

REMEDIES OF THE INFRINGER: THE USE BY THE INFRINGER OF IMPLIED AND COMMON LAW FEDERAL RIGHTS, STATE LAW CLAIMS, AND CONTRACT TO SHIFT LIABILITY FOR INFRINGEMENT OF PATENTS, COPYRIGHTS, AND TRADEMARKS

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I. INTRODUCTION: THE NEW AGE OF INTELLECTUAL PROPERTY
RIGHTS HAS INCREASED THE SCOPE AND STRENGTH OF INTELLECTUAL
PROPERTY PROTECTION

A. Introduction

The 1980s saw the law turn full force in favor of federal intellectual property rights, particularly patent rights, which had been long-ignored by Congress and disfavored by the courts. In a remarkable about-face, the scope of subject matter protectable under patent law dramatically expanded in the 1980s, and the available defenses were narrowed. As a result, the number of applications for patents and trademarks are at all-time highs, and damage awards are at record levels.

Not surprisingly, this has led accused infringers to seek a reduction in their own liability by spreading it, in whole or in part, to third parties through the use of actions for contribution and indemnity against those parties who caused the infringement. A manufacturer assembling components in accordance with its supplier's instructions was sued because the assembled product infringed a patent.¹ A designer was sued for copyright infringement because it made dresses out of an infringing fabric designed by an upstream seller.² An owner of a strip shopping center was sued for trademark infringement because his tenant sold "knock-offs" of trade-

1. See, e.g., *Chemtron, Inc. v. Aqua Products, Inc.*, 830 F. Supp. 314 (E.D. Va. 1993) (involving the infringement of a patented detergent dispenser for dishwashers).

2. See *Singer v. Citibank, N.A.*, No. 91 Civ. 4453 (JFK), 1993 WL 177801, at *1 (S.D.N.Y. May 21, 1993).

marked goods.³ The operator of a computer bulletin board was sued over its users' infringing activities.⁴

With increasing frequency, these downstream parties assert that the earlier activities of another party caused or contributed to the infringement, and that the other party should be responsible, in whole or in part, for any liability owed to the owner of the patent, trademark, or copyright. However, most of these downstream parties are then surprised to learn that they may have almost no recourse against the upstream party, even one who knowingly led to the downstream parties' later "innocent" infringement.⁵

The owner of a federal intellectual property right has claims against parties who contribute to or promote infringement, by express statutory right of action in the case of patents, and by implied federal claims in the case of trademarks and copyrights.⁶ What is rapidly being litigated is whether an *infringer* has any cause of action, federal or state, against a party who causes or contributes to that infringement.

As used in this article, "secondary infringement" refers to acts that contribute to, or induce direct infringement of a federal intellectual property right by another. Secondary infringement can itself be a direct and complete infringement: a party who sells an infringing product to a downstream party is a secondary infringer.⁷ Because potential infringement

3. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1494 (E.D. Cal. 1994), *rev'd*, 76 F.3d 259 (9th Cir. 1996) (discussing a situation where a trademark owner brought copyright and trademark causes of action against a swap meet owner whose tenants sold bootleg Latin music tapes).

4. See generally M. David Dobbins, *Computer Bulletin Board Operator Liability for Users' Infringing Acts*, 94 MICH. L. REV. 217 (1995) (discussing intellectual property case law regarding computer bulletin boards).

5. The only well-recognized relief an accused infringer is entitled to obtain from a co-infringer comes from the "one recovery rule." See *Construction Tech., Inc. v. Lockformer Co.*, 781 F. Supp. 195, 201-02 (S.D.N.Y. 1990); see also *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 831 F. Supp. 1354, 1392-94 (N.D. Ill. 1993) (employing an economic analysis of the one recovery rule); Note, *The Enforcement of Rights Against Patent Infringers*, 72 HARV. L. REV. 328, 349-51 (1958) (explaining the practical difficulties in applying the one recovery rule). Under this doctrine, an infringer may reduce the plaintiff's right to recover by the amount of any settling defendant's payment to the plaintiff. See *Construction Tech.*, 781 F. Supp. at 201. The doctrine is of no benefit where the patentee has not sued the other party, a matter wholly beyond a named defendant's control, nor does it allow more than a dollar-for-dollar reduction, even where one defendant had been the primary wrongdoer or had caused the other party's infringement entirely. See *id.* at 201-02.

6. The Patent Act of 1952 first codified contributory and induced patent infringement. See Act of July 19, 1952, Pub. L. No. 82-593, 66 Stat. 792, 811 (1952). Similarly, in 1982 the Supreme Court first held that the Lanham Act authorized a right of action for secondary trademark infringement in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853 (1982). Secondary copyright infringement under the Copyright Act of 1976 was recognized by the Supreme Court later in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 434-35 (1984).

7. See Leslie J. Hagin, Summary, *A Comparative Analysis of Copyright Laws Applied to Fashion Works: Renewing the Proposal for Folding Fashion Works into the United States Copyright Regime*, 26 TEX. INT'L. L.J. 341, 383 (1991) ("If one knows, or has reason to believe, that he is selling an infringing article, he is guilty of 'secondary infringement.'").

liability has increased over the last decade, the incentive for parties to use creative legal means to shift their liability has increased dramatically.

B. Parties Are Seeking Contribution Due to the Increase in Liability for Infringement of Intellectual Property Rights

The potential liability for infringing intellectual property rights is at an all-time high. The subject matter protectable under the federal intellectual property statutes has been broadened by the judiciary and by Congress. Both entities have increased the scope of the intellectual property laws, and the courts are protecting those rights with greater vigor. The number of patent and trademark applications are at record levels, as are the amounts of damages being awarded for infringement.

Specifically, in the early 1980s, several important judicial decisions broadened the subject matter protectable under federal law, particularly under the patent laws.⁸ Similarly, Congress has afforded broader protection to intellectual property. For example, in 1984 Congress broadened the patent laws by making it unlawful to ship the unassembled parts of a patented invention to a foreign country for final assembly.⁹ The patent laws were again expanded in 1988 to protect process patent rights by making the sale or use of a product made by a patented process an infringement of the process patent.¹⁰ Prior to 1988, a process patent holder only had the right to exclude others from practicing the process in the United States.¹¹

8. There are many clear examples of the trend toward broader protection. In 1980, the United States Supreme Court held that microorganisms could be patented. *Diamond v. Chakrabarty*, 447 U.S. 303, 318 (1980). Trademark law was expanded by court decisions extending trademark protection to colors. See *Qualitex Co. v. Jacobson Products Co.*, 115 S. Ct. 1300, 1302 (1995); *In re Owens-Corning Fiberglass Corp.*, 774 F.2d 1116, 1122 (Fed. Cir. 1985). Finally, during the late 1970s and early 1980s, courts began to clarify and expand the availability of copyright protection for computer programs. See, e.g., *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1249 (3d Cir. 1983) (holding that "a computer program . . . is a 'literary work' and is protected" under the Copyright Act).

9. See 35 U.S.C. § 271(f) (1994).

10. See Omnibus Trade and Competitiveness Act of 1988, § 9003, Pub. L. No. 100-418, 102 Stat. 1107, 1563-64 (1988).

11. Added in 1988 and amended in 1994, section 271(g) provides:

Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent.

35 U.S.C. § 271(g) (1994 & Supp. I 1995); see also H.R. CONF. REP. 100-576 (1988), reprinted in 1988 U.S.C.C.A.N. 1547, 2118 (providing the legislative history behind the 1988 amendments to the Patent Act). See generally Leora Ben-Ami & Donald L. Rhoads, *Court Clarifies Process Patents Act*, NAT'L L. J., Oct. 28, 1996, at C4. However, one loophole persists. See *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed. Cir. 1992) (declaring that no liability exists for selling in the United States products that were intended to be used to practice a patented method in a

Copyright laws were also expanded in the 1980s. For example, in 1980, Congress made it clear that copyright protection extends to computer programs.¹² Just four years later, Congress expanded the copyright laws again by enacting the Semiconductor Chip Protection Act,¹³ which clearly made the copying of patterns on semiconductor chips unlawful.¹⁴

Not only has the subject matter protected by federal law broadened, defenses and counterclaims to infringement actions have narrowed. For example, in 1988, Congress enacted the Patent Misuse Reform Act of 1988, which narrowed the common law defense of patent misuse.¹⁵ Likewise, the Supreme Court recently handed down *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, which made certain antitrust counterclaims—a common counterattack in infringement suits—more difficult to sustain.¹⁶ Also during the 1980s, the Federal Circuit raised the level of proof necessary to establish the defense of unenforceability due to inequitable conduct in obtaining a patent to require

foreign country, where no product made by the process was shipped back to the United States). In addition to these congressional actions, the Patent Office announced in 1987 that all non-naturally occurring non-human multicellular organisms were patentable. PAT. OFF. GAZETTE 1077 (Apr. 21, 1987). See generally Jean B. Fordis & Rebecca M. McNeill, *PTO Courts Broaden Rights of Biotech Inventors*, NAT'L L. J., Oct. 28, 1996, at C2.

12. See Act of Dec. 12, 1980, Pub. L. No. 96-517, § 10, 94 Stat. 3015, 3028; *Apple Computer*, 714 F.2d at 1247-48.

13. See Act of Nov. 8, 1984, Pub. L. No. 98-620, § 302, 98 Stat. 3335, 3347.

14. See *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1562 (Fed. Cir. 1992).

15. In 1988, Congress amended section 271(d), which 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; (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.

Act of Nov. 19, 1988, Pub. L. No. 100-703, §§ 201-202, 102 Stat. 4674, 4676. See generally Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 192-200 (1988-89) (analyzing the impact of the 1988 amendments on the misuse of patent defenses and antitrust counterclaims). See generally Norman E. Rosen, *Intellectual Property and the Antitrust Pendulum: Recent Developments at the Interface Between the Antitrust and Intellectual Property Laws*, 62 ANTITRUST L.J. 669 (1994) (providing a broader view of patent-antitrust issues with an analysis of the Department of Justice Antitrust Division's enforcement policy on intellectual property issues).

16. 508 U.S. 49, 51 (1993). See generally Charles C. Hsieh, *Professional Real Estate: The Line Between Patent and Antitrust*, 7 HARV. J.L. & TECH. 173 (1993) (asserting that *Professional Real Estate* strengthened the patent market power by applying an objective standard to a patent owner's intent in bringing an infringement claim).

proof by clear and convincing evidence that the patentee had acted with the intent to deceive the Patent Office.¹⁷

In addition, the Federal Circuit is now protecting patents with greater vigor than have the courts at any previous time in the history of the United States. From 1921 to 1973, appellate courts held invalid over half of the patents before them, and the Supreme Court held invalid 82 percent of the patents which came before it.¹⁸ In contrast, since its creation in 1982, the Federal Circuit is likely to affirm a finding of validity and reverse a finding of invalidity.¹⁹ Thus, the likelihood of a patent ultimately being held valid has increased substantially since the early 1980s, thereby increasing the risk of infringement because an invalid patent cannot be infringed.

There has also been a more subjective, but no less important, change in the judicial temperament toward patents. For example, while patents were once commonly characterized as "monopolies,"²⁰ the Federal Circuit has repeatedly emphasized that patents should not be referred to as monopolies, particularly in jury trials.²¹

Damages for infringement are at an all-time high. Even excluding the two largest awards (totaling \$1.1 billion), the damages awarded for patent infringement in 1991 exceeded the total amount of damages awarded for the preceding four years.²² The average award has remained at well over \$2

17. See *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1986) (en banc). On the other hand, a new defense of inequitable conduct in obtaining copyrights is emerging, thus limiting the effectiveness of copyrights. See *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1538 (S.D.N.Y. 1991) (noting a split among federal courts on the existence of the "defense of copyright misuse through violations of antitrust laws").

18. See L. Baum, *The Federal Courts and Patent Validity: An Analysis of the Record*, 56 J. PAT. OFF. SOC'Y 758, 760, 776-77 (1974).

19. See R. B. Codley, *What the Federal Circuit Has Done and How Often: Statistical Study of the CAFC Patent Decisions—1982 to 1988*, 71 J. PAT. & TRADEMARK OFF. SOC'Y 385, 390-91 (1989).

20. See, e.g., ARTHUR M. SMITH, PATENT LAW 7-17 (1954) (describing patents as "monopolies").

21. See, e.g., *Jamesbury Corp. v. Litton Indus. Prods., Inc.*, 756 F.2d 1556, 1559 (Fed. Cir. 1985) (disapproving of appellant's characterization of the patentee as a "monopolist"); *Schenck v. Norton Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983) (emphasizing that "[n]o where under the [Patent Act] is a patent described as a monopoly"). Nonetheless, some courts persist in calling patents "monopolies." See, e.g., *Aetna Cas. & Sur. Co. v. Superior Court*, 23 Cal. Rptr. 2d 442, 446 (Cal. Ct. App. 1993).

22. A recent study tabulated the total patent damages by year from reported cases as follows:

1982:	\$ 2,202,325
1983:	\$ 98,078,826
1984:	\$ 25,033,217
1985:	\$ 66,978,542
1986:	\$ 51,917,480
1987:	\$ 56,621,640
1988:	\$ 56,833,537
1989:	\$ 66,996,420
1990:	\$ 56,041,740
1991:	\$252,250,783

million.²³ Likewise, damages awards in recent trademark or copyright suits often exceed \$1 million.²⁴ Congress also strengthened the trademark laws in 1984, by authorizing treble damages for certain kinds of trademark infringement.²⁵

The increased scope of intellectual property rights and the greater judicial protection afforded to them probably explains the exponential increase in the number of patent and trademark applications. The number of applications for plant patents increased from 147 in 1981 to 414 in 1991.²⁶ Patent applications increased dramatically during the 1980s and

1992:	\$ 55,385,253
1993:	\$ 32,945,290
1994:	\$133,314,640
1995:	\$168,526,600

ARTHUR ANDERSEN, L.L.P., INTELLECTUAL PROPERTY DAMAGES: AN ANALYSIS OF PATENT DAMAGE AWARDS 1982-JUNE 1996 (1996) (on file with the author); JAMES J. NAWROCKI, ARTHUR ANDERSEN & CO. INTELLECTUAL PROPERTY DAMAGES: AN ANALYSIS OF PATENT DAMAGE AWARDS 1982-1992 (1992). This excludes, for 1986, 1991 and 1994, the three largest reported awards, *Smith Int'l, Inc. v. Hughes Tool Co.*, 229 U.S.P.Q. 81, 103 (C.D. Cal. 1986), *vacated*, 839 F.2d 663 (Fed. Cir. 1988), with an award of \$204,810,349, *Polaroid Corp. v. Eastman Kodak Co.*, 17 U.S.P.Q.2d 1711, 1714 (D. Mass. 1991), with an award of \$873,158,971, and *Alpex Computer Corp. v. Nintendo Co.*, 34 U.S.P.Q.2d 1167 (S.D.N.Y. 1994), with an award of \$208,268,418.

23. The average award in reported cases by year was:

1982:	\$ 367,054
1983:	\$ 9,807,883
1984:	\$ 2,781,469
1985:	\$ 5,152,195
1986:	\$ 3,461,165
1987:	\$ 5,147,422
1988:	\$ 4,736,128
1989:	\$ 2,912,888
1990:	\$ 2,802,087
1991:	\$12,612,539
1992:	\$ 5,035,023
1993:	\$ 2,353,235
1994:	\$ 8,332,165
1995:	\$ 7,124,194

ARTHUR ANDERSEN, *supra* note 22; NAWROCKI, *supra* note 22. This data excludes the *Smith, Kodak* and *Alpex* awards. See *supra* note 22.

24. See, e.g., *MCA Television Ltd. v. Feltner*, 89 F.3d 766, 771 (11th Cir. 1996), *cert. denied*, 117 S. Ct. 1248 (1997) (affirming \$9 million judgment for copyright infringement); *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, No. 84-C8075, 1993 WL 204092, at *7 (N.D. Ill. June 8, 1993) (mem.) (doubling \$10 million award of actual damages for trademark infringement), *remanded on other grounds*, 34 F.3d 1340 (7th Cir. 1994) (remanding to district court to state a basis for enhancement).

25. See 15 U.S.C. § 1117(b) (1994); *Louis Vuitton, S.A. v. Lee*, 875 F.2d 584, 588-89 (7th Cir. 1989).

26. See U.S. PAT. & TRADEMARK OFF., 1997 ANN. REP. 55 (1993); U.S. PAT. & TRADEMARK OFF., 1992 ANN. REP. 43 (1983).

are now at record levels.²⁷ Likewise, trademark applications nearly doubled between 1986 and 1992.²⁸

The ever-increasing scope of intellectual property rights, the increased protection the courts give those rights, and the increasing amounts of damages underscore the need for parties to seek a reduction in the scope of their own direct infringement liability, by looking for contribution or indemnity from those who contributed to or induced the infringement—by contract when practical, and by third-party action or cross-claim when necessary in litigation.

The anecdotal evidence suggests that infringers are seeking contribution and indemnity. Although no court addressed the issue of whether there was an implied federal right of contribution under the patent laws until 1986,²⁹ in the last three years several district courts have addressed these and similar claims.³⁰ Similarly, litigation involving state law claims for contribution or indemnity by infringers against parties who caused their infringement have increased significantly in the last few years.³¹ The increased litigation suggests that the greater number of federal intellectual property rights along with the resulting increase in damages have caused accused infringers to attempt to spread their own liability for infringement to others.

The primary question addressed by this article is: How and to what extent can infringers spread their liability? This article answers that question by analyzing whether federal or state law permits parties to shift, by cause of action or contract, liability for their own infringement. As necessary background to understanding these issues, the article first describes the present causes of action that exist in favor of the owner of the intellectual property right against those who secondarily infringe the patent, trademark, or copyright. Then the article analyzes whether an *infringer* may sue a party for causing or contributing to its own infringement, either by using express, implied, or common law *federal* rights or claims under *state* statutory and common law for indemnity or contribution. Third, the article analyzes whether federal law preempts any state law claims. Finally, the article describes means by and extent to which parties may use an agreement to shift their liability for infringement. Although this article primarily analyzes these issues in the context of the patent laws, the dominant federal intellectual property right, it also analyzes the trademark and copyright laws.

27. See U.S. PAT. & TRADEMARK OFF., 1992 ANN. REP. 57 (1993) (indicating that the number of patent applications increased by 50% between 1982 and 1992).

28. See *id.* at 69.

29. See *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 719 (N.D. Tex. 1986).

30. See *infra* notes 160-72 and accompanying text.

31. See *infra* notes 254-83 and accompanying text.

II. THE FEDERAL CAUSES OF ACTION IN FAVOR OF THE OWNER OF A FEDERAL INTELLECTUAL PROPERTY RIGHT

The liability owed directly to the intellectual property owner is significant in the context of an infringer's liability, for at least two reasons. First, the scope of direct liability to the actual owner of the intellectual property right is the building block for understanding the issues surrounding claims in favor of infringers. Second, the scope of direct liability limits the ability of an infringer to sue those who caused the direct infringement. Put another way, no cause of action exists in favor of an intellectual property owner against parties who have not, themselves, violated any federal intellectual property law statute.³² Because the accused infringer can not have a right of action broader than the owner of the intellectual property right, the rights of the intellectual property holder circumscribe the potential remedies of the accused infringer. This basic principle also has a significant impact on the issue of whether any state law claims are preempted.

A. Patent Rights

With limited exceptions, only a person with an ownership interest in a patent may sue for its infringement.³³ The Patent Act authorizes three different claims in favor of a patent owner: (a) direct infringement; (b) inducing infringement; and (c) contributing to infringement.³⁴ Unlike the analogous trademark and copyright claims, these patent rights are expressly authorized by statute.³⁵

As to the first, direct infringement, section 271(a) provides that "whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the

32. Cf. *Central Bank v. First Interstate Bank*, 511 U.S. 164, 173 (1994) (stating that a private plaintiff cannot bring an SEC Rule 10b-5 claim "against a defendant for acts not prohibited by [Rule] 10(b)"); *Northwest Airlines, Inc. v. Transport Workers Union of America*, 451 U.S. 77, 88 n.20 (1981) (stating that implicit in the assumption that elements of contribution were established is that defendants were "at least partially responsible for Equal Pay Act and Title VII violations"). But see *Cover v. Hydramatic Parking Co.*, 83 F.3d 1390, 1394 (Fed. Cir.), cert. denied, 117 S. Ct. 183 (1996) (allowing state law contribution where state U.C.C. claim was not within scope of the Patent Act).

