by rental or sale of prerecorded tapes, reducing license fees because of reduction in rerun audiences, reducing income from advertisers who would be unwilling to pay higher prices because of the ability of recorders to skip commercials.¹¹⁸ Justice Blackmun, while admitting that the time-shifting market was created by the invention of the VCR, asserted that obviously VCR

112 *Id.* at 449.

113 *Id.* at 496.

114 *Id.*

115 *Id.* at 449-50.

116 *Id.* at 449-50.

117 *Id.* at 497.

118 *Id.* at 482-86, 497-98.

purchasers were willing to pay for this privilege by their purchase.¹¹⁹ This type of reasoning may serve as an example of the circuitous nature of any market analysis under section 107(4). As pointed out by Professor Goldstein, "[w]hether a use will affect 'the potential market for or value of the copyrighted work' necessarily turns on whether the use will be proscribed."¹²⁰

With such an illustration of the potential loss of market, the minority would then place the burden upon the accused infringer to demonstrate there was no potential for harm.¹²¹ The majority, on the other hand, placed the burden on the Studios to "demonstrate that time-shifting would cause any likelihood of non-minimal harm to the potential market for, or the value of, their copyrighted works."¹²² If commercial use is involved, "some meaningful likelihood of future harm may be presumed;" however, for noncommercial time-shifting, the Court concluded that the "likelihood must be demonstrated" for otherwise "the prohibition of such noncommercial uses would merely inhibit access to ideas without any countervailing benefits."¹²³ If the fair use doctrine permits copying, which would otherwise constitute infringement, then placing the burden on the copyright owner with respect to the four factors in section 107, particularly factor (4) (market effect), would seem contrary to the normal allotment of burdens in tort law.¹²⁴

The peculiar holding in *Betamax* is not that the fair use doctrine serves as a limitation on the scope of application of contributory infringement by limiting direct infringement, but that the quantum of direct infringement, as inversely related to the quantum of fair use, becomes the standard for contributory infringement. Direct infringement is not only the sine qua non of contributory infringement, but also a finding of significant direct infringement (i.e., the absence of significant fair use) proves contributory infringement. The relevance, or irrelevance, of the nature of the article being sold (i.e., whether a staple or nonstaple) on the contributory infringement issue will be considered in section D herein.

Both the majority and dissent agreed that the purpose of the copyright statute is to implement the constitutional mandate to provide incentives for creation of copyrightable works.¹²⁵ The majority concluded that prohibiting noncommercial uses need not be ordered in order to

119 *Id.* at 485. Justice Blackmun reasoned: "These persons are willing to pay for the privilege of watching copyrighted work at their convenience, as is evidenced by the fact that they are willing to pay for VTR's and tapes; undoubtedly, most also would be willing to pay some kind of royalty to copyright holders." *Id.* One might conclude to the contrary that the willingness of consumers to pay for VCR's and tapes might be in part based on their ability to record programs without cost. Moreover, it is not apparent that television stations would be willing to pay a higher fee to receive authorization for their viewers to record programs off-the-air, if offered by the copyright owners.

120 P. GOLDSTEIN, *supra* note 13, at 780.

121 464 U.S. at 485.

122 *Id.* at 456.

123 *Id.* at 450-51 (footnotes omitted).

124 Aside from consent to invasions to the person, tort law placed the burden on the defendant to prove that his or her intentional conduct was privileged and hence not tortious. See RESTATEMENT (SECOND) OF TORTS § 10 comment c (1979).

125 464 U.S. at 429 (majority); *id.* at 479-80 (minority).

protect the author's incentive to create.¹²⁶ The dissent found the inclusion of nonproductive uses within the copyright grant to be a needed incentive and concluded that, even though the copyright owners did not create the market for time-shifting, they should be entitled to exploit this new market.¹²⁷ However, in terms of incentives, it is clear that prior to the invention of the video recorder no copyrightable works were induced by the nonexistent time-shifting market. It hardly seems likely that many of the Studios' copyrights came into being, in whole or even in part, because of the potential for precluding time-shifting by owners of VCR's.¹²⁸ It appears equally clear that if the Supreme Court had held that unauthorized time-shifting was not fair use and there was a significant amount of direct infringement by VCR users, copyright owners would have a significantly expanded market that could be exploited by royalties, fees or other means, if not by injunction. If the scope of contributory infringement is made to depend upon a fair use analysis, at least one thing may be guaranteed: contributory infringement has become as troublesome a doctrine as fair use, and perhaps one even more troublesome because of the additional factors that bear upon the scope of contributory infringement.

B. *Contributing Conduct and Fault*

Once it is established that one or more torts have been committed, liability will be imposed on those who have contributed to that tort, provided the contribution has been of a particular nature and according to a particular fault standard (*viz.*, intent, negligence or strict liability).¹²⁹ The scope of protection under contributory infringement is accordingly directly related to the nature of the originating contribution and the fault standard applied to the contributor.¹³⁰

For reasons of convenience, the *Restatement (Second) of Torts (Restatement)* categorization found in Chapter 44, entitled "Contributing Tortfeasors," will be used as a framework for analyzing the contribution and fault requirements for general tort law and its application to contrib-

¹²⁶ *Id.* at 450-51.

¹²⁷ *Id.* at 485.

¹²⁸ Serious questions have been raised whether copyright is a needed incentive for the creation of certain works. See Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281 (1970). Cf. Tyerman, *The Economic Rationale for Copyright Protection for Published Books: A Reply to Professor Breyer*, 18 U.C.L.A. L. REV. 1100 (1971).

Moreover, if the work or invention would have been created irrespective of the availability of copyright or patent protection, the copyright or patent statute could be said to be providing an incentive therefor. Economists studying the patent system have concluded that protecting such non-induced inventions may result in a net economic loss to society. See Oddi, *The International Patent System and Third World Development: Reality or Myth?*, 1987 DUKE L.J. 831 (reviewing economic literature).

¹²⁹ Other categories falling between negligence and strict liability, could be added, such as "gross negligence," "willful," "wanton" or "reckless" conduct. See W. PROSSER & W. KEETON, PROSSER & KEETON ON THE LAW OF TORTS § 34 (5th ed. 1984) [hereinafter PROSSER].

¹³⁰ If strict liability is applied to contributory infringers, as it is for direct infringers, this would provide a broad scope of protection. Conversely, if contributory infringement were limited to intentional conduct on the part of the alleged contributory infringement, this would result in a significant narrowing of the tort compared to strict liability. An intermediate scope of protection for contributory infringement would result if premised upon a finding of negligent conduct by the contributor.

utory infringement.¹³¹ As previously mentioned, the principal theories relied upon with respect to contributory infringement of intellectual property have been concerted conduct and inducement of infringement. The discussion in this section will focus on these theories.¹³²

1. Agreed Concerted Conduct

Section 876 of the *Restatement* imposes liability upon a contributing tortfeasor "for harm resulting to a third person from the tortious conduct of another" under three separate rules, two of which are particularly relevant here.¹³³ Section 876(a) imposes liability upon the contributing tortfeasor for committing "a tortious act in concert with the other or pursuant to a common design with him."¹³⁴ According to comment a on this clause, "[p]arties are acting in concert when they act in accordance with an agreement to cooperate in a particular line of conduct or to accomplish a particular result."¹³⁵ The agreement need not be expressed in words and may be implied and understood to exist from the conduct itself.¹³⁶

It is not the conspiracy among the parties that makes their conduct concerted, but it is essential that the conduct of each of the parties be in itself tortious. As stated in comment b, "there must be acts of a tortious character in carrying [the plan] into execution."¹³⁷ The essence of such

131 RESTATEMENT (SECOND) OF TORTS Ch. 44 (1979). See also 3 F. HARPER, F. JAMES & O. GRAY, THE LAW OF TORTS § 10.1 (2d ed. 1986); PROSSER, *supra* note 129, § 46.

132 Also considered in section F, below, in reference to the duty owed to an intellectual property owner by a seller of a product used in direct infringement, is another theory designated in the *Restatement* as "independent concurrent or consecutive conduct." RESTATEMENT (SECOND) OF TORTS § 279 (1979). A fourth category is also included in the *Restatement*, where liability is imposed when "two or more persons are under a common duty and failure to perform" results in injury to the person to whom the common duty is owed. *Id.* § 878. This category is not directly applicable to contributory infringement and will not be further considered.

Justice Stevens categorized contributory infringement as a species of vicarious liability. Sony Corp. v. Universal City Studios, 464 U.S. 417, 435 (1984); see *supra* text accompanying note 22. The *Restatement* uses the term "contributory tortfeasor" in a much less comprehensive sense, excluding liability based upon master-servant, agency or partnership principles. RESTATEMENT (SECOND) OF TORTS § 875 comment a (1979).

133 For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he (a) does a tortious act in concert with the other or pursuant to a common design with him, or (b) knows that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself, or (c) gives substantial assistance to the other in accomplishing a tortious result and his own conduct, separately considered, constitutes a breach of duty to the third person.

RESTATEMENT (SECOND) OF TORTS § 876 (1979). Section 876 (c) will be considered *infra*, section E.

The Institute makes a caveat concerning the applicability of § 876 when the theory of liability with respect to the actor or the other person is strict liability rather than intentional or negligent conduct. This caveat may have particular relevance to intellectual property in that direct infringement in patent, trademark, and copyright law is dealt with on a strict liability basis, while contributory infringement, in the main, requires some "fault" on the part of the actor.

134 *Id.* § 876(a).

135 *Id.* § 876 comment a.

136 A classic example of an express agreement is the agreement among three persons to steal the victim's silver buttons, when one batters the victim, the other falsely imprisons him, and the third actually takes the buttons. Each contributing tortfeasor is liable not only for the tort committed by him but also for the torts of the others. See PROSSER, *supra* note 129, at 323 (citing *Smithson v. Garth*, 3 Lev. 324, 83 Eng. Rep. 711 (1601)). A common form of imposing liability on the basis of an implied or tacit agreement may be found in the drag-racing cases. *Id.*

137 RESTATEMENT (SECOND) OF TORTS § 876 comment b (1979).

concerted conduct is the imposition of liability for the entire injury because of the express or tacit agreement to engage in the tortious conduct.

The application of an agreed concerted conduct theory in intellectual property would commonly be with respect to a claim of direct infringement, but there may also be instances where contributory infringement is also involved. For example, in patent law, three parties may agree, expressly or impliedly, that one would make the invention, another would sell it, and the third would use it.¹³⁸ In trademark law, the agreement may be for one to supply labels bearing the trademark of another, the second to affix those labels to its goods and to sell them to a third party, who, in turn, is to sell the goods bearing the trademark to the public.¹³⁹ A copyright example would be an agreement for one to produce an unauthorized motion picture based on a copyrighted work, another to distribute the movie, and a third to publicly perform the unauthorized work.¹⁴⁰ Any one of the three could be individually held as direct or contributory infringers, as the case may be, provided the individual conduct satisfies the standard for that tort. Moreover, all three could be held liable for the tortious conduct of the others upon a concerted conduct theory in agreeing to act in furtherance of the common design to infringe.¹⁴¹

2. Implied Concerted Conduct

Section 876(b) of the *Restatement* provides another basis for imposing liability for concerted conduct. Section 876(b) imposes liability upon a contributing tortfeasor who "knows that the other's conduct constitutes

¹³⁸ This would be directly analogous to the "silver button" case, *Smithson v. Garth*, 3 Lev. 324, 83 Eng. Rep. 711 (1601). Each of the participants would be a direct infringer under 35 U.S.C. § 271 (a) (1982), *quoted supra* note 28.

¹³⁹ In this hypothetical, the second and third parties would be categorized as direct infringers for using the trademark on goods in commerce; the first would be a contributory infringer for it has merely supplied that trademark but has not used it with respect to goods. The Lanham Act § 32(1)(b) provides:

(1) Any person who shall, without the consent of the registrant . . . (b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, printers, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.

15 U.S.C. § 1114(1)(b) (1982). *See infra* text accompanying notes 161-63 for a discussion of this provision.

¹⁴⁰ In this hypothetical, the first would directly infringe the copyright owner's exclusive right "to prepare derivative works" (17 U.S.C. § 106(2) (1982)). The other two parties could be categorized as contributory infringers because they are, respectively, distributing (*see id.* § 106(3)) and performing (*see id.* § 106(4)) the motion picture (the derivative work) rather than the copyrighted novel itself. Alternatively, if the derivative work is categorized as a copy of the original work, then the distributor and performer also may be said to be direct infringers. The definition of "copies" in the Copyright Act provides:

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

Id. § 101.

¹⁴¹ There was no allegation in *Betamax* that Sony and the purchasers of its recorders had expressly or even impliedly agreed to infringe copyrights of the Studios.

a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself.”¹⁴² The contributing tortfeasor must thus have actual knowledge of the tortious conduct of the other.¹⁴³ With such knowledge the contributing tortfeasor need not necessarily be under a separate duty to the third person for this rule to apply. The limit of liability is for encouragement or assistance in the other’s breaching of the known duty.¹⁴⁴ This type of concerted conduct may be designated “implied concerted” conduct where the concert is implied by virtue of the actual knowledge of the contributing tortfeasor of the breach of duty to be committed by the other.

In patent law, after much trial and tribulation, contributory infringement as now codified in section 271(c)¹⁴⁵ of the Patent Act, as interpreted by the Supreme Court,¹⁴⁶ imposes both of the requirements of section 876(b) of the *Restatement*. The contributory infringer must give “substantial assistance or encouragement” of a very specific form, namely, sell an article of commerce having no substantial noninfringing use—a nonstaple. This must be done with actual knowledge on the part of the contributory infringer that the other’s (direct infringer’s) conduct “constitutes a breach of duty” in the form of directly infringing a particular patent known to the contributory infringer through the use of the nonstaple so designed to infringe.¹⁴⁷

Wallace v. Holmes,¹⁴⁸ decided in 1871, had great influence in the development of this theory in patent law as well as in trademark law. Faced with the dilemma that defendant did not directly infringe plaintiff’s patent, Judge Woodruff created a fiction of implying concerted conduct from the nature of the article being sold—a special oil burner to which the user added a standard chimney to complete the patented combination of an oil lamp.¹⁴⁹ Provided defendant knew of plaintiff’s patent and

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

143 That “actual” as compared to “constructive” knowledge is meant is made clear by the use of alternative constructions, such as “knows or should know” (*id.* § 877(a)), or “knowing or having reason to know” (*id.* § 877(c)). See definitions of “reason to know” (*id.* § 12(1)), and “should know” (*id.* § 12(2)).

144 Another limitation would be the foreseeability of how the other would act. See *id.* § 876 comment d, illustration 11.

145 Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c) (1982).

146 *Aro Mfg. Co. v. Convertible Top Replacement Co. (Aro II)*, 377 U.S. 476 (1964), discussed *infra* text accompanying notes 152-54.

147 *Id.* at 488.

148 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100).

149 Plaintiff’s patent covered the combination of the burner and chimney. Thus, defendant was not strictly a direct infringer of the patent; its purchasers were. Under such circumstances Judge Woodruff implied concerted conduct, stating:

Here, the actual concert with others is a certain inference from the nature of the case, and the distinct efforts of the defendants to bring the burner in question into use, which can only be done by adding the chimney. The defendants have not, perhaps, made an actual pre-arrangement with any particular person to supply the chimney to be added to the

then proceeded to sell the special oil burner, *Wallace v. Holmes* would lend early support to *Restatement* section 876(b).

Just prior to the turn of the century, the importance of the nature of the article being sold was made clear by Judge Taft as a means of inferring the intent of the seller of that article. In *Thomson-Houston Electric Co. v. Ohio Brass Co.*,¹⁵⁰ Judge Taft reasoned that no inference of intent to infringe should be drawn from the sale of a staple article that had noninfringing uses. If the article had no use but in infringing the patent in question, however, then the inference would be drawn.¹⁵¹

If concerted conduct could be implied from the nonstaple nature of the article being sold, this rule was broader than the *Restatement* requirement under section 876(b) that the contributing tortfeasor have knowledge "that the other's conduct constitutes a breach of duty." The knowledge issue was not resolved by the Supreme Court until 1964 in *Aro Manufacturing Co. v. Convertible Top Replacement Co. (Aro II)*.¹⁵² Prior to *Aro II*, various courts had held that actual knowledge of the patent in question was not required for contributory infringement either under the common law or under section 271(c) when enacted.¹⁵³ However, in *Aro II* a majority of the justices concluded that the seller of the nonstaple must have actual knowledge that the "combination for which his component was especially designed was both patented and infringing."¹⁵⁴

The development of contributory trademark infringement has paralleled that of patent contributory infringement, including the adoption of the staple/nonstaple dichotomy to imply intent, at least with respect to labels and trade dress.¹⁵⁵ Nonetheless, trademark law has been more receptive to general tort theory, including negligence as applied to contrib-

burner; but, every sale they make is a proposal to the purchaser to do this, and his purchase is a consent with the defendants that he will do it, or cause it to be done.

Wallace, 29 F. Cas. at 80. Judge Woodruff, however, did not view the tort of the defendant as separate and distinct from direct infringement. The very troublesome term "contributory infringement" was not adopted until 15 years later. *Snyder v. Bunnell*, 29 F. 47, 49 (C.C.S.D.N.Y. 1886) (Coxe, J.).

150 80 F. 712 (6th Cir. 1897).

151 In the words of Judge Taft:

[I]t is a matter of certain inference from the circumstance that the parts sold can only be used in the combinations patented. Of course, such an inference could not be drawn had the articles, the sale or offering of which was the subject of complaint, been adapted to other uses than in the patented combination. . . . But, where the article can only be used in a patented combination, the inference of the intention of the maker and seller is certain, and the right of the patentee to injunction ought, we think, to be equally certain.

