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## THE FEDERAL CIRCUIT'S INDUCEMENT CONFLICT RESOLUTION: THE FLAWED FOUNDATION AND IGNORED IMPLICATIONS OF *DSU MEDICAL*

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### ABSTRACT

After years of uncertainty regarding the level of intent required to prove liability for inducing patent infringement, the Federal Circuit, in *DSU Medical Corp. v. JMS Co.*, finally endorsed the specific intent standard detailed in the court's *Manville Sales Corp. v. Paramount Systems, Inc.* decision. This article examines the ramifications of *DSU Medical Corp.*, especially in relation to the opinion of counsel defense to willful infringement. This article argues that the Federal Circuit's reliance on *Manville Sales* and *MGM Studios, Inc. v. Grokster* was misplaced, and that the adoption of the specific intent standard results in an elevated importance of the opinion of counsel defense to inducement. This could lead to confusion of willfulness and inducement intent for courts and juries, which, for policy reasons, should remain distinct.

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THE FEDERAL CIRCUIT’S INDUCEMENT CONFLICT RESOLUTION: THE FLAWED FOUNDATION AND IGNORED IMPLICATIONS OF *DSU MEDICAL*

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INTRODUCTION

After more than sixteen years of confusion, the Federal Circuit has finally responded to a growing recognition that there is a “lack of clarity” regarding the level of intent required to prove liability for inducing patent infringement.<sup>1</sup> This question was specifically addressed in an *en banc* section of an otherwise traditional panel opinion in *DSU Medical Corp. v. JMS Co.*,<sup>2</sup> where the full court held that the specific intent standard articulated in *Manville Sales Corp. v. Paramount Systems, Inc.*<sup>3</sup> controls the intent inquiry.<sup>4</sup> It is now settled that proof of inducement, under 35 U.S.C. § 271(b), requires that the patentee show “the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.”<sup>5</sup>

The confusion over the level of intent necessary to prove liability stemmed from a pair of 1990 Federal Circuit decisions, both handed down within a few months of each other, which appeared to establish conflicting standards for proving intent to induce infringement. The court in the first decision, *Hewlett-Packard Co. v. Bausch & Lomb Inc.*,<sup>6</sup> held that in order to prove liability for inducement, it was necessary to find intent to cause the acts constituting infringement.<sup>7</sup> The second decision, *Manville Sales*, appeared to set the intent bar higher and held the plaintiff must show that the alleged infringer induced the infringing acts and knew or should have known his actions would cause actual infringement.<sup>8</sup>

To resolve this conflict, the Federal Circuit in *DSU Medical* followed *Manville Sales*, even though that decision and its progeny fail to support the universal application of a specific intent standard.<sup>9</sup> In *DSU Medical*, the court also looked to *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*,<sup>10</sup> a landmark Supreme Court copyright opinion that borrowed from patent law inducement, finding defendants liable for copyright infringement.<sup>11</sup> The *en banc* panel in *DSU*

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<sup>1</sup> See *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1364 n.4 (Fed. Cir. 2006) (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1332 (Fed. Cir. 2005)) (“It should be noted that ‘there is a lack of clarity concerning whether the required intent must be merely to induce the specific acts [of infringement] or additionally to cause an infringement.’”); see also *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1377 (Fed. Cir. 2005) (“This court recently recognized a ‘lack of clarity’ about the appropriate level of intent for inducement. Specifically, this court has historically required either a general or a specific level of intent to induce infringement.”) (internal citations omitted)).

<sup>2</sup> 471 F.3d 1293 (Fed. Cir. 2006).

<sup>3</sup> 917 F.2d 544 (Fed. Cir. 1990).

<sup>4</sup> *DSU Med. Corp.*, 471 F.3d at 1304.

<sup>5</sup> *Id.* (quoting *Manville Sales Corp.*, 917 F.2d at 553).

<sup>6</sup> 909 F.2d 1464 (Fed. Cir. 1990).

<sup>7</sup> *Id.* at 1469.

<sup>8</sup> *Manville Sales Corp.*, 917 F.2d at 553.

<sup>9</sup> *DSU Med. Corp.*, 471 F.3d at 1305; *Manville Sales Corp.*, 917 F.2d at 553.

<sup>10</sup> 545 U.S. 913 (2005).

<sup>11</sup> *Id.* at 932, 940–41.