33. Section 281 of the Patent Act authorizes a "patentee" to sue for direct infringement. See 35 U.S.C. § 281 (1994). However, only one who has an interest in title to the patent is a "patentee." See 35 U.S.C. § 100(d) (1994). The narrow extensions to standing are discussed below. See *infra* notes 157-72 and accompanying text.

34. See 35 U.S.C. §§ 271(a)-(c) (1994).

35. See *id.* Prior to 1952, courts recognized both contributory and induced infringement as federal common law theories under limited circumstances. See *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1468-69 (Fed. Cir. 1990). See generally A. Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technological Tensions*, 64 NOTRE DAME L. REV. 47, 78-83 (1989) (describing the historical development of the doctrines).

patent."³⁶ Second, section 271(b) creates a cause of action in favor of a patentee against a party who "actively induces infringement of a patent."³⁷ To recover, the patentee must prove that the defendant actually intended to cause the infringement.³⁸ This could occur where the seller sells a component to the buyer, along with directions which, if followed by the buyer, would result in direct infringement, and the seller knew that infringement would result.³⁹

Third, section 271(c) creates a cause of action in favor of a patentee against a contributory infringer:

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 noninfringing use.⁴⁰

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."⁴¹ For example, in *Dawson Chemical Co. v. Rohm & Haas Co.*, the patentee held a patent on a process that involved the use of an unpatented chemical.⁴² The Court held that the patentee could enjoin the unauthorized sale of the chemical, even though it was not patented, because those sales contributed to infringement of the process patent.⁴³ Active inducement requires a greater showing—intent to induce infringement—than necessary to prove contributory infringement, which requires proof only that the defendant knew infringement would result.⁴⁴

Importantly, for reasons discussed below, there can be no inducement of or contribution to infringement unless there is a subsequent direct infringement.⁴⁵ An interesting example of this principle arose in *Met-Coil*

36. 35 U.S.C. § 271(a).

37. 35 U.S.C. § 271(b).

38. See *Hewlett-Packard Co.*, 909 F.2d at 1469 & n.5 (opining that proof of actual intent may be established through circumstantial evidence).

39. See *Oddi*, *supra* note 35, at 74 n.187 (collecting cases involving inducement through the sale of unassembled products with instructions which, if followed, would result in infringement).

40. 35 U.S.C. § 271(c).

41. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 188 (1980).

42. *Id.* at 181-82.

43. See *id.* at 223.

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

45. See *Everpure, Inc. v. Cuno, Inc.*, 875 F.2d 300, 302 (Fed. Cir. 1989). An infamous example of the principle that no contributory or induced infringement can occur absent a direct infringement occurred in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). In

*Systems Corp. v. Korners Unlimited, Inc.*⁴⁶ The defendant in *Met-Coil* sold products, which were specially adapted for use in a patented process, but no direct infringement occurred because the buyers of the products had an implied license to practice the patented process.⁴⁷ Absent direct infringement by the buyers, there was no liability on the defendant-seller's part for inducing or contributing to infringement, even though the products were specially adapted to infringe the process patent.⁴⁸

In summary, a patentee may sue those who directly infringe, those who contribute to another's direct infringement, and those who induce a direct infringement. In each case, the cause of action is created and expressly defined by the patent statutes, unlike trademark and copyright law.

B. Trademark Rights

The Lanham Act has three purposes:

- (1) to protect consumers from being misled as to the enterprise, or enterprises, from which the goods or services emanate or with which they are associated;
- (2) to prevent an impairment of the value of the enterprise which owns the trademark; and
- (3) to achieve these ends in a manner consistent with the objectives of free competition.⁴⁹

The Lanham Act expressly authorizes a right of action in favor of the registrant.⁵⁰ The principal statutory right of action is created by section 1114(1), which provides:

Deepsouth, the Supreme Court held that a seller who manufactured all of the parts of a patented machine, but shipped them as components to be assembled in foreign countries, was not liable for contributing to infringement because there was no direct infringement since the machine was put together in a foreign country. *See id.* at 526-29. Congress responded in 1984 by adding section 271(f) to the Patent Act to outlaw such practices. *See* Pub. L. No. 98-622, 98 Stat. 3383, 3383 (1984); *see also* H.R. 6286, 98th Cong., reprinted in 1984 U.S.C.C.A.N. 5827-28 (setting forth the legislative history and bill analysis).

46. 803 F.2d 684 (Fed. Cir. 1986).

47. *See id.* at 687.

48. *See id.* Similarly, the doctrine of "repair/reconstruction" limits direct infringement. *See* Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 342-46 (1961). Under that doctrine, a patentee sells a patented product with an implied license that the product may be repaired. *See id.* at 345. However, a "repair" that results in "reconstruction" creates a new product and thus constitutes infringement. *See id.* at 342. A party cannot induce or contribute to a non-infringing "repair," only an infringing "reconstruction." *See id.* at 341-42.

49. *Anti-Monopoly, Inc. v. General Mills Fun Group*, 611 F.2d 296, 301 (9th Cir. 1979) (quoting *HMH Publ'g Co. v. Brincat*, 504 F.2d 713, 716 (9th Cir. 1974)); *see* J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION §§ 2.10 - 2.13 (3d ed. 1992). "The Lanham Act was intended to make 'actionable the deceptive and misleading use of marks' and 'to protect persons engaged in . . . commerce against unfair competition.'" *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 767-68 (1992) (footnote omitted) (quoting 15 U.S.C. § 1127 (1988)).

50. *See* 15 U.S.C. § 1114(1) (1994).

Any person who shall, without the consent of the registrant . . . use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale . . . of any goods . . . on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant.⁵¹

The test for trademark infringement is whether the use of a particular trademark is likely to confuse the public as to the source of the product.⁵² However, proof of direct trademark infringement does not require actual "palming off" of goods, which typically occurs when a party sells inferior products that look like the trademarked product.⁵³ Instead, trademark infringement can occur under a variety of circumstances, such as when a seller fails to maintain quality control standards established by a trademark owner,⁵⁴ or where a distributor of trademarked products fails "to observe a restrictive condition on the type or class of customers with whom it may deal," so long as consumer confusion is also present.⁵⁵

The Lanham Act does not mention—let alone define or explicitly recognize—inducing or contributing to trademark infringement. Nonetheless, courts have held that implied claims in favor of trademark owners exist under the Lanham Act against those who contribute to or induce trademark infringement.⁵⁶

51. *Id.*

52. See *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61 n.8 (2d Cir. 1992) (citing 15 U.S.C. § 1114(1) (1988)); *American Footwear Corp. v. General Footwear Co.*, 609 F.2d 655, 664 (2d Cir. 1979).

53. See, e.g., *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982) (involving generic drug manufacturers who copied appearance of trademarked CYCLOSPASMOL capsules); *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530-31 (1924) (involving a drug manufacturer who suggested to retailists that they "pass off" his product as his competitor's product).

54. See, e.g., *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991) (holding that defendant infringed plaintiff's trademark by selling bulk oil according to its own quality control standards, not plaintiff's); *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 72 (2d Cir. 1987) (Cardamone, J., concurring) (holding that sale of "cabbage patch" dolls in United States infringed trademark where they had been sold with territorial restriction against sale in the United States); *El Greco Weather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986) (holding that defendant infringed plaintiff's trademark by selling package without certificate of inspection, an integral part of the plaintiff's quality control effort); *Adolph Coors Co. v. A. Genderson & Sons, Inc.*, 486 F. Supp. 131, 135-36 (D. Colo. 1980) (finding infringement where defendant failed to follow manufacturer's quality control standard).

55. *Polymer Tech. Corp.*, 975 F.2d at 63.

56. See *Inwood Labs.*, 456 U.S. at 853-54; *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992); *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989). Courts disagree on whether common law doctrines regarding vicarious liability should be applied under the Lanham Act. Compare *AT & T Co. v. Winback & Conserve Program*, 42 F.3d 1421, 1440 (3d Cir. 1994), *cert. denied*, 115 S. Ct. 1838 (applying common law agency theories), with *Oberlin v. Marlin Am. Corp.*, 596 F.2d 1322, 1326-27 (7th Cir. 1979) (rejecting the argument that the Lanham Act creates a federal common law of agency), and *Banff Ltd. v. Limited*,

The Supreme Court first recognized implied rights of action in favor of the trademark owner against secondary infringers in 1982, when it stated that "liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another."⁵⁷ In that case, *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, the Supreme Court concluded that liability for trademark infringement under the Lanham Act could be imposed upon a party who did not directly infringe a trademark, but who "intentionally induces another to infringe a trademark, or . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement."⁵⁸

The facts of *Inwood Laboratories* reveal why the Court found the need to recognize secondary trademark infringement as an implied cause of action. The *Inwood Laboratories* plaintiff held a trademark on a drug called CYCLOSPASMOL.⁵⁹ The plaintiff put its drug in capsules having specific colors and designs, as well as its trade name.⁶⁰ After the plaintiff's patent expired, competing drug manufacturers made a generic substitute, which they put in the same colored capsules.⁶¹ The plaintiff claimed that these generic drug manufacturers induced pharmacists to use the generic capsules to fill prescriptions while labeling the prescription as CYCLOSPASMOL.⁶² The Court announced the rule for inducing trademark infringement:

[I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.⁶³

Subsequent courts have applied *Inwood Laboratories* to find induced trademark infringement under a wide variety of fact patterns, developing in that process two distinct theories of secondary trademark infringement: (1) contributory or inducing trademark infringement and (2) vicarious trademark infringement.⁶⁴ The reach and meaning of either cause of

Inc., 869 F. Supp. 1103, 1106 (S.D.N.Y. 1994) (stating that the Lanham Act alone defines trademark liability).

57. *Inwood Labs.*, 456 U.S. at 853. The Supreme Court held earlier, before the 1946 enactment of the Lanham Act, that liability could be imposed on those who intentionally induce trademark infringement. See *Warner & Co.*, 265 U.S. at 530-31.

58. *Inwood Labs.*, 456 U.S. at 854.

59. See *id.* at 846.

60. See *id.*

61. See *id.* at 847.

62. See *id.* at 850.

63. *Id.* at 854.

64. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1497-99 (E.D. Cal. 1994)

action is not well-settled, and courts often use "vicarious liability" and "contributory liability" as if they were interchangeable.⁶⁵

1. Contributing to or Inducing Trademark Infringement

To prove contributory or induced trademark infringement, the trademark owner must show "(1) supply of a product, and (2) knowledge of direct infringement."⁶⁶ Inducing trademark infringement can take many forms. For example, in *Inwood Laboratories* the Court held that the defendant had induced trademark infringement where the defendant had sold pills, in capsule form, which were the same color as the trademarked brand and which contained the same drug in generic form, but did not have the plaintiff's trademark on them.⁶⁷ The direct trademark infringement occurred when pharmacists filled prescriptions that were written for the trademarked brand and sold the generic capsules with the plaintiff's trademark applied to the bottle.⁶⁸

Although *Inwood Laboratories* presented a straightforward set of facts, the scope of this judicially-created cause of action is unsettled. As a simple illustration of the uncertain scope of contributory trademark infringement, consider a swap meet owner who leases space to someone selling "knock-offs" of trademark goods. Can the swap meet owner be held liable to the trademark owner for the seller's direct trademark infringement?

The courts examining this fact pattern disagree on the issue of contributory liability. The Seventh Circuit concluded that the owner of a flea market could be held contributorily liable for the direct trademark infringement by a seller of counterfeit Hard Rock Cafe t-shirts if the owner knew or should have known of the violation.⁶⁹ The court reached this

(citing *Inwood Labs.*, 456 U.S. at 853-54); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992); *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989), *rev'd on other grounds*, 76 F.3d 259 (9th Cir. 1996).

65. See, e.g., *Mini Maid Serv. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1520-22 (11th Cir. 1992); *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946).

66. *Fonovisa, Inc.*, 847 F. Supp. at 1498; see also *Inwood Labs.*, 456 U.S. at 854 ("[I]f a manufacturer . . . 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 . . . is contributorily responsible for any harm done as a result of the deceit."); *David Berg & Co.*, 884 F.2d at 311 ("The determination of contributory infringement depends upon a defendant's intent and its knowledge of the wrongful activities of its distributors."); *Coca-Cola Co.*, 64 F. Supp. at 989 (holding that plaintiff must prove defendant knew or should have known direct infringement would result).

67. *Inwood Labs.*, 456 U.S. at 846-49, 854.

68. See *id.* at 854. Contributory infringement can also occur where, for example, a distributor takes trademark products, intended for wholesale use only, and repackages them for retail sale. See *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 64 (2d Cir. 1992).

69. See *Hard Rock Cafe Licensing Corp.*, 955 F.2d at 1148-49. The Seventh Circuit relied on RESTATEMENT (SECOND) OF TORTS, § 877(c) (1979), which states that a third person is liable for

result, despite noting that "it is not clear how the doctrine [of contributory infringement] applies to people who do not actually manufacture or distribute the good that is ultimately palmed off as made by someone else."⁷⁰

In contrast, a district court recently reached the opposite result and rejected the Seventh Circuit's reasoning as overly broad:

Moreover, the [Seventh Circuit's] reasoning hinged on a tenuous distinction. On the one hand, it held that swap meet owners who knew of, or were "willfully blind" to, counterfeit sales were contributorily liable. On the other hand, if they didn't know, they had no duty to "seek out and prevent violations" and act as "more dutiful guardians of Hard Rock's commercial interests." In a practical sense, a swap meet's duty to hire patrol and investigators to crack down on counterfeiters sprang from its mere knowledge that such things were going on. Rather than identify a duty which originates independently from trademark law, the court essentially reasoned that since the swap meet knew what was going on and might have done something to stop it, it should have. This Court refuses to follow this results-oriented course to impose liability on third parties who have never had a traditional role in enforcing the Lanham Act.⁷¹

The Ninth Circuit recently reversed the district court,⁷² in a decision that some commentators find troubling.⁷³

Courts continue to struggle with identifying the precise elements of contributory trademark infringement liability.⁷⁴ Although courts emphasize that no one party has an affirmative duty to prevent trademark infringement by another,⁷⁵ they also state that parties may avoid liability for contributory infringement by taking "effective measures to prevent" the other party's direct infringement.⁷⁶ Not only are the contours of this

another's tort if the person "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."

70. *Hard Rock Cafe*, 955 F.2d at 1148.

71. *Fonovisa, Inc.*, 847 F. Supp. at 1498. In addition, the court reasoned that the renting of space at the swap meet did not constitute the sale of a "product" in terms of *Inwood Labs*. See *id.*

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

73. See Mark A. Fligel & Ann K. O'Brien, *Fonovisa Revisits Issue of Vicarious Infringement*, NAT'L L.J., May 20, 1996, at C6.

74. See, e.g., *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946) (using various terms to describe conduct that would result in secondary infringement and attempting to distinguish affirmative duty to warn against acts that would infringe from merely knowing that infringement would result and doing nothing).

75. See *id.*

76. See *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984) (citing RUDOLF CALLMAN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 22.10 n.20 (Louis Altman ed., 4th ed. 1981)); see Fligel & O'Brien, *supra* note 73, at C6.

judge-made cause of action for contributory trademark infringement unclear, it is unsettled as to what standard of proof is necessary to prove induced trademark infringement.⁷⁷ Contributory trademark infringement is probably the narrowest of the three forms of secondary infringement.⁷⁸

2. Vicarious Trademark Infringement

Vicarious liability generally "requires a finding that the defendant and the infringer have an apparent or actual partnership, [and] have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product."⁷⁹ Even though "vicarious" liability implies liability without fault, courts tend to examine the intent and knowledge of the allegedly vicariously-liable party, emphasizing "the nature and extent of the communication between [the vicariously liable party] and [the direct infringer] regarding the infringing acts; specifically . . . whether or not the [vicariously liable party] explicitly or implicitly encouraged the trademark violations."⁸⁰

The scope of vicarious trademark infringement is currently unclear. For example, the Eleventh Circuit recently held that a party has no "duty to police a franchisee's appropriation of" trademarks owned by another.⁸¹ The Seventh Circuit, on the other hand, imposed liability on a swap meet owner for failing to prevent a vendor from selling knock-offs of trademarked t-shirts.⁸²

In summary, a trademark owner may sue those who directly infringe the mark, those who contribute to or induce a direct infringement, and those who are vicariously liable for a direct infringement. The Lanham Act expressly authorizes a cause of action for direct infringement,⁸³ claims for secondary infringement are judicial creations, which are, as of yet, uncertain in scope. As a general rule, secondary liability for trademark

77. See Oddi, *supra* note 35, at 75-76. Professor Oddi argues that the level of scienter required to prove inducement of trademark infringement is probably less than that required to prove inducement of patent infringement. See *id.* at 77.

78. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984) (rejecting, in the copyright context, *Inwood Labs'* "narrow standard for contributory trademark infringement"); *Fonovisa, Inc. v. Cherry Auction*, 847 F. Supp. 1492, 1498 (E.D. Cal. 1994) (stating that "secondary liability in trademark infringement is more narrowly drawn than [secondary liability] in copyright infringement"), *rev'd on other grounds*, 76 F.3d 259 (9th Cir. 1996).

79. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (citing *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989)).

80. *Mini Maid Serv. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1522 (11th Cir. 1992) (analyzing liability of franchisor for franchisee's direct infringement of trademark).

81. *Id.* at 1520.

82. See *Hard Rock Cafe*, 955 F.2d at 1150 (applying the doctrine of contributory infringement). But see *Fonovisa, Inc.*, 847 F. Supp. at 1498 (criticizing *Hard Rock Cafe's* rationale).

83. See 15 U.S.C. § 1114 (1994).

infringement is imposed under broader circumstances than secondary liability for patent infringement, but in more narrow circumstances than secondary liability for copyright infringement.⁸⁴

C. Copyright Rights

As with the trademark laws, the copyright statutes expressly authorize suits for direct infringement and only in favor of the copyright holder.⁸⁵ Specifically, the copyright laws authorize only the "legal or beneficial owner of an exclusive right under a copyright . . . to institute an action for any infringement"⁸⁶ The only express remedy runs in favor of the copyright owner, and only runs against direct infringers.⁸⁷ As with trademark law, but unlike patent law, copyright law does not expressly create any form of derivative, third-party liability.⁸⁸

Nonetheless, courts have held that implied claims run in favor of copyright holders against secondary infringers—those who do not themselves directly infringe the copyright, but whose conduct leads to another party's direct infringement.⁸⁹ The Supreme Court reasoned that the absence of "express [statutory language] does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity."⁹⁰ As with trademark law,

84. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984).

85. See 17 U.S.C. § 501 (1994).

86. *Id.* § 501(b); see also *id.* § 910(b)(1) (authorizing the owner or exclusive licensee of a work protected under the Semiconductor Chip Protection Act to institute a cause of action for infringement).

87. See *id.* § 501.

88. See *Sony Corp.*, 464 U.S. at 434-35.

89. See generally Dobbins, *supra* note 4, at 224-37 (discussing vicarious liability and contributory copyright infringement).