Id. at 723-24.

152 377 U.S. 476 (1964).

153 For cases prior to section 271(c), see *Southern States Equip. Corp. v. USCO Power Equip. Corp.*, 209 F.2d 111 (5th Cir. 1953); *Stearns-Roger Mfg. Co. v. Ruth*, 87 F.2d 35 (10th Cir. 1936); *Bassick Mfg. Co. v. Adams Grease Gun Corp.*, 52 F.2d 36 (2d Cir. 1931); *New York Scaffolding Co. v. Whitney*, 224 F. 452 (8th Cir.), *cert. denied*, 239 U.S. 640 (1915). For cases after section 271(c), see *Convertible Top Replacement Co. v. Aro Mfg. Co.*, 312 F.2d 52 (1st Cir. 1962), *on remand of Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (*Aro I*), *rev'd in part, aff'd in part*, *Aro II*, 377 U.S. 476 (1964); *Freedman v. Friedman*, 242 F.2d 364 (4th Cir. 1957); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 119 U.S.P.Q. (BNA) 122 (D. Mass. 1958) (by implication).

154 377 U.S. at 488 (footnote omitted). The footnote indicated that Justice White joined the four dissenting justices in this holding. The four other majority justices were of the "view that the knowledge Congress meant to require was simply knowledge that the component was especially designed for use in a combination and was not a staple article suitable for substantial other use, and not knowledge that the combination was either patented or infringing." *Id.* at 488 n.8.

155 See *CTI*, *supra* note 1, at 619-22, tracing this development.

utory infringement, perhaps because trademarks are part of the broader body of unfair competition law.¹⁵⁶

Among the earliest cases imposing liability on an implied concerted conduct theory are the so-called "label cases," where labels that imitated another's trademark were sold to a manufacturer who affixed the trademark to its goods and sold them in commerce.¹⁵⁷ In the first case that used the term contributory infringement in reference to trademarks, *Von Mumm v. Wittemann*,¹⁵⁸ the court drew the same inferences with respect to the nature of the thing being sold as was done in patent law. In this case, defendant sold labels for use on champagne which essentially duplicated those of complainants except for substituting the name "S.F. Munn" for "G.H. Mumm & Co." From the sale of these labels, an inference of fraudulent intent could be drawn based essentially on the nonstaple nature of such a label, that is, it had no use but in infringing plaintiff's trademark.¹⁵⁹ On the other hand, the sale by defendant of neck capsules that only bore the description "Extra Dry" was not enjoined because no inference of fraudulent intent could be drawn from such a capsule; in essence, it was a staple that could be used on anyone's champagne.¹⁶⁰

Contributory trademark infringement of the implied concerted conduct type is now codified in section 32(1)(b) of the Lanham Act, which renders a person liable in a civil action "who shall reproduce, counterfeit, copy, or colorably imitate a registered trademark . . . intended to be used in commerce with respect to goods likely to cause confusion."¹⁶¹ Although this provision is not completely free of ambiguity, it appears reasonably clear that relief would be provided under section 32(1)(b), at least in the form of an injunction, on a strict liability basis.¹⁶² With respect to the knowledge requirement, the final sentence of section 32(1) specifies that for the registrant to recover damages or profits under clause (b), it is necessary that the supplier of labels or trade dress have knowledge that "such imitation is intended to be used to cause confusion," i.e. knowledge of direct infringement of a trademark. This thus protects "innocent" printers from money damages; however, they could, of course, still be enjoined from the future replication of such imitations used in direct infringement.

The more difficult cases, which may fall within either the implied concerted conduct theory or the induced conduct theory, are those where, rather than a label or trade dress bearing the trademark being

156 See *Corning Glass Works v. Jeannette Glass Co.*, 308 F. Supp. 1321 (S.D.N.Y. 1970); *Stix Prods. v. United Merchants & Mfrs.*, 295 F. Supp. 479 (S.D.N.Y. 1968).

157 See, e.g., *Hildreth v. Sparks Mfg. Co.*, 99 F. 484 (C.C.S.D.N.Y. 1899); *Hennessy v. Hermann*, 89 F. 669 (C.C.N.D. Cal. 1898); *Von Mumm v. Wittemann*, 85 F. 966 (C.C.S.D.N.Y.), *aff'd per curiam*, 91 F. 126 (2d Cir. 1898); *Cuervo v. Jacob Henckell Co.*, 50 F. 471 (C.C.S.D.N.Y. 1892); *Carson v. Ury*, 39 F. 777 (C.C.E.D. Mo. 1889); *De Kuyper v. Wittemann*, 23 F. 871 (C.C.S.D.N.Y. 1885); *Sartor v. Schaden*, 125 Iowa 696, 101 N.W. 511 (1904).

158 85 F. 966 (C.C.S.D.N.Y.), *aff'd per curiam*, 91 F. 126 (2d Cir. 1898).

159 *Id.* at 967.

160 *Id.* at 968.

161 15 U.S.C. § 1114(1)(b) (1982), *quoted in full supra* note 139.

162 As indicated by Professor McCarthy, it is not clear whether it is the intent of the labeler or the seller of the goods or the intent to use the labels in the sale or to cause confusion. 2 J. MCCARTHY, *supra* note 1, § 25:5B; see also *id.* § 25:5C.

sold, the product being sold itself simulates the product of the originator.¹⁶³ Such product simulation facilitates the "passing off" of the product of the simulator for that of the originator, either by affixing the trademark of the originator to the look-alike product or by implying through the appearance of the product itself that its source is the originator. The originator of the product may protect it directly by registering the product configuration as a trademark¹⁶⁴ or, if unregistered, by relying upon section 43(a) of the Lanham Act¹⁶⁵ or the common law tort of "unprivileged imitation."¹⁶⁶ The general requirements for protection are that the product's configuration must be "nonfunctional" and indicate source, and finally, that the simulation must cause likelihood of confusion.¹⁶⁷

163 If a registered trademark is not involved, such case may more appropriately be categorized as involving "contributory unfair competition." See *CTI*, *supra* note 1, at 622-27.

164 See 1 J. McCARTHY, *supra* note 1, §§ 7:23-7:33; Oddi, *The Functions of "Functionality" in Trademark Law*, 22 HOUS. L. REV. 925 (1985).

165 Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

Lanham Act § 43(a), 15 U.S.C. § 1125(a) (1982). The courts have read into this section the requirements of the common law tort of "product simulation." See Oddi, *Consumer Motivation in Trademark and Unfair Competition Law*, 31 VILL. L. REV. 1, 20 n.87 (1986) (collecting cases); see also Note, *The Problem of Functional Features: Trade Dress Infringement Under § 43(a) of the Lanham Act*, 82 COLUM. L. REV. 77 (1982).

166 The tort of "unprivileged limitation" is defined in the *Restatement of Torts* as follows:

One who markets goods, the physical appearance of which is a copy or imitation of the physical appearance of the goods of which another is the initial distributor, markets them with an unprivileged imitation, under the rule stated in § 711, if his goods are of the same class as those of the other and are sold in a market in which the other's interest is protected, and

- (a) he copied or imitated the appearance after obtaining access to or procuring the goods, or their labels, wrappers, containers, styles or designs, by improper means or on his promise not to copy or imitate them, or
- (b) the copied or imitated feature has acquired generally in the market a special significance identifying the other's goods, and
 - (i) the copy or imitation is likely to cause prospective purchasers to regard his goods as those of the other, and,
 - (ii) the copied or imitated feature is nonfunctional, or, if it is functional, he does not take reasonable steps to inform prospective purchasers that the goods which he markets are not those of the other.

RESTATEMENT OF TORTS § 741 (1938). There would appear to be some question of the viability of this doctrine after *Sears, Roebuck & Co. v. Stiffell Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting Co.*, 376 U.S. 234 (1964). Compare with *SK&F Co. v. Promo Pharmaceutical Labs, Inc.*, 625 F.2d 1055 (3d Cir. 1980), holding:

Moreover, it has been held that it is actionable conduct under New Jersey law for a drug manufacturer to put a product in the hands of a pharmacist in a form in which the manufacturer can reasonably anticipate that it may be passed off as another product even if the manufacturer does nothing else to encourage passing off. . . . The law in other states is similar in this respect.

Id. at 1062 (citations omitted).

167 Some variation in how these requirements are defined and applied may be expected depending upon whether a registered trademark is involved (entitled to a presumption of validity, Lanham

Because the principal trademark contributory infringement case—*Inwood Laboratories v. Ives Laboratories*¹⁶⁸—was decided on an induced conduct theory, the problem raised by product simulation in this context will be addressed below in this section.¹⁶⁹ It should be appreciated, however, that there are significantly different competitive effects arising from enjoining the sale of labels or trade dress bearing the trademark of another as compared to enjoining the sale of the product itself.¹⁷⁰

In copyright law, the *Betamax* case itself may be seen implicitly as employing the implied concerted conduct theory. The majority stated the issue to be: "If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material."¹⁷¹ It would appear that, if the majority by "vicarious liability" means liability based upon contributory infringement and if the constructive knowledge of the infringement is to be based upon the staple or nonstaple nature of the article being sold, the underlying theory may be categorized as implied concerted conduct.¹⁷² The Court went on to resolve this issue by making an analogy to patent law and stating that it was adopting the "staple article of commerce" doctrine, which presumably is another term for the implied concerted conduct theory.¹⁷³ However, the majority then held *Betamax* was a staple because a significant quantity of home copying was privileged under the fair use doctrine. By taking this course, the majority never directly reached the issue of whether Sony, on the basis of constructive knowledge of the use of its recorders by owners, should be held responsible for copyright infringement in general,¹⁷⁴ that is, in the sense of not being referenced to specific copyrights.

Act § 7(b), 15 U.S.C. § 1057(b) (1982)) or protection is sought for an unregistered configuration. See Oddi, *supra* note 165, discussing "functionality" (utilitarian and aesthetic) and "secondary meaning" in product simulation cases.

168 456 U.S. 844 (1982).

169 See *infra* text accompanying notes 194-206.

170 This was well illustrated by Justice Holmes in terms of the simulator's intent:

But the label or ornament . . . would not exist at all, or at least would not exist in that shape but for the intent to deceive; whereas the instrument sold is made as it is, partly at least, because of a supposed or established desire of the public for instruments in that form. The defendant has the right to get the benefit of that desire even if created by the plaintiff. The only thing it has not the right to steal is the good will attaching to the plaintiff's personality, the benefit of the public's desire to have goods made by the plaintiff.

Flagg Mfg. Co. v. Holway, 178 Mass. 83, 59 N.E. 667 (1901).

171 Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 439 (1984).

172 One of the problems that probably has interfered with a clearer understanding of the underlying theory of liability has been the failure in copyright law to distinguish vicarious liability from other forms of multi-party liability. See, e.g., 3 M. NIMMER, *supra* note 4, § 12:04, including various theories of multi-party liability under the label "Related Defendants and Vicarious Liability."

173 As discussed *supra*, text accompanying notes 148-51, the underlying theory of implied concerted conduct is to imply intent to act in concert to infringe by the sale of an article which has no significant use but to infringe.

174 While not directly dealing with this issue, the majority did express its concern that imposition of liability on such a theory would be "extraordinary" if it were to enable the two respondents in this case to have the "exclusive right to distribute VTR's simply because they may be used to infringe copyrights." 464 U.S. at 441 n.221. With respect to the "authorized time-shifting," the Court stated: "The exact percentage [of the total spectrum of television programming] is not specified, but it is well below 10%. If [respondents] were to prevail, the outcome of this litigation would have a

Finding liability on the basis of constructive knowledge of the foreseeability of copyright infringement by purchasers is broader than that which would be permissible in patent law, where, under the *Aro II* knowledge requirement, the accused contributory infringer must know that the nonstaple sold was to be used in infringing a specific patent.¹⁷⁵ Moreover, constructive knowledge of general infringement is broader than the general tort theory under section 876(b), which requires actual knowledge of a breach of duty by the direct tortfeasor and encouragement or assistance toward the end of consummating that breach.¹⁷⁶ It seems highly unlikely that the mere sale of copy equipment would provide the seller with actual knowledge of a breach of duty owed to the owner of a particular copyright. To find liability based on constructive knowledge would place the seller under a general duty with respect to all copyright owners whose works are subject to copying by the equipment in question. The breach of that duty would presumably be enforceable by any copyright owner within the subject class.¹⁷⁷

The minority in *Betamax* evidently would go so far as to impose liability on Sony based upon the constructive knowledge of substantial infringing use of copyrights in general. From the observation that off-the-air recording is not only a foreseeable but the intended use of the Betamax, the minority concluded that Sony had "induced and materially contributed to the infringing conduct of Betamax owners."¹⁷⁸ From this it is not clear whether Justice Blackmun applied an induced conduct theory or an expanded version of implied concerted conduct theory. Because neither patent law, trademark nor general tort theory has gone so far as to impose liability on an implied concerted conduct theory short of knowledge of the specific patent or trademark being infringed or duty being breached, an investigation of the induced conduct theory may provide some insight.¹⁷⁹

significant impact on both the producers and the viewers of the remaining 90% of the programming in the Nation." *Id.* at 443 (footnote omitted).

175 *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964). See *supra* note 154.

176 See *supra* text accompanying notes 142-44.

177 See *infra* text accompanying notes 250-72 for a discussion of the duty issue. Professor Nimmer states: "Absence of knowledge that the activity constitutes copyright infringement does not absolve the contributory infringer from liability, although it may affect the remedies available." 3 M. NIMMER, *supra* note 4, § 12.04[A] (citing *Columbia Broadcasting Sys. v. Scorpio Music Distrib.*, 569 F. Supp. 47 (E.D. Pa. 1983)). However, it is submitted that this conclusion goes well beyond the facts and holding in the case, where defendant alleged that it was not an infringer under 17 U.S.C. § 602(a) because it was not the importer and the court found that it was "undisputed that Scorpio ordered the records with full knowledge of the importation problem." 569 F. Supp. at 48. Moreover, the court in *Scorpio* cites the Ninth Circuit decision, *Universal City Studios v. Sony Corp. of Am.*, 659 F.2d 963, 975 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984), for the proposition that "actual knowledge" is not required. 569 F. Supp. at 48 n.5.

178 *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 490 (1984) (footnote omitted).

179 The issue of knowledge may often be moot because an accused contributory infringer may be placed on notice of the specific patent, trademark or copyright in question.

3. Induced Conduct

According to section 877(a) of the *Restatement*,¹⁸⁰ inducing tortious conduct in either an active¹⁸¹ or, in certain circumstances, a passive manner¹⁸² results in liability being imposed within the negligence standard of due care. Section 877(a) imposes liability on an inducing tortfeasor who "orders or induces the conduct, if he knows or should know of circumstances that would make the conduct tortious if it were his own."¹⁸³

Contrary to the general principle of section 877(a), it has been generally held in patent law that inducing infringement is limited to intentional conduct requiring the actor to have actual knowledge of the patent whose infringement is induced.¹⁸⁴ Indeed, the patent statute limits liability for inducement to "active" inducement.¹⁸⁵

180 Section 877(a) subjects a person to liability if he:

- (a) orders or induces the conduct, if he knows or should know of circumstances that would make the conduct tortious if it were his own, or
- (b) conducts an activity with the aid of the other and is negligent in employing him, or
- (c) permits the other to act upon his premises or with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously, or
- (d) controls, or has a duty to use care to control, the conduct of the other, who is likely to do harm if not controlled, and fails to exercise care in the control, or
- (e) has a duty to provide protection for, or to have care used for the protection of, third persons or their property and confides the performance of the duty to the other, who causes or fails to avert the harm by failing to perform.

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

181 See *id.* § 877(a) ("orders or induces the conduct").

182 See *id.* § 877(c) ("permits the other to act"). Cf. *id.* § 877(d) ("controls, or has a duty to control"). There are a few patent cases involving the permitted use of premises or instrumentalities which could be thought of as passive inducement under section 877(c); see, e.g., *Duplex Envelope Co. v. Denominational Envelope Co.*, 80 F.2d 179 (4th Cir. 1935) (defendant permitted its premises to be used for the manufacture of infringing machines, but escaped liability on the ground that knowledge of the infringement would not be imputed to it); *Salvage Process Co. v. James Shewan & Sons*, 26 F.2d 258 (E.D.N.Y. 1928) (contracting for another to clean a ship with infringing apparatus did not constitute contributory infringement). If actual knowledge of the use of the premises or instrumentalities is required, any active versus passive distinction would appear moot. In copyright law, the so-called "dance hall cases" (e.g., *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n*, 554 F.2d 1213 (1st Cir. 1977); *Dreamland Ballroom v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929)) and the so-called "landlord-tenant case" (e.g., *Deutch v. Arnold*, 98 F.2d 686 (2d Cir. 1938)) are both examples of section 877(c) cases, requiring the party permitting use to use due care to insure that direct infringement does not occur on those premises. However, the majority in *Betamax*, categorized the "dance hall cases" as § 877(d) cases requiring that the actor have a duty to control, 464 U.S. at 436 n.18, finding that Sony did not fall in that category in not having any direct contact with users. *Id.* at 437-38. Cf. the dissent's interpretation that the "dance hall cases" charge the proprietors with constructive knowledge (*id.* at 488) and finding that the majority's attempt to distinguish these cases on the basis of "control" to be "obviously unpersuasive." (*id.* at 488 n.39).