*Medical* found that the Supreme Court's decision in *Grokster* "validated" the specific intent standard for infringement.<sup>12</sup> However, the Court's holding in *Grokster* was unrelated to the intent requirement and unconcerned with the aforementioned conflict.<sup>13</sup>

This article discusses the apparent conflict presented by *Manville Sales* and *Hewlett-Packard* and the Federal Circuit's resolution in *DSU Medical*. Part I of this article begins with a brief review of the role of intent in both direct and indirect patent infringement. Subsection A of Part I notes that intent is not an element of direct infringement, while subsection B discusses the rationale for indirect infringement. Part I concludes with a brief look at the effect of codification on the role of intent in indirect infringement.

Part II discusses the *Hewlett-Packard* and *Manville Sales* decisions, in subsections A and B respectively, with particular attention to the equitable considerations at play in *Manville Sales*. This section posits that the original discrepancy in the intent standard was driven by equitable considerations of two different panels presented with distinct factual situations, rather than by a desire to create broad precedent on the intent requirement for inducement. In particular, this article argues that the *Manville Sales* court articulated a stricter standard because it was troubled by the fundamental unfairness, based on the facts before it, of holding defendant corporate officers personally liable for inducement.

Part III begins by discussing the *DSU Medical* decision in subsection A, and then analyzes the basis for the *en banc* holding in subsection B. Part 1 of subsection B argues that the precedent followed by the Federal Circuit, *Manville Sales*, may more appropriately apply to the liability of corporate officers, and therefore, does not support a universal specific intent standard for inducing infringement. This section then surveys some Federal Circuit case law from the period between *Manville Sales* and *DSU Medical*, which reveals some recognition by the court that the *Manville Sales* standard applies to personal liability of corporate officers for inducing infringement.

Part 2 of subsection B further argues that *Grokster* does not provide support for the specific intent standard. In particular, this article notes that *Grokster* adopted patent law inducement because it offers liability premised on extrinsic indicia of intent, not because it brings a particular level of intent to bear on liability. In addition, this section asserts that the *Grokster* Court specifically refrained from selecting a particular level of intent and observes that the defendants in *Grokster* would have been held liable for inducement under either standard. Finally, this article argues that copyright law is an inappropriate source for divining the proper intent standard for patent law inducement because copyright law lacks a significant opinion of counsel defense.

Part IV subsection A observes that the *DSU Medical* decision failed to address the implications of universal application of the specific intent standard and discusses the most significant of these — the heightened importance of the opinion of counsel defense to inducement. Subsection B notes that the opinion of counsel defense to inducement will likely trigger the same waiver of privilege and work product immunity as that for reliance on an opinion of counsel defense for willfulness, which ultimately could lead to confusion in determining whether the defendant is liable for willfulness and inducement. Ultimately, Part IV suggests that the likely reliance on opinions of counsel by inducement defendants in the wake of *DSU Medical* could blur the distinction between willfulness and intent to induce infringement as courts and patent practitioners struggle to distinguish the state of mind required for each. These complex issues may result in doctrinal confusion of willfulness and intent to induce infringement — an undesirable result in view of the different policies behind the two doctrines.

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<sup>12</sup> *DSU Med. Corp.*, 471 F.3d at 1306.

<sup>13</sup> *Grokster*, 545 U.S. at 941.

## I. THE ROLE OF INTENT IN PATENT INFRINGEMENT

### A. *Intent Is Not an Element of Direct Infringement*

Direct patent infringement is a strict liability offense; intent has never been considered by the courts in determining direct patent infringement.<sup>14</sup> Long before direct infringement was codified in the 1952 Patent Act, courts held that intent was irrelevant for a finding of infringement liability. For example, in *Thompson v. N.T. Bushnell Co.*,<sup>15</sup> the court rejected the defense that the allegedly infringing products were accidentally made and unintentionally sold because “the owner of a patent is entitled to protection against the repetition of accidental infringements.”<sup>16</sup> Similarly, in *Kawneer Manufacturing Co. v. Toledo Plate & Window Glass Co.*,<sup>17</sup> the court held the “defendant’s intention . . . has nothing to do with the question of infringement so long as it sold the infringing devices.”<sup>18</sup>