90. *Sony Corp.*, 464 U.S. at 435. Claims for secondary infringement predate the 1976 Copyright Act and do not appear to be different now than before that Act, even though the language of the 1976 Act was substantially amended. Prior to the 1976 amendment, several courts "developed theories of contributory and vicarious liability for acts of infringement committed by others." *ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 860-62, 865-66 (E.D. Cal. 1992). In 1976, Congress amended the copyright laws to provide that a party directly infringes a copyright if it "authorizes" another do any prohibited act. See 17 U.S.C. §§ 106, 501; *ITSI T.V. Prods., Inc.*, 785 F. Supp. at 860; 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A], at 12-68 to 12-69 (1996). Nonetheless, and "[d]espite the change in language in the 1976 Act, the courts have continued to find individuals liable for copyright infringement as contributory or vicarious infringers without limiting such third-party liability to those who have 'authorized' others to commit direct acts of infringement." *ITSI T.V. Prods., Inc.*, 785 F. Supp. at 860 (citing *Sony Corp.*, 464 U.S. at 437-38); see, e.g., *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845-46 (11th Cir. 1990) (finding contributory infringement of a computer program); *RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 781 (8th Cir. 1988) (finding vicarious liability in the infringement of cassette tapes by use of a special machine); see also *Singer v. Citibank N.A.*, No. 91 Civ. 4453 (JFK), 1993 WL 177801, at *5 (S.D.N.Y. May 21, 1993) (finding a right of vicarious liability in the infringement of a work of graphic art); *Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Serv.*, 746 F. Supp. 320, 330 (S.D.N.Y. 1990) (dismissing a third party complaint

two types of liability for secondary copyright infringement have been recognized by the courts: (1) contributory and (2) vicarious infringement.⁹¹

1. *Contributory Copyright Infringement*

To establish contributory infringement, the copyright holder must prove that "with knowledge of the infringing activity, [the defendant] induce[d], cause[d], or materially contribute[d] to the infringing conduct of another."⁹² "The standard of knowledge is objective: to know or have reason to know that the product in question is copyrighted and that defendants were violating the copyright laws."⁹³ The defendant "must make more than a 'mere quantitative contribution' to the primary infringement in order to be liable on a theory of contributory liability."⁹⁴

2. *Vicarious Copyright Infringement*

Vicarious liability for copyright infringement is, in essence, "grounded in the tort concept of respondeat superior."⁹⁵ To impose vicarious liability, the copyright holder must prove "(1) the defendant has the right and ability to supervise the infringing activity of another; and (2) the defendant has an obvious and direct financial interest in exploitation of the copyrighted materials."⁹⁶ Thus, vicarious copyright infringement can occur if the defendant has "the right and ability to supervise the infringing activity and also has a direct financial interest in such activities."⁹⁷

In the copyright context, the primary distinction between vicarious liability and contributory infringement is that " 'benefit and control are the

seeking contribution against a defendant corporation's president under 1976 Copyright Act for copyright infringement).

91. See *Demetriades v. Kaufmann*, 690 F. Supp. 289, 291-93 (S.D.N.Y. 1988).

92. *ITSI T.V. Prods., Inc.*, 785 F. Supp. at 861 (quoting *Gershwin Publ'g Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)); accord *Singer*, 1993 WL 177801, at *4.

93. *ITSI T.V. Prods., Inc.*, 785 F. Supp. at 861 (quoting *Cable/Home Communication*, 902 F.2d at 845-56).

94. *Id.* (citing *Gershwin Publ'g Corp.*, 443 F.2d at 1162).

95. *Id.*

96. *Id.* (citing *Gershwin Publ'g Corp.*, 443 F.2d at 1161-62).

97. *Gershwin Publ'g Corp.*, 443 F.2d at 1162; see *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n, Inc.*, 554 F.2d 1213, 1215 (1st Cir. 1977) (holding a racetrack owner liable for copyright infringement by company hired to supply music over public address system); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929) (holding a dance hall owner liable for copyright infringement by band hired to entertain customers); *F. E. L. Publications, Ltd. v. National Conf. of Catholic Bishops*, 466 F. Supp. 1034, 1040 (N.D. Ill. 1978) (finding that a religious music publisher failed to prove that a national organization of bishops wielded control or supervisory authority over infringing parishes).

sign posts of vicarious liability,' while 'knowledge and participation [are] the touchstones of contributory infringement.'⁹⁸ As with secondary trademark infringement, the boundaries of secondary copyright infringement are not well-defined. The courts, however, appear more reluctant to expand copyright protection without clear Congressional authorization.⁹⁹ There is a key distinction between vicarious copyright infringement and all other forms of secondary liability: "One need not have knowledge that the direct infringer is engaging in infringing conduct to be held vicariously liable."¹⁰⁰ In contrast, for secondary patent infringement liability to arise, the party who allegedly contributed to or induced the infringement must have intended the infringement to occur.¹⁰¹ Likewise, a party cannot be held liable for inducing or contributing to trademark or copyright infringement. Even for vicarious trademark infringement, the party must have had some knowledge or intent that infringement would occur.¹⁰² For these reasons, liability for secondary copyright infringement is broader than liability for secondary infringement of patents or trademarks.¹⁰³

In summary, the Copyright Act expressly authorizes claims in favor of the copyright owner, but only against direct infringers. Claims for secondary copyright infringement are judicial creations, like those arising under trademark law, but unlike those arising under patent law.

III. FEDERAL RIGHTS OF INDEMNIFICATION OR CONTRIBUTION IN FAVOR OF INFRINGERS UNDER THE PATENT, TRADEMARK, AND COPYRIGHT LAWS

A. Indemnification

Indemnification permits a tortfeasor to shift all of its liability to another party. Under the Restatement (Second) of Torts, a party is entitled to indemnification from another party where (a) the party is liable only vicariously for the conduct of the other party or (b) the party followed the

98. *Singer v. Citibank N.A.*, No. 90 Civ. 4453 (JFK), 1993 WL 177801, at *4 (S.D.N.Y. May 21, 1993) (quoting *Demetriades v. Kaufmann*, 690 F. Supp. 289, 293 (S.D.N.Y. 1988)).

99. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984); *Banff, Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1108 (S.D.N.Y. 1994).

100. *ITSI T.V. Prods., Inc.*, 785 F. Supp. at 861 (citing *Gershwin*, 443 F.2d at 1162).

101. See *supra* notes 41-44 and accompanying text.

102. See *supra* notes 66-84 and accompanying text.

103. In *Sony Corp.*, the Court reasoned that liability for indirect trademark infringement was narrower than liability for indirect copyright infringement. See *Sony Corp.*, 464 U.S. at 439 n.19. The court reasoned that copyrights were more like patents, and, thus, rejected applying trademark standards. See *id.* Indeed, the Court distinguished trademark law from copyright law and patent law, and referred to "the historic kinship between patent law and copyright law." *Id.* at 439.

directions of the other party.¹⁰⁴ However, a party who intentionally causes harm cannot be indemnified for resulting damage.¹⁰⁵

None of the three federal intellectual property statutes provide for any indemnity rights. Nor is there a federal statute that generally provides for indemnification, or a general body of federal common law that allows indemnity.¹⁰⁶

No court has yet found a right of indemnity under the federal intellectual property statutes. The issue has been raised and rejected, however, in both the patent and copyright context. The Southern District of New York, for example, rejected an accused infringer's argument that the two parties who had allegedly induced or contributed to the infringement were required to indemnify it under both a federal common law and implied right to indemnity, reasoning that Congress did not "give courts rule-making power to fashion remedies not provided for by [the patent] statute."¹⁰⁷ Similarly, in the copyright context, the District Court of Massachusetts noted in dicta that the third-party defendant, against whom an indemnity claim had been brought, had "argued persuasively that the federal Copyright Act should not be construed to include common law rights of . . . indemnity."¹⁰⁸

In light of the lack of widespread federal common law indemnity and the fact that courts regularly reject finding federal rights to indemnity under other federal statutes,¹⁰⁹ the recognition of an implied federal right to indemnity under any of the federal intellectual property statutes is unlikely.

B. Contribution

"At common law there was no right to contribution among joint tortfeasors."¹¹⁰ Nonetheless, to achieve fairness, most states allow some form of contribution among tortfeasors for liability arising under state tort law grounded in common law.¹¹¹ "Typically, a right to contribution is

104. See RESTATEMENT (SECOND) OF TORTS §§ 886B(2)(a)-(b) (1979).

105. See *Anderson v. Local Union No. 3, Int'l Bhd. of Elec. Workers*, 582 F. Supp. 627, 633 (S.D.N.Y. 1984).

106. The only comprehensive federal law of indemnification is in the area of admiralty law. See *Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 641-42 (1981).

107. *Jack Frost Labs. Inc. v. Physicians & Nurses Mfg. Corp.*, 35 U.S.P.Q.2d 1631, 1634 (S.D.N.Y. 1995).

108. *Polygram Int'l Pub., Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1334 (D. Mass. 1994).

109. See, e.g., *United States v. Cannon Eng'g Corp.*, 899 F.2d 79, 92 (1st Cir. 1990) (finding no right of implied indemnification under CERCLA); *Elk Corp. of Ark. v. Builders Transp., Inc.*, 862 F.2d 663, 665-66 (8th Cir. 1988) (finding no right to indemnity under Federal Motor Carrier Safety Regulations).

110. *Northwest Airlines, Inc. v. Transport Workers Union*, 451 U.S. 77, 86 (1981).

111. See *id.* at 86-87 n.17 (collecting cases and statutes permitting contribution for state law claims).

recognized when two or more persons are liable to the same plaintiff for the same injury and one of the joint tortfeasors has paid more than his fair share of the common liability."¹¹² Noting that equity is the underlying principle of contribution, the Supreme Court has stated that "when two or more persons share responsibility for a wrong, it is inequitable to require one to pay the entire cost of reparation, and it is sound policy to deter all wrongdoers by reducing the likelihood that any will entirely escape liability."¹¹³ However, an intentional wrong-doer generally may not obtain contribution.¹¹⁴ This rule arises from a court-adopted policy against allowing an intentional wrongdoer to ameliorate the effects of his or her own wrongs.¹¹⁵ Accordingly, a right of contribution under the intellectual property laws could arise where the owner of the intellectual property right sued only one of the parties responsible for the infringement. For example, the owner might sue only the ultimate seller of a fully-assembled infringing product, not the upstream component supplier who provided directions as to how to combine those components in such a way that the assembled product infringed a patent. In such a situation, a right of contribution should arise in favor of the ultimate seller.

C. *General Legal Principles Governing Rights of Contribution*

A right of contribution may exist under federal law in three forms.¹¹⁶ First, the federal statute can expressly create a right of contribution.¹¹⁷ Even where not explicitly provided, a right of contribution can arise in two other ways: by a federal statute's clear implication, as shown from its legislative history, identification of the class for whose benefit the statute was enacted, and the overall legislative scheme; or from the power of federal courts to fashion a common law right of contribution.¹¹⁸ Thus, whether a right of contribution exists under the federal intellectual property laws depends upon (a) whether the statute expressly creates a right of contribution; (b) whether the statutory scheme or legislative history clearly implies a right of contribution; or (c) whether a right of contribution under federal common law is necessary to protect uniquely federal interests.¹¹⁹

112. *Id.* at 87-88.

113. *Id.* at 88. *See generally* RESTATEMENT (SECOND) OF TORTS § 886A (1979) (discussing the right of contribution among tortfeasors).

114. *See* RESTATEMENT (SECOND) OF TORTS § 886A(3).

115. *See id.* § 886A cmt. j.

116. *See Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 638 (1980).

117. *See id.*

118. *See id.*

119. *See id.*

D. Federal Intellectual Property Laws Have No Express Rights of Contribution

Certain federal statutes have explicit rights of contribution.¹²⁰ None of the federal intellectual property statutes, however, authorize a cause of action for contribution in favor of an infringer.

The Patent Act expressly limits the three infringement causes of action to run solely in favor of patent owners.¹²¹ Under section 281, only a "patentee" has a remedy for infringement, including contributing to or inducing infringement.¹²² The statutory definition limits a "patentee" to a person with an ownership interest in the patent.¹²³ Consequently, because the Patent Act only gives a remedy to a patentee, there is no mention of any claim for contribution among infringers.¹²⁴ The Patent Act protects patentees, but provides no means for infringers to reduce their own liability.¹²⁵

Like the Patent Act, a cause of action for trademark infringement belongs by statute to the trademark holder, the only party authorized to bring suit.¹²⁶ Under the Lanham Act, trademark infringers "shall be liable in a civil action *by the registrant*."¹²⁷ Thus, the Lanham Act specifically authorizes only suits by trademark holders, providing no claim in favor of infringers.¹²⁸

Finally, there is no express right of contribution under copyright law.¹²⁹ Under the Copyright Act, a cause of action for copyright infringement runs only in favor of "the legal or beneficial owner" of a copyright.¹³⁰ Thus, there is no express right of contribution in favor of a patent infringer, a trademark infringer, or a copyright infringer.

120. See, e.g., 15 U.S.C. § 77k(f) (1994) (providing for contribution under securities law); 42 U.S.C. § 9607(e)(1) (1994) (providing for contribution under CERCLA).

121. See 35 U.S.C. §§ 100(d), 281 (1994).

122. See 35 U.S.C. § 281.

123. See 35 U.S.C. § 100(d). The Patent Act defines "patentee" as "not only the patentee to whom the patent was issued but also the successors in title to the patentee." *Id.* The statute restricts standing to those with an interest in title to the patent. See *id.* Courts generally follow the standing requirements implicit in these statutes. See *infra* notes 156-71 and accompanying text.

124. See 35 U.S.C. §§ 271(4), 281 (1994); *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 717-18 (N.D. Tex. 1986).

125. See 35 U.S.C. §§ 271(4), 281.

126. See 15 U.S.C. § 1114(4) (1994).

127. *Id.* § 1141(1) (1994) (emphasis added).

128. See 35 U.S.C. §§ 271(4), 281; 15 U.S.C. § 1114(1).

129. See 17 U.S.C. § 501(b) (1994).

130. *Id.*

E. Is There an Implied Federal Right of Contribution Under Any Federal Intellectual Property Law?

This section first describes the general legal principles as to whether a right of contribution should be implied in a federal statute that does not expressly authorize such rights. It then applies those principles to the federal intellectual property statutes.

1. The Legal Principles Governing Implied Rights of Contribution

As a normative matter, courts usually deny the existence of implied federal rights of contribution.¹³¹ In determining whether a particular federal statute provides for an implied right of contribution, the issue typically "is one of statutory construction."¹³² The "ultimate question . . . is whether Congress intended to create the private remedy—for example, a right to contribution—that plaintiff seeks to invoke."¹³³ There are four inquiries relevant to that ultimate determination: "[a] the language of the statute itself, [b] its legislative history, [c] the underlying purpose and structure of the statutory scheme, and [d] the likelihood that Congress intended to supersede or supplement existing state remedies."¹³⁴

a. Statutory Language

Even absent an express right of contribution in favor of an infringer, an implied right can still be found.¹³⁵ The omission of express statutory language, "although significant, is not dispositive, if, among other things, the language of the statutes indicates that they were enacted for the special benefit of a class of which [the party seeking contribution] is a member."¹³⁶ Courts have generally denied implying a right of contribution where the statutory scheme has a "comprehensive character," reasoning that a comprehensive statutory scheme "strongly evidences an intent not to authorize additional remedies."¹³⁷ In those circumstances, courts have

131. See, e.g., *Mortgages, Inc. v. United States Dist. Ct.*, 934 F.2d 209, 213 (9th Cir. 1991) (finding no right of contribution among participants of a scheme to defraud the government under False Claims Act); *United States v. Cannons Eng'g Corp.*, 899 F.2d 79, 92 n.6 (1st Cir. 1990) (refusing to create a common law right of contribution against settlor of CERCLA suit); *Call v. Sumitomo Bank of Cal.*, 881 F.2d 626, 630-32 (9th Cir. 1989) (holding that no common law right of contribution exists under ERISA); *Levit v. Ingersoll Rand Fin. Corp.*, 874 F.2d 1186, 1191-92 (7th Cir. 1989) (holding that no right of contribution exists under section 6672(a) of the Tax Code).

132. *Northwest Airlines, Inc. v. Transport Workers Union*, 451 U.S. 77, 91 (1981).

133. *Id.*

134. *Id.*

135. See *id.* at 91-92.

136. *Id.* (footnote omitted).

137. *Id.* at 93-94 (holding that no implied right for contribution exists against unions that jointly

reasoned that "it is up to Congress, not the courts, to provide a right of contribution."¹³⁸

b. Legislative History

The next inquiry is whether the legislative history of the particular statute reveals that Congress intended to allow a right of contribution on behalf of infringers.¹³⁹ "Of course, such legislative silence is often encountered in implied-right-of-action cases; it is to be expected that 'the legislative history of the statute that does not expressly create or deny a private remedy will typically be equally silent or ambiguous on the question.'¹⁴⁰ Accordingly, even if Congress failed to consider whether contribution should be allowed, that is "not inevitably inconsistent with an intent on its part to make such a remedy available."¹⁴¹ However, there must be some source from which to infer that intent.¹⁴² The requisite intent "can be inferred from the language of the statute, the statutory structure, or some other source."¹⁴³

c. Purpose and Structure of the Statute

Courts generally attempt to discern and articulate the primary purpose of the statute.¹⁴⁴ If the statute is primarily designed to protect one class of person and punish another, its purpose is not to permit those who violate the statute to ameliorate the impact of their misconduct.¹⁴⁵ Instead, its purpose must be to "advance concepts of fairness and equity."¹⁴⁶

participated in violations of Equal Pay Act or Title VII); *see, e.g.*, *Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 646 (1981) (finding that no implied right of contribution against a co-conspirator exists under section 1 of the Sherman Act). *But see* *Musick, Peeler & Garrett v. Employers Ins. of Wausau, Inc.*, 508 U.S. 286, 297 (1993) (allowing an implied right of contribution under Rule 10b-5 of the Securities and Exchange Commission); *see also infra* notes 199-204 and accompanying text (discussing *Musick, Peeler & Garrett*).

138. *Getty Petroleum Corp. v. Island Trans. Corp.*, 862 F.2d 10, 16 (2d Cir. 1988) (citing *Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 646 (1981)).

139. *See Northwest Airlines*, 451 U.S. at 91.

140. *Id.* at 94 (quoting *Cannon v. University of Chicago*, 441 U.S. 677, 694 (1979)).

141. *Transamerica Mortgage Advisors, Inc. v. Lewis*, 444 U.S. 11, 18 (1979).

142. *See Northwest Airlines*, 451 U.S. at 94.

143. *Id.*

144. *See Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 638 (1981).

145. *See id.* at 636-39.

146. *Id.* at 635.

d. Congressional Intent to Supersede or Supplement State Law Claims

The final inquiry necessary to determine whether Congress intended to imply a right of contribution is whether Congress intended to supersede or to supplement existing state remedies.¹⁴⁷ The right to sue for infringement of a copyright or patent is entirely federal in origin.¹⁴⁸ There is no state patent or copyright law, and so it is more accurate to say, not that Congress probably intended to supersede most state remedies for infringement of rights related to federal intellectual property, but that Congress intended the federal rights to be exclusive. In contrast, trademarks are not mentioned in the United States Constitution, and received protection under state law.¹⁴⁹ The federal Lanham Act merely supplements state law, and does not supersede it.¹⁵⁰

2. Implied Rights of Contribution Under Patent Law

The overall legislative scheme, the benefit for whom the patent statutes were enacted, their legislative history, and the exclusively federal nature of patent rights all indicate that there is no implied right of contribution on behalf of an accused infringer.¹⁵¹

a. Statutory Language

Section 281 of the Patent Act specifically authorizes patentees and *only* patentees to recover from parties who either themselves infringe or who contribute to or induce another party's infringement.¹⁵² There can be no liability on one party for contributory or induced infringement unless there is a direct infringement by another party.¹⁵³ Thus, the Patent Act specifically contemplates that more than one party can be liable for a single act of infringement, but specifically limits standing to sue for acts leading to an

147. See *Northwest Airlines*, 451 U.S. at 91.

148. See 15 U.S.C. § 1114(1) (1994); 17 U.S.C. § 501 (1994).

149. Trademarks received protection under state law prior to enactment of the Lanham Act. See *20th Century Wear, Inc. v. Sanmark-Stardust, Inc.*, 747 F.2d 81, 92 n.15 (2d Cir. 1984). To the extent it is not preempted by the Lanham Act, state law protection still exists. See *id.*

150. See *id.*

151. See generally *Northwest Airlines*, 451 U.S. at 91-99 (holding that the petitioner had no federal statutory right to contribution); *Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 638-47 (holding that no federal statutory right exists for contribution).

152. 35 U.S.C. § 281 (1994). One exception exists: the federal government is liable only for acts of its own direct infringement, not for inducing or contributing to another party's infringement. See *Motorola, Inc. v. United States*, 729 F.2d 765, 768 n.3 (Fed. Cir. 1984) (citing *Decca Ltd. v. United States*, 640 F.2d 1156, 1167 (Ct. Cl. 1980)).

153. See sources cited *supra* note 45.

infringement to patent owners.¹⁵⁴ Accordingly, any attempt by an infringer to assert any claim must, as an initial hurdle, overcome these express limitations.¹⁵⁵

Courts have, however, followed the limitation in section 281,¹⁵⁶ denying remedies to parties who do not have substantially the same rights as patentees standing to sue for infringement.¹⁵⁷ The furthest standing to sue for patent infringement damages has been extended is to exclusive licensees or exclusive vendors.¹⁵⁸ Such persons have ownership interests in a patent significant enough to have a right to sue for its infringement.¹⁵⁹ Thus, courts deny standing to "non-patentees" *even where the non-patentee is seeking to sue an infringer* of the patent rights. In contrast, an accused infringer would not have any ownership interest in the patent and would not be seeking to protect the patent rights, but instead merely trying to shift its liability for its own infringement to another wrong-doer.