183 The tortious conduct would thus be to order or induce, and the theory of liability would be negligence.

184 See 4 D. CHISUM, *supra* note 1, § 17:04; *CPI/US*, *supra* note 1, at 181-82. See generally, Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J. PAT. OFF. SOC'Y 86 (1971).

185 See 35 U.S.C. § 271(h) (Supp. IV 1986). As interpreted by the Fifth Circuit in *Fromberg, Inc. v. Thornhill*, 315 F.2d 407 (5th Cir. 1963):

The prohibition of law, now codified in § 271(b) extends to those who induce that infringement. Of course, inducement has connotations of active steps knowingly taken—knowingly at least in the sense of purposeful, intentional, as distinguished from accidental or inadvertent. But with that qualifying approach, the term is as broad as the range of actions by which one in fact causes, or urges, or encourages, or aids another to infringe a patent.

Id. at 411. If "active" is to have its normal meaning, this may well exclude liability on the basis of the passive "permissive" conduct of Clause (c) of § 877 or the "failure to act" type of Clause (d). In any

The range of actions that may constitute active inducement, however, seems only to be limited by the ingenuity of counsel.¹⁸⁶ Probably, the most frequent class of active inducement cases would involve the sale of an article along with instructions for using it to directly infringe a patented invention.¹⁸⁷ *Dawson Chemical Co. v. Rohm & Haas Co.*¹⁸⁸ is an example of this. In *Dawson*, the defendant sold the unpatented chemical "propanil" along with instructions for its use according to the patented process.¹⁸⁹ Because propanil was a nonstaple, section 271(c) was applicable; however, defendant was also ultimately held liable for active inducement under section 271(b).¹⁹⁰ The article sold need not, of course, be a nonstaple; a seller of a staple could equally well actively induce the infringement of a patent.¹⁹¹ The problem that arises, however, when a staple is involved is whether or not the patent owner may be guilty of misuse that would preclude the enforcement of the patent.¹⁹²

event, it is not apparent that patent law would impose a duty to police premises or instrumentalities or to control beyond actual knowledge.

186 The open-ended nature of this tort was recognized early in its development, as stated by Judge Lowell in *Tubular Rivet & Stud Co. v. O'Brien*, 93 F. 200 (C.C.D. Mass. 1898):

In a sense, a trespass is aided if the trespasser is fed during the trespass. Yet it can hardly be contended that an infringer's cook is liable as a contributory infringer. Probably she would not be liable even if she knew of her master's wrongdoing. Again, no aid is more potent than money. Is one who lends money to an infringer liable as co-infringer? Many patents cannot be infringed without a building in which to construct the infringing device. Is the landlord who lets a building to an infringer liable as co-infringer?

Id. at 202-03.

Other perhaps extreme examples include enjoining a shipper from transporting infringing devices, *Cotton-Tie Supply Co. v. McCready*, 1 F. Cas. 631 (C.C.S.D.N.Y. 1879) (No. 295), and an attempt to hold an electric company liable for supplying electricity that was used by a subscriber to infringe a patent. *Edison Elec. Light Co. v. Peninsular Light, Power & Heat Co.*, 101 F. 331 (6th Cir. 1900) (the attempt failed). See also *CPI/US*, *supra* note 1, at 187-88, for other and more recent examples.

187 See, e.g., *Noll v. O.M. Scott & Sons Co.*, 467 F.2d 295 (6th Cir. 1972), *cert. denied*, 411 U.S. 965 (1973); *Trice Prods. Corp. v. Apco-Mossberg Corp.*, 45 F.2d 594 (1st Cir. 1930); *Larkin Automotive Parts Co. v. Bassick Mfg. Co.*, 19 F.2d 944 (7th Cir. 1927); *Saf-Gard Prods., Inc. v. Service Parts, Inc.*, 370 F. Supp. 257 (D. Ariz. 1973) (in addition to sale with instruction, acts included advertising and promotion and aiding in resale), *aff'd*, 532 F.2d 1266 (9th Cir. 1976), *cert. denied*, 492 U.S. 896 (1976). Another example would be the sale of the unassembled invention, such as in kit form, again typically along with instructions for the assembly of the invention; see, e.g., *Metal Arts Co. v. Fuller Co.*, 389 F.2d 319 (5th Cir. 1968). The inducing infringer need not actually sell the article used in infringement to be held liable. The inducing conduct may, for instance, involve advertising or soliciting the sale of the component for use in infringing the patent. Other situations which would not necessarily involve a sale would be the design of a system on a contractual basis by one (inducing infringer) for the use of the other (direct infringer), where the design provided turns out to infringe the patent. Also, inducing infringement could be found in the installation of such a design thereby inducing the infringement by the owner of the installation by using the design. Active inducement of infringement has also been found in licensing situations, e.g., it would be active inducement of infringement to license a patent, where the licensor either did not own or did not have authority to sublicense, resulting in its licensee directly infringing the patent in question. Also active inducement may be held against one who provides an indemnification against infringement of a patent to encourage the indemnitee to engage in infringing activity. Active inducement may also be found by urging one to use an infringing process to produce a nonpatented article to be purchased by the inducer. These various types of inducement are discussed and citations given in *CPI/US*, *supra* note 1, at 183-88.

188 448 U.S. 176 (1980).

189 *Id.*

190 *Rohm & Haas Co. v. Dawson Chem. Co.*, 557 F. Supp. 789, 814-15 (S.D. Tex. 1983).

191 See *supra* note 184.

192 For a discussion of the misuse doctrine, see *infra* text accompanying notes 207-09.

Trademark law has not as clearly limited liability for inducing conduct as has patent law. First, there is no statutory definition limiting inducement to active inducement. Second, there continues to be a great deal of confusion as to whether inducing infringement is limited to intentional conduct as in patent law or whether a negligence standard may be applied as recognized in tort law. This issue supposedly had been decided in *Inwood Laboratories v. Ives Laboratories*.¹⁹³ In *Ives*, a six-justice majority expressly denied that it was approving a negligence standard for contributory trademark infringement as was asserted to be the case by Justice White in his concurring opinion.¹⁹⁴ However, in *Betamax*, four Justices appeared to be convinced that the trademark standard was—or at least should be—a negligence standard, which also should be the governing standard applied in copyright law.¹⁹⁵

In *Ives*, defendants were marketing the generic version (cyclandelate) of plaintiff's trademarked pharmaceutical ("CYCLOSPASMOL") after plaintiff's patent had expired. Plaintiff alleged, *inter alia*, that defendants were guilty of contributory infringement of its trademark by

193 456 U.S. 844 (1982).

194 As stated by Justice O'Connor for the majority in a footnote:

Justice White, in his opinion concurring in the result, voices his concern that we may have "silently acquiesce[d] in a significant change in the test for contributory infringement." . . . His concern derives from his perception that the Court of Appeals abandoned the standard enunciated by Judge Friendly in its first opinion, a standard which both we and Justice White approve. . . . The Court of Appeals, however, expressly premised its second opinion on "the governing legal principles . . . set forth in Judge Friendly's opinion upon the earlier appeal . . ." and explicitly claimed to have rendered its second decision by "[a]pplying those principles . . ." Justice White's concern is based on a comment by the Court of Appeals that the generic manufacturers "could reasonably anticipate" illegal substitution of their drugs.

Id. at 854-55 n.13. Justice Marshall joined Justice White's concurring opinion. Justice Rehnquist concurred only in result based upon the failure of the court of appeals applying the "clearly erroneous" standard.

195 Justice Blackmun stated:

In an analogous case decided just two Terms ago, this Court approved a lower court's conclusion that liability for contributory trademark infringement could be imposed on a manufacturer who "suggested, even by implication" that a retailer use the manufacturer's goods to infringe the trademark of another. [citing *Ives*] I think this standard is equally appropriate in the copyright context.

Sony Corp of Am. v. Universal City Studios, 464 U.S. 417, 489 (1984) (Blackmun, J., dissenting) (citation omitted). Justice Blackmun was joined in the dissent by Justices Marshall, Powell and Rehnquist. The majority in *Betamax* would appear to take an even more limited view of the standard for contributory trademark infringement approved in *Ives*. In reference to the *Ives* case, Justice Stevens stated:

There we observed that a manufacturer or distributor could be held liable to the owner of a trademark if it intentionally induced a merchant down the chain of distribution to pass off its product as that of the trademark owner's or if it continued to supply a product which could readily be passed off to a particular merchant whom it knew was mislabeling the product with the trademark owner's mark. If *Inwood's* narrow standard for contributory trademark infringement governed here, respondents' claim of contributory infringement would merit little discussion. Sony certainly does not "intentionally induc[e]" its customers to make infringing uses of respondents' copyrights, nor does it supply its products to identified individuals known by it to be engaging in continuing infringement of respondents' copyrights.

Id. at 439 n.19 (citations omitted). However, the majority in *Ives* approved the "suggested, even if only by implication" standard, which could be proven by the quantum of direct infringement. 456 U.S. at 853-54. See also *CPI*, *supra* note 1, at 646-47. It is interesting to note that Justices Blackmun and Powell joined in the majority opinion in *Ives* denying a negligence standard was being adopted and Justice Marshall joined in Justice White's opinion warning of such a result.

selling capsules of the same color and the same dosage to pharmacists who then would apply the plaintiff's trademark upon receiving a prescription for the trademarked brand.¹⁹⁶ In short, the pharmacists were "passing off" the generic capsules for plaintiff's and were directly infringing plaintiff's trademark by affixing its trademark to defendants' look-a-like capsules. Plaintiff sought to enjoin the sale of the look-a-like capsules as contributory infringement—more specifically here, inducing infringement.

If defendants were selling labels bearing plaintiff's trademark for affixation to goods, the implied concerted conduct theory and section 32(1)(b) of the Lanham Act¹⁹⁷ would be directly applicable. *Ives* is the converse situation, however, where the look-a-like product was supplied and the accused direct infringer supplied and applied the trademark of another. The nonstaple character of labels bearing the trademark would justify implying contributory infringement on the part of the label supplier. On the other hand, the look-a-like capsules were technically capable of substantial noninfringing uses. They could be prescribed by a physician by their generic name and accordingly filled by the pharmacists. Moreover, under applicable state law pharmacists were permitted to substitute the approved generic version of the prescribed trademarked drug if the physician signed over the appropriate "substitution permissible" line on the prescription form.¹⁹⁸ Thus, there was a significant, legitimate market for the look-a-like capsules outside of use with plaintiff's trademark affixed. Nonetheless, the availability of the look-a-like capsules did provide pharmacists with the opportunity to make the substitution of the lower priced generic for the higher priced trademarked brand and to pocket the difference by charging the higher brand price.

After two appeals to the Second Circuit,¹⁹⁹ the Supreme Court reversed for failure to apply the "clearly erroneous" standard to the district

196 Defendants in *Ives* were also charged with violating section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and unfair competition under New York law. 456 U.S. at 849. The contributory infringement count brought under section 32(1)(a) of the Lanham Act, 15 U.S.C. § 1114(a), was reversed by the Supreme Court for failure to apply the "clearly erroneous" standard; the other counts were remanded to apply the "clearly erroneous" standard. These counts were also subsequently dismissed. *Ives Laboratories v. Inwood Laboratories*, 24 Pat. Trademark & Copyright J. (BNA) 538 (2d Cir. 1982).

197 15 U.S.C. § 1114(1)(a) (1982). See *supra* note 28 for the text accompanying this provision.

198 N.Y. EDUC. LAW § 6810(6)(a) (McKinney 1972 and Supp. 1982-83).

199 The district court, *Ives Laboratories v. Darby Drug Co.*, 455 F. Supp. 939 (E.D.N.Y. 1978) (*Ives I*), held against the plaintiff trademark owners and was affirmed by the Second Circuit, 601 F.2d 631 (2d Cir. 1979) (*Ives II*), on the basis that the lower court was justified in concluding that *Ives* failed to adduce the quantum of proof necessary for a temporary injunction even though the lower court's standard was unduly narrow. The Second Circuit held that the "suggested, even if only by implication" standard should apply. *Id.* at 636. On remand the district court, 488 F. Supp. 394 (E.D.N.Y. 1980) (*Ives III*), in applying the *Ives II* "suggested, even if only by implication" standard again found against plaintiff. However, plaintiff was finally successful in the second appeal to the Second Circuit, 638 F.2d 538 (2d Cir. 1981) (*Ives IV*), which held that defendants by selling the look-a-like capsules could reasonably anticipate that their product would be illegally substituted by a substantial number of druggists who would apply the infringing trademark. The court concluded "[t]his amounted to a suggestion, at least by implication, that the druggists take advantage of the opportunity to engage in such misconduct." *Id.* at 543.

court's application of the standard for contributory infringement established in the first appeal.²⁰⁰ This standard was:

[T]hat a manufacturer or wholesaler would be liable under § 32 if he suggested, even if only by implication, that a retailer fill a bottle with the generic capsules and apply Ives' mark to the label, or continued to sell capsules containing the generic drug which facilitated this to a druggist whom he knew or had reason to know was engaging in the practices just described.²⁰¹

The Supreme Court approved this standard, although it somewhat confusingly equated "suggested, even if only by implication" with "intentionally induced."²⁰² Moreover, the Court seemingly approved the drawing of an inference of "suggestion" on the basis of the quantity of mislabeling proven; although in this case, it was not "clearly erroneous" for the district court not to draw the inference on proving only a "few instances" of mislabeling.²⁰³

In any event, the standard approved in *Ives* is significantly broader than that applied in patent law. The "suggested, even if only by implication" standard, though disclaimed as a negligence standard, may be established by less than personal, active inducement by the supplier of the simulated product. Evidently, all that is required is that a substantial number of pharmacists commit direct infringement by substituting the generic capsules for plaintiff's while applying the latter's trademark.²⁰⁴ This form of analysis and result resembles *Betamax*, particularly where the dissent extended it to impose liability on the seller of copy technology, provided the copyright owner can prove significant direct infringement. As in *Ives*, no personal nexus is required with the purchaser beyond marketing the article used in the infringement. The minority view in *Betamax* is broader than *Ives*, for copyright infringement in general need only be proved, not infringement of specific copyrights. At least in *Ives*, the generic suppliers were well aware of the specific trademark they were alleged to have contributorily infringed.

200 *Ives Laboratories v. Inwood Laboratories*, 456 U.S. 844 (1982).

201 *Ives II*, 601 F.2d at 636.

202 The Court stated:

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

456 U.S. at 854 (footnotes omitted). In footnote 13 to this quotation, which is quoted in full *supra* note 194, Justice O'Connor commented with respect to the *Ives II* standard quoted *supra* text accompanying note 201 that this was "a standard which both we and Justice White approve." *Id.* at 854 n.13. Adding to the confusion, the Court later in the *Ives* opinion again used the "intentionally induced" language but dropped the alternate basis of liability that the seller "had reason to know" limiting it to those who they "knew were mislabeling." *Id.* at 855.

203 The Court stated:

The Court of Appeals cited no evidence to support its conclusion, which apparently rests upon the assumption that a pharmacist who has been provided an imitative generic drug will be unable to resist the temptation to profit from illegal activity. We find no support in the record for such a far-reaching conclusion. Moreover, the assumption is inconsistent with the District Court's finding that only a "few instances," rather than a substantial number, of mislabelings occurred. 488 F. Supp. at 397.

456 U.S. at 856 n.17.

204 See *CTI*, *supra* note 1, at 646-47, for further elaboration on this point.

The majority in *Betamax* expressly required a personal nexus for inducement.²⁰⁵ The majority used a fair use analysis to determine the quantum of direct infringement by analyzing why *Betamax* owners used them. The majority analysis implies that, had the evidence been more convincing that users were copying off-the-air works for "librarying" rather than for "time shifting," the result would have been different. If contributory infringement (specifically, inducing infringement) can be shown by establishing that purchasers are engaged in direct infringement to whatever quantum necessary, this would be tantamount to imposing a negligence standard on the seller of the product used in the infringement. The quantity of direct infringement by purchasers should "suggest" to a reasonable seller that direct infringement was occurring as a result of those sales to the particular direct infringers. The higher the amount of direct infringement, the more suggestive it would be to a reasonable seller.²⁰⁶

C. *Misuse of Intellectual Property*

The doctrine of misuse also bears upon the scope of contributory infringement. Tort theory, as applied in intellectual property, is generally circumscribed because of the "Nation's historical antipathy to monopoly"²⁰⁷ and the constitutional mandate that the protection afforded for limited time be to promote science and the useful arts.²⁰⁸ In this sense, intellectual property, rather than being treated as property *qua* property, is categorized in legal theory as a "privilege."²⁰⁹ In terms of public policy, it has been deemed to be inequitable conduct (i.e. misuse) for the owner of intellectual property to attempt to extend its protection beyond the bounds of the governmental grant, thus rendering the grant unenforceable.²¹⁰ The doctrines of contributory infringement and mis-

205 See *supra* note 195.

206 Another aspect of *Ives* that provides a broader scope of protection for trademark owners than for patent owners is with respect to the duty imposed upon the seller of simulated products to act with due care to police its purchasers to ascertain whether or not they are engaging in illegal substitutions. As quoted *supra* text accompanying note 201, the *Ives II* standard, as reiterated by the Supreme Court, would impose liability if the supplier continues to supply the product to one who it knows or has reason to know is engaging in trademark infringement. This without question is a negligence standard that comports fully with section 877 of the *Restatement*. However, it is contrary to patent law that the seller of a staple is not under any duty of due care to determine whether its purchasers are using it to infringe a patent. Even with regard to the sale of a nonstaple, the seller must have actual knowledge of the particular patent being infringed through the use of the nonstaple.