The Patent Act of 1952 codified certain acts as direct infringement without regard to the intent of the actor. Section 271 (a) of Title 35 provides that “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent.”<sup>19</sup> Furthermore, recent case law has confirmed that intent is not an element of direct patent infringement and is irrelevant to the infringement analysis.<sup>20</sup> For example, in *Embrex, Inc. v. Service Engineering Corp.*, Judge Rader, in a concurring opinion, noted “the Supreme Court and this court have recently reiterated that intent is irrelevant to infringement.”<sup>21</sup>

### B. *The Role of Intent in Indirect Infringement*

#### 1. *The Rationale for Indirect Infringement*

The patent system would not provide complete protection to the inventor without an enforcement mechanism that the patentee could use against indirect infringers. That is, the patentee needs an effective enforcement tool against “any other activity where, although not technically making, using or selling, the defendant displayed sufficient culpability to be held liable as an infringer.”<sup>22</sup> This tool is contributory infringement. As stated by Judge William Howard

<sup>14</sup> *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1527 (Fed. Cir. 1995).

<sup>15</sup> 96 F. 238 (2d Cir. 1899).

<sup>16</sup> *Id.* at 243.

<sup>17</sup> 232 F. 362 (E.D. Mich. 1915).

<sup>18</sup> *Id.* at 367.

<sup>19</sup> 35 U.S.C. § 271(a) (2005).

<sup>20</sup> *See Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 35 (1997) (“Application of the doctrine of equivalents, therefore, is akin to determining literal infringement, and neither requires proof of intent.”); *Embrex, Inc. v. Serv. Eng’g Corp.*, 216 F.3d 1343, 1353 (Fed. Cir. 2000) (Rader, J., concurring) (“[T]he Supreme Court and this court have recently reiterated that intent is irrelevant to infringement.”); *Hilton Davis Chem. Co.*, 62 F.3d at 1519 (“Intent is not an element of infringement.”); *Intel Corp. v. U.S. Int’l Trade Comm’n*, 946 F.2d 821, 832 (Fed. Cir. 1991) (“[T]here is no intent element to *direct* infringement.”).

<sup>21</sup> 216 F.3d at 1353 (Rader, J., concurring).

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

Taft, sitting on the Court of Appeals for the Sixth Circuit, the roots of contributory infringement lay in tort principles:

An infringement of a patent is a tort analogous to trespass or trespass on the case. From the earliest times, all who take part in a trespass, either by actual participation therein or by aiding and abetting it, have been held to be jointly and severally liable for the injury inflicted. There must be some concert of action between him who does the injury and him who is charged with aiding and abetting, before the latter can be held liable. When that is present, however, the joint liability of both the principal and the accomplice has been invariably enforced. If this healthful rule is not to apply to trespass upon patent property, then, indeed, the protection which is promised by the constitution and laws of the United States to inventors is a poor sham.<sup>23</sup>

At the time Judge Taft wrote this, the most common situation giving rise to contributory infringement liability was that in which a seller sold a component that was not itself covered by a patent, but could only be used in a patented product or process.<sup>24</sup> He recognized the need for contributory infringement in such a scenario:

Many of the most valuable patents are combinations of nonpatentable elements, and the only effective mode of preventing infringement is by suits against those who, by furnishing the parts which distinguish the combination, make it possible for others to assemble and use the combination, and who, by advertisement of the sale of such parts and otherwise, intentionally solicit and promote such invasions of the patentee's rights.<sup>25</sup>

Accordingly, indirect infringement, specifically contributory infringement, was deemed necessary to accomplish the goals of the patent system as a corollary to direct infringement.<sup>26</sup>

Unlike direct infringement, contributory infringement has always required proof of some form of intent. In *George Haiss Manufacturing Co. v. Link Belt Co.*, the court stated “[u]pon an issue of the contributory infringement the intent of the alleged infringer is an essential fact to be proved.”<sup>27</sup> One appellate court noted “[i]t is the intent and purpose to aid and assist in bringing about an infringement which is the essence of the tort.”<sup>28</sup>

## 2. *The Question of Intent in Inducement Under the 1952 Patent Act*

<sup>23</sup> *Thomson-Houston Elec. Co. v. Ohio Brass Co.*, 80 F. 712, 721 (6th Cir. 1897).

<sup>24</sup> *See Hewlett-Packard Co.*, 909 F.2d at 1469.