This limitation on who has standing to bring suit under patent law caused the Eastern District of Pennsylvania in *McNeilab, Inc. v. Scandipharm, Inc.* to hold that there was no implied right of contribution under the patent statutes.¹⁶⁰ In *McNeilab*, the patentee agreed with another party that neither the patentee nor its licensees would assert the patent against that party or its licensees.¹⁶¹ Nonetheless, the patentee's exclusive licensee sued the other party's licensee for infringement.¹⁶² That licensee, in turn, sought to bring in the patentee by third-party complaint, claiming that it had contributed to infringement by agreeing not to assert the patent.¹⁶³ In other words, the infringer claimed that the patentee had contributed to infringement of its own patent by agreeing not to assert it.¹⁶⁴

The court dismissed the third-party complaint.¹⁶⁵ The court reasoned that the claim could "survive only if there is a statutory implied cause of action for contribution in addition to § 271(c)."¹⁶⁶ The court then held

154. See 35 U.S.C. § 281.

155. See *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1130-33 (Fed. Cir. 1995).

156. See *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891); *Abbott Labs.*, 47 F.3d at 1130-31.

157. See, e.g., *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1579-81 (Fed. Cir. 1991) (holding that one must hold legal title to an infringed patent in order to seek damages).

158. See *Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1482 (Fed. Cir. 1990); *Weinar v. Rollform, Inc.*, 744 F.2d 797, 806-07 (Fed. Cir. 1984); see also *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 222 U.S.P.Q. 143, 148 (D. Kan. 1983) (holding that a party with an exclusive license to sell a product in the United States can join as co-plaintiff).

159. See *Kalman*, 914 F.2d at 1481-82.

160. No. CIV. A. 92-7403, 1993 WL 212424, at *4 (E.D. Pa. June 16, 1993), *aff'd*, No. 94-1508, 1996 WL 431352 (Fed. Cir. July 31, 1996).

161. See *id.* at *1.

162. See *id.* at *2.

163. See *id.*

164. See *id.*

165. See *id.* at *4.

166. *Id.*

that there was no implied claim.¹⁶⁷ Stating that any action for contribution was governed by federal law, the court reasoned that because liability for induced and contributory infringement were expressly defined by statute, courts should not create implied claims "because 'Congress, having defined contributory infringement by statute, could not have intended the court to imply some other definition and allow a cause of action upon it.'" ¹⁶⁸ Therefore, the court "decline[d] to find a right of action for contribution under the federal patent law except where the statute expressly provides."¹⁶⁹ The Federal Circuit affirmed in an unpublished opinion, reasoning without analysis that "the district court acted correctly in dismissing Scandipharm's third-party complaint."¹⁷⁰

Other courts have reached similar conclusions, although none engaged in a very thorough analysis of the issue.¹⁷¹ Courts will no doubt continue to view with skepticism any attempt by an infringer to assert claims that even parties who ostensibly have been wronged—such as non-exclusive licensees—cannot assert. Because Congress plainly analyzed liability for contributory and inducing infringement and knew that more than one defendant could be liable for a single direct infringement, the structure of the Patent Act indicates that Congress did not intend for the courts to imply a right of contribution.¹⁷²

b. Legislative History

The legislative history of the Patent Act does not indicate that Congress was concerned about, or even gave any thought to, the plight of an infringer. Instead, Congress primarily concerned itself with preventing and punishing infringement, not protecting infringers, and gave no indication of any concern for the well-being of infringers, or for any need for "fair" allocation of their liability.¹⁷³

167. *See id.* The court's reasoning as to the existence of a federal common law right of contribution is discussed below. *See infra* notes 227-28 and accompanying text.

168. *Id.* (quoting *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 717-18 (N.D. Tex. 1986) and citing *Construction Tech., Inc. v. Lockformer Co.*, 781 F. Supp. 195, 201 (S.D.N.Y. 1990)).

169. *Id.*

170. *McNeilab, Inc. v. Scandipharm, Inc.*, No. 94-1508, 1996 WL 431352, at *6 (Fed. Cir. July 31, 1996).

171. *See Chemtron, Inc. v. Aqua Prods., Inc.*, 830 F. Supp. 314, 316 (E.D. Va. 1993) (finding no federal right of contribution under patent law); *Construction Tech., Inc. v. Lockformer Co.*, 781 F. Supp. 195, 201-02 (S.D.N.Y. 1990) (holding that no federal right of contribution exists against settling co-defendant); *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 717-18 (N.D. Tex. 1986) (dismissing claim of non-patentee for contributory infringement); *see also Dickey-john Corp. v. Richway Sales*, 78 F.R.D. 66, 67-68 (N.D. Ill. 1978) (involving a third-party indemnity claim asserted but not analyzed).

172. Because secondary liability for copyright and trademark infringement is of judicial, not congressional origin, an implied right is more appropriate under those statutes than under the patent laws. *See infra* notes 191-217 and accompanying text.

173. *See, e.g., S. REP. NO. 82-1979*, at 8 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402

c. *Purpose and Structure of the Statute*

An important, if not determinative, factor indicating that an implied right of contribution does not exist under the Patent Act is the availability of punitive damages.¹⁷⁴ Somewhat analogous to the treble damages provisions of the antitrust laws,¹⁷⁵ the Patent Act authorizes up to treble damages in instances of "willful infringement."¹⁷⁶ This evidences Congress' intent to punish those who intentionally violate a patent, and also indicates that an implied right of contribution was not intended. In concluding that there was no implied right of contribution under the antitrust laws, the Supreme Court, in *Texas Industries, Inc. v. Radcliff Materials, Inc.*, emphasized the following:

The very idea of treble damages reveals an intent to punish past, and deter future, unlawful conduct, not to ameliorate the liability of wrongdoers. The absence of any reference to contribution in the legislative history or of any possibility that Congress was concerned with softening the blow on joint wrongdoers in this setting *makes examination of other factors unnecessary.*¹⁷⁷

In large measure, these same observations could be made of the Patent Act: it allows treble damages, the purpose of the treble damage provision is to punish infringers and dissuade infringement, and there is no mention of contribution in the legislative history of the Patent Act. On the other hand, this reasoning does not fully apply to the two-tiered scheme of liability created by the Patent Act, where treble damages are authorized only upon a finding of "willful infringement."¹⁷⁸ In finding no implied right of contribution under the Sherman Act, the Supreme Court repeatedly emphasized that for a party to be liable under that Act, it must have conspired with another party.¹⁷⁹ Thus, antitrust law requires unlawful

(discussing the need to punish contributory infringers); S. REP. NO. 79-1503 (1946), *reprinted in* 1946 U.S.C.C.S. 1386, 1387 (setting forth Congress' belief that provisions for treble damages and for award of attorneys' fees to prevailing patentees would dissuade infringement).

174. 35 U.S.C. § 284 (1994) ("[T]he court may increase the damages up to three times the amount found or assessed."). *See generally* Read Corp. v. Portec, Inc., 970 F.2d 816, 826-27 (Fed. Cir. 1992) (explaining nine factors that determine the amount of increased damages).

175. *See* 15 U.S.C. § 15a (1994).

176. *See* 35 U.S.C. § 284 (authorizing a court to "increase damages up to three times the amount found or assessed"). Generally, an award of increased damages is permitted only upon a showing of "willful infringement," which typically occurs where the patentee proves by clear and convincing evidence that the infringer acted in disregard of the patent rights and lacked a reasonable basis for believing it was not infringing a valid patent. *Amstead Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 181 (Fed. Cir. 1994).

177. *Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 639 (1981) (emphasis added).

178. *See* 35 U.S.C. § 284.

179. *See Texas Indus.*, 451 U.S. at 635, 636, 638.

intent before the imposition of damages, which are then automatically trebled.¹⁸⁰

In contrast, direct patent infringement can occur even though the defendant has a reasonable and good faith belief that it was not infringing any patent.¹⁸¹ Thus, the Court's reasoning supports only denying contribution in favor of a willful infringer. Denying contribution between two antitrust defendants who are always in *pari delicto* is quite different than doing so in a suit by an "innocent" direct infringer against a party who knowingly contributed to that infringement. Not only would direct application of the Supreme Court's conclusion in *Texas Industries* ignore the difference between the standards for liability between the patent and antitrust laws, if claims for contribution by an innocent infringer against one who knowingly or intentionally contributed to or induced that infringement are denied, the purposes of the Patent Act would arguably be hampered. Contributory or induced infringement occurs only if the defendant *knows* that it is contributing to or *intends* to induce another party's direct infringement.¹⁸²

Congress clearly acknowledged that contributory infringement involved intentional and knowing wrong-doing: Congress characterized contributory infringement as "appropriating another man's patented invention," condemning it "as 'an expression both of law and morals.'" ¹⁸³ In contrast, Congress recognized that direct infringement could be wholly innocent.¹⁸⁴ Thus, a right of contribution in favor of an innocent direct infringement against a party that knowingly induced that infringement is clearly distinguishable from an action for contribution among co-conspirators under the antitrust laws, where both parties stand in *pari delicto*.¹⁸⁵

Refusing to allow an innocent infringer to sue a contributory or inducing infringer could thwart the legislative purpose of seeking to prevent contributory and induced infringement and punishing those who act in intentional disregard of the Patent Act. Thus, in the case of a claim for contribution by an "innocent" direct infringer against a contributory infringer, who must have acted knowing an infringement would result, denying a right of contribution would frustrate the intent of the two-tiered liability scheme of the Patent Act: if the patentee sues only the "innocent"

180. See *id.* at 636-38; *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1417 (Fed. Cir. 1987); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875-76 (Fed. Cir. 1985).

181. See 35 U.S.C. § 271 (1994).

182. See 35 U.S.C. §§ 271(b)-(c); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341-42 (1961).

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

184. See *Recovery in Patent Infringement Suits*, Hearing Before the House Committee on Patents of the U.S. House of Representatives on HR 5231, 79th Cong., 2d Sess. 18-20 (1946) (statement of John Stedman, U.S. Department of Justice).

185. See *Texas Indus.*, 451 U.S. at 639.

infringer, and not the party who deliberately induced or contributed to that infringement, the most culpable party could escape liability altogether.

The courts, therefore, should not simply extend the Supreme Court's conclusion concerning the impact of the availability of punitive damages under the Sherman Act to the question of whether a right of contribution should be allowed under the Patent Act. The mere availability of treble damages in the case of willful infringement should not be interpreted as congressional intent to proscribe all rights of contribution in favor of innocent direct infringers.

d. The Patent Act Neither Supersedes Nor Supplements State Law Claims

The Constitution authorizes Congress to enact laws concerning patents.¹⁸⁶ Thus, in enacting the patent laws, Congress was not "super-seding" any state law because, after adoption of the Constitution, there could be none to replace. Federal law provides the exclusive protection for patented inventions.¹⁸⁷

e. Conclusion

It is unlikely that a federal right of contribution should be implied under the Patent Act. Although the availability of treble damages for willful infringement is generally inapposite to that issue, the fact is that Congress specifically created liability for those who induce or contribute to another party's infringement, clearly knowing that two parties could be liable for one injury, and yet provided no means to apportion that liability among those wrong-doers.¹⁸⁸

3. Implied Rights of Contribution Under Trademark and Copyright Laws

a. Statutory Language

(1) Trademark Law

As with the Patent Act, the Lanham Act on its face only extends protection to the trademark holder.¹⁸⁹ The remedy for trademark infringement runs only in favor of the trademark registrant, and runs only

186. See U.S. CONST. art. I, § 8, cl. 8.

187. See *id.*

188. See *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 717-18 (N.D. Tex. 1986).

189. See 15 U.S.C. § 1114(1) (1994).

against a person who uses the trademark without the consent of the registrant.¹⁹⁰

The Second Circuit, the only court that has addressed the issue, held that there is no right of contribution for trademark infringement under the Lanham Act in favor of the direct infringer against a defendant who contributed to or induced the infringement. In *Getty Petroleum Corp. v. Island Transportation Corp.*, Getty Petroleum owned a registered trademark on the name "Getty," for use as a brand of gasoline.¹⁹¹ One group of defendants distributed non-Getty gasoline to Getty-branded service stations.¹⁹² Another group of defendants owned the Getty-branded service stations, and sold the gasoline in violation of their franchise agreements with Getty Petroleum.¹⁹³ The distributor-defendants brought a claim for contribution against one of the service stations and its owners, but the district court dismissed the claim sua sponte, holding that the defendant had no right of contribution under the Lanham Act.¹⁹⁴

The Second Circuit affirmed, holding that there was no implied right of contribution under the Lanham Act.¹⁹⁵ The court reasoned that the lack of express statutory rights of contribution and the comprehensive nature of the statutory scheme of the Lanham Act were strong evidence that Congress did not intend for courts to imply additional remedies in the Lanham Act.¹⁹⁶ The court distinguished appellate decisions in which courts found an implied right to contribution under securities law, instead concluding that because the Lanham Act was "comprehensive," Congress had not authorized the courts to fashion substantive law or to create additional remedies.¹⁹⁷ The *Getty Petroleum* court also found it persuasive that the Supreme Court had found no right of contribution under the Sherman Act in *Texas Industries v. Radcliff Materials, Inc.* or under the Equal Pay Act in *Northwest Airlines v. Transport Workers Union*.¹⁹⁸

After *Getty Petroleum* was decided, however, the Supreme Court recognized a distinction in the statutory schemes at issue in the *Texas Industries* and *Northwest Airlines* cases, indicating that *Getty Oil* was

190. *See id.*

191. 862 F.2d 10, 12 (2d Cir. 1988).

192. *See id.*

193. *See id.*

194. *See id.* at 16.

195. *See id.*

196. *See id.*

197. *See id.* (distinguishing *Sirota v. Solitron Devices, Inc.*, 673 F.2d 566, 578 (2d Cir. 1982); *Tucker v. Arthur Anderson & Co.*, 646 F.2d 721, 727 n.7 (2d Cir. 1981); and *Stowell v. Ted S. Finkel Inv. Servs.*, 641 F.2d 323, 325 (5th Cir. 1981)).

198. *See id.* (discussing *Northwest Airlines v. Transport Workers Union*, 451 U.S. 77, 93-94 (1981) (finding no implied right of contribution under either the Equal Pay Act or Title VII) and *Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 640 (1981) (finding no implied right of contribution under antitrust law)).

incorrectly decided.¹⁹⁹ In *Musick, Peeler & Garrett v. Employers Ins. of Wausau*, the Court held that there was an implied right to contribution in an action under Rule 10b-5 of the Securities and Exchange Commission.²⁰⁰ In distinguishing *Texas Industries* and *Northwest Airlines*, the *Musick, Peeler & Garrett* Court emphasized that liability under the statutory schemes at issue in those cases was expressly created by Congress, whereas liability for violating Rule 10b-5 had been implied by the courts.²⁰¹ Because Rule 10b-5 liability was implied by the courts, the Court reasoned that "[h]aving implied the underlying liability in the first place, to now disavow any authority to allocate it on the theory that Congress has not addressed the issue would be most unfair to those against whom damages are assessed."²⁰²

Thus, the argument exists that because liability for inducing or contributing to trademark infringement is entirely of judicial creation, an implied right of contribution should be permitted under the Lanham Act. The judiciary implied a private right of action for secondary trademark infringement, and as a result courts have a responsibility to elaborate upon this right.²⁰³ Just as with Rule 10b-5, the right of action against a party who has not itself committed trademark infringement is wholly judicial in origin.²⁰⁴ Having found the power to create secondary liability, courts should likewise have the power to allocate that liability fairly.

For these reasons, whether the holding of *Getty Oil* remains viable in light of *Musick, Peeler & Garrett*, remains an open question. It should be of no consequence that Congress did not contemplate a right of contribution, when, in contrast to the Patent Act, Congress did not even contemplate that one party could be liable for causing another party's trademark infringement.²⁰⁵ Instead, courts can create rules to apportion the liability which they created.

(2) Copyright Law

Like the Lanham Act, the remedies for infringement of a copyright run in favor only of the legal or beneficial owner of a copyright, and it is only a legal or beneficial owner of a copyright who may institute a lawsuit for

199. See *Musick, Peeler & Garrett v. Employers Ins. of Wausau*, 508 U.S. 286, 298 (1993).

200. *Id.*

201. See *id.* at 291-92.

202. *Id.* at 292.

203. See *id.*; *McNeilab, Inc. v. Scandipharm, Inc.*, No. CIV. A. 92-7403, 1993 WL 212424, at *4.

204. See *Musick, Peeler & Garrett*, 508 U.S. at 291-92.

205. See 17 U.S.C. § 1114 (1994) (providing no mention of secondary infringement in the Lanham Act).

infringement.²⁰⁶ The copyright owner is the sole party authorized to recover damages or profits for copyright infringement.²⁰⁷

No court has yet to hold that a federal claim for contribution by a copyright infringer should, or should not, be allowed. Such claims have been made, however. For example, in *Singer v. Citibank N.A.*, two alleged contributory infringers filed cross-claims for indemnity against two "upstream" contributory infringers—on what basis, it is not clear—but the two contributory infringers obtained summary judgment as to the plaintiff's claims, and so their cross-claims were not adjudicated.²⁰⁸

As with trademark law, because secondary liability for copyright infringement is of judicial, not congressional, origin, an implied right of contribution should be more likely under copyright law than under patent law.²⁰⁹ For the same reason, Congress' similar silence as to whether a direct copyright infringer has a right of contribution against those who caused or contributed to the infringement should not be taken as indicating disapproval of that right. The availability of an implied right of contribution under the copyright laws remains an open question.

b. The Legislative History and Purpose and Structure of the Copyright and Trademark Laws are Inapposite

There is no indication in the legislative history that Congress intended to include a right of contribution in the Lanham Act.²¹⁰ Likewise, the legislative history of the Copyright Act is silent on the issue of contribution.²¹¹ Neither the structure nor the purpose of the two acts seem to support the notion that a right of contribution should be implied.

However, this congressional silence is not surprising because neither the Lanham Act nor the Copyright Act expressly create any liability other than for direct infringement. Because direct infringement is the only cause of action expressly prescribed in the statutes, Congress did not have any reason to consider whether a party found liable for direct infringement

206. See *id.* § 501(b) (1994).

207. See *id.* § 504(b) (1994).

208. No. 91 Civ. 4453 (JFK), 1993 WL 177801, at *6 (S.D.N.Y. May 21, 1993); see also *Olan Mills, Inc. v. Linn Photo Co.*, 795 F. Supp. 1423, 1436 (N.D. Iowa 1991) (stating that "[t]he court is not presented in this [copyright infringement] case with the issue as to whether an infringer can be indemnified for its own infringement by a co-infringer"); *Polygram Int'l Pub., Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1334 (D. Mass. 1994) (noting that a "court need not decide" whether "the federal Copyright Act should not be construed to include the common law right[] of contribution").

209. See *supra* notes 200-03 and accompanying text.

210. See generally *Hearings before the House Comm. on Patents on H.R. 82*, 78th Cong. (1943) (providing no mention of any right to contribution in hearings on the Lanham Act).

211. See generally H. R. Rep. 94-1476, 94 Cong., 2d Sess. (1976), reprinted in 1976 U.S.C.C.A.N. 5659 (providing no mention of any right to contribution in hearings on the Copyright Act).

should have contribution against a party who contributed to or induced that infringement.

Consequently, the more appropriate inquiry is whether an implied right of contribution furthers the reasons for which courts imposed liability for secondary copyright and trademark infringement.²¹² Arguably, contribution furthers the rationale behind secondary infringement. The Supreme Court's rationale for creating secondary liability under both the Copyright and Lanham Acts was similar: if a party *knows* that its actions result in harm to the owner of the trademark or copyright, because of the occurrence of a direct infringement, then that party should be held responsible for the harm done.²¹³ A right of contribution in favor of a direct infringer against a party who *knowingly* caused that infringement furthers the judicial purpose of punishing intentional, knowing violators of the Copyright and Lanham Acts.

c. Whether Trademark or Copyright Law Supersedes or Supplements State Law Remedies

Because of its limited preemptive effect, the Lanham Act both supersedes and supplements state law trademark protection.²¹⁴ Although the Lanham Act implicitly eliminated any federal common law of unfair competition, it had a limited preemptive impact on state unfair competition laws.²¹⁵ Similarly, the Copyright Act supersedes state law claims only to the extent state law permits remedies for violating rights that are "equivalent to" the rights created by the Copyright Act.²¹⁶ Because neither the Lanham Act nor the Copyright Act have broad preemptive effect, this supports finding an implied right to contribution.