207 *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530 (1972).

208 U.S. CONST. art. I, § 8, cl. 8, quoted *supra* note 17. As stated in *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966): "The clause [U.S. CONST. art. I, § 8, cl. 8] is both a grant of power and a limitation. This qualified authority, unlike the power often exercised in the sixteenth and seventeenth centuries by the English Crown, is limited to the promotion of advances in the 'useful arts.'"

209 As stated by Justice Douglas: "The patent is a privilege. But it is a privilege which is conditioned by a public purpose." *Mercoid Corp. v. Mid-Continent Inv. Co.* (*Mercoid I*), 320 U.S. 661, 666 (1944).

210 See, e.g., *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942):

Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.

Id. at 493.

use (at least as applied in patent law) are said to "rest on antithetical underpinnings."²¹¹ A brief review of the history of the ascent of patent misuse and the decline of contributory patent infringement may be helpful at this point.²¹²

After contributory infringement was recognized in *Wallace v. Holmes*²¹³ it did not take long for patent owners to realize the potency of the doctrine of contributory infringement as a means for optimally exploiting their patents. In part, such exploitation was undertaken through "tie-in" arrangements, where permission to use a patented invention was "tied" to the purchase of unpatented materials. The rationale underlying tie-ins and enforcement against competing sellers of the materials by means of an action for contributory infringement was set out in *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.* (*Button-Fastener case*). *Button-Fastener* held that because a patent was property, its owner should be able to prescribe conditions for its use.²¹⁴ In 1912, this property logic was approved by the Supreme Court in *Henry v. A.B. Dick Co.*,²¹⁵ which set the high-water mark of contributory infringement. However, *Henry* was repudiated just five years later in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,²¹⁶ where the Court held that a patent was unenforceable because such "tie-ins" were "wholly without the scope and purpose of our patent laws and because, if sustained, it would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes."²¹⁷ The Court did not address the issue of whether the patent owner's conduct violated anti-

211 *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 197 (1980) (quoting *Rohm & Haas Co. v. Dawson Chem. Co.*, 599 F.2d 685, 697 (5th Cir. 1979)).

212 For a more complete treatment of this history, see *id.* at 187-99; *CPI/US*, *supra* note 1, at 203-07.

213 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100), *discussed supra* text accompanying notes 148-49.

214 77 F. 288, 291-93 (6th Cir. 1896). Hence, one who was licensed to use the patented invention on the condition that an unpatented material was purchased from the patent owner became a direct infringer if it should purchase this unpatented material from an unauthorized supplier. Such a supplier of the unpatented material would be a contributory infringer provided, at least, that it had knowledge of the limitation of the licensed use of the patented invention. In *Cortelyou v. Charles Eneu Johnson & Co.*, 207 U.S. 196 (1907), the Supreme Court refused to hold liable the seller of materials to owners of a patented machine where a restriction had been placed on the owners requiring them to purchase materials only from the patent owner, because it had not been shown that the seller had adequate notice of the restriction.

215 224 U.S. 1 (1912). The tying of the use of a patented mimeograph machine to the purchase of unpatented ink used with the machine was permissible, and anyone selling ink to a user of the machine with knowledge of the condition was a contributory infringer. *Id.* at 49.

216 243 U.S. 502 (1917) (involving the tie-in of films for the use of a patented film feeder in a motion picture projector). In dissent, Justice Holmes asserted the primacy of property logic in stating:

Generally speaking the measure of a condition is the consequence of a breach, and if that consequence is one that the owner may impose unconditionally, he may impose it conditionally upon a certain event. . . . But the domination [over unpatented articles] is one only to the extent of the desire for the tea pot or film feeder, and if the owner prefers to keep the pot or the feeder unless you will buy his tea or films, I cannot see in allowing him the right to do so anything more than an ordinary incident of ownership

Id. at 519-20 (citations omitted).

217 *Id.* (citation omitted) (majority).

trust law, particularly the newly enacted Clayton Act proscribing tie-ins.²¹⁸

In the years following *Motion Picture*, the doctrine of contributory infringement was gradually eroded. In both *Henry* and *Motion Picture* the "tied" unpatentable material had not been a part of the claimed invention. Misuse was then extended to the situation when a patent owner expressly,²¹⁹ or even impliedly,²²⁰ licensed the use of its patented invention only upon the purchase from it of unpatented materials used in the invention. A finding of misuse did not invalidate the patent but rendered it unenforceable against any type of infringement—direct, induced or contributory—until the misuse has been purged.²²¹

The most damaging blow to contributory infringement came in the controversial *Mercoïd* cases,²²² in which the Supreme Court held that it was patent misuse for patent owners to derive revenues from licensing an admitted nonstaple—a special switch whose only function was in a patented heating system. Many thought this applied the *coup de grace* when Justice Douglas went so far to say: "The result of this decision together with those that have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider."²²³

Over the ensuing years considerable pressure was applied, especially by the patent bar,²²⁴ for the reversal of *Mercoïd* through legislative action. This was achieved by the codification of section 271(c) and (d) of the

218 *Id.* at 517. The Clayton Act was enacted in 1914, 15 U.S.C. §§ 12-27, and § 3 (15 U.S.C. § 14) had been relied upon by the Court of Appeals in the *Motion Picture* case. The Supreme Court, while not relying upon it, found the Clayton Act to be a "most persuasive expression of public policy." *Id.* See generally L. SULLIVAN, ANTITRUST pt. C (1977), for consideration of the antitrust aspects of tying arrangements.

219 In *Carbice Corp. of Am. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931), a patent covering a container in which dry ice was disposed was held unenforceable against a seller of dry ice when the patent owner expressly licensed use of the container upon the purchase of dry ice from it.

220 In *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), a patent covering a process using a bituminous material was held to be unenforceable, where the owner of the patent only granted implied licenses for the use of the patented method when the material was purchased from it.

221 *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (The requirement that the user of a patented machine purchase salt tablets from the patent owner rendered the patent unenforceable against an alleged direct infringer of the machine.). In *B.B. Chem. Co. v. Ellis*, 314 U.S. 495 (1942), where the patent owner granted implied licenses only to those who purchased from it pre-cut strips for use in its patented process for making shoes, the patent was held enforceable against a defendant who allegedly contributorily infringed by selling such strips and also induced infringement of the plaintiff's patent. The Court deemed it inappropriate at that time to consider whether the misuse had been purged by the offer of an unconditional license to users of the process. *Id.* at 498.

222 *Mercoïd Corp. v. Mid-Continent Inv. Co. (Mercoïd I)*, 320 U.S. 661 (1944); *Mercoïd Corp. v. Minneapolis Honeywell Regulator Co. (Mercoïd II)*, 320 U.S. 680 (1944). See *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 195-215 (1980) for a discussion of the *Mercoïd* cases and this aftermath leading to the enactment of section 271 of the Patent Act.

223 *Mercoïd I*, 320 U.S. at 669.

224 See, e.g., *Patent Law Codification and Revision, 1951: Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 82d Cong., 1st Sess. (1951); *Contributory Infringement in Patents and Definition of Invention, 1948: Hearings on H.R. 5988, 4061, 5248 Before the Subcomm. on Patents, Trademarks and Copyrights of the House Comm. on the Judiciary*, 80th Cong., 2d Sess. (1948); *Contributory Infringement, 1949: Hearings on H.R. 3866 Before Subcomm. No. 4 of the House Comm. on the Judiciary*, 81st Cong., 1st Sess. 73 (1948).

Patent Act in 1952.²²⁵ It was not, however, until thirty years later in *Dawson Chemical Co. v. Rohm & Haas Co.*²²⁶ that the Supreme Court interpreted these provisions, finding that: "[B]y enacting §§ 271(c) and (d), Congress granted to patent holders a statutory right to control nonstaple goods that are capable only of infringing use in a patented invention and that are essential to that invention's advance over prior art."²²⁷ The Court concluded that the patent owner did not misuse its patent by only impliedly licensing those who purchased the unpatented chemical propanil, whose only known use was in the patented process and hence was an "essential nonstaple," nor by refusing to license competitors to sell the propanil. The Court, perhaps ironically, applied a "reverse" property logic in inferring the right to refuse to license from the right to license free of patent misuse as expressly authorized in section 271(d)(2).²²⁸

To whatever extent *Dawson* may have weakened the misuse doctrine, the supposed concomitant of strengthening contributory infringement may not have resulted. If a nonstaple must be an "essential nonstaple," i.e., "essential to that invention's advance over the prior art," to qualify under section 271(c), contributory patent infringement may be a severely restricted tort.²²⁹ Moreover, *Dawson* may give some pause in this regard in holding that section 271(d) relates only to contributory infringement under section 271(c). Thus it would appear that induced infringement under section 271(b) would not be similarly protected against misuse even with respect to conduct specifically exempted from misuse under section 271(d) with respect to section 271(c) contributory infringement.²³⁰

By recently enacted legislation,²³¹ section 271(d) has been amended to add two further exceptions to patent misuse, namely refusing to license a patent and tying the licensing of a patent or sale of a patented product to the license of another patent or sale of another product, unless the patent owner has market power in the relevant market for the tied patent or patented product.²³² Even with such further limitations on

225 35 U.S.C. § 271(c)-(d) (1982). Section 271(c) is quoted *supra* note 145. Section 271(d) provides:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

35 U.S.C. § 271(d) (1982).

226 448 U.S. 176 (1980).

227 *Id.* at 213.

228 Ironical in the sense that the property logic of Justice Holmes in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 519-20 (1917) had been rejected in that case, while in *Dawson* the privilege to license free of misuse was held to imply the right not to license. See *CPI*, *supra* note 1, at 116-26, for further explication of the rationale of *Dawson* on this issue.

229 See *CPI*, *supra* note 1, at 86 n.48, 93-95, 127.

230 See *id.* at 105-08.

231 Act approved Nov. 19, 1988, Pub. L. No. 100-703, 102 Stat. 4674. See 37 Pat. Trademark & Copyright J. (BNA) 88 (1988).

232 Under the amendment, § 271(d) is changed as follows:

the misuse doctrine, the sale of a nonstaple (presumably an "essential" nonstaple within the *Dawson* formulation) would be required for a finding of contributory infringement under section 271(c), thus incorporating a significant portion of the misuse doctrine as developed over the last seventy years. Moreover, this amendment does not address the question of what conduct is exempted from patent misuse when the claim is for active inducement under section 271(b).²³³

In contrast to patent law, the misuse doctrine has not had significant impact in limiting the scope of protection under contributory infringement in both trademark and copyright law. The Supreme Court has never directly ruled on the contributory infringement/misuse issue in trademark or copyright law. According to what precedent there is, it would appear likely that at least a separate antitrust violation must be found with respect to the use of the trademarks or copyrights as an element of a misuse defense.²³⁴ The proposed amendment to section 271 of the Patent Act would limit the impact of misuse along this same line. Nonetheless, the consequence of expanding contributory infringement to preclude the sale of products not falling within the scope of the patent, trademark or copyright in question could have very similar competitive consequences, irrespective of the type of intellectual property involved.

In *Dawson* the doctrine of contributory infringement of the patent was extended to encompass the unpatented chemical propanil and enjoined its unauthorized sale. Had the trademark owner in *Ives* been able to prove "substantial" direct infringement by pharmacists, presumably it would have been granted an injunction against the sale of look-alike capsules containing an unpatented pharmaceutical on the basis of contributory infringement. The competitive consequences of extending a monopoly to a chemical having no known use but in the patented invention or to the color of capsules would seem to pale in comparison to the potential consequences of holding for the Studios in *Betamax*. Had the Studios prevailed, whether an injunction or a "lesser" remedy were

Section 271(d) of title 35, United States Code, is amended by striking out the period at the end thereof and inserting in lieu thereof the following: "(4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned."

36 Pat. Trademark & Copyright J. 778 (1988).

233 See CPI, *supra* note 1, at 105-08.

234 There appears to be a question whether an antitrust violation would bar the enforcement of copyright. See 3 M. NIMMER, *supra* note 4, § 13:09[A]. See also Fire, *Misuse and Antitrust Defenses to Copyright Infringement Actions*, 17 HASTINGS L.J. 315 (1965); Lewis, *The Defense of Misuse in Copyrights Actions*, 41 DENVER L.J. 30 (1964); Note, *The Misuse Defense in Copyright Actions*, 37 N.Y.U. L. REV. 916 (1962); CTI, *supra* note 1, at 618 n.101.

In trademark law an antitrust violation directly involving a trademark appears to be a pre-condition for the unenforceability of the trademark. See J. MCCARTHY, *supra* note 1, § 31:24. *E.g.*, in *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 298 F. Supp. 1309, 1315 (S.D.N.Y. 1969), *aff'd*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971), the court stated: "An essential element of the antitrust misuse defense in a trademark case is proof that the mark itself has been the basic and fundamental vehicle required and used to accomplish the violation." See also Lanham Act § 33(b)(7), 15 U.S.C. § 1115(b)(7) (1982), recognizing an antitrust violation as a defense to the incontestability of a registered mark.

granted, the market for VCR's would be subject to control by copyright owners, with the developers of VCR's being required to buy access from copyright owners to that market. Of course, the added costs of access would, as far as possible, be passed on to purchasers of VCR's.

If user capability is to be the standard for contributory copyright infringement and if any copyright owner whose works are subject to copying by particular technology has standing to assert it against sellers of such copy technology, a serious question is raised as to whether the doctrine of contributory infringement is being applied in a manner to protect the public interest in free competition, which presumably is still "more a favorite of the law than is the promotion of private fortunes."²³⁵ This is not to suggest that the doctrine of misuse should be indiscriminately applied to copyright owners, in particular for merely filing an action for contributory infringement.²³⁶ On the other hand, some consideration should be given to the consequences of adopting an overly broad standard for contributory infringement for fear of permitting the anticompetitive consequences that the equitable doctrine of misuse was created to avoid. After all, the straw that broke the camel's back of contributory patent infringement was the tie-in requirement of the acquisition of films from the patent owner in order to use its patented invention.

There is perhaps a sardonic analogy that can be drawn between *Motion Picture* and *Betamax*, which were decided almost 70 years apart. In *Motion Picture*, the owner of patented technology (a film feeding device on a movie projector) sought to control the market for visual works (recorded on film—the Copyright Act was amended in 1912 to include "motion pictures" as copyrightable subject matter²³⁷), which were to be viewed with the technology. In *Betamax*, the owner of copyrighted works (recorded on films and tapes) sought to control the market in technology (VCR's—presumably patentable in whole or part) upon which its works could be recorded and then viewed. In *Motion Picture*, the patent owner relied upon contributory infringement against a supplier of films to be viewed through the use of its invention of acquiring films with its authorization. In *Betamax*, the copyright owners relied upon contributory infringement against a supplier of VCR's to be used to copy and view its copyrighted works, conditioning (impliedly) the use of its copyrighted works on the acquisition of a VCR with its authorization.²³⁸ The analogy would seem to return us to the property logic of the *Button-Fastener* case and *Henry v. A.B. Dick* that because a copyright is property, its owner should be able to prescribe conditions for its use, e.g., being recorded and played back only on VCR's authorized by the copyright owner.²³⁹

235 *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 519 (1917).

236 See *Stroco Prods., Inc. v. Mullenbach*, 67 U.S.P.Q. (BNA) 168 (S.D. Ca. 1944) (holding filing of a contributory infringement action misuse) *overruled legislatively* by 35 U.S.C. § 271(d)(3) (1982).

237 See Act of Aug. 24, 1912, ch. 356, 37 Stat. 488.

238 In both cases failure to obtain authorization from the intellectual property owner to supply films or VCR's would have resulted in direct infringement by users of the patented invention or copyrighted work, if not for the misuse doctrine in *Motion Picture* and the fair use doctrine in *Betamax*, respectively.

239 See *supra* text accompanying notes 214-18 and Justice Holmes' statement of property logic, *supra* note 216.

D. *Staple Article of Commerce Doctrine*

This section will address the question of whether the "staple article of commerce" doctrine, as employed in *Betamax*,²⁴⁰ provides a proper "balance between a copyright owner's legitimate demand for effective—not merely symbolic—protection of its statutory monopoly and the right of others to engage in substantially unrelated areas of commerce."²⁴¹ The nature of the article being sold has played a significant role in defining the scope of contributory infringement, although the rationale supporting that role has varied from time-to-time. If the article being sold was a staple (i.e., capable of significant noninfringing uses), traditionally such a sale in itself would not support an inference of intent to cause another to infringe with the staple. On the other hand, if the article being sold was a nonstaple (capable of no substantial noninfringing uses other than to infringe the intellectual property in question), then the sale of such an article would give rise to an inference that infringement was intended by the seller, for the nonstaple would have no market but for its use in the infringement.²⁴² Later, the rationale became the public policy in "free competition" that required free access to staple articles. Indeed, at least insofar as patent law is concerned, it would be misuse to attempt to extend the monopoly of the intellectual property grant to encompass the staple article, but if the article was a nonstaple it fell within the protection of the patent grant and was protectable by means of the doctrine of contributory infringement.²⁴³ In sum, the categorization as a staple or nonstaple, in patent law at least, started as an evidentiary device to infer the intent of the seller; today, the categorization establishes the dividing line between contributory infringement and misuse. Stated another way, for there to be the tort of contributory infringement, in the strict sense, it is necessary that a nonstaple article of commerce be involved.²⁴⁴

Whether an article is classified as a nonstaple on the basis of its technical capability to be used in noninfringing ways or on the basis of how much it was used in directly infringing bears directly on the scope of protection afforded under an intellectual property grant. The primary use by owners of an article may be to directly infringe, while the article has other technical capabilities. The dichotomy between staples and nonstaples has played a significant role in the trilogy of Supreme Court contributory infringement cases. In *Dawson* and *Betamax* the categoriza-

240 See *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 442 (1984); see also *id.* at 491 (Blackmun, J., dissenting): "I recognize, however, that many of the concerns underlying the 'staple article of commerce' doctrine are present in copyright law as well."