212. See *Central Bank v. First Interstate Bank*, 511 U.S. 164, 170 (1994).

213. See *Sony Corp. v. Universal City Studios*, 464 U.S. 418, 434-35 (1984); *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

214. See *20th Century Wear, Inc. v. Sanmark-Stardust Inc.*, 747 F.2d 81, 92 n.15 (2d Cir. 1984) (stating that section 43(a) of the Lanham Act is "cumulative of, and does not preempt, the broader consumer-oriented remedies provided by the common law of unfair competition" (quoting *Keebler Co. v. Rovira Biscuit Corp.*, 624 F.2d 366, 373 (1st Cir. 1980))).

215. See *Caesars World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269, 272 (3d Cir. 1975) (quoting the legislative history of the Lanham Act and concluding that there is no federal common law of trademark infringement); *Monoflo Int'l, Inc., v. Sahn*, 726 F. Supp. 121, 126-27 (E.D. Va. 1989) (refusing to apply federal common law of unfair competition, but instead applying Virginia state law).

216. See 17 U.S.C. § 301(b)(3) (1994).

d. Conclusion

The argument for an implied federal right of contribution under the Copyright Act and Lanham Act is far stronger than under the Patent Act. Because the courts created secondary liability despite the silence of Congress, they cannot rely on the silence of Congress to refuse to apportion this judicially-created liability.

F. Whether There are Federal Common Law Rights of Contribution Under the Federal Intellectual Property Statutes

Even in the absence of an expressed or implied federal right of contribution, such a right may still be found under the power of federal courts to fashion a federal common law right of contribution, because different standards determine whether a federal common law right exists than whether a federal common law right should be implied.²¹⁷

Of course, under *Erie Railroad Co. v. Tompkins*, "[t]here is no federal general common law."²¹⁸ Even so, federal courts have authority "to formulate what has come to be known as 'federal common law,'"²¹⁹ in a "few and restricted" areas,²²⁰ specifically areas "in which a federal rule of decision is 'necessary to protect uniquely federal interests' and those in which Congress has given the courts power to develop substantive law."²²¹ Accordingly, no federal common law right of contribution exists, except in the few instances where federal common law is "necessary" to protect "uniquely federal interests."²²² Moreover, "[t]he presumption that a remedy was deliberately omitted from a statute is strongest when Congress has enacted a comprehensive legislative scheme."²²³

1. Patent Law

There is no doubt that the Patent Act protects uniquely federal interests. Such rights are purely federal in origin and the Constitution specifically vests Congress with the power "[t]o 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 Discover-

217. See *Northwest Airlines v. Transport Workers Union*, 451 U.S. 77, 95-96 (1981).

218. 304 U.S. 64, 78 (1938).

219. *Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 640 (citing *United States v. Standard Oil Co.*, 373 U.S. 647, 651 (1963)).

220. *Id.* (quoting *Wheeldin v. Wheeler*, 373 U.S. 647, 651 (1963)).

221. *Id.* (quoting *Banco Nacional de Cuba v. Sabbatino*, 376 U.S. 398, 426 (1964)).

222. *Id.*

223. *Northwest Airlines, Inc. v. Transport Workers Union*, 451 U.S. 77, 97 (1981).

ies."²²⁴ Patent law clearly presents "overriding federal interest[s],"²²⁵ and a "body of 'federal common law' has developed as the result of the fact that federal courts have *exclusive* jurisdiction over claims for patent infringement."²²⁶

Few courts have analyzed whether there is a federal common law right of contribution running in favor of an infringer. Each court has summarily rejected the argument without significant analysis. For example, the infringer in *McNeilab, Inc. v. Scandipharm, Inc.* sought contribution under both the theory of an implied right and under the federal common law.²²⁷ The district court analyzed the implied claim at some length, but summarily concluded that because there was no implied claim for contribution, there likewise was no federal common law right to contribution.²²⁸ Other courts have given this issue equally unenlightening consideration.²²⁹

Given the comprehensive nature of the Patent Act and its express, carefully-drawn definitions of contributory and induced infringement, it seems unlikely that a federal common law right of contribution exists under the Patent Act. As the Southern District of New York recently reasoned, "patent law is an area in which Congress has developed a complex statutory scheme which does not evidence an intent by Congress to give courts rule-making power to fashion remedies not provided for by statute."²³⁰

Congress recognized that parties who do not themselves directly infringe but cause another to infringe could be held liable, and thus enacted a statute under which one or more parties can potentially be held liable for one direct infringement.²³¹ Even so, Congress did not include any

224. U.S. CONST. art. I, § 8, cl. 8. The clause is written in parallel form: The word "Science" encompasses the realm of authors who write, and the term "useful Arts" encompasses the realm of inventors who make discoveries.

225. *International Controls and Measurements Corp. v. Watsco, Inc.*, 853 F. Supp. 585, 590 (N.D. N.Y. 1994) (quoting *United States v. Nicolet, Inc.*, 712 F. Supp. 1193, 1201 (E.D. Pa. 1989)).

226. *Great Lakes Press Corp. v. Froom*, 695 F. Supp. 1440, 1445 (W.D.N.Y. 1987) (emphasis added).

227. No. 92-7403, 1993 WL 212424, at *3-4 (E.D. Pa. June 16, 1993), *aff'd*, No. 94-1508, 1996 WL 431352 (Fed. Cir. July 31, 1996).

228. *See id.* at *4.

229. *See, e.g.*, *Jack Frost Labs., Inc. v. Physicians & Nurses Mfg. Corp.*, 35 U.S.P.Q.2d 1631, 1633 (S.D.N.Y. 1995) (concluding without analysis that "there is no right of contribution in patent law"); *Chemtron, Inc. v. Aqua Prods., Inc.*, 830 F. Supp. 314, 316 (S.D. W. Va. 1993) (stating without analysis that "[t]here is no claim for contribution under the U.S. patent laws"); *Construction Tech., Inc. v. Lockformer Co.*, 781 F. Supp. 195, 201 (S.D.N.Y. 1990) (agreeing with the *Motorola* court, without analysis, "that there is no right of contribution in patent cases"); *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 717-18 (N.D. Tex. 1986) (stating that the right of contribution could be either implied or a part of federal common law, but only analyzing whether such a claim should be implied).

230. *Jack Frost Labs.*, 35 U.S.P.Q.2d at 1634 (citing *Northwest Airlines v. Transport Workers Union*, 451 U.S. 77, 97 (1981)).

231. The legislative history regarding the 1952 revisions to the patent code reflects that Congress recognized that two parties—the direct infringer and the party who induced or contributed to that infringement—could be liable for one act of ultimate infringement. *See, e.g.*, S. REP. NO. 82-1979,

mechanism to apportion liability among those infringers. Consequently, such a right of contribution should not be recognized under federal common law.

2. Trademark and Copyright Laws

Copyrights have been called "a peculiarly federal area."²³² In contrast to patent law, Congress has indicated that courts should take an active role in developing substantive copyright law.²³³ Courts have already found it necessary to create other remedies. For example, the courts have fashioned a common law remedy for providing for suits involving co-authors under the Copyright Act because Congress "neglected to provide for remedies between co-authors."²³⁴ These courts have reasoned that co-authors may sue each other because "the Copyright Act makes no mention of how co-authors should enforce their rights to royalties as against each other."²³⁵ Because liability for secondary copyright infringement is primarily judicial in nature, and is also the broadest of the three types of infringement,²³⁶ it is the most likely to support a claim for federal common law contribution. Likewise, courts—not Congress—created the remedy in favor of the trademark owner against a party who does not itself violate the Lanham Act but who causes another to do so.²³⁷

Thus, a court in a copyright or trademark case might accept the argument, which has been rejected in the patent context, that a system of federal, common law "comparative fault" should be utilized.²³⁸ Under ERISA, the courts have recognized that in "a system that provides joint and several liability and bars any form of contribution, indemnity based upon differences in relative fault is necessary to ensure fairness. Otherwise, a minimally culpable defendant might have to bear the burden of an entire judgment even though another, more favored tortfeasor was solvent."²³⁹

Such inequities can arise in cases involving vicarious copyright or trademark infringement, where the less culpable wrong-doer is more likely to be sued because it has deeper pockets; for example, it is easier to recover

at 8 (1952), reprinted in 1952 U.S.C.A.N. 2394, 2402.

232. See *United States v. Yazell*, 382 U.S. 341, 353 n.28 (1966).

233. See *Mollfullada v. Phillips*, 882 F. Supp. 689, 696 (N.D. Ill. 1994).

234. *Korman v. Iglesias*, 736 F. Supp. 261, 265 (S.D. Fla. 1990).

235. *Id.*; accord *Jacobs Wind Elec. Co. v. Department of Transp.*, 626 So.2d 1333, 1336 (Fla. 1993).

236. See *supra* notes 102-03 and accompanying text.

237. See *supra* notes 56-58 and accompanying text.

238. See generally *Jack Frost Labs., Inc. v. Physician & Nurses Mfg. Corp.*, 35 U.S.P.Q.2d 1631, 1633 (S.D.N.Y. 1995) (rejecting the application of a "relative fault" approach developed in ERISA context).

239. *In re Masters Mates & Pilots Pension Plan and IRAP Litig.*, 957 F.2d 1020, 1028 (2d Cir. 1992).

from the swap meet owner than from the fly-by-night t-shirt salesman. Moreover, the party held liable for infringement without any showing of intent is the easier prey, and that party is all the more in need and worthy of a right to shift liability to a more active wrong-doer. For these reasons, there is a strong argument that a federal common law right of contribution exists under the copyright and trademark laws.

IV. STATE LAW AS THE SOURCE OF A RIGHT TO CONTRIBUTION IN FAVOR OF INFRINGERS

There are two possible sources of a right of contribution or other cause of action under state law: state statutes and state common law. Although exhausting the possible sources for such rights is beyond the scope of this article, there are several likely candidates. This section examines those state statutes and state common law legal theories that are likely to serve as a means to obtaining contribution. The article then analyzes whether allowing such claims would clash with, and thus be preempted by, federal law.

A. *Uniform Commercial Code Article 2, Section 312(3)*

One likely state statutory source of a right to indemnity or contribution against a party inducing or contributing to another's infringement is section 312(3) of Article 2 of the Uniform Commercial Code (UCC).²⁴⁰ Enacted by virtually every state,²⁴¹ section 312(3) provides: "Unless otherwise agreed, a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like" ²⁴² Under Article 2, sellers have a duty "to see that no claim of infringement of a patent or trademark by a third party will mar the buyer's title."²⁴³

240. U.C.C. § 2-312(3) (1994).

241. See WILLIAM D. HAWKLAND, UNIFORM COMMERCIAL CODE SERIES § 2-312, at 384 (1992) (noting that only Massachusetts has substantially modified section 312).

242. U.C.C. § 2-312(3).

243. *Id.* § 2-312 cmt. 3. Claims against a seller for breach of section 312(3) can be brought as cross-claims among co-defendants, counterclaims against sellers who have sued buyers for the price, third-party actions against sellers by buyers who have been sued by patentees, or as direct actions by buyers before an infringement suit has even been brought. See *id.*; see, e.g., *Dolori Fabrics, Inc. v. Limited, Inc.*, 662 F. Supp. 1347 (S.D.N.Y. 1987) (allowing suit by a buyer defendant against a co-defendant for indemnity under section 312(3) in a suit by the copyright holder against several defendants); *Ytiro Corp. v. X-Ray Mktg. Ass'n., Inc.*, 559 A.2d 3, 4-6 (N.J. Super. Ct. App. Div. 1989) (involving a claim by defendant in a breach of contract suit that plaintiff's conduct breached the patent infringement warranties under section 2-312(3)).

Section 312(3) applies to "infringement [claims] or the like."²⁴⁴ Section 312(3) clearly includes patent and trademark claims, as both are specifically mentioned in the UCC's Official Comments.²⁴⁵ Even though copyright claims are not mentioned, the only court to analyze the issue held that section 312(3) included a warranty of non-infringement as to third-party copyrights.²⁴⁶ Although an expansive reading of section 312(3) has generally prevailed, section 312(3) has its limits. One limitation comes from the language of the section itself; others arise by the preemptive effect of federal intellectual property laws on all state laws, including section 312(3).²⁴⁷

First, the seller's warranty created by section 312(3) pertains to good title. This limits the applicability of section 312(3) in three ways. Most importantly, because the warranty is viewed as a warranty of title, infringement and thus breach of warranty, is determined when title passes to the buyer at the time of sale.²⁴⁸ Consequently, there can be no breach of a warranty where the good infringes a patent, trademark, or copyright issued *after* the sale was made.²⁴⁹

Second, because only title to the seller's goods is warranted, if the defendant did not sell the goods at issue to the buyer, the buyer has no recourse under section 312(3) against the defendant.²⁵⁰ For example, if the seller sold the buyer some goods, representing to the buyer that it could make the same goods itself, the buyer would have a claim for breach of section 312(3) only on those goods that the buyer bought from the seller, and not to goods that the seller made on its own.²⁵¹

244. U.C.C. § 2-312(3) (1994).

245. *See id.* § 2-312 cmt. 3.

246. *See Dolori Fabrics, Inc.*, 662 F. Supp. at 1358; William F. Dudine, *Warranties Against Infringement Under the Uniform Commercial Code*, 36 N.Y. ST. B. J. 214, 220 (1964).

247. *See* U.C.C. § 2-312(3) (1994); *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 719 (N.D. Tex. 1986).

248. *See* Dudine, *supra* note 246, at 220 (noting that the warranty is limited to rights in being at the time of the sale).

249. *See* 3 RICHARD W. DUSENBERG, SALES AND BULK TRANSFERS UNDER THE U.C.C. § 5.04[4] (1996).

250. *See* *Golden Trade, S.r.L. v. Jordache*, 143 F.R.D. 504, 507-08 (S.D.N.Y. 1992).

251. *See id.* The district court in *Golden Trade* faced this issue and reasoned that the buyer's claim that a section 2-312(3) warranty arose as to products not actually sold by the seller "appear[ed] meritless," stating:

The warranty under section 2-312(3) is limited to the goods delivered by the seller, which must be warranted to be "free of the rightful claim of any third person by way of infringement." Although the cases cited by [the buyer] establish that an injured party may obtain consequential damages from the breach of such a warranty, such recovery involves damages incurred in connection with the sale of the warranted goods, not damages incurred in the sale of entirely separate goods.

Id. at 507 n.3.

Finally, the fact that the warranty under section 312(3) pertains only to title precludes interpreting section 312(3) to cover claims that the seller induced or contributed to infringement if the goods as sold did not infringe the patent. While the seller under such circumstances is liable to the patentee for inducing or contributing to infringement, the question here is: If the buyer is sued by the patentee for direct infringement, is the seller liable to the buyer under section 312(3) where the product as sold did not infringe any patent?

It seems unlikely that courts will permit buyers to bring claims under section 312(3) against sellers who contribute to or induce the buyer's infringement, but did not themselves directly infringe. Section 312(3) implies a warranty as to the title of goods.²⁵² If the goods as sold do not infringe, there is no flaw in title at the time of sale. It is only the buyer's own later conduct which creates the infringement. *Motorola, Inc. v. Varo, Inc.*²⁵³ and *Chemtron, Inc. v. Aqua Products, Inc.*,²⁵⁴ both of which involved patents, recognized this limitation and demonstrate the limited nature of the remedy created by section 312(3).

In *Motorola*, Motorola sued Varo for infringement of Motorola's process patent.²⁵⁵ Varo, the buyer, brought a third-party claim for breach of section 312(3) against Hunt, the seller.²⁵⁶ Motorola's patented process required the use of certain materials that Varo purchased from Hunt and then used in the process Motorola claimed to be infringing.²⁵⁷ In granting summary judgment in favor of Hunt, the court reasoned:

This sort of allegation, that the buyer was induced by the seller to purchase the good and then use it to infringe a process patent is wholly outside the language of § 2.312. The delivery of a good is warranted to be free of all claims of infringement. There is no warranty that a buyer's use of the good will be free of all infringement. Varo's proposed reading of § 2.312 would have Hunt warrant that it has not induced Varo to infringe the '550 patent. This would be a warranty as to conduct, not as to goods.²⁵⁸

The court in *Motorola* held that section 312(3) does not cover claims by the buyer against the seller where the buyer has been sued by the

252. See U.C.C. § 2-312(3) (1994).

253. 656 F. Supp. 716, 718-19 (N.D. Tex. 1986).

254. 830 F. Supp. 314, 315 (E.D. Va. 1993).

255. See *Motorola*, 656 F. Supp. at 717.

256. See *id.*

257. See *id.*

258. *Id.* at 718-19.

patentee for infringement of a process patent, the infringement arose from the subsequent use of the good, and the good as sold did not infringe.²⁵⁹

Similarly, a buyer's claim against a seller whose goods did not infringe a patent when sold, but did infringe once they were assembled, was analyzed and rejected in *Chemtron, Inc. v. Aqua Products, Inc.*²⁶⁰ There, the defendant was sued for direct infringement of a patent covering a detergent dispenser for dishwashers.²⁶¹ The defendant then filed a third-party complaint against the party that had sold to the defendant the components that it used to make its dispensers.²⁶² The third-party plaintiff buyer claimed that the third-party defendant seller had breached section 312(3).²⁶³

The *Chemtron* court granted the third-party defendant seller's motion to dismiss the third-party complaint.²⁶⁴ The court recognized that there was no breach of section 312(3) at the time of sale because at that time the goods did not infringe any patent.²⁶⁵ The court then rejected extending the warranty of title, reasoning that the language of section 2-312(3):

should not be construed to mean that the buyer, after receiving clean title to purchased goods, can subsequently incur . . . liability on the purchased goods by his own actions, and then impose such liability on the seller. Accordingly, a buyer . . . should not be entitled to purchase goods from a seller . . . which are not subject to any infringement action, use the non-infringing component goods in an infringing device and incur liability to a third-party patentee . . . and then turn around and attempt to impose liability on the original seller of the component parts.²⁶⁶

The court recognized that these facts were not within section 312(3), and dismissed the claim.²⁶⁷

Motorola and *Chemtron* are fairly straightforward cases concerning the nature of the section 312(3) warranty; other courts have reached similar conclusions.²⁶⁸ However, given the recent increased protection afforded process patents,²⁶⁹ the *Motorola* court recognized that the section 312(3)

259. *See id.* at 719.

260. 830 F. Supp. 314, 316 (E.D. Va. 1993).

261. *See id.* at 315.

262. *See id.*

263. *See id.*

264. *See id.*

265. *See id.*

266. *Id.* (citing *Golden Trade S.r.L. v. Jordache*, 143 F.R.D. 504, 508 n.3 (S.D.N.Y. 1992)).

267. *See id.*

268. *See, e.g., Lifescan, Inc. v. Can-Am Care Corp.*, 859 F. Supp. 392, 395 (N.D. Cal. 1994) (noting that section 2-312(3) does not protect third-party purchases from infringement suits).

269. *See supra* note 10-11 and accompanying text.

warranty relates to title to the purchased goods, not to an all-encompassing indemnity agreement as to every subsequent use of those goods.²⁷⁰

In summary, section 312(3) allows infringers to shift their liability for infringement to third parties, but only under certain circumstances, and only where the seller also directly infringes the patent: no claim will lie where the product as sold does not infringe a patent because the warranty only pertains to title.²⁷¹ Thus, in those circumstances, a party sued for infringement can use section 312(3) to shift liability to the party that caused the infringement.

B. Other State Statutes

One possible source of some relief in favor of an infringer, at least as against a named co-defendant, are state statutes governing contribution among settling tortfeasors. Many states have enacted statutes requiring that any award of compensatory damages be set-off against any amount paid by tortfeasors who settle with the plaintiff.²⁷² Some courts have held that these state statutes apply to claims made in federal court under federal law. For example, in *Getty Petroleum Corp. v. Island Transportation Corp.*, the Second Circuit held that New York's state statute governed set-offs in a federal trademark action under the Lanham Act.²⁷³

However, these statutes present only an indirect and limited way for one infringer to shift liability to another. Foremost, unless the state statute creates a private right of action, it allows contribution only against parties already sued by the owner of the patent, trademark, or copyright. Likewise, in many states, this right of contribution may be similar to application of the one recovery rule, in that many states only permit a dollar-per-dollar credit for settling defendants.²⁷⁴ However, some state statutes permit an offset greater than a dollar-for-dollar reduction, allowing, for example, the jury to determine "proportionate fault," which could result in a greater reduction, particularly where an "innocent" direct infringer is

270. See *Motorola, Inc. v. Varo, Inc.* 656 F. Supp. 716, 718-19 (N.D. Tex. 1986).

271. No court has yet analyzed whether section 312(3) allows indemnity for willful infringement, as opposed to innocent infringement.

272. See, e.g., N.Y. GEN. OBLIG. LAW § 15-108(a) (McKinney 1989) (reducing "the claim of the releaser against the other tortfeasors to the extent of any amount stipulated by the release of the covenant").

273. 862 F.2d 10, 15 (2d Cir. 1988). In later cases, the Second Circuit reasoned that state laws governing set-offs due to settling co-defendants did not apply to federal claims "where federal law is preemptive." *In re Masters Mates & Pilots Pension Plan and IRAP Litig.*, 957 F.2d 1020, 1027 (2d Cir. 1992) (holding that *Getty's* rationale did not apply to ERISA claims).

274. See, e.g., N.Y. GEN. OBLIG. LAW § 15-108(a) (McKinney 1989) (reducing the claim by the amount stated in the release or covenant).

suing an upstream party who knowingly contributed to or induced the downstream direct infringement.²⁷⁵

In addition to these statutes, some states also prohibit deceptive or unfair trade practices.²⁷⁶ These statutes might also afford a direct means for infringers to sue those who have caused or contributed to their infringement.²⁷⁷ However, many of these statutes only authorize suits in narrow circumstances. For instance, the Texas Deceptive Trade Practices Act does not apply to any business purchaser whose net worth exceeds \$25 million.²⁷⁸ Thus, these statutes may have limited utility in the context of intellectual property litigation.

C. State Common Law

Each of the principal potential statutory bases for relief in favor of an infringer has severe limitations. For example, the UCC only applies to sales of goods among merchants, and may not reach many transactions in which liability under federal intellectual property statutes can potentially arise.²⁷⁹ Other common law theories might provide broader remedies to the infringer.

Many states allow common law actions to recover attorney's fees and other costs of litigation when a wrongful act or breach of contract forces a party to litigate against third parties, thereby incurring expenses in protecting its interests.²⁸⁰ This theory could be used to state a cause of

275. See *id.*

276. See, e.g., TEX. BUS. & COMM. CODE §§ 17.01-.854 (Vernon 1987 & Supp. 1997) ("Texas Deceptive Trade Practices Act").

277. See, e.g., *Burkert v. Petrol Plus of Naugatuck, Inc.*, 579 A.2d 26, 31-32 (Conn. 1979) (holding, in a different context, that a distributor did not state a claim for indemnity against a trademark licensor under state unfair trade practices act).

278. See TEX. BUS. & COMM. CODE § 17.45(4) (Vernon 1987) (defining "consumer").

279. See *supra* notes 242-44 and accompanying text. For example, the swap meet owner who rents space to the t-shirt vendor who, in turn, sells infringing t-shirts, plainly does not sell goods to the vendor. Thus, although the owner can be held liable for trademark infringement by that vendor, U.C.C. Article 2 would not apply to the owner's claim against the vendor.

280. See *Fidelity and Deposit Co. v. Krebs Eng'rs*, 859 F.2d 501, 505 (7th Cir. 1987) (concerning contracting cases); *Southern Nat'l Bank v. Crateo, Inc.*, 458 F.2d 688, 696 (5th Cir. 1972) ("As a general principle . . . where a breach of contract has forced one of the contracting parties to maintain or defend an action against a third person, he is entitled to recover . . . attorney's fees and other expenses . . ."); *Jamaica Commodity Trading Co. v. Connell Rice & Sugar Co.*, 766 F. Supp. 138, 157 (S.D.N.Y. 1991) (holding that "where a breach of contract has caused a party to maintain a suit against a third person, courts have permitted recovery from the breaching party of counsel fees and other litigation expenses incurred in the suit"); *In re O.P.M. Leasing Servs.*, 61 Bankr. 596, 601 (S.D.N.Y. 1986) (permitting a party to recover attorney's fees "incurred in bringing or defending an action against a third party as a result of a breach of contract by the other party."); *Artvale, Inc. v. Rugby Fabrics Corp.*, 232 F. Supp. 814, 826 (S.D.N.Y. 1964) (concluding that attorney's fees are recoverable where a party's tort causes another to defend suit by third party), *aff'd*, 363 F.2d 1002 (2d Cir. 1966); *Doyle v. Allstate Ins. Co.*, 136 N.E.2d 484, 487 (N.Y. 1956) (permitting recovery of

action to recover at least costs and attorney's fees incurred by an infringer in defending the suit by the intellectual property owner.

Contribution in favor of the infringer of a federal intellectual property right might also be available under state common law negligence or misrepresentation theories. For example, the court in *Golden Trade, S.r.L. v. Jordache*, held that, although no warranty under section 312(3) existed as to goods purchased from a third party which were identical to goods purchased from the seller, damages arising from the sale of these other goods might be recoverable under some other, unspecified state common law theory:

It is conceivable that losses of this sort may be recoverable under a different legal theory, such as fraudulent or negligent misrepresentation. For example, if [the seller] had falsely represented that the process used [by its parent corporation] was not infringing, it is conceivable that it might be liable to [the buyer] for damages incurred when [it] permitted other processors to use the same technology.²⁸¹

The court recognized that even absent any federal implied right of contribution or any rights under any state statute, other state common law claims might be available.²⁸² Thus, tortious interference claims, fraud, unfair competition, and other theories may be viable means for infringers to shift their liability for infringement of federal intellectual property rights.

Thus, state common law claims may be a means for direct infringers of federal intellectual property rights to shift their liability to those contributing to or inducing their infringement. In addition, states may allow breach of contract actions where parties made explicit agreements concerning liability infringement.²⁸³ The next critical question is whether such state law claims are preempted by any of the federal intellectual property statutes.

attorney's fees as a result of a breach of contract by defendant to indemnify plaintiff); *Alterman Foods, Inc. v. G.C.C. Beverages, Inc.*, 310 S.E.2d 755, 757-58 (Ga. App. 1983) (holding that attorney's fees were recoverable as damages for breach by seller of U.C.C. implied warranty which caused buyer to defend third party's personal injury suit). *But see* *Peterson v. Dean Witter Reynolds, Inc.*, 805 S.W.2d 541, 554 (Tex. App.--Dallas 1991, no writ) (denying attorney's fees for appeal because no evidence existed that appellant took the appeal "for delay and without sufficient cause"); *Dayton Hudson Corp. v. Eldridge*, 742 S.W.2d 482, 488 (Tex. App.--Dallas 1987, writ denied) (concluding that the prevailing party was not a "wholly innocent party" and thus not entitled to attorney's fees).

281. 143 F.R.D. 504, 507-08 & n.3 (S.D.N.Y. 1992); *see also* Note, *Enforcement of Rights Against Patent Infringers*, 72 HARV. L. REV. 328, 339 (1958) (stating that a party threatened with infringement could "under state law, secure injunctive relief against harassment of his customers").

282. *See id.* at 507-08.

283. *See infra* notes 359-411 and accompanying text.

V. WHETHER STATE LAWS CREATING RIGHTS IN FAVOR OF INFRINGERS TO CONTRIBUTION OR INDEMNITY ARE PREEMPTED BY FEDERAL LAW

Although it seems counter-intuitive, the lack of an implied federal right to contribution, or the lack of a federal common law right to contribution, or the lack of even both, does not necessarily mean that allowing a state cause of action would be inconsistent with the federal scheme, and hence preempted by federal law.²⁸⁴ "The lack of a federal cause of action . . . does not necessarily preclude the existence of state law remedies."²⁸⁵ Instead, a separate issue is raised: Is any state law remedy preempted by federal law?²⁸⁶ The lack of an implied federal right may have little to do with whether a state law action for the same wrong is preempted because those two inquiries turn on distinct analyses.

A. Preemption Doctrine

The preemption doctrine is based on the Supremacy Clause of Article Six of the United States Constitution, declaring federal law to be the supreme law of the land.²⁸⁷ Preemption of state law may result in three ways:

- (1) *Explicit pre-emption*, whereby Congress explicitly provided for pre-emption of state law in the federal statute; (2) *Field pre-emption*, wherein the scheme of federal regulation is so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it; and (3) *Conflict pre-emption*, where compliance with both federal and state regulations is a physical impossibility, . . . or where state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.²⁸⁸

284. See *Baker, Watts & Co. v. Miles & Stockbridge*, 876 F.2d 1101, 1106-08 (4th Cir. 1989).

285. *Id.* at 1106. For this reason, the district courts' holdings on this point in *Chemtron* and *Motorola* are inaccurate; those courts reasoned that because there was no implied federal right of contribution, any state law claim would necessarily be preempted. *Chemtron, Inc. v. Aqua Products, Inc.*, 830 F. Supp. 314, 316 (E.D. Va. 1993); *Motorola, Inc. v. Varo*, 656 F. Supp. 716, 719 (N.D. Tex. 1986).

286. See *Baker, Watts & Co.*, 876 F.2d at 1106.

287. U.S. CONST. art. VI, cl. 2; see *Hillsborough County v. Automated Med. Labs., Inc.*, 471 U.S. 707, 712-13 (1985) (citing *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1, 211 (1824)).

288. *Cover v. Hydramatic Packing Co.*, 83 F.3d 1390, 1393 (Fed. Cir.) (citations and internal quotations omitted), *cert. denied*, 117 S. Ct. 183 (1996); see *English v. General Elec. Co.*, 496 U.S. 72, 78-79 (1990); *Title Ins. Co. of Minn. v. I.R.S.*, 963 F.2d 297, 300 & n.1 (10th Cir. 1992).

1. Express Preemption

State law is preempted if the federal statute expressly replaces state law with a federal scheme of law and regulation.²⁸⁹ Only the copyright laws have such an express preemption clause, codified at section 301 of the Copyright Act.²⁹⁰ In order to be preempted by section 301, "(1) the work in question must be within the subject matter of copyright . . . and (2) the state law created right must be *equivalent to any of the exclusive copyright rights in 17 U.S.C. § 106.*"²⁹¹ The key limitation on the preemptive effect of section 301 is section 106, which in turn grants to the copyright owner the rights to reproduce the copyrighted work, prepare derivative works of the copyrighted work, distribute copies of the copyrighted work, perform or display the copyrighted work publicly, or where the work is a sound recording, to publicly perform the work by digital audio transmission.²⁹²

In accordance with section 301, state law claims are preempted only if they do not involve an element that is "qualitatively different" from these rights of reproduction, public performance, distribution, or public display.²⁹³ If the state law claim is "qualitatively different" from a right granted in section 106, then no federal preemption occurs. A state claim is "equivalent" to a copyright claim only "if the state right 'is infringed by the mere act(s) of reproduction, performance, distribution or display.'"²⁹⁴ Thus, "in order to escape preemption under 17 U.S.C. § 301, a state law claim . . . must include some qualitatively different 'extra element' besides

289. See *Jones v. Rath Packing Co.*, 430 U.S. 519, 525 (1977).

290. Section 301 provides in relevant part:

(a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by 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, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. *Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.*

(b) *Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to--*

.....
(3) *activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106*

17 U.S.C. §§ 301(a), (b)(3) (1994) (emphasis added).

291. *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F. Supp. 1201, 1204 (S.D.N.Y. 1986) (emphasis added).

292. See 17 U.S.C. § 106 (1994 & Supp. I 1995).

293. See *Harper & Rowe, Publishers, Inc. v. Nation Enter.*, 501 F. Supp. 848, 852 (S.D.N.Y. 1980), *aff'd*, 723 F.2d 195 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985); NIMMER & NIMMER, *supra* note 90, § 101[B][1], at 1-10 to 1-11.

294. *Universal City Studios, Inc. v. T-Shirt Gallery, Ltd.*, 634 F. Supp. 1468, 1475 (S.D.N.Y. 1986) (quoting *Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F. Supp. 1523, 1535 (S.D.N.Y. 1985)).

copying."²⁹⁵ The Copyright Act's express preemption clause limits its effect on state law.

Thus, the question is whether a claim for contribution or indemnity would be "equivalent to" a claim for violation of the copyright laws themselves. No court has yet addressed this issue. If state law claims for contribution were based, for example, upon a fraud or negligent misrepresentation, it apparently goes beyond the reach of section 301. A party infringing a copyright due to the misrepresentation of another would clearly be asserting a claim not precisely "equivalent to" any right within section 106, and so would not be preempted by the Copyright Act.

Even though the Copyright Act contains an express preemption clause, an inquiry into field and conflict preemption is required. "The fact that an express definition of the preemptive reach of a statute 'implies'—*i.e.*, supports a reasonable inference—that Congress did not intend to pre-empt [sic] other matters does not mean that the express clause entirely forecloses any possibility of implied preemption."²⁹⁶ At most, the presence of an express preemption clause merely infers that implied preemption is foreclosed.²⁹⁷

2. Field Preemption

Congressional intent to preempt state law can be inferred where Congress has occupied a particular field with "a scheme of federal regulation that is 'so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it.' "²⁹⁸

Prior to the adoption of the United States Constitution, a few states granted patents by special act or statute.²⁹⁹ Once the Constitution was adopted in 1787, however, Congress received the exclusive power to enact laws to "promote the Progress of Science and useful Arts, by securing for

295. *Patsy Aiken Designs, Inc. v. Baby Togs, Inc.*, 701 F. Supp. 108, 110 (E.D.N.C. 1988) (citing *Mayer*, 601 F. Supp. at 1535); see *Miller v. CP Chems., Inc.*, 808 F. Supp. 1238, 1245-46 (D.S.C. 1992) (claim preempted); *CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F. Supp. 337, 358-59 (M.D. Ga. 1992) (claim not preempted); *Kregos v. Associated Press*, 795 F. Supp. 1325, 1336-37 (S.D.N.Y. 1992) (claim preempted); *Howard v. Sterchi*, 725 F. Supp. 1572, 1578-79 (N.D. Ga. 1989) (claim not preempted); *Nash v. CBS, Inc.*, 704 F. Supp. 823, 831-33 (N.D. Ill. 1989) (claim not preempted); *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F. Supp. 1201, 1204-05 (S.D.N.Y. 1986) (claim not preempted).

296. *Freightliner Corp. v. Myrick*, 115 S. Ct. 1483, 1488 (1995).

297. See *id.*

298. *Wisconsin Pub. Intervenor v. Mortier*, 501 U.S. 597, 603-05 (1991) (citing *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947)); see *Silkwood v. Kerr-McGee Corp.*, 464 U.S. 238, 248 (1984); *Jones v. Rath Packing Co.*, 430 U.S. 519, 525 (1977); *Bishop v. Fed. Intermediate Credit Bank*, 908 F.2d 658, 660 (10th Cir. 1990).

299. See 1 ALBERT HENRY WALKER, *WALKER ON PATENTS* § 7, at 28 (Anthony Deller ed. 1937).

limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."³⁰⁰ Patents became a federal concern because the Framers believed that the states could not "separately make effectual provision" for patents.³⁰¹

The Patent Act is probably not field-preemptive of a claim for contribution or indemnity. Inventions that are not patentable, or are patentable but not patented, may still be subject to protection by state law. For example, wholly unpatentable ideas or patentable-but-unpatented inventions may still be protected as "trade secrets" under state laws.³⁰² The Patent Act is most likely not field-preemptive of contribution or indemnity claims, because it only preempts state protection of patented inventions, and nothing more.³⁰³

As with patents, the Constitution made copyright law a matter of federal concern because the Framers believed that the states could not adequately protect them.³⁰⁴ The copyright laws are field-preemptive to the extent that section 301 preempts state law that is not qualitatively different from the Copyright Act.³⁰⁵

Finally, state laws have long supplemented federal trademark statutes;³⁰⁶ as a matter of fact, state trademark statutes predated the Lanham Act.³⁰⁷ The "Lanham Act generally does not preempt state regulation of trademarks, whether statutory or at common law."³⁰⁸ In addition, most courts have held that the federal common law of unfair competition died with the enactment of the Lanham Act.³⁰⁹ The Lanham Act statute, however, does not preempt the entire field of trademark law.

300. U.S. CONST. art. I, § 8, cl. 8.

301. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 228 (1964) (quoting THE FEDERALIST NO. 43, at 288 (James Madison) (Cooke ed. 1961)). The same does not hold true for federal trademark law, which has no constitutional source. See U.S. CONST., art. I, § 8, cl. 8.

302. See generally *Moore v. American Barmag Corp.*, 710 F. Supp. 1050, 1058-59 (W.D.N.C. 1989) (discussing facts that establish a prima facie claim for misappropriation of trade secrets).

303. See *Cover v. Hydramatic Packing Co.*, 83 F.3d 1390, 1393 (Fed. Cir. 1996); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 42 U.S.P.Q.2d 1629 (C.D. Cal. 1997).

304. See *Sears, Roebuck & Co.*, 376 U.S. at 228.

305. See *supra* notes 290-95 and accompanying text.

306. See *La Chemise LaCoste v. Alligator Co.*, 506 F.2d 339, 345-46 (3d. Cir. 1974).

307. See Ronald J. Horta, Note, *Without Secondary Meaning, Do Product Design Trade Dress Protections Function as Infinite Patents?*, 27 SUFFOLK L. REV. 113, 116-17 (1993).

308. *Emerson Power Transmission Corp. v. Roller Bearing Co.*, 922 F. Supp. 1306, 1313 (N.D. Ind. 1996); see *La Chemise LaCoste*, 506 F.2d at 346; *Gardner v. Clark Oil Refining Corp.*, 383 F. Supp. 151, 153 (E.D. Wis. 1974).

309. See *Monoflo Int'l, Inc. v. Sahn*, 726 F. Supp. 121, 126 (E.D. Va. 1989).

3. Conflict Preemption

Even absent any express or implied congressional intent to preempt state authority in a field, state law is nevertheless preempted to the extent it actually conflicts with federal law:³¹⁰

Congress can preempt portions of the field of law without preempting the field of law in its entirety, thereby leaving the state free to act when in doing so the state does not impede the objectives of Congress. Preemption thus does not preclude all relief, but merely limits relief available to the extent that Congress intended to preclude the application of state law.³¹¹

A conflict resulting in preemption of state law arises in a number of ways. Generally, federal law preempts any state law that clashes with its objectives.³¹² Preemption also arises when "compliance with both federal and state regulations is a physical impossibility,"³¹³ when federal law implies a barrier to state regulation,³¹⁴ or when state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."³¹⁵ For that reason, federal law trumps any state law that "touches upon the area of these federal statutes [under the] 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law."³¹⁶ In this instance, federal law preempts state law, even though the state law results from "undoubted state power."³¹⁷

Clearly a state may not make it unlawful to use an invention, mark, or writing that could not be lawfully protected by patent, trademark or copyright laws, because a state law granting such protection would conflict with the federal law's denial of such protection. The Supreme Court addressed this basic issue in *Sears, Roebuck & Co. v. Stiffel Co.*, where it

310. *Wisconsin Pub. Intervenor v. Mortier*, 501 U.S. 597, 605-07 (1991).

311. *Jacobs Wind Elec. Co. v. Department of Transp.*, 626 So.2d 1333, 1335 (Fla. 1993) (citation omitted).

312. *See Interpart Corp. v. Italia*, 777 F.2d 678, 684 (Fed. Cir. 1985) (observing that state laws which clash with objectives of the federal patent laws are preempted); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1356 (Fed. Cir. 1992) (holding that patent laws preempt state tort action for abuse of process as remedy for inequitable conduct used to obtain patent).

313. *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43 (1963).

314. *See Louisiana Pub. Serv. Comm'n v. FCC*, 476 U.S. 355, 368 (1986) (citing *Shaw v. Delta Air Lines, Inc.*, 463 U.S. 85, 99 & n.20 (1983)).

315. *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

316. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 (1964) (quoting *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 176 (1942)).