241 *Id.* at 442.

242 See *supra* text accompanying notes 148-51.

243 See *supra* text accompanying notes 216-28.

244 As stated in *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980):

Section 271(c) identifies the basic dividing line between contributory infringement and patent misuse. It adopts a restrictive definition of contributory infringement that distinguishes between staple and nonstaple articles of commerce. It also defines the class of nonstaple items narrowly. In essence, this provision places materials like the dry ice of the *Carbice* case [283 U.S. 27 (1931)] outside the scope of the contributory infringement doctrine. As a result, it is no longer necessary to resort to the doctrine of patent misuse in order to deny patentees control over staple goods used in their inventions.

Id. at 200-01.

tion was critical—but for different reasons. In *Ives* the categorization was not of central concern, but it appears to play the same role as it did in *Betamax*.

In *Dawson* the logic of the Court is clear in first applying section 271(c) and then interpreting the effect of section 271(d) in immunizing certain conduct of the patent owner from a misuse charge. For contributory infringement to be held under section 271(c), a nonstaple must be sold. Moreover, to immunize conduct of the patent owner under section 271(d), the nonstaple must then satisfy two requirements: (1) It must be "capable only of infringing use in a patented invention," and (2) it must be "essential to that invention's advance over prior art."²⁴⁵ The determination of whether propanil was a nonstaple under these requirements was objectively done on the basis of its technical capability. First, it had only one known use, namely, in practicing the patented method; thus purchasers had no choice if they desired to use propanil but to infringe the patent. Second, propanil was essential to the advance over the prior art for it was the only active ingredient in the method claimed. Having made this determination, the Court then turned to section 271(d) to determine to what extent this paragraph immunized the patent owner from misuse. It held that the refusal to license others to sell the "essential nonstaple" was not misuse for, if the patent owner could license under section 271(d)(2) free of patent misuse, it could also refuse to license.²⁴⁶ The end result was to extend the patent monopoly to the unpatented propanil.

The logic of *Betamax* in dealing with the staple/nonstaple dichotomy is significantly different from that used in patent law, as evidenced by *Dawson*, with which the majority states there is a "historic kinship." The categorization of staple or nonstaple in *Betamax* is not undertaken to draw the dividing line between contributory infringement and misuse but rather went to the ultimate question of whether a tort—direct infringement—had been committed at all. Moreover, the dichotomy appears not to have been made directly and objectively on the technical capability of the article sold but rather derivatively and subjectively on the basis of fair use by VCR owners.²⁴⁷ This approach collapses two elements of the tort into one. A determination of direct infringement (albeit in significant quantity) is used not only to satisfy the *sine qua non* requirement of contributory infringement but also to satisfy that the product being sold is a nonstaple. This renders the dichotomy ineffectual as an independent standard. There is no need to resort to it at all. Once intellectual property owners fail to establish direct infringement, they cannot, by definition, establish contributory infringement. The nature of the article being

²⁴⁵ *Id.* at 213.

²⁴⁶ For the argument that this is "reverse property logic," see *supra* note 228.

²⁴⁷ Purchasers of propanil had no option: Either they used it to practice the patented process or they did not use it at all. On the other hand, purchasers of VCR's could use them to record copyrighted or uncopyrighted works for time-shifting or library or even commercial purposes, e.g. selling recorded video tapes. Whether or not there is contributory infringement is not determined on what is being sold (VCR's) but rather on why it is being used, i.e. fair use and the quantum of direct infringement.

sold is irrelevant to whether direct infringement has been committed. Its nature, however, should be important with respect to the public policy supporting free competition in staples that have the capability to be used in other than infringing ways, and hence whether the article sold is a staple or nonstaple should be quite relevant to the issue of whether contributory infringement should be held.

The approach of *Betamax* is more analogous to that of *Ives* than *Dawson*. In *Ives* "suggested, even if only by implication" was stated to be the appropriate standard, but the ultimate test of contributory (induced) infringement was the quantum of direct infringement.²⁴⁸ A personal nexus between the seller and the direct infringer was not required. In *Betamax* the requirement for an objective, qualitative determination of the technical capability of an article was eliminated. The torts of contributory trademark and copyright infringement hence appear now to be collapsed into a single element—the quantity of direct infringement resulting from the sale of an article. Whatever the reason or reasons the majority had in mind for applying and presumably adopting a user capability standard and then embarking on fair use analysis, this standard appears to have, at best, a mere passing acquaintance with the patent law standard rather than any "historic kinship." Indeed, the kinship appears to be of recent lineage rather than one of historic proportions; it would appear to have been born in the *Ives* case, which Justice Blackmun indicated to be an analogous case decided just two terms ago.²⁴⁹

The logic of both *Ives* and *Betamax* is tantamount to placing a seller of any article under a duty to protect trademark and copyright owners against the commission of direct infringement by purchasers of such articles should such infringement reach "significant" proportions. The next section will consider the duty requirements generally imposed in tort law with respect to conduct that contributes to the commission of a tort.

E. Duty Owed to Intellectual Property Owners

Reviewing the approach of the *Restatement* is informative on the question of the duty owed by one who contributes to the injury of another. The *Restatement* rules with respect to concerted conduct (section 876)²⁵⁰ and independent concurring or consecutive conduct (section 879)²⁵¹ are specified to be specific applications of the general rule of section 875,²⁵² defining the liability of "contributing tortfeasors." Both the general and

248 See *supra* text accompanying notes 203-04.

249 464 U.S. at 489 (Blackmun, J., dissenting).

250 RESTATEMENT (SECOND) OF TORTS § 876 (1979), quoted *supra* note 133.

251 Concurring or Consecutive Independent Acts

If the tortious conduct of each of two or more persons is a legal cause of harm that cannot be apportioned, each is subject to liability for the entire harm, irrespective of whether their conduct is concurring or consecutive.

Id. § 879.

252 Contributing Tortfeasors—General Rule

Each of two or more persons whose tortious conduct is a legal cause of a single and indivisible harm to the injured party is subject to liability to the injured party for the entire harm.

Id. § 875; see *id.* comment a. Normal rules of causation between the contributory conduct and the ultimate tort are required. *Id.* comment c.

specific rules are also limited to situations where there is "indivisible harm," which is clearly the case with respect to infringement of patents, trademarks, or copyrights. The comment to section 875 makes it clear that the application of the rules of sections 875, 876 and 879 includes only situations "in which the defendant has been personally guilty of tortious conduct."²⁵³ To be "personally guilty of tortious conduct," the contributing tortfeasor must, of course, be under a duty to the injured party. With respect to "agreed concerted conduct" under section 876(a), as previously discussed:²⁵⁴ "In order for the rule of clause (a) to be applicable, it is essential that the conduct of the actor be in itself tortious."²⁵⁵ For it to be tortious the actor must have breached a duty owed to the injured party.

Section 876(b) extends the duty of the actor not to give "substantial assistance or encouragement" toward the commission of a tort by another, *provided* the actor has actual knowledge that the encouraged or assisted conduct constitutes a breach of duty to the third party.²⁵⁶ The duty arises not from tortious conduct itself; rather, the conduct becomes tortious from the knowledge of the breach of duty by the other. The other party need not know that his act is tortious, but, for the assistant or the encourager to be a tortfeasor, he must know that the other's conduct is tortious.²⁵⁷

1. Separate Duty Concerted Conduct

The discussion of section 876(c) has been deferred to this point because of its particular requirement that a "separate duty" be owed by the actor (contributing tortfeasor) to the injured third person. For liability to be imposed under section 876(c), the contributing tortfeasor must give "substantial assistance to the other in accomplishing a tortious result and his own conduct, separately considered, constitutes a breach of duty to the third person."²⁵⁸

The rule of section 876(c) differs from that of section 876(b) in several respects. First, evidently "encouragement" alone would not violate section 876(c); something more is required in the form of "assistance," presumably toward providing the means to commit the tort. Second, it is necessary that providing such assistance constitute a breach of duty with respect to the injured third person. If these conditions are satisfied, liability is imposed on the contributor "irrespective of his knowledge or that his act or the act of the other is tortious."²⁵⁹ As stated in the comment to section 876(c): "[O]ne who supplied another with the means of committing a tort is not liable if he has no reasons to suppose that a tort will be committed."²⁶⁰ This implies that the act of supplying an article to

253 *Id.* § 875 comment a.

254 *See supra* text accompanying notes 133-41.

255 RESTATEMENT (SECOND) OF TORTS § 876 comment c (1979).

256 *See supra* text accompanying notes 142-44.

257 RESTATEMENT (SECOND) OF TORTS § 876 comment d, illustrations 7 and 8 (1979).

258 *Id.* § 876(c). Section 876 is quoted in full *supra* note 133.

259 *Id.* comment c (1979).

260 *Id.*

another when the actor has reason to know of its use in committing a tort would result in liability under this clause, i.e., a negligence standard. Nonetheless, the clause makes clear that the actor's conduct, separately considered, must constitute a breach of duty to the third person.²⁶¹ Obviously, the sine qua non of a breach of duty is the existence of a duty.

2. Concurring or Consecutive Conduct

Another section of the *Restatement* related to contributing tortfeasors that may have relevance to the duty issue is section 879. Under section 879 a contributing tortfeasor engaging in independent, concurring or consecutive conduct may be held liable for tortious conduct that is a "legal cause of harm that cannot be apportioned . . . irrespective of whether the conduct is concurring or consecutive."²⁶² The comment to this section provides: "It is . . . immaterial that the liability of one is based upon common law rules while that of the other is based upon a statute."²⁶³ This may have particular applicability to intellectual property, for example, in copyright law, where direct infringement is governed by statute,²⁶⁴ while contributory infringement is based upon common law rules.²⁶⁵ Moreover, contributory infringement may commonly be seen as "consecutive" conduct, where the article is being sold by the actor and then used by its purchasers to directly infringe. Nonetheless, under this rule, each of the parties must be guilty of tortious conduct; thus each must owe a separate duty to the third person.

Accordingly, whether the rule of section 876(c) or section 879 applies in a contributory infringement situation, the question of whether a duty is owed by the contributor to the intellectual property owners should be examined. In the context of contributory infringement, the issue might be phrased: Does the sale of an article technically capable of noninfringing uses give rise to a duty to protect intellectual property owners from infringement when the product is used to infringe?²⁶⁶

261 An illustration given in the *Restatement* under Section 876(c) is the sale of a defective handgun with the seller reasonably believing that the purchaser would repair it prior to resale. If the purchaser negligently fails to do so, liability would not be imposed upon the original seller of the defective handgun, presumably on the basis that the seller owed no duty to the third party because he had a reasonable expectation that it would be repaired prior to reselling. See *id.* § 876 illustration 13. If the seller had reason to know that the handgun would be resold without repair, a duty would presumably arise because of the creation of the unreasonable risk of injury to the third person upon the handgun's being resold without repairs; hence, liability could be imposed under section 876(c). Somewhat confusingly the *Restatement* gives the following illustration under section 876(b): "8. A sells to B for resale a gun known by him to be dangerously defective. B negligently fails to examine the gun before selling it to C, who is hurt while attempting to discharge it. A is subject to liability to C." *Id.* illustration 8. It is not apparent how A would "know" that B would negligently fail to inspect the gun. This illustration would seem to be better placed under clause (c), with a duty being imposed on A not to knowingly place in commerce a dangerously defective product without so advising the purchaser B.

262 *Id.* § 879, quoted in full *supra* note 251.

263 *Id.* comment a.

264 See 17 U.S.C. § 501 (1982), quoted *supra* note 28.

265 See *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 434-35 (1984).

266 The issue may be further refined: If there is such a duty, would it extend to intellectual property owners in general or only to owners of specified intellectual property? See *infra* note 270 for further analysis of the duty question.

With respect to patent law, in view of the limited nature of section 271(c), as interpreted in *Dawson* and *Aro II*, the rules of *Restatement* sections 876(c) and 879 do not appear to be directly applicable. If a non-staple were involved, then section 271(c) would provide whatever remedy there may be. If a staple is involved, no separate duty would be imposed on the seller for the protection of the patent owner in view of the doctrine of patent misuse, except, perhaps, to refrain from actively inducing infringement.²⁶⁷ In view of the patent misuse doctrine, one would expect section 271(b) and (c) to preempt any common law tort theory.

In trademark and copyright law, the issue is not so clear, as evidenced by *Ives* and *Betamax*. In *Ives*, the Court would appear to impose a duty on a seller of look-alike capsules containing an unpatented pharmaceutical, which were capable of noninfringing uses, not to permit its customers to commit direct trademark infringement in significant amounts.²⁶⁸ Moreover, the Court placed the seller under a duty to police its customers and not to sell to those it knew or had reason to know were infringing the subject trademark.²⁶⁹

Although there is some ambiguity in *Betamax* in regard to whether the majority adopted a technical capability or a user capability standard, there is no ambiguity that it applied the user capability standard by entering into the fair use analysis. Also it is clear that the minority would adopt a user capability standard. In any event, with respect to the application of the standard, a VCR seller would have a duty not to permit its customers to commit direct infringement in significant amounts by using their VCR's to record works off-the-air. Both the majority and the minority would place the seller of a copying device, technically capable of noninfringing uses, under a duty measured by why consumers actually use the device. The breach of the duty occurs upon reaching the required quantum of proven direct infringement by consumers, which, in turn, depends upon the quantum of fair use.²⁷⁰ Moreover, *Betamax* evi-

267 The misuse doctrine may indeed significantly limit the scope of any duty owed not to actively induce infringement if section 271(b) is not linked to section 271(d) of the Patent Act. See discussion *supra* text accompanying notes 229-30.

268 See *supra* text accompanying notes 199-204.

269 See *supra* text accompanying note 201. Note, however, how the Supreme Court in *Ives* dealt with this issue:

However, whether these petitioners were liable for the pharmacists' infringing acts depended upon whether, in fact, the petitioners intentionally induced the pharmacists to mislabel generic drugs or, in fact, continued to supply cyclandelate to pharmacists whom the petitioners knew were mislabeling generic drugs. The District Court concluded that *Ives* made neither of those factual showings.

Inwood Laboratories v. Ives Laboratories, 456 U.S. 844, 855 (1982).

270 When a duty issue arises in tort law it is always tempting to apply the formula Judge Learned Hand set forth in *United States v. Carol Towing Co.*, 159 F.2d 169 (2d Cir. 1947). According to Judge Hand's formula, a duty would arise and liability would be imposed if the burden (B) of taking adequate precautions to prevent injury was less than the probability (P) of that injury occurring times the magnitude of that injury (L). In other words, liability would be imposed if $B < PL$. *Id.* at 173. In terms of this formula, both the majority and the minority in *Betamax* focused on probability in their fair use analyses. The majority considered the burden (B) required to prevent injury to be an injunction, while the dissent was more flexible and would require a "jamming" device in VCR's to prevent unauthorized copying or the payment of royalties. The injury suffered by copyright owners would be damages for infringement, which would depend on the quantum of direct infringement not

dently imposes a general duty on all copyright owners within the subject class. The duty is not limited to particular copyrights and the seller of the VCR does not even need reason to know its customers are using the VCR to infringe that particular copyright.²⁷¹

If the technology has the technical capability of both infringing and noninfringing uses, the creator of the technology obviously cannot insure that a purchaser will not use it to infringe any more than the seller of any product can insure it will not be used negligently or criminally by its purchaser to injure a third party.²⁷² Thus, the creator subjects itself to the vicissitudes of users and can only absolutely protect itself by taking the technology off the market, rendering the technology technically incapable of user abuses, or seeking the authorization of copyright owners for whatever infringing uses to which the technology may be put.

III. Tensions

Although the developer of the copy technology prevailed in *Betamax*, significant tensions were evident in the manner in which both the majority and the dissent analyzed the case. Of the five factors identified as limiting the scope of protection afforded under the doctrine of contributory infringement, only the first factor, the standard for direct infringement, limited the scope of contributory copyright infringement as applied in *Betamax*. This limitation came in the form of the fair use exception to direct infringement, with contributory infringement being determined by the extent to which there is or is not fair use. The other four factors were not limiting, either because they were not considered or they were, in the final analysis, irrelevant.²⁷³

privileged by fair use. The Copyright Act gives the copyright owner the option of (1) actual damages and any additional profits of the infringer or (2) statutory damages. 17 U.S.C. § 504(a) (1982). However, as seen in *Betamax*, with fair use controlling the quantum of direct infringement, this loads two factors in Judge Hand's formula—probability (P) and also injury (L). Hence, fair use would appear to control the result, presuming there was agreement on the burden which should be required of the VCR manufacturer. See also the approach of the RESTATEMENT (SECOND) OF TORTS of balancing the utility of the actors conduct versus the magnitude of the risk of injury to another. RESTATEMENT (SECOND) OF TORTS §§ 291-295 (1965).