317. *See id.*

examined the preemptive impact of federal patent laws on state unfair competition laws.³¹⁸ The Court held that permitting states to outlaw

the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only . . . 17 years' protection to genuine inventions, . . . States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards.³¹⁹

Doing so protects something "which represents too slight of an advance to be patented" and would "permit the state to block off from the public something which federal law has said belongs to the public."³²⁰ The Court's reasoning also applies to both copyrights³²¹ and trademarks.³²² Clearly, state laws may not impose liability on a party for merely copying an item that cannot be protected under any of the federal intellectual property statutes.³²³

In contrast, so long as the infringer and the party from whom the infringer sought relief *both* engaged in actionable conduct involving a patent, trademark, or copyright, any contribution claim by an infringer for contribution would not implicate preemption in the sense of state protection for something not protected by federal law. Instead, the state law claim would be in favor of an infringer of an actual protected federal right and

318. 376 U.S. 225, 228-33 (1964). The Supreme Court has held that states may not make it unlawful to copy designs which were covered by invalid patents. *See id.* at 233; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238-39 (1964). The Federal Circuit has extended this reasoning, holding that it could not be unlawful to make a product that does not infringe a valid patent. *See Litton Sys., Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1444 (Fed. Cir. 1984). In each of these cases, the accused products were not covered by a valid patent, and so if a state were to impose liability, it would be an expansion of federal patent rights, and thus be inconsistent with patent law. *See Sears, Roebuck & Co.*, 376 U.S. at 232.

319. *Sears, Roebuck & Co.*, 376 U.S. at 232.

320. *Id.*

321. *See Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 269-70 (5th Cir. 1988) (holding that section 117 of the Copyright Act preempted Louisiana's License Act, because the Louisiana Act prohibited adaptation of a computer program); *Hoehling v. Universal City Studios, Inc.*, 618 F.2d 972, 980 (2d Cir. 1980) (" 'To forbid copying' in this case, 'would interfere with the federal policy . . . of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.' " (quoting *Compco Corp.*, 376 U.S. at 237)). *See generally Step-Saver Data Systems, Inc. v. Wyse Tech.*, 939 F.2d 91, 96 n.7 (3d Cir. 1991) (discussing area of copyright law where doubts about preemption led Congress to amend the law). *But cf. Danjaq, S.A. v. MGM/UA Communications, Co.*, 773 F. Supp. 194, 202 (C.D. Cal. 1991) (holding that no implied claim for contributing to copyright infringement would lie where there was no direct copyright infringement because plaintiff had state remedies).

322. *See Gemveto Jewelry Co. v. Jeff Cooper Inc.*, 800 F.2d 256, 259 (Fed. Cir. 1986).

323. *See Sears, Roebuck & Co.*, 376 U.S. at 232-33.

against a joint tortfeasor whose conduct was proscribed by federal law. There is no conflict or disagreement.

This distinction is critical; whether claims for indemnity or contribution should be preempted under conflict preemption should turn on whether the claim for contribution is by an infringer against another party who has, under federal law, engaged in conduct that constitutes contribution to or inducement of infringement, or instead is against a party who has engaged in conduct which is *not* prohibited by federal law. Put simply, just as states cannot outlaw copying unprotectable products under federal law, they cannot outlaw conduct that is not actionable under federal law.³²⁴

The Federal Circuit recently rejected this straight-forward proposition, however, in *Cover v. Hydramatic Parking Co.*,³²⁵ a decision that state and federal courts are likely to revisit soon and revisit often. In *Cover*, Cover entered into an exclusive license agreement with Pacor to commercialize a light fixture after obtaining a patent on the invention.³²⁶ Pacor sold some of its insulation to Sea Gull, using Cover's parts in manufacturing light fixtures.³²⁷ Pacor did not mark the insulation units with the patent number, as required by section 287 of the Patent Act.³²⁸ Soon after Sea Gull began buying this insulation from Pacor, it sent drawings and specifications to Hydramatic, so that Hydramatic could manufacture more of the insulation.³²⁹ When Cover learned that Sea Gull was not buying all of its insulation from Pacor, Cover wrote a cease and desist letter to Hydramatic.³³⁰

Consequently, Cover sued Hydramatic for contributory infringement and Sea Gull for direct infringement of his patent.³³¹ Cover claimed that Sea Gull manufactured light fixtures using parts manufactured by Hydramatic, and that the completed light fixture infringed Cover's patent.³³² Hydramatic filed a cross-claim against Sea Gull, claiming that Sea Gull owed Hydramatic indemnity under section 2-312(c) of the Pennsylvania Uniform Commercial Code.³³³

The district court found that Cover's cease and desist letter did not constitute notice of infringement, and therefore, because Pacor did not mark units marked in accordance with section 287(a), Sea Gull could not be held

324. *See generally id.* (holding that a state may not make it unlawful to copy designs that are not properly patented).

325. 83 F.3d 1390, 1394 (Fed. Cir.), *cert. denied*, 117 S. Ct. 183 (1996).

326. *See id.* at 1391.

327. *See id.*

328. 35 U.S.C. § 287. *See id.* at 1391-92.

329. *See id.* at 1392.

330. *See id.*

331. *See id.* at 1391.

332. *See id.*

333. *See id.*

liable for damages until Cover filed the complaint.³³⁴ Cover settled with Sea Gull before trial, and the case between them was dismissed with prejudice.³³⁵ As a result, the only claim remaining for trial was Hydramatic's cross-claim against Sea Gull for indemnification under section 2-312(c) of the Pennsylvania Uniform Commercial Code.³³⁶

The district court reasoned that, due to Pacor's failure to mark units in accordance with section 287, Sea Gull could not be held liable for any damages until the complaint was filed in 1993. Thus, federal law preempted Hydramatic's state law claim because state law could not impose liability for conduct that was expressly *not* actionable under federal law.³³⁷

The Federal Circuit reversed the district court's decision.³³⁸ The court stated that the issue was "whether there is such a direct conflict between [section] 287(a) of the Patent Code and [section 2-312(c)] of Pennsylvania's commercial law that compliance with both the patent law and state law is 'physical impossibility' or whether the state law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress' in enacting [section] 287(a)."³³⁹ The Federal Circuit held that section 2-312 was not preempted by federal law, even though allowing an indemnity claim would permit state law to impose liability where federal law did not.³⁴⁰

The court's analysis is short, and found no conflict between using state law to impose liability where federal law expressly prohibited it under the patent marking statute, section 287(a).³⁴¹

The purpose of this so-called "marking statute" is to encourage the patentee to give notice to the public that the marked product is protected by

334. *See id.* at 1392.

335. *See id.*

336. *See id.*

337. *See id.*

338. *See id.* at 1394.

339. *Id.* at 1393 (quoting *Gade v. National Solid Wastes Management Ass'n*, 505 U.S. 88, 98 (1992)).

340. *See id.* at 1394.

341. Section 287(a) provides in full:

Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat", together with the number of the patent, or when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

35 U.S.C. § 287(a) (1994 & Supp. I 1995).

a patent.³⁴² Numerous cases have denied patent damages for failure to comply with section 287(a).³⁴³ Consequently, liability may not be imposed upon an infringer for any infringement occurring prior to the infringer's receipt of constructive notice, in the form of marking, or actual notice, in the form of a cease and desist letter, for example.³⁴⁴

In addressing whether section 287 conflicted with the Pennsylvania statute, the Federal Circuit first reasoned that because Sea Gull and Hydramatic had both settled with the patent owner, "the patentee and the patent code are no longer in the picture."³⁴⁵ The Federal Circuit then rejected Sea Gull's argument that if Hydramatic owed no liability to Cover for infringement due to Pacor's failure to mark, then Hydramatic could owe no liability to Sea Gull under section 2-312(c), reasoning:

Because the patentee, argues Sea Gull, did not mark his goods in accordance with [section] 287(a), there was no "rightful claim," [in terms of section 2-312(c)] thus saving Sea Gull from patent liability. As such, Pennsylvania's commercial code cannot impose patent liability where the patent law forbids it. This argument misses the point. By focusing on the phrase "rightful claim" in [section 2-312(c)] and asking us to equate "rightful claim" with patent liability, Sea Gull, in essence, is making a statutory construction argument, which has the effect of avoiding the pre-emption issue.

However, pre-emption [sic] is the issue, and the focus of our inquiry is on the interaction, if any, between [section]287(a) and [section 2-312(c)]. Once the patentee left the picture, so did [section] 287(a). There is simply nothing on the face of [section] 287(a) that pertains to anyone but the infringer and the patentee. At issue, therefore, is the legal relationship between two contracting parties, and it is [section 2-312(c)] which defines this relationship. On its face, [section 2-312(c)] shifts all costs, including attorney fees, to the buyer who furnishes a seller with specifications that leads to a "rightful claim" of infringement. This state law, unlike the state laws in previous patent pre-emption [sic] cases, does not purport to provide exclusive property rights to "creations which would otherwise remain unprotected under federal law." In short, we cannot discern any conflict between [sections] 287(a) and [2-312(c)].³⁴⁶

342. See *American Med. Sys., Inc. v. Medical Eng'g Corp.*, 6 F.3d 1523, 1537 (Fed. Cir. 1993).

343. See *id.* at 1537-38; *Wang Labs., Inc. v. Toshiba Corp.*, 993 F.2d 858, 870 (Fed. Cir. 1993); *Devices for Med., Inc. v. Boehl*, 822 F.2d 1062, 1066 (Fed. Cir. 1987); *Rutherford v. Trim-Tex, Inc.*, 803 F. Supp. 158, 164 (N.D. Ill. 1992); *Konstant Prods., Inc. v. Frasier Indus. Co.*, 25 U.S.P.Q.2d 1223, 1226 (N.D. Ill. 1992); *Refac Elec. Corp. v. A & B Beacon Bus. Mach., Inc.*, 695 F. Supp. 753, 755 (S.D.N.Y. 1988); *In re Yarn Processing Patent Validity Litig.*, 602 F. Supp. 159, 170 (W.D.N.C. 1984).

344. See *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1111 (Fed. Cir. 1996).

345. *Cover*, 83 F.3d at 1393.

346. *Id.* at 1394 (footnote omitted).

This remarkable result is unprecedented in patent law. The Federal Circuit squarely held that the Patent Act does not preempt a state from imposing liability where the Patent Act expressly provides that no liability attaches.³⁴⁷ The Federal Circuit's conclusion that no conflict exists in allowing a party to recover damages under state law when, under the Patent Act, recovery for damages is unavailable, ignores the principle that the wrong-doer cannot have broader rights than the protected party.³⁴⁸

Hypothetically, suppose that the facts in *Cover* are these: instead of actually manufacturing the finished light fixtures for the first time, Sea Gull was refurbishing already completed light fixtures, and merely used Hydramatic's insulation as a "repair" to the finished product. Under generally accepted principles of patent law, a party who merely repairs a patented product, as opposed to replacing the patented product, does not incur patent liability.³⁴⁹ Under the reasoning of *Cover*, even though an act of repair is not actionable under federal law, a party could still turn around and sue the party providing it with parts for its attorney fees incurred in defending a meritless patent suit. Thus, the Federal Circuit dodged the issue of preemption by failing to recognize that if the term "rightful claim" was construed to mean anything other than a claim for which liability under federal patent law attaches, then state law clearly conflicts with the federal law by imposing liability where federal law mandates that none exist.³⁵⁰

Despite the reasoning of *Cover*, only if the contribution or indemnity claim is against a party who engaged in conduct actually violating federal intellectual property law, does the claim not conflict with federal law; but if the alleged secondary infringer's actions do not violate federal law, then making those actions unlawful conflicts with federal law by turning permissible conduct under federal law into impermissible conduct under state law.

a. Infringers' Claims Against a Party Whose Conduct is Actionable in a Suit by the Patentee Should Not be Preempted

Congress expressly defined direct infringement, contributory infringement, and induced infringement in certain ways. *Sears* strongly suggests that states may not vary from these definitions by creating claims which

347. *See id.*

348. *See sources cited supra* note 32.

349. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 342-46 (1961).

350. The parties apparently failed to recognize that there are numerous other statutory conflicts implicated by imposing liability under these circumstances, the least of which relates to section 287(a). *See supra* notes 156-71 and accompanying text.

expand the definitions used by Congress.³⁵¹ But, allowing an accused infringer to obtain contribution from a contributory infringer does not "expand" the scope of the Patent Act nor broaden the scope of Congress' definitions of contributory and induced infringement, so long as contribution is sought from another party for what actually constitutes contributory or induced infringement. Allowing a claim for contribution in favor of one party against a second party who did actually induce or contribute to the first party's infringement does not broaden the protection afforded to the patent, as was the case in *Sears*.³⁵² Under such circumstances, the scope of the patent is not broadened, and the party's conduct is unlawful under federal law. None of the courts rejecting claims for contribution faced any allegations against the alleged contributory infringer, such that the secondary infringer's conduct came within the statutory definitions of contributory or induced infringement.³⁵³

Holding that contribution actions under these circumstances are preempted can lead to questionable results. For example, as with patent and trademark infringement, if copyright infringement is imposed under strict liability, a direct copyright infringer who does not know that he or she is infringing, and in fact believed in good faith that he or she was not infringing, may be liable only for nominal damages.³⁵⁴ Yet, a party may be liable for contributory infringement where he or she knows that direct infringement will result. Therefore, it is possible that the innocent direct infringer would not have a claim for contribution against the party who knowingly induced its infringement. This is precisely the opposite result reached under most states' common law or statutory contribution schemes, which generally authorize contribution or indemnity in favor of the less culpable joint tortfeasor.³⁵⁵

One argument against state claims for contribution is that it encourages forum shopping. For example, suppose that New York state law permits claims for contribution, but New Jersey does not. While this may be a

351. For example, the Eastern District of Pennsylvania recognized that the "doctrine of contributory infringement exists to protect *patent rights* from subversion by those who . . . engage in acts designed to facilitate the infringement of others." *McNeilab, Inc. v. Scandipharm, Inc.*, No. CIV. A 92-7403, 1993 WL 212424, at *3 (E.D. Pa. June 16, 1993), *aff'd*, 1996 WL 431352 (Fed. Cir. July 31, 1996) (emphasis added); see *Motorola Inc. v. Varo, Inc.*, 656 F. Supp. 716, 719 (N.D. Tex. 1986) (noting that state courts cannot hear infringement causes of action).

352. See *supra* notes 318-20 and accompanying text.

353. See *McNeilab*, 1993 WL 212424, at *4; *Construction Tech, Inc. v. Lockformer Co.*, 781 F. Supp. 195, 201 (S.D.N.Y. 1990); *Motorola*, 656 F. Supp. at 717-18.

354. See 17 U.S.C. § 504(c) (1994).

355. See, e.g., *Beavers v. West Penn Power Co.*, 436 F.2d 869, 875 (3d Cir. 1971); *Garza v. Arizona Ref. Co.*, 634 F. Supp. 959, 961-62 (S.D. Tex. 1986); *Cage v. New York Cent. R.R. Co.*, 276 F. Supp. 778, 788-91 (W.D. Pa. 1967), *aff'd*, 386 F.2d 998 (3d Cir. 1967); *Beeck v. Aquaslide 'N' Dive Corp.*, 359 N.W.2d 149, 169-70 (Iowa 1984); RESTATEMENT (SECOND) OF TORTS § 886A (1979).

reason for a particular state to refuse to allow such claims, it is not a reason to hold that these claims are preempted.

b. Infringers' Claims Against a Party Whose Conduct is Not Actionable in a Suit by the Patentee Should be Preempted

Courts have long recognized that expansive definitions of what constitutes contributing or inducing infringement of intellectual property rights lead to difficult questions, and thus are reluctant to expand existing definitions of liability:

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 a co-infringer?³⁵⁶

Similarly, before the 1952 codification of the definitions of contributory and inducing infringement, courts faced claims that a shipper who was transporting infringing devices and an electric company supplying electricity used to infringe a patent were contributory infringers.³⁵⁷

These concerns are clearly not present so long as the third-party's activities fit within the definitions of contributing to or inducing infringement. However, allowing a state right of contribution against a party that did not violate any federal intellectual property law results in a conflict with federal law, and, accordingly, is preempted.³⁵⁸

VI. CREATING RIGHTS OF INDEMNIFICATION OR CONTRIBUTION BY CONTRACT

Given the lack of a clear right to contribution, the uncertainties surrounding the precise reach of the implied warranty accompanying the sale of goods under section 312(3) and the fact that it is unclear whether implied federal rights in favor of an infringer exist or whether state law

356. *Tubular Rivet & Stud Co. v. O'Brien*, 93 F. 200, 202-03 (C.C.D. Mass. 1898).

357. See *Oddi*, *supra* note 35, at 74 n.186 (citing *Edison Elec. Light Co. v. Peninsular Light Power & Heat Co.*, 101 F. 831, 837 (6th Cir. 1900); *Cotton-Tie Supply Co. v. McReady*, 1 F. Cas. 631, 635 (C.C.S.D.N.Y. 1879)).

358. Cf. *McNeilab*, 1993 WL 212424, at *4 (discussing patent law); *Motorola*, 656 F. Supp. at 719 (discussing patent law); *Hoehling v. Universal City Studios, Inc.*, 618 F.2d 972, 980 (2d Cir. 1980) (discussing copyright law).

claims are viable,³⁵⁹ parties should contractually create clearly defined rights to contribution or indemnity. Parties have long done so.³⁶⁰ Because parties may be found liable for indirect infringement of federal intellectual property rights under a wide variety of settings involving contractual relationships, but not involving the sale of goods, parties should consider including contractual rights to contribution or indemnity in their leases, service contracts, loan documents, and other contracts.³⁶¹

All sales of goods are accompanied by the warranty of non-infringement created by Article 2, section 312(3) of the Uniform Commercial Code.³⁶² However, parties may negate or vary the implied warranty otherwise created by section 312(3) in connection with the sale of goods. Generally, the Uniform Commercial Code permits parties to vary its terms by agreement.³⁶³ Section 312(3) specifically states that its provisions apply "[u]nless the parties agree otherwise."³⁶⁴ Section 312(3) probably applies only if nothing in an agreement addresses liability for infringement.³⁶⁵ Parties may, by *any* agreement, supersede section 312(3).

359. See generally *Fashion House, Inc. v. K-Mart Corp.*, 892 F.2d 1076, 1094 (1st Cir. 1989) (distinguishing contractual indemnity for trademark infringement from common law indemnity).

360. For example, in *Ilyin v. Avon Publications, Inc.*, 144 F. Supp. 368, 370-74 (S.D.N.Y. 1956), a publisher sued for copyright infringement and filed a third-party action for indemnification against the persons who had allegedly given it the right to publish the copyrighted article. The evidence showed that the third-party defendant had given permission to publish the work, but in fact lacked authority to do so. See *id.* at 372. The court held that the defendant could state a claim against a third-party defendant for indemnification pursuant to the contract between them. See *id.*

361. See, e.g., *Hard Rock Cafe Licensing Corp. v. Concession Serv., Inc.*, 955 F.2d 1143 (7th Cir. 1992) (discussing a situation where the owner of a flea market was sued for infringing the trademark of a vendor); *Chemtron, Inc. v. Aqua Products, Inc.*, 830 F. Supp. 314, 315 (E.D. Va. 1993) (addressing a contractual relationship whereby a buyer of component parts was sued by a third party because component parts as assembled infringed third party's patent). For an example of the problems that can arise where nothing is said as to indemnification in a patent license, see *Wynne v. Allen*, 96 S.E.2d 422, 424-26 (N.C. 1957). For a similar predicament involving trademark infringement, see *Rankin v. Sharples*, 69 N.E. 9, 10 (Ill. 1903) (involving a licensee sued by a third-party patentee) and *Tenneco Oil Co. v. Gulsby Eng'g, Inc.*, 846 S.W.2d 599, 602-03 (Tex. App.—Houston [14th Dist.] 1993, writ denied) (involving a purchaser of a natural gas plant who sued a contractor for building an infringing plant).

362. See U.C.C. § 2-312(3) (1994).

363. See U.C.C. § 1-102(3) (1994). Any agreement must, of course, be in writing where required by the Uniform Commercial Code. See U.C.C. § 2-201 (1994) (U.C.C. Statute of Frauds provisions).

364. U.C.C. § 2-312(3) (1994).

365. See *MAS Corp. v. Thompson*, 302 S.E.2d 271, 275 (N.C. App. 1983). In addition, section 312(3), unlike section 312, specifically provides that the warranty of "good title" created by subsection 1 of section 312 can be excluded "only by specific language . . . which give[s] the buyer reason to know that the person selling does not claim title." U.C.C. § 2-312(2). The Uniform Commercial Code does not expressly require specific language to disclaim the warranty of non-infringement under subsection 3. Therefore, by implication, specific language is not required to negate section 312(3). "Conspicuous language" may not be required to disclaim section 312(3). While the Uniform Commercial Code requires that any modification or exclusion of an *implied* warranty be made

One possible modification to the gap-filling warranty created by section 312(3) relates to the allocation of risk of the seller's contributory and induced infringement. The important point in the context of discussing section 312(3) is that it is doubtful that an innocent infringing buyer can bring a claim for contribution or indemnity against a seller who knowingly contributed to or induced the buyer's infringement.³⁶⁶ Absent an express agreement, the parties surrender to a court or a jury the right to determine the scope of their obligations in hindsight.

For example, where a buyer purchases all components from a seller and merely assembles them according to its own plans, the buyer needs to recognize that, under *Chemtron*, it may be liable for any future infringement.³⁶⁷ For these reasons, where a buyer knows that the goods are to be combined or used in such a way so as to risk an infringement, the buyer should consider seeking from the seller a warranty that the proposed use will not infringe any intellectual property rights. Similarly, secondary liability for trademark and copyright infringement has been imposed in a number of situations where the parties could have provided contractual rights for indemnity between them. For example, courts have held that a swap meet owner contributed to the trademark infringement of a vendor who sold infringing t-shirts.³⁶⁸

In connection with both the sale of goods and any other contract, there are many agreements that can be made, limited only by the bargaining power of the parties and their creativity. At one end, all warranties can be negated. At the other end, the parties may agree that the buyer will agree to indemnify the seller for any claims.³⁶⁹ In between, a whole range of options are available. Consider the following possibilities:

- (1) Exclude or limit the available remedies for breach, including, for example, addressing whether attorneys' fees and loss of goodwill are recoverable in sales of goods;
- (2) Make indemnification the sole remedy;

conspicuously, *see* U.C.C. § 2-316(2) (1994), the warranty created by section 312(3) is probably not an "implied warranty" for purposes of section 316. *See* U.C.C. § 312, cmt. 6.

366. *See generally* *Jordache Enterprise, Inc. v. Global Union Bank*, 688 F. Supp. 939 (S.D.N.Y. 1988) (involving an indemnification agreement in a trademark infringement case that allowed for recovery by the trademark owner, even if the defendant had not contributorily infringed).

367. *See supra* notes 260-67 and accompanying text.

368. *See Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-50 (7th Cir. 1992) (recognizing that a flea market owner could be held liable for secondary infringement); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264-65 (9th Cir. 1996) (same).

369. Such a provision would have precluded the buyer's actions against the seller in *Chemtron*. *See supra* notes 260-67 and accompanying text.

- (3) Exclude or limit the measure of damages, such as, capping them at the amount of sales or otherwise liquidating damages;
- (4) Limit the representation of non-infringement to exclude certain countries, or certain types of claims (*e.g.*, limiting the representations only to patents);
- (5) Limit the representation of non-infringement to *known* rights;
- (6) Make the Uniform Commercial Code's otherwise implicit requirements of notification and tender of defense explicit and stronger;
- (7) Limit the scope of the warranty to non-altered products;
- (8) Increase the scope of the indemnity or representations beyond federal patent, copyright, or trademark law, or beyond liability to provide clear title;
- (9) In a patent license (or sales contract) in a crowded patent area, permit the licensee to keep a portion of the royalty payments (or sales price) in escrow in the event that an infringement suit is filed;
- (10) Specifically warrant that the downstream party (a lessee of a store, for example) will not infringe any intellectual property right; and
- (11) Stipulate (in a lease, for example) that the party (*e.g.*, the lessor) has no control over operations.³⁷⁰

Each of these provisions, as well as others, may be necessary or appropriate in certain circumstances. The key is for parties to understand whether and how section 312(3) or the parties' existing contractual arrangements will allocate the risk and consequences of any infringement by either party, and decide whether that allocation best suits their commercial circumstances, in light of the uncertainties of the law.

370. Some of these issues are discussed in the licensing context in Evelyn M. Sommer, *License Agreements*, 354 PLI/PAT 165, 188-93, 211-13 (1993); Ronald E. Myrick & Penelope Smith Wilson, *Licensing Rights to Software*, 354 PLI/PAT 467, 496-98 (1993). Others are suggested by the facts and holdings of *Agulnick v. American Hosp. Supply Corp.*, 507 F. Supp. 135, 137-39 (D. Mass. 1981); *C.I.P. Studios, Ltd. v. Spa Health Club, Inc.*, 337 So.2d 1009, 1010-11 (Fla. Dist. Ct. App. 1976); *Rankin v. Sharples*, 69 N.E. 9, 11-12 (Ill. 1903); *Tenneco Oil Co. v. Gulsby Eng'g, Inc.*, 846 S.W.2d 599, 607-08 (Tex. App.—Houston [14th Dist.] 1993, writ denied).

VII. THE DEFENSES TO ENFORCEABILITY OF INDEMNITY AGREEMENTS

Obviously, usual contract defenses apply to a suit for infringement. In addition, although courts appear willing to enforce indemnity agreements, at least for "innocent" infringement, it remains to be seen whether courts will allow indemnification where the indemnitee has intentionally or knowingly engaged in infringing activities. For example, in *Olan Mills v. Linn Photo Co.*, the district court permitted a recovery of attorneys' fees and litigation expenses incurred in defending a suit in which no infringement was found, but doubted whether any agreement to indemnify for intentional infringement could be enforceable:

Plaintiffs argue that the indemnity agreement does not purport to excuse the [accused copyright infringer] from liability for negligent, reckless, willful, or intentional wrongdoing, or from liability for its systematic course of infringement. Under Iowa law, " '[t]he general rule is that an indemnity agreement will not be construed to relieve the indemnitee from the effect of its own negligence unless the agreement provides for it in 'clear and unequivocal' language.' " Indemnity is not available where there has been a showing of an intentional wrong.

Liability for copyright infringement is independent of the intent with which the infringer acted. No scienter need be shown to prove infringement. Intent is relevant only to the decision whether or not to increase damages. . . . A finding of willful infringement permits the court to increase statutory damages. Negligence or recklessness has no relevancy to determining whether copyright infringement has occurred.

In this case, the court need not address the difficult question of whether the indemnity agreement at issue here is sufficient to require the signer of the agreement to indemnify [the lab] from its strict statutory liability for any copyright infringement which may occur, and in particular from any infringement on [the lab's] part which is found to have been willful. As previously found by the court, [the lab] did not infringe upon [the photographer's] copyright . . . because the reproduction . . . was expressly authorized. Thus, the court need not determine if the agreement is sufficient to indemnify [the lab] against liability for copyright infringement, but need only determine if the indemnity agreement covers payment of [the lab's] reasonable expenses in defending this suit. . . . As no party has argued otherwise, the court finds that this limited purpose is covered by the agreement.³⁷¹

Another defense relates to preemption. Courts have recognized that enforcement of a private contract under state law which is broader than or

371. 795 F. Supp. 1423, 1436-37 (N.D. Iowa 1991) (citations omitted), *rev'd on other grounds*, 23 F.3d 1345 (8th Cir. 1994).

inconsistent with federal law does not implicate the same concerns that are raised by recognizing state law claims in litigation.³⁷² These cases recognize that, although a state cannot "validly enact a law that conflicts with the federal laws or obstructs its underlying legislative intent," enforcing a private "contract does not restrict the actions of non-parties."³⁷³

The Supreme Court recognized these general principles in *Aronson v. Quickpoint Pencil Co.*³⁷⁴ An inventor, who had filed a patent application, and a manufacturer made an agreement by which the manufacturer agreed to pay a five percent royalty to make the invention if a patent issued, but only a 2½ percent royalty in the event that the application was not allowed within five years.³⁷⁵ The Patent and Trademark office rejected the application, and although the manufacturer paid the 2½ percent royalty for the next fourteen years, it eventually sued for a declaration that the agreement was unenforceable.³⁷⁶

The Court held that the agreement was not unenforceable as preempted by the patent laws.³⁷⁷ The Court emphasized, "Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law."³⁷⁸ The court held the contract enforceable because the contract was not inconsistent with the three purposes of patent laws: "to foster and reward invention," to "promote[] disclosure of inventions," and "to assure that ideas in the public domain remain there for the free use of the public."³⁷⁹

More recently, the Federal Circuit addressed these issues in *Universal Gym Equipment, Inc. v. Erwa Exercise Equipment Ltd.*³⁸⁰ There, the patentee, Universal, entered into a contract authorizing Erwa to make and sell exercise machines covered by Universal's patent in exchange for a royalty.³⁸¹ The parties agreed that, after termination of the contract, Erwa would not sell "products which include any of the features . . . of [Universal] and will not thereafter use . . . any other trademark or trade style in any

372. See *Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d 1082, 1085 & n.5 (Fed. Cir. 1989) (citing *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 154 (1989); *Aronson v. Quickpoint Pencil Co.*, 440 U.S. 257, 262 (1979)).

373. See *id.*

374. 440 U.S. 257, 260-67 (1979).

375. See *id.* at 259.

376. See *id.*

377. See *id.* at 267.

378. *Id.* at 262.

379. *Id.* at 262-66.

380. 827 F.2d 1542 (Fed. Cir. 1987).

381. See *id.* at 1545.

way similar to any of those of [Universal]."³⁸² The district court found that this provision had been violated, and rejected Erwa's argument that the provision was unenforceable under *Sears* and *Compco*.³⁸³ The Federal Circuit affirmed:

The question in this case is not whether the patent law bars the state from granting relief under its unfair competition law against copying an unpatented article. The question is whether the patent law precludes the application of state law to validate and award damages for a licensee's breach of a contractual provision by which the licensee agreed that, after its license to manufacture the licensor's product had terminated, the licensee would not include the licensor's features and designs in the licensee's products. In our view the patent law does not preclude the application of state contract law to provide damages for breach of this agreement.

The district court found that, before entering into the agreement with Universal, Global had obtained a Universal machine on the open market and reverse-engineered it—which Global was free to do. At that time Global, like anyone else, could have itself reverse-engineered, manufactured, and sold a copy of the Universal machine. Global, however, chose not to do so.

Instead, Global entered into a contract with Universal, in which Universal authorized Global, in return for royalty payments, to manufacture and sell the Universal machine under the Universal trademark, and Global agreed to not use any of the features and designs of Universal's machine after the agreement terminated. The fact that this agreement prevented Global from using information that it previously had gleaned by reverse engineering is irrelevant. Parties to a contract may limit their right to take action they previously had been free to take. The *Sears/Compco* doctrine nullifies a private contract only if enforcement of the contract would conflict with the patent law. As we have shown, the validation and application of paragraph 18 by the district court does not impinge on the patent law.³⁸⁴

382. *Id.*

383. *See id.* at 1548-49; *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Bright Lighting, Inc.*, 376 U.S. 234 (1964).

384. *Universal Gym Equipment, Inc.*, 827 F.2d at 1550 (citations omitted).

These same principles have also been recognized in copyright³⁸⁵ and trademark cases.³⁸⁶

Finally, in *Westgo Industries, Inc. v. W.J. King Co.*, the plaintiff sought a declaration that its contract with the defendant was void because the plaintiff was obligated to pay royalties for the right to sell a product, which was not patentable.³⁸⁷ In exchange for that right, the defendant agreed not to compete with the plaintiff in the market.³⁸⁸ The district court held that the agreement was supported by consideration and did not violate federal and state antitrust statutes.³⁸⁹ The court recognized that an agreement concerning an unpatented product did not implicate the same policy concerns that prompted the United States Supreme Court to hold that a licensee is not estopped from challenging the validity of the licensed patent in *Lear, Inc. v. Adkins*:³⁹⁰

Westgo [the plaintiff] alleges that this provision [by which the plaintiff agreed not to market competing products] is per se unreasonable, basing its analysis on the doctrine that as a general rule, a patentee in executing a license agreement cannot attempt to create a monopoly beyond that which would lawfully be allowed by his patent. If he attempts to do so, it constitutes patent misuse, and equity will bar him from bringing a suit for infringement. This doctrine does not, however, allow Westgo to establish a per se Sherman Act violation in this case. Instead, it is limited to the context of patent misuse and the consequences flowing therefrom. It is not even analogous. In the case of a patent, there is a lawful monopoly which restricts competition. As such, a careful balance is struck between the law of patents and the antitrust laws. In the instance case, there was no patent, and other companies were freely manufacturing the product. There was not the type of monopoly that is found when a product is patented.³⁹¹

385. The legislative history of the Copyright Act of 1976 shows that Congress did not intend to "derogate[] from the right of the parties to contract with each other and to sue for breaches of contract." H.R. REP. NO. 94-1476, at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748; see *National Car Rental Sys., Inc. v. Computer Assocs. Int'l Inc.*, 991 F.2d 426, 430-35 (8th Cir. 1993); see, e.g., *Acorn Structures, Inc. v. American Inst. of Architects*, 846 F.2d 923, 926 (4th Cir. 1988) (holding that a breach of contract claim was not preempted by federal law); *Brignoli v. Balch Hardy and Scheinman, Inc.*, 645 F. Supp. 1201, 1205 (S.D.N.Y. 1986) (finding that an agreement not to reproduce copyrighted works was not preempted by federal law because they "involve an element beyond unauthorized reproduction and use—a promise to pay plaintiff for use of his product").

386. See *Cable Elec. Prods., Inc. v. Genmark, Inc.*, 586 F. Supp. 1505, 1508 n.3 (N.D. Cal. 1984), rev'd on other grounds, 770 F.2d 1015 (9th Cir. 1985).

387. 213 U.S.P.Q. 416, 417 (D.N.D. 1981).

388. See *id.* at 418-19.

389. See *id.* at 419-20.

390. 395 U.S. 653, 670-71 (1969).

391. *Westgo Indus., Inc.*, 213 U.S.P.Q. at 420 (citations omitted).

Although enforcement of private contracts under state law is generally not preempted by federal intellectual property law, federal law does affect the rights of the parties.³⁹² For example, while it is black letter law that a contract must be construed in accordance with state law canons of construction, state canons of construction cannot be applied so as to interfere with federal policy.³⁹³ Similarly, state law canons of contract construction apply only to the extent they do not interfere with federal law or policy.³⁹⁴ As a consequence, the common state law canon of construction that contracts should be interpreted against the drafter may not apply.³⁹⁵

Likewise, even where state law canons control, agreements must be construed in accordance with purposes of the underlying federal law.³⁹⁶ Consequently, an agreement to indemnify any infringement could be held invalid if it is seen as inducing infringement.³⁹⁷ Under some circumstances, obtaining an agreement to indemnify for infringement is also viewed as indicia of willful infringement.³⁹⁸ On the other hand, if the contract only indemnifies for infringement, or if the activity triggering the obligation to indemnify is direct, not contributory or induced infringement, then the contract is likely to be upheld and will not be viewed as inducing infringement.³⁹⁹

In *Olan Mills, Inc. v. Linn Photo Co.*, a professional photographer believed that photolabs were allowing reprinting of photographs bearing the photographer's copyright.⁴⁰⁰ The photographer hired a private investigator, authorizing him to obtain copies of the photographs through the lab as

392. See *Fantastic Fakes, Inc. v. Pickwick Int'l, Inc.*, 661 F.2d 479, 482-83 (5th Cir. 1981) (finding that federal law does not preempt state rules of contract construction).

393. See *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1988); *Fantastic Fakes, Inc.*, 661 F.2d at 482-83.

394. See *S.O.S., Inc.*, 886 F.2d at 1088.

395. See *id.*

396. See *id.*; *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854 (9th Cir. 1988); *Fantastic Fakes, Inc.*, 661 F.2d at 482-83.

397. See *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1470 (Fed. Cir. 1990) (finding no inducement by an indemnity agreement); *Aluminum Extrusion Co. v. Soule Steel Co.*, 260 F. Supp. 221, 224-25 (C.D. Cal. 1966) (finding no inducement by an indemnitor); *AT & T v. Radio Audion Co.*, 281 F. 200, 205 (D. Del.) (concluding that an indemnitor induced infringement), *aff'd*, 284 F. 1020 (3d Cir. 1922); *Reliance Constr. Co. v. Hassam Paving Co.*, 248 F. 701, 704 (9th Cir. 1918) (holding that an indemnity agreement induced infringement); see also *Aetna Cas. & Sur. Co. v. Superior Court*, 23 Cal. Rptr. 2d 442, 447-48 (Cal. Ct. App. 1993) (finding that an insurer did not owe any duty to defend or indemnify the insured for allegedly inducing infringement).

398. See *Jurgens v. McKasy*, 927 F.2d 1552, 1562 (Fed. Cir. 1991) (asserting the fact that infringer stopped selling until it obtained indemnity agreement as one basis for enhancing damages).

399. *Hewlett-Packard Co.*, 909 F.2d at 1469-70 (upholding an indemnity agreement in the sale of a business); *Tenneco Oil Co. v. Gulsby Eng'g, Inc.*, 846 S.W.2d 599, 603-04 (Tex. App.—Houston [14th Dist.] 1993, writ denied).

400. 795 F. Supp. 1423, 1426 (N.D. Iowa 1991), *rev'd on other grounds*, 23 F.3d 1345 (8th Cir. 1994).

though he were one of the photographer's customers.⁴⁰¹ Following its policy, the lab asked the investigator to sign an agreement by which he indemnified the lab for any copyright infringement.⁴⁰² The private investigator complied, as he had been authorized by the photographer to do.⁴⁰³

The court held that there was no copyright infringement because the photographer had specifically authorized the private investigator to obtain copies.⁴⁰⁴ Accordingly, it granted the lab's motion for summary judgment as to the photographer's claim for infringement.⁴⁰⁵

The court then addressed the lab's claim for indemnity against the photographer, on the ground that his agent, the private investigator, agreed to indemnify it for any legal expenses incurred in defending any infringement suit.⁴⁰⁶ The photographer argued that the indemnity agreement contravened Iowa public policy on two grounds.⁴⁰⁷ The court recognized that "the term 'public policy' is not susceptible of exact definition," but came down to the principle that "a court ought not enforce a contract which tends to be injurious to the public or contrary to the public good."⁴⁰⁸

The court first agreed with the photographer's argument that upholding the indemnity claim would "make it more difficult for the copyright holder to gather evidence of infringement,"⁴⁰⁹ but rejected this as a basis for holding the indemnity agreement unenforceable because "the use of private investigators is not, per se, a public policy."⁴¹⁰ The court also analyzed and rejected the lab's argument that the agreement "encouraged" infringement, reasoning:

[The] indemnity agreement does not shift [the lab's] liability to the copyright holder for infringement to the customer; it only provides [the lab] with a contractual right of indemnification from the customer in the event that the customer intentionally or mistakenly informs [the lab] that he or she either owns the copyright or is authorized to obtain a copy of

401. *See id.*

402. *See id.*

403. *See id.* at 1430-32. The photographer instructed the investigator to "sign a[ny] form releasing [Linn Photo] from any liability or responsibility for making the reprints." *Id.* at 1431.

404. *See id.* at 1431.

405. *See id.* at 1432-33.

406. *See id.* at 1433.

407. *See id.* at 1433-36. The photographer argued that the two purposes of the agreement were to (1) prevent the effectiveness of investigations, and (2) place the duty of determining the right to copy onto the customer. *See id.* at 1432.

408. *Id.* at 1432 (quoting *Walker v. American Family Mut. Ins. Co.*, 340 N.W.2d 599, 601 (Iowa 1983)).

409. *Id.* at 1433.

410. *Id.*

the photograph. That right of indemnification is only as good as [the lab's] ability to pursue indemnification against the customer.⁴¹¹

The point of the court's analysis in *Olan Mills* is that any provision which shifts the monetary responsibility for infringement, even if not preempted by federal law, may run afoul of state policy.⁴¹²

VIII. CONCLUSION

Federal intellectual property laws have grown stronger in recent years. Those parties who find themselves the targets of infringement suits will want to use every means available to shift liability to those who brought about the infringement. Implied federal rights, state law claims, and contract may afford that opportunity.

411. *Id.* at 1436.

412. *See id.* at 1432-38.