271 See *infra* text accompanying notes 343-44.

272 Tort law has been hesitant to impose a duty on the seller of a non-defective product to protect third parties from intentional or negligent injury resulting from the use of the product. Liability has been limited to concerted or inducement theories, as discussed *supra* text accompanying notes 133-37, 142-44, 180-85. An "entrustment" theory (see RESTATEMENT (SECOND) OF TORTS § 308 (1965)) has been frequently applied. The entrustment theory is most frequently applied where the person who is given access to the product "is a member of a class which is notoriously likely to misuse the thing which the actor permits him to use." *Id.* comment b. See also PROSSER, *supra* note 129, § 33, at 197-203. The refusal of the common law to impose liability on the seller of alcoholic beverages to intoxicated purchasers for the torts of the latter illustrates the narrow scope of the duty. See W. PROSSER, J. WADE & V. SCHWARTZ, TORTS 345 (7th ed. 1982).

273 The second factor, the contributing conduct and the fault theory, does not significantly limit the scope of contributory infringement. The contribution is consummated by the sale of an article that is technically capable of significant noninfringing uses. The fault element is based on negligence, and is satisfied by the constructive knowledge of the seller that its article will be used to a significant degree by its purchasers to directly infringe copyrights. Moreover, such infringement would be with reference only to copyrights in general rather than to specific copyrights owned by the plaintiff. The third factor, misuse, is not even raised, although had the Studios proved significant direct infringement by the absence of significant fair use, this would have extended the scope of their copyright protection to the market for VCR's, either in the form of total exclusion or by demanding

After the Supreme Court decided *Betamax*, the Studios sought a rehearing because the Court relied on findings of fact that were five years old.²⁷⁴ Although the rehearing was denied,²⁷⁵ this attempt illustrates that the contributory infringement issue, even with respect to video recording, may not be dead if copyright owners expend sufficient resources to overcome any fair use argument by determining why consumers are using their VCR's. These tensions in *Betamax* will become more evident if certain legislative proposals are enacted. So far, technology owners have been able to stave off the assault of the copyright owners, but the war begun with *Betamax* continues. Legislative efforts during the *Betamax* litigation, including proposals to impose royalties on the sale of VCR's and blank video cassette tapes,²⁷⁶ have not found approval in Congress. After the Supreme Court's decision in *Betamax*, the legislative battle shifted from home video recording to home audio recording,²⁷⁷ and, most recently, to digital audio recording, with the development of the digital audio tape (DAT) system.²⁷⁸

Technological advances are not inherently antithetical to copyrights and their owners. Depending on the nature of the advance, it may be a boon or a bane to copyright owners; more often the advancement is a "mixed blessing." The development of computer systems, including computer programs essential for the utility of such systems, illustrates the latter phenomenon. The copyrightability of computer programs has provided a significant economic incentive to create such programs.²⁷⁹

royalties for access to that market. In addition, the staple/nonstaple dichotomy is an irrelevant factor in the sense that it was not the technical capability of the article that determined whether it was a nonstaple or not but rather whether there was significant direct infringement determined by the absence of significant fair use. Finally, the scope of protection under contributory infringement in the *Betamax* analysis would impose a duty upon VCR manufacturers to protect the right of copyright owners in general from the unauthorized use of these recorders by their owners. This duty would go beyond not only intellectual property law principles but also beyond those of general tort law without any articulated justification. See *supra* note 272.

274 The Studios argued that by basing its decision on five-year-old trial findings the Court would be "perpetuat[ing] an intolerable injustice" amounting to a "travesty." The Studios emphasized that the market had dramatically changed, with 10 million VCR's presently being owned compared to only 800,000 at the time of trial. Moreover, technical advances permitted users of VCR's easily to skip commercials. Also, prerecorded motion pictures now constituted a major portion of producers' incomes. Finally, a number of copyright owners of sports and religious programs were no longer willing to authorize home recording. See 27 Pat. Trademark & Copyright J. (BNA) 418-19 (1984) (summarizing the Studios' brief petitioning for rehearing).

275 Sony Corp. of Am. v. Universal City Studios, 465 U.S. 1112 (1984).

276 After the Ninth Circuit's decision, *Universal City Studios v. Sony Corp. of Am.*, 659 F.2d 963 (9th Cir. 1981), bills were introduced to exempt home noncommercial VCR recordings from copyright infringement. See S. 1758, 97th Cong., 1st Sess. (1981); H.R. 4783, 4794, 4808 & 5250, 97th Cong., 1st Sess. (1981); H.R. 5488 & 5705, 97th Cong., 2d Sess. (1982). Successor bills were amended to impose a royalty on the sale of VCR's and blank video tapes. See S. 31 & 175, 98th Cong., 1st Sess. (1983).

277 For a survey of home audio recording bills, see Note, *The Home Audio Recording Act: An Inappropriate Response to the Home Taping Question*, 15 FORDHAM URB. L.J. 435, 442 n.37 (1987). Cf. Nimmer, *Copyright Liability for Audio Home Recording: Dispelling the Betamax Myth*, 68 VA. L. REV. 1505 (1982).

278 See *infra* text accompanying notes 287-90.

279 The Copyright Act of 1976 does not expressly include computer programs as one of the categories of copyrightable subject matter under 17 U.S.C. § 102(a) (1982). However, the House Report states: "The term 'literary works' . . . also includes computer data bases and computer programs to the extent that they incorporate authorship in the programmer's expression of original ideas, as distinguished from the ideas themselves." H.R. REP. NO. 1476, 94th Cong., 2d Sess., at 54 (1976). Section 101 of the Copyright Act of 1976 was amended in 1980 to include a definition of computer

The ease with which diskettes may be copied, however, diminishes the incentive to create new programs.

The development of the compact disc (CD) digital recording and play back system²⁸⁰ serves as a prime example of the sometimes symbiotic relationship between technology and copyright. In the CD system, analog (audio frequency) works are converted into digital form and impressed onto a compact disc.²⁸¹ Pre-recorded CD's are played back by a CD player. The digital recording on the disc is sensed by a laser beam and then converted into analog form for high quality, audio frequency reproduction.²⁸² In the few years since its introduction, this system has provided a significant new market for long-playing musical recordings.²⁸³ The compact disc system is ideal for copyright owners because it is a "playback only" system, as CD players do not have recording capability.²⁸⁴

Nonetheless, technology does not necessarily advance in a direction copyright owners find economically desirable. Technology with competitive advantages may significantly diminish the market for copyrighted works in a given medium or may even eliminate that market.²⁸⁵ For example, the VCR has virtually eliminated the market for videodisc players and will eventually eliminate the market for copyrighted videodiscs.²⁸⁶

programs. Act of Dec. 12, 1980, Pub. L. No. 96-517, § 10(a), 94 Stat. 3028. The copyrightability of computer programs has been sustained in the courts. See, e.g., *Whelan Assoc. v. Jaslow Dental Laboratory*, 797 F.2d 1222 (3d Cir. 1986); *Williams Elec. v. Artic Int'l*, 685 F.2d 870 (3d Cir. 1982).

280 See generally *Compact-Disc Players*, 50 CONSUMER REP. 324 (1985) [hereinafter *Compact-Disc Players*].

281 *Id.* at 324-25.

282 *Id.* at 325.

283 Since being introduced in 1983, the number of CD's sold has increased to over 50 million discs. Wilson, *Behind That Chorus of Sour Notes Over DAT*, NAT'L J., Sept. 12, 1987, at 2298. From 1984 to 1986, the number of CD's sold increased by 47.2 million discs compared to a drop in the sale of conventional long-playing records of 79.4 million. *The Sound of Money*, NEWSWEEK, Oct. 5, 1987, at 72.

284 A compact disc would fall within the definition of a "phonorecord" under the Copyright Act of 1976, as amended:

'Phonorecords' are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term 'phonorecords' includes the material object in which the sounds are first fixed.

17 U.S.C. § 101 (1982). The copyrightable subject matter would be the "sound recording" fixed on the compact disc. *Id.* § 102(a)(7). Copyrightable subject matter may also exist in the underlying musical works. *Id.* § 102(a)(2). Included within the exclusive rights in copyrighted works are the rights "to reproduce the copyrighted work in copies or phonorecords" (*id.* § 106(1)) and "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending" (*id.* § 106(3)). See also 17 U.S.C. § 109(b)(1) (Supp. IV 1986) (the anti-rental provision for phonorecords).

285 The examples are numerous, ranging from piano rolls and 78 RPM shellac phonograph records to 8-track tapes and, most recently, vinyl long playing 33 1/3 RPM records.

286 Sales of videodisc players dropped from approximately 300,000 in 1983 to 200,000 in 1986. During the same period, retail sales of VCR's increased from 4 million to 13.2 million. Wilson, *supra* note 283, at 2298. The market for videodisc players is expected to erode further with the introduction of so-called "combi players" that are capable of playing back regular 12-inch videodiscs, 5-inch audio CD's, 3-inch audio singles CD's, and the new compact-disc videos (CD-V's). Winter, *The Winter Consumer Electronics Show is Largely a Rerun*, Chicago Tribune, Jan. 11, 1988, § 4 (Business), at 2. These players may prolong the market life for regular videodiscs.

The recent development of the digital audio tape (DAT) recorder offers the capability of both recording and playback.²⁸⁷ Moreover, the "sound recording" on compact discs may be recorded in a digital format on a tape cassette with the resulting cassette recordings having a quality substantially equivalent to the originally recorded CD's.²⁸⁸ Copyright owners allege that the DAT recorder will eliminate any difference between originals and copies²⁸⁹ and will have a significant negative impact on the market for CD's, because anyone having access to CD's will be able to reproduce them by using a DAT recorder.²⁹⁰

In recognition of the stress the *Betamax* case created and the rumblings of copyright owners of CD's, the developers of the DAT system evidently convinced themselves that they should sacrifice technical quality for perceived legal safety. At the urging of Japan's Ministry of International Trade and Industry, the DAT developers agreed to degrade the quality of their own recorders²⁹¹ in an attempt to avoid suits for contributory infringement. This step also minimized the chances for legislation imposing restrictions on DAT recorders.²⁹² The developers attenuated the quality of DAT technology by making the recorders inca-

287 See generally Feldman, *Here Comes DAT*, POPULAR SCI., Aug. 1986, at 80; Ranada, *Origins of a Species*, HIGH FIDELITY, Aug. 1987, at 52.

288 Feldman, *supra* note 287, at 110; Ranada, *supra* note 287, at 53..

289 As stated by a spokesperson for the Recording Industry Association of America (RIAA): "Why is DAT such a threat? Because it eliminates any distinction between originals and copies. Because with DAT every copy becomes a new original . . ." *Digital Audio Tape Recorders: Hearing on H.R. 1384 Before the Subcomm. on Commerce, Consumer Protection and Competitiveness of the House Comm. on Energy and Commerce*, 100th Cong., 1st Sess. 44 (1987) [hereinafter *House Hearings*] (statement of Jason S. Berman, President, Recording Industry Association of America). Berman made the same statements before the Senate Subcommittee on Communications of the Committee on Commerce, Science, and Transportation. See *Digital Audio Recorder Act of 1987: Hearing on S. 506 Before the Subcomm. on Communications of the Senate Comm. on Commerce, Science, and Transportation*, 100th Cong., 1st Sess. 13-71 (1987) [hereinafter *Senate Hearings*] (statement of Jason S. Berman, President, Recording Industry Association of America) Cf. Leonard Feldman's statement opposing the bill: "The result is still a very good recording — slightly better than you can do with some of the best consumer analog audio recording systems available today — but by no stretch of the imagination a 'perfect master' or 'digital clone.'" *House Hearings, supra*, at 141 (statement of Leonard Feldman, Owner, Leonard Feldman Electronic Laboratories).

290 *House Hearings, supra* note 289, at 46-47 (statement of Jason S. Berman, President, Recording Industry Association of America). Owners of both CD players and DAT recorders may, for instance, borrow CD's from friends or obtain them through clubs or other arrangements; many libraries now stock CD's. The anti-rental provision of 17 U.S.C. § 109(b)(1) (Supp. IV 1986) with respect to phonorecords expires October 4, 1989. Pub. L. No. 98-450, 98 Stat. 1727 (1984). However, legislation has been proposed to extend this provision for five years. See 36 Pat. Trademark & Copyright J. (BNA) 345, 359 (1988).

291 See Burgess, *DAT Recorder Sounds Alarm For Industry*, Washington Post, Mar. 29, 1987, at H1 (Business); see also *House Hearings, supra* note 289, at 140-41 (statement of Leonard Feldman, Owner, Leonard Feldman Electronic Laboratories).

292 Burgess, *supra* note 291, at H1 ("as a gesture to the critics"). See also Sugimoto, *Business Today: Japanese Firms Uncertain on DAT Introduction*, United Press Int'l, June 2, 1987 ("a concession to the record industry"). Jason Berman, on behalf of the music recording industry, has stated that the industry intends "to sue any manufacturer who tries to bring DAT machines into the U.S. before this issue is resolved" and that the industry has established a "legal fund for that purpose." See Winter, *U.S. Ruling Eases Way for Digital Tape Players*, Chicago Tribune, Mar. 2, 1988, § 3 (Business), at 4, col. 4. See Warren, *Digital Audiotapes Future: Now You See It, Now You Don't*, Chicago Tribune, May 27, 1988, § 7 (Friday), at 68, col. 4, reporting that the "record association has already amassed a war chest for suing electronics companies that import DAT players into the U.S." and that the electronic industries association has responded with a six-figure legal defense fund. Presumably the basis of such a suit would be contributory copyright infringement.

pable of direct digital-to-digital recording and playback.²⁹³ In doing so, the developers prevented the possibility of directly transferring the digital recording from a CD to the DAT tape.²⁹⁴ Accordingly, under the present DAT system, the digital encoding on a CD must be converted first to analog form (i.e., audio frequency) and then to a digital format for recording on the tape cassette. The technical consequences of having to go from digital-to-analog-to-digital is that the quality of the recorded copy on the DAT cassette is said to be three times noisier than the original CD.²⁹⁵

By so degrading the quality of their recorder design, it is not immediately apparent that DAT producers placed themselves in a better position against a claim of contributory infringement as compared to making a higher quality digital-to-digital DAT. This is the case whether either a technical capability or a user capability standard for contributory infringement was applied. A digital-to-digital DAT recorder has the same technical capability for infringing and noninfringing use as does a digital-analog-digital one. Either version of the recorder will record noncopyrighted works with the same facility and quality as copyrighted ones.

With respect to fair use, there would be few CD's not copyrighted as "sound recordings." There may be, however, some portions which do not qualify for copyright protection. In addition, some copyright owners may authorize copying of their CD's.²⁹⁶ Moreover, if fair use may be sustained for nonproductive time-sharing off-the-air, one would expect fair use to apply *a fortiori* to CD purchasers who record them, in whole or in part, at home on their DAT recorders for private use.²⁹⁷

In any event, these relatively minor concessions to quality that prevent the DAT recorders from directly recording digital-to-digital from CD's have not significantly appeased copyright owners of CD's. They have sought federal legislative protection from copying CD's even in the technically degraded format. The Digital Audio Recorder Act of 1987

293 *House Hearings*, *supra* note 289, at 140 (statement of Leonard Feldman, Owner, Leonard Feldman Electronic Laboratories).

294 To prevent direct digital-to-digital recording, the DAT machines employ a different digital sampling rate for recording and for playback. In addition, a "flag" signal is incorporated in the recording system which will detect a corresponding code on a CD that would disable the recorder from direct digital-to-digital recording. *Id.*

295 *Id.* at 140-41.

296 Evidently, some CD producers would offer CD's without copy protection at a higher price than copy-protected CD's, if the DAT bill were enacted. See Morehouse, *Digital Tape Recorders Spark Lobbying War*, 45 CONG. Q. WEEKLY REP. 1235 (1987).

297 A DAT recorder is, of course, capable of recording works originally recorded on other media, such as prerecorded analog (audio frequency) tapes and vinyl phonorecords. The only difference between recording these and CD's is the quality of the original recordings and the need to go through the additional step of converting the recorded analog material to digital for recording on the DAT cassette. In the case of pre-recorded digitally recorded cassettes, the quality may be substantially equivalent to CD's. See *House Hearings*, *supra* note 289, at 141 (statement of Leonard Feldman, Owner, Leonard Feldman Electronic Laboratories). DAT recorders also provide the technical advantage that there is no substantial diminution of quality when making copies from copies, with the digital recording preserving the quality of even an analog original. See *House Hearings*, *supra* note 289, at 46 (statement of Jason S. Berman, President of Recording Industry Association of America). Moreover, owners of DAT recorders may use them to produce their own recordings independent of any copyrighted materials of others.

[hereinafter the "DAT Act"]²⁹⁸ would apply to any "device, now known or hereafter developed," capable of "making audio recordings in a digital format," which would include DAT recorders, as well as VCR's including devices capable of digital audio recording.²⁹⁹ The DAT Act would prohibit the manufacturing and marketing of such devices which lack an electronic "jamming" circuit, called a "copy-code scanner."³⁰⁰ The "copy-code scanner" would deactivate a digital-recorder from recording any work that had encoded on it a "notch" in frequency, which the scanner would detect.³⁰¹ Any person aggrieved by a violation of the above prohibition would have an express cause of action against the wrongdoer.³⁰² Similarly, criminal penalties for the willful violation of these provisions may be imposed.³⁰³ In addition, the DAT Act prohibits any user of such a recorder from bypassing, removing or deactivating a copy-code scanner.³⁰⁴ A user who violates such provision would be sub-

298 S. 506, 100th Cong., 1st Sess. (1987); H.R. 1384, 100th Cong., 1st Sess. (1987). See also S. 539, 100th Cong., 1st Sess. §§ 3301-3302 (1987); H.R. 1155, 100th Cong., 1st Sess. §§ 3701-3302 (1987); H.R. 1603, 100th Cong., 1st Sess. § 105 (1987); S. 635, 100th Cong., 1st Sess. § 132 (1987). These legislative proposals are substantially similar. One significant difference is that the Administration's version (S. 506, H.R. 1384) does not include a 3-year "sunset" provision. See *House Hearings*, *supra* note 289, at 9 (statement of Donald J. Quigg, Assistant Secretary and Commissioner of Patents and Trademarks, Department of Commerce).

299 A "digital audio recording device" is defined as: "[A]ny machine or device, now known or hereafter developed, which can be used for making audio recordings in a digital format. The term 'digital audio recording device' includes any machine or device which incorporates a digital audio recording device as part thereof." S. 506, 100th Cong., 1st Sess. § 2(3) (1987); H.R. 1384, 100th Cong., 1st Sess. § 2(3) (1987). This provision would presumably include the newly announced Tandy Corp. compact-disc recorder, discussed *infra* text accompanying notes 336-37.

300 The DAT Act provides:

No person shall manufacture, assemble or offer for sale, resale, lease, or distribution in commerce (1) any digital audio recording device which does not contain a copy code scanner; or (2) any device, product, or service, the primary purpose or effect of which is to bypass, remove, or deactivate a copy-code scanner

S. 506, 100th Cong., 1st Sess. § 3(a) (1987); H.R. 1384, 100th Cong., 1st Sess. § 3(a) (1987).

A "copy-code scanner" is defined as:

an electronic circuit or comparable system of circuitry (A) which is built into the recording mechanism of an audio recording device; (B) which, if removed, bypassed, or deactivated, would render inoperative the recording capability of the audio recording device; (C) which continually detects, within the audio frequency range of 3,500 to 4,100 hertz, a notch in an encoded phonorecord; and (D) which, upon detecting a notch, prevents the audio recording device from recording the sounds embodied in the encoded phonorecord by causing the recording mechanism of the device to stop recording for at least 25 seconds.

S. 506, 100th Cong., 1st Sess. § 2(2) (1987); H.R. 1384, 100th Cong., 1st Sess. § 2(2) (1987).

301 Such a copy-code system not only could work with CD's but could also work with regular audio frequency (analog) cassettes as well as video cassettes provided the "copy code scanner" is included in the recording equipment. The DAT Act is, however, limited to a "digital audio recording device."

302 The civil penalties include injunctions (S. 506, 100th Cong., 1st Sess. § 4(a)(1) (1987); H.R. 1384, 100th Cong., 1st Sess. § 4(a)(1) (1987)); actual damages and profits of the violator (S. 506, 100th Cong., 1st Sess. § 4(b)(1) (1987); H.R. 1384, 100th Cong., 1st Sess. § 4(b)(1) (1987)); statutory damages (S. 506, 100th Cong., 1st Sess. § 4(b)(2) (1987); H.R. 1384, 100th Cong., 1st Sess. § 4(b)(2) (1987)); impounding (S. 506, 100th Cong., 1st Sess. § 4(c) (1987); H.R. 1384, 100th Cong., 1st Sess. § 4(c) (1987)); and destruction or modification (S. 506, 100th Cong., 1st Sess. § 4(d) (1987); H.R. 1384, 100th Cong., 1st Sess. § 4(d) (1987)).

303 For a knowing and willing violation for financial gain, two years imprisonment and fines of \$50,000 or five times the retail value of the devices sold, whichever is greater, may be imposed. S. 506, 100th Cong., 1st Sess. § 4(e) (1987); H.R. 1384, 100th Cong., 1st Sess. § 4(e) (1987).

304 S. 506, 100th Cong., 1st Sess. § 3(b) (1987); H.R. 1384, 100th Cong., 1st Sess. § 3(b) (1987).

ject to the same civil remedies by an "aggrieved party," but not to criminal penalties.³⁰⁵

The arguments for and against the DAT Act have been heated and contradictory. The music recording industry³⁰⁶ and its supporters³⁰⁷ argue, *inter alia*, that the recording industry will lose significant profits with the introduction of the DAT recorder.³⁰⁸ Protection by the DAT Act is needed to provide the industry with the incentives to continue to produce quality music and recordings.³⁰⁹ As Japanese companies primarily control and produce the DAT technology, the introduction of the DAT recorder will further exacerbate the foreign trade deficit of the United States at the expense of the American music industry.³¹⁰

Those on the other side, primarily the home electronics industry³¹¹ and its supporters,³¹² argue that the DAT system will eventually redound to the benefit of the copyright owners as have other recording systems.³¹³ Moreover, they claim record companies are reporting the highest profits in history.³¹⁴ They also contend that the copyright owners are "Japan bashing," while having an economic interest in limiting the types of systems and media available to consumers, so that they can exploit the CD market without competition from another system.³¹⁵ Audiophiles, in particular, strenuously object to the copy-code system as significantly de-

305 S. 506, 100th Cong., 1st Sess. § 4 (1987); H.R. 1384, 100th Cong., 1st Sess. § 4 (1987). The criminal penalties apply only to those who manufacture or market such devices, but not to users. S. 506, 100th Cong., 1st Sess. § 4(e) (1987); H.R. 1384, 100th Cong., 1st Sess. § 4(e) (1987).

306 The industry organization is the Recording Industry Association of America, Inc. (RIAA), whose members represent the producers of 90% of the prerecorded music sold in the United States. See *House Hearings*, *supra* note 289, at 34 (statement of Jason S. Berman, President, Recording Industry Association of America).

307 The supporters included Donald J. Quigg, Assistant Secretary and Commissioner of Patents and Trademarks, Department of Commerce, on behalf of the Administration; recording artists Emmylou Harris and Mary Travers; Victor Fuentealba, President of the American Federation of Musicians; and David Stebbings of CBS Records, which owns the patent and proprietary rights to the "copy-code scanner."

308 According to *House Hearings*, *supra* note 289, at 34 (statement of Jason S. Berman, President, Recording Industry Association of America), some \$1.5 billion annually of sales revenues were displaced by unauthorized copying, amounting to more than one-third of the record industry's total revenue. As to the alleged dangers of DAT recorders, see *id.* at 44-48.

309 Berman stated that the amount of new music released had declined more than 40% over the last eight years. *Id.* at 36.

310 *Id.* at 54-57.

311 The electronics industry is represented by the Home Recording Rights Coalition (HRRRC), whose members include enterprises marketing and manufacturing recording equipment and tape, and various trade organizations. The HRRRC was formed after the Ninth Circuit decision in the *Betamax* case. See *House Hearings*, *supra* note 289, at 90 (statement of Charles D. Ferris, Counsel, Home Recording Rights Coalition).

312 Those who joined in opposition to the DAT Act at the Hearings included those interested in the quality of recordings, such as Leonard Feldman, editor of *AUDIO* magazine and technical editor of *VIDEO REVIEW* magazine; and Alec Bernstein, a composer, musician, and designer of digital music equipment for composers and musicians. Recording artist Stevie Wonder filed a statement opposing the Act because DAT technology would let young musicians make professional-sounding recordings. See *The Sound of Money*, *supra* note 283, at 73. See also *House Hearings*, *supra* note 289, at 130-32 (statement of Charles D. Ferris, Counsel, Home Recording Rights Coalition) for a review of newspaper and magazine editorials and articles opposing the Act.

313 See *House Hearings*, *supra* note 289, at 92-93 (statement of Charles D. Ferris, Counsel, Home Recording Rights Coalition).

314 See *id.* at 87, 93.

315 *Id.* at 94.

grading the quality of the sound reproduction of the original recording, particularly with respect to certain types of music.³¹⁶

Ironically the so-called "technological fix" to the "home recording problem" may have hoisted itself on its own technological petard. The National Bureau of Standards has determined that the "copy-code" system causes a discernible diminution in the sound quality of the copied work and, moreover, could easily be bypassed.³¹⁷ Another irony is the acquisition by Sony of CBS Records, which owns the proprietary rights to the "copy-code" system.³¹⁸ The DAT Act conditions the requirement for the inclusion of the jamming device on the availability of a royalty-free license to use those rights.³¹⁹ One may speculate whether Sony, as a potential principal manufacturer of DAT recorders, would find it in its best interests to make those rights available.³²⁰ These factors may doom the DAT Act, but one may anticipate that it will not be long before a new "technological fix" to the "home recording problem" is advanced.³²¹

Whatever the ultimate fate of the DAT Act or similar legislation, the enactment of such legislation certainly will not resolve a quite significant problem faced by copyright owners in the audio and visual recording fields, namely that of counterfeiting.³²² Moreover, as most protective devices can be overcome, it is probable that the jamming device can and

316 See *House Hearings*, *supra* note 289, at 159 (statement of Alec Bernstein, Aesthetic Research Company); *House Hearings*, *supra* note 289, at 135-36, 143-48 (statement of Leonard Feldman, Owner, Leonard Feldman Electronic Laboratories); *Interrupted Melody*, *HIGH FIDELITY*, July 1987, at 44.

317 Both the House and Senate Subcommittees referred the technical question of whether the CBS copy-code scanner system distorts music to the National Bureau of Standards for testing. See *Morehouse*, *supra* note 296, at 1235. The House Subcommittee, fearing delays in testings, amended H.R. 1384 to exempt equipment from the Act if the Commerce Department determines:

(1) that the copy-code scanner system causes audible degradation of sound quality in pre-recorded music or may be so easily bypassed that it renders the system ineffective; (2) that an alternative technology has been implemented by DAT manufacturers that is at least as protective as copy-code scanners; or (3) that an agreement has been entered into which adequately ensures protection against copying.

34 Pat. Trademark & Copyright J. (BNA) 352 (1987). The sunset provision was, moreover, reduced to one year. *Id.* On March 1, 1988, the National Bureau of Standards announced its findings. See *Winter*, *supra* note 292.

318 *Winter*, *Tide of Battle Turns for Digital Recorder*, *Chicago Tribune*, Jan. 17, 1988, § 7 (Business), at 4, col. 2.

319 S. 506, 100th Cong., 1st Sess. § 3(a) (1987); H.R. 1384, 100th Cong., 1st Sess. § 3(a) (1987).

320 See *CBS Records: If You Can't Beat 'Em, Sell*, *NEWSWEEK*, Nov. 30, 1987, at 53. *Cf.*, however, the statement of a Sony spokesperson: "The acquisition will have no effect because the management of CBS Records will stay in place, and continue to operate with a high degree of independence. . . . We do not plan to change their minds." *Winter*, *supra* note 318, at 4, cols. 2-3.

321 Sony has confirmed that it is having high level discussions with N.V. Phillips and other Japanese manufacturers with regard to a new type of "jamming" device called "Unicopy" or "Solocopy," which would permit the copying of an original CD but would block the copying of the tape copy. *Winter*, *supra* note 318. This would resolve the problem brought up by Berman on behalf of the music recording industry of the proliferation of high-grade copies of copies. See *supra* note 297. See also *House Hearings*, *supra* note 289, at 8 (statement of Donald J. Quigg, Assistant Secretary and Commissioner of Patents and Trademarks, Department of Commerce).

322 It has been estimated that counterfeit audio records and tapes have resulted in total lost sales of \$812 million in 1980 and \$658 million in 1982. U.S. INT'L TRADE COMM'N, FOREIGN PRODUCT COUNTERFEITING 49 (1984). It has also been estimated that up to 25% of records and tapes in retail stores in the United States may be counterfeit. *Id.* at 47.

would be circumvented by consumers.³²³ Consumers could easily convert a DAT recorder to a higher quality digital-to-digital recording device.³²⁴ As the spokesman for the home recording lobby stated, "recorders gotta' record."³²⁵

The question arises whether supplying a device for defeating a jamming device in a digital recording system would constitute contributory infringement by its supplier. An analogous question was raised in a recent copyright case, *Vault Corp. v. Quaid Software Ltd.*,³²⁶ involving a "copy-protected" computer diskette and an "unlock" program for copying such a diskette. Plaintiff sold a copy-protected diskette to software producers. The diskettes had recorded on them a copy-inhibiting program (PROLOCK), which was copyrighted by plaintiff. The software producer would record its copyrighted programs onto the copy-protected diskettes and then market them. Defendant marketed a program (CopyWrite) that was designed to "unlock" the copy-protected diskette by means of a program called RAMKEY and then to copy it.³²⁷ The Fifth Circuit affirmed the district court's denial of relief on a number of grounds,³²⁸ including that there was no contributory infringement because the defendant's RAMKEY program was capable of substantial non-infringing uses.³²⁹ The district court had found that these uses included not only making functional archival copies of copy-protected diskettes

323 The DAT Act provides for civil remedies against users defeating the copy-code scanner. See *supra* note 302. However, enforcement becomes virtually impossible against individual users.

324 See *House Hearings*, *supra* note 289, at 44-45 n.6 (statement of Jason S. Berman, President, Recording Industry Association of America) (stating that a "black box" to permit digital-to-digital recording probably would cost less than \$50.00).

325 The entire quote of Mr. Ferris is: "Fish gotta' swim, birds gotta' fly, and recorders gotta' record." *House Hearings*, *supra* note 289, at 96 (statement of Charles D. Ferris, Counsel, Home Recording Rights Coalition). Presumably, Mr. Ferris is fully aware of the fair use defense in paraphrasing the words from "Can't Help Loving That Man," lyrics by Oscar Hammerstein II, music by Jerome Kern. See A. LAUFE, *BROADWAY'S GREATEST MUSICALS* 23, 25 (1973).

326 847 F.2d 255 (5th Cir. 1988).

327 *Id.* at 257.

328 *Vault Corp. v. Quaid Software Ltd.*, 655 F. Supp. 750 (E.D. La. 1987). Plaintiff's claim that defendant directly infringed its copyright by loading it into a computer was dismissed on the ground that section 117 of the Copyright Act exempted copies "created as an essential step in the utilization of the computer program." 847 F.2d at 261. Note, however, that section 117, as an exception to the exclusive rights of section 106, is limited to "the owner of a copy of a computer program." Copyright Act, 17 U.S.C. § 117 (1982). Defendant was not an "owner" but a mere licensee of plaintiff's program, having acquired it under a "shrink-wrap" licensing agreement. *Id.* at 257. The court equated, without discussion, "owners" with "rightful possessors," which was in the "CONTU Report" (NAT'L COMM'N OF COPYRIGHTED WORKS, FINAL REPORT (July 31, 1978)), upon which section 117 is based. The only change made by Congress from the CONTU language was to change "rightful possessors" to "owners." See 847 F.2d at 260 n.11. Second, the court of appeals reversed the district court's holding that plaintiff did have standing to bring a contributory infringement claim because it was plaintiff's customers whose programs were being copied from plaintiff's copy-protected disks. The court of appeals found standing in the fact that the plaintiff's PROLOCK program was also copied. *Id.* at 262-63. Third, defendant's "unlock" program was held not to be a "derivative work" under section 102(2) of the Copyright Act. *Id.* at 267-68. Finally, the court also held the Louisiana Software Licensee Enforcement Act (LA. REV. STAT. ANN. § 51:1961-66 (West 1987)) was preempted by the Copyright Act, in particular as being contrary to section 117. The Louisiana Act permitted prohibiting the making of any unauthorized copies and "reverse engineering" of programs. *Id.* at 268-70.

329 847 F.2d at 263-67.

but also for making copies of unprotected software and analyzing new software.³³⁰

In limiting the district court's finding, the court of appeals indicated that the fact that CopyWrite could be used to make copies of unprotected diskettes and as a diagnostic tool for new programs was irrelevant to the issue of whether RAMKEY had substantial noninfringing uses.³³¹ The analysis should be centered only on the technical capability of that portion of defendant's software used to "unlock" plaintiff's program. This important distinction was recognized in *Betamax*, where the Studios did not object to the sale of VCR's without tuners for receiving off-the-air programs. Justice Blackman observed: "In considering the noninfringing uses of the Betamax, therefore, those uses that would remain possible without Betamax's built-in tuner should not be taken into account."³³²

In any event, the difficulty of policing against the distribution of "unlock" devices is well illustrated by the widespread availability of "black boxes" for decoding "subscriber" broadcasts via cable and satellite, as well as copy protected recordings.³³³ The futility of copy protecting devices is graphically brought home by Judge Ferguson's simile during the trial of the *Betamax* case in response to the suggestion that a "jamming" device be placed in VCR's:

[A]s sure as you and I are sitting in this courtroom today, some bright young entrepreneur, unconnected with Sony, is going to come up with a device to unjam the jam . . . [a]nd then we have a device to jam the unjamming of the jam, and we all end up like jelly.³³⁴

Experience suggests that any tensions between copyright and technology must be resolved in the marketplace. The market successfully resolved the matter with respect to VCR's. Producers of motion pictures now derive more revenue from after-market sales and rental of copyrighted works on video cassette than from the prime-market of ticket

330 655 F. Supp. at 759.

331 847 F.2d at 264 n.16. A different question could arise if the "unlocking" and "copy making" capabilities of the program were inextricably intertwined, such that one could not be performed without the other. It was admitted here that CopyWrite would have no commercial value without RAMKEY. *Id.*

332 Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 492 n.42 (1984).

333 *E.g.*, a recent newspaper advertisement offered the described device for \$99.95: "The new Play-Right eliminates changes in brightness, color flashing, loss of color, picture rolls and jittering when playing back copy protected movies. Its digital processor removes all unwanted information, then generates a new 'clean' signal." Chicago Tribune, Dec. 14, 1987, § 4 (Business), at 4. The following disclaimer was given: "WARNING! This device is not to be used for the unauthorized duplication of copyrighted material, which is prohibited by federal copyright law." *Id.* See also Means, *Cable-TV Descrambling*, RADIO-ELECTRONICS, Feb. 1984, at 48, providing detailed information on building a Cable TV descrambler. See also advertisement, RADIO-ELECTRONICS, Apr. 1986, at 115, stating: "We stock the exact parts, PC board and AC adaptor for Radio Electronics 1984 article on building your own Cable TV Descrambler." Cf. Cooper, *Satellite TV*, RADIO-ELECTRONICS, June 1986, at 75, 76, who states that he has not yet seen any "gadget or circuit that will recover both scrambled video or scrambled audio" from satellite transmissions, but concludes the article with: "Who knows you may be the first to break the digital audio scrambling system that is the current rage in commercial telecommunications!" *Id.*

334 Quoted in Lardner I, *supra* note 4, at 62-63.

sales for first run performances.³³⁵ The market may also resolve the controversy over the DAT recorder. Recently, Tandy Corporation announced the development of a compact disc system that will record as well as play back CD's. The system, as announced, will produce CD-quality digital recordings and sell for under \$500 and will be on the market by late 1989 or early 1990.³³⁶ The new Tandy CD-recorder/playback system will pose a serious competitive threat to DAT recorders and a serious economic threat to the music recording industry.³³⁷ The latter is likely to pursue its lobbying efforts before Congress to restrain or impose royalties on such recording systems.

In terms of the dual goals of the patent/copyright clause of the Constitution, it seems somewhat anomalous to provide increased incentives to produce one form of intellectual property at the expense of another. One should expect that the free market system would enable both forms to coexist and provide adequate incentives for their efficient coexistence. It is unclear what impact the DAT Act would have on the incentive for creating or recording musical works.³³⁸ On the other hand, digital recorders, such as the DAT and Tandy systems, would provide significant technological advantages beyond their use for recording CD's.³³⁹ One important advantage is to provide composers and musicians with exceptionally high quality recording equipment for use in their homes or studios.³⁴⁰ If the DAT bill is enacted, however, the desirability of and, hence, the market for such recorders may significantly drop, thus eliminating economies of scale and keeping the price of digital recorders at a

335 See *The Sound of Money*, *supra* note 283, at 73.

336 See Duke & Blumenthal, *Tandy Planning a CD Recorder Priced at \$500*, Wall St. J., Apr. 22, 1988, § 2, at 36 [hereinafter *Tandy Planning*]; Duke & Blumenthal, *CD Recorder Poses Upset for Industry*, Wall St. J., Apr. 26, 1988, § 1, at 6. DAT recorders have been priced at \$1000 and up. *Tandy Planning*, *supra*, at col. 2. See also Winter, *Uncertainty, Potential Rival Keeping DAT Players Out of U.S.*, Chicago Tribune, May 29, 1988, § 7 (Business), at 4 (reporting industry uncertainty over the potential impact of the Tandy system on DAT recorders).

337 *Tandy Planning*, *supra* note 336.

338 As stated by officials of the Office of Technology Assessment, U.S. Congress: "Setting aside the legal question of whether the copyright law does prohibit home recording, that home recording causes producers significant harm by displacing sales has so far not been demonstrated. There are no reliable estimates of the extent of lost revenues caused by home recording." *Senate Hearings*, *supra* note 289, at 99 (statement of Fred W. Weingarten and Linda Garcia, Office of Technology Assessment). Cf. *House Hearings*, *supra* note 289, at 13 (statement of Donald J. Quigg, Assistant Secretary and Commissioner of Patents and Trademarks, Department of Commerce): "The Administration is convinced that the widespread importation of machines that encourage the unauthorized reproduction of copyrighted sound recordings will result in lost sales, thus, impairing this industry's competitive posture and reducing the incentives to songwriters and producers provided by the copyright law."

339 Ferris lists these uses as:

- Demonstration tapes by bands that can't afford professional studios.
- Home music practice.
- Composition and performance, electronically or otherwise, involving over-dubbing.
- Use with personal computers and for other data storage — a 120 minute DAT tape holds almost 1 gigabyte of information.
- Recording video information — already, a prototype video camcorder has been shown, using DAT tape cassettes.

Senate Hearings, *supra* note 289, at 41 (statement of Charles D. Ferris, Counsel, Home Recording Rights Coalition) (emphasis in original).

340 See *id.* at 73-79 (statement of Alec Bernstein, Aesthetic Research Co.).

relatively high level.³⁴¹ In addition, in the case of DAT recorders, in a limited market there is little likelihood that a significant quantity of pre-recorded digital tape cassettes will be marketed.³⁴²

If every new development in audio, visual or copying technology must degrade the quality and the availability of such technology, then significant disincentives would be imposed on particular segments of technology, including financiers, developers, distributors and consumers of technology.³⁴³ On the other hand, the dual constitutional goals cannot be achieved by significantly diminishing the incentives for the creation of copyrightable works by permitting unrestricted copying. Nor would these goals be advanced by imposing an unduly narrow standard of contributory infringement that would redound to the benefit of the producers of copy technology, whose sole significant purpose was to enable users to record copyrighted works.

It is suggested that the proper balance between the interests of copyright and copy technology owners may be provided by the technical capability standard for contributory infringement. Under this standard, the sale of copy technology that has only the technical capability to infringe and no significant noninfringing capability would constitute contributory infringement. With this standard, it is unnecessary to impose the knowledge requirement of patent law that the seller of the nonstaple have actual knowledge of the particular patent to be infringed with the nonstaple.

There are a number of reasons for not imposing an actual knowledge standard in copyright law. First, it would be virtually impossible for an owner of a copyright fixed in a particular medium to prove that a seller of copy technology would know that a purchaser of its technology would use it to record that specific copyrighted work. Second, while a patent owner can easily place the seller of a nonstaple on notice that the sale of such a nonstaple infringes its patent, a copyright owner can, at best, give general notice that the copy technology can be used to infringe its particular copyrights. Third, the technical capability standard is self-limiting and requires only a constructive knowledge requirement of the producers of technology that has no purpose but to permit infringement of copyrights in a particular medium. This would not seem to diminish the incentive for the invention of copying technology having other significant technical capabilities beyond copyright infringement.

341 When introduced in 1976, a Betamax deck sold for \$1300. See Lardner I, *supra* note 4, at 45. Today VCR's may be purchased for under \$200. When the first CD players were introduced by Sony in 1983, they sold for \$900. See *Compact-Disc Players*, *supra* note 280, at 324. Today CD players may be purchased for under \$100.

342 One of the arguments raised by the music industry lobby was that because of the unavailability of prerecorded digital tapes and the equipment for high speed production of such tapes, purchasers of DAT recorders would primarily use them to copy CD's. See *Senate Hearings*, *supra* note 289, at 16-19 (statement of Jason S. Berman, President, Recording Industry Association of America). However, it was announced in September 1987, that Sony had introduced a high speed duplication system for the reproduction of pre-recorded digital cassettes. Kristof, *Slow Start for New Japanese Recorder*, N.Y. Times, Sept. 28, 1987, at D9, col. 4.

343 The retail value of VCR's shipped in 1984 amounted to \$3.4 billion; portable tape equipment alone amounted to another \$1.3 billion. BUREAU OF THE CENSUS, U.S. DEP'T OF COMMERCE, STATISTICAL ABSTRACT OF THE UNITED STATES 215 (107th ed. 1987).

In sum, a technical capability standard based upon constructive knowledge of copyright infringement in a particular medium could implement the free competition policy underlying this standard in patent law preventing the extension of the monopoly to staples having noninfringing capabilities. In addition, the advantage of an objective determination of technical capability is that it replaces the vagaries of the "troublesome" doctrine of fair use without a significant unbalancing of incentives between copyright and technology.

One means of examining whether the dual constitutional goals are being promoted by this suggested standard is to focus on the market created by the technology and on whether an adequate incentive is provided for copyright owners to share in that market. For example, providing copyright owners a form of exclusive control of the market or partial control through fees or royalties is one such incentive.

The invention of the VCR created not only a new market in time-shifting for recording off-the-air copyrighted works, but also a market for the sale and rental of prerecorded video tapes.³⁴⁴ Similarly, the invention of the DAT recorder created a new market for prerecorded cassette tapes in the digital format.³⁴⁵ Copyright owners are the beneficiaries³⁴⁶ of these new markets by having new media for the distribution of their copyrighted works. Whether prerecorded digital cassette tapes will be able to compete effectively with CD's will depend upon the market. Any loss of sales of CD's resulting from DAT recorders being used to copy them may be made up by the sale of prerecorded DAT cassettes. It is unclear that there will be less incentive to create and market musical works by having only one medium, as compared to having two or more competing, or perhaps more aptly, complementary media.³⁴⁷ Any loss of revenue by the decline in the market for CD's may be compensated by the newly created market for prerecorded digital tapes, provided that DAT recorders and cassettes are available at competitive prices with CD players and CD's. The introduction of the Tandy CD-recorder may have a significant impact on the market for DAT recorders and digital tapes and may provide an increased market for CD's. Such a solution provides dual incentives for creators both of technology and copyrights who may each share in the newly created market.

On the other hand, if technology is created solely for infringing copyrights, the copyrights may themselves have created the incentive for that technology rather than any constitutional incentives for technology.

344 The sale and rental market is reported to provide greater revenue than the theatre market for motion pictures. See *The Sound of Money*, *supra* note 283, at 73.

345 With the introduction of high speed duplicating equipment, see *supra* note 342, it may be anticipated that a wide variety of digital cassette tapes will become available at competitive prices, at least with CD's if not with conventional audio tapes.

346 These beneficiaries would include not only the owners of the copyrights on the "motion pictures" or "sound recordings" but also the owners of the underlying works (screen plays, musical compositions) and the performing artists, directly or indirectly.

347 Audiophiles are well known to purchase sound recordings in more than one media, e.g., vinyl long play records, audio cassette tapes, and CD's.

The incentive would be to exploit the market for copyright infringement rather than to promote the "useful Arts."³⁴⁸

In sum, the technical capability standard for contributory infringement establishes a fair, workable, and tension-relieving balance between the sometimes competing interests of copyright and technology creators. Such a standard is more efficient than attempting to strike the balance between copyright and technology on the basis of the fair use doctrine and the vagaries of why consumers might use copy technology capable of noninfringing uses. Moreover, a technical capability standard avoids the anticompetitive consequences of legislating the debilitation of technology, which effectively prevents the new technology from competing against existing technology and media of fixation for copyrighted works.

If public policy should demand the creation of further incentives to insure the continued production of audio, visual or other copyrighted works, incentives other than the degradation of technology could be considered. These may include prizes, awards, commissions, subsidies of various forms (e.g., tax incentives), which could be incentives awarded directly to "authors" who actually create the copyrightable works.³⁴⁹

IV. Conclusion

If the tort of contributory infringement depends upon the quantum of direct infringement as determined by the admittedly "troublesome" doctrine of fair use, copying technology creators are placed under a duty to protect copyright owners against infringement by consumers of the copying technology. The result is an inverse relationship between fair use and contributory infringement: broader fair use narrows the scope of contributory infringement, and, conversely, narrower fair use broadens contributory infringement. The majority in *Betamax* waffled, perhaps

348 See, e.g., *Vault Corp. v. Quaid Software Ltd.*, 655 F. Supp. 750, 755 (E.D. La. 1987), discussed *supra* text accompanying notes 326-31. In *Vault Corp.*, a "segment" of defendant's "Copyright" program called "RAMKEY" had no other purpose but to unlock plaintiff's "PROLOC" program so that the protected diskette containing copyrighted programs could be copied. The incentive to produce the "RAMKEY" program defeated the copy protection provided by plaintiff's copyrighted "PROLOC" program. It is not clear whether the device described in the advertisement quoted *supra* note 333 has a technical capability beyond defeating the copy protection on copyrighted films. If a *Betamax* fair use analysis is used, attention would presumably be focused on the quantity of consumer use of this device for time-shifting versus librarying.

349 The "works made for hire" doctrine of the Copyright Act of 1976 suggests a "labor" theory of remuneration for the creation of copyrightable works:

In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

17 U.S.C. § 201(b) (1982). One may question whether the framers of U.S. CONST. art. 1, § 8, cl. 8 had this definition of "author" in mind. In socialist countries, where the means of producing copyrightable works resides essentially in the State, a "labor" theory appears to be followed. See Loeber, "Socialist" Features of Soviet Copyright Law, 23 COLUM. J. TRANSNAT'L L., 297, 305 (1985) (Royalties are paid to an "author" (free lance) in the form of "deferred wages to be received over the period of protection." (quoting J. HAZARD, *MANAGING CHANGE IN THE USSR* 116 (1953))). The "royalty" must fall within minimum and maximum rates set by governmental organ decrees and which may vary according to the subject matter of the work. See Loeber, *supra*, at 307-08.

to hold a majority,³⁵⁰ on whether it was adopting a technical capability standard by applying a user capability standard and entering into a fair use analysis. The superficiality of the majority's fair use analysis is attributable to its unarticulated premise that it had adopted a technical capability standard and was merely using fair use to demonstrate that even the dissent's user capability standard would not result in a finding of contributory infringement. Yet, one would expect such a premise to be clearly made. In addressing this shortcoming of the majority's approach, Justice Blackmun stated: "The Court today is far less positive."³⁵¹ There is no equivocation by the four dissenting Justices, who would adopt and apply the user capability standard and rely on fair use to determine the scope of contributory infringement. Focusing on user capability rather than technical capability raises the distinct possibility that, if the Studios had successfully convinced the district court that the primary purpose for copying off-the-air programs was unfair use, then contributory infringement would have been sustained and would be reviewable only on a "clearly erroneous" standard.³⁵²

Even though the technology developers prevailed in *Betamax*, the uncertainties created by the treatment of contributory infringement furthers the tensions between such developers and copyright owners who are subject to such technology. In addition, the "quasi-property" solutions suggested by Justice Blackmun as alternative remedies to an injunction for contributory infringement, such as degrading the technology to prevent the copying and the imposition of royalties or fees, have inspired legislative efforts further exacerbating the tensions. The threat of contributory infringement suits and legislation has been successful so far in delaying the introduction of DAT recorders into the United States.³⁵³

Any solution that involves debilitating, technically or economically, one form of intellectual property for the benefit of another may well be incompatible with the constitutional mandate for Congress to promote both "Science" [in the form of copyrightable works] and the "useful Arts" [in the form of patentable technology]. These two goals may be advanced by the "staple article of commerce" doctrine, provided that such determination is made on the basis of its technical capability, rather than why it is so used. In the absence of a finding that a product has no

350 The difficulty of forming a majority may be evidenced by the fact the case was first argued on January 18, 1983, and then set down for reargument: "[S]ince we had not completed our study of the case last Term." *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 421 (1984). Also as reported by Lardner: "Supreme Court experts were quick to note that Blackmun's unusually long dissent opened with an elaborate recitation of the facts of the case, and 'bore all the earmarks of having been drafted originally as a majority opinion,' as Jim Mann put it in the *Los Angeles Times*." Lardner II, *supra* note 4, at 74.

351 *Betamax*, 464 U.S. at 490. Immediately preceding this sentence, Justice Blackmun stated that the district court had accepted Sony's argument and held that the "seller of a product used to infringe is absolved from liability whenever the product can be put to any substantial noninfringing use." *Id.* This is the technical capability standard as used herein.

352 See *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844 (1982), where the Court applied the "clearly erroneous" standard itself with respect to the contributory infringement issue under § 32(1)(a) of the Lanham Act, 15 U.S.C. § 1114, when the Court of Appeals failed to do so, and remanded the § 43(a) issue for review on that standard. 456 U.S. at 856-57.

353 See Winter, *supra* note 318, at 1, col. 3-5, and Winter, *supra* note 336, at 4, col. 1-5, reporting the caution of the Japanese manufacturers in importing DAT recorders into the United States.

use but to infringe intellectual property, the market should decide on the basis of free competition which form of technology and the media for fixing copyrightable works will ultimately prevail. If further incentives are needed to promote the creation of copyrightable works, alternative incentives should be considered that do not have the propensity for creating tensions with technology.³⁵⁴

In retrospect, given the unprecedented scope of protection sought by the copyright owners in *Betamax*, the wisdom of Justice Holmes, as shared by Justice Cardozo, might be recalled to advantage: "The law does not spread its protection so far."³⁵⁵ Caution may also be the order of the day that one of the sequelae of *Betamax* is not to extend protection so far that "Science" and the "useful Arts" are set in opposition to one another.

³⁵⁴ These incentives need not be limited to federal ones but could also include state incentives, within the limits of federal preemption. See, e.g., *Goldstein v. California*, 412 U.S. 546 (1973), which held that a California statute protecting against the piracy of phonograph records was not preempted by the Copyright Act of 1909, which did not protect "sound recordings" prior to the 1971 amendment. The Copyright Act of 1976, as amended, continues the protection of "sound recordings." 17 U.S.C. § 102(a)(7) (1982). Section 301(a) now preempts from state protection "all legal and equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified in section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103." 17 U.S.C. § 301(a)(1982). Nonetheless, this would not preclude a state or other governmental unit from providing incentives in the form of money grants or otherwise for the creation of works that might qualify for copyright protection.

³⁵⁵ *Robins Dry Dock & Repair Co.*, 275 U.S. 303, 309 (1927) (Holmes, J.); *H.R. Mock Co. v. Renseelaer Water Co.*, 247 N.Y. 160, 165, 159 N.E. 896, 897 (1928) (Cardozo, J., quoting *Robins*).