<sup>25</sup> *See Thomson-Houston Elec. Co.*, 80 F. at 721.

<sup>26</sup> The ability of a patentee or copyright owner to enforce his patent or copyright against indirect infringers is perhaps even more important today as technological innovations have given huge numbers of individuals the tools to infringe protected works directly, and it has become increasingly difficult to enforce intellectual property rights against these individuals. *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 929–30 (2005).

When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.

*Id.*

<sup>27</sup> 2 F. Supp. 728, 733 (E.D. Penn. 1930).

<sup>28</sup> *Rupp & Wittgenfeld Co. v. Elliott*, 131 F. 730, 732 (6th Cir. 1904).

The goal of Congress in enacting the contributory infringement and inducement sections of the Patent Act of 1952 was to codify the existing common law of contributory infringement.<sup>29</sup> The 1952 Patent Act divided the concept of contributory infringement into active inducement, § 271(b), and contributory infringement, § 271(c).<sup>30</sup> Section 271(c) codified the traditional type of contributory infringement and required proof that the defendant knew his activity would cause infringement.<sup>31</sup> Section 271(b) codified the prohibition against all other types of behavior that had constituted contributory infringement prior to the Act, but left the question of required knowledge and intent open.<sup>32</sup> It was into this void that the Federal Circuit stepped in 1990.

## II. THE CONFLICT

### A. General Intent: *Hewlett-Packard Co. v. Bausch & Lomb Inc.*

In the early 1980s, Bausch & Lomb, Inc. (“B&L”) sold graphing tools called plotters through its Houston Instruments division.<sup>33</sup> In September 1985, B&L entered into an agreement to sell the Houston Instruments division to Ametek, Inc. (“Ametek”).<sup>34</sup> The purchase agreement contained a clause indemnifying Ametek against liability for infringing LaBarre U.S. Patent No. 4,384,298 (the “ ’298 patent”), relating to X-Y plotters and assigned to Hewlett-Packard Co. (“HP”).<sup>35</sup> In May of 1986, HP brought suit against B&L for direct infringement of the ’298 patent for the period prior to the sale of Houston Instruments and inducement of infringement of the ’298 patent for the period subsequent to the sale.<sup>36</sup> The district court found claim 1 of the ’298 patent valid and held that the patent was directly infringed by B&L for the period prior to the sale.<sup>37</sup> However, the court held that B&L did not induce infringement thereafter.<sup>38</sup> B&L appealed the judgment holding the ’298 patent valid and infringed, and HP cross-appealed on the inducement issue. The Federal Circuit affirmed the judgment of validity and direct infringement.<sup>39</sup>

Before reaching the inducement issue, the Federal Circuit discussed the development of the law of inducement and contributory infringement.<sup>40</sup> Acknowledging the frequent confusion between the two types of indirect infringement, the court attempted to clarify the distinction between them.<sup>41</sup> As discussed above, prior to the enactment of the Patent Act of 1952, infringement was a creature of common law divided between direct infringement and contributory infringement.<sup>42</sup> The court noted that the plaintiff had to show intent to cause infringement to succeed on a contributory infringement claim, but that many courts presumed intent where the

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<sup>29</sup> See *Hewlett-Packard Co.*, 909 F.2d at 1469.

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.* at 1467

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at 1465, 1467.

<sup>36</sup> *Id.* at 1467.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> See *id.* at 1469.

<sup>41</sup> See *id.* at 1468–69 (discussing and clarifying the differences between the two codified types of indirect infringement).

<sup>42</sup> See *id.*

component had no substantial non-infringing use.<sup>43</sup> Further, the court observed that Congress, in codifying and dividing contributory infringement, had left the courts to determine the level of intent required to prove inducement under § 271(b) of the Patent Act.<sup>44</sup>

Therefore, the only remaining task for the Federal Circuit was to define the level of knowledge or intent necessary to find active inducement. The court observed that the legislative history of the Act indicated that there was no intent to change the scope of contributory infringement and held that general intent was the proper standard for inducement:

In view of the very definition of “active inducement” in pre-1952 case law and the fact that § 271(b) was intended as merely a codification of pre-1952 law, we are of the opinion that proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.<sup>45</sup>

The court found that proof of such intent was missing in this case because B&L was only interested in selling Houston Instruments and had no interest in Ametek's plans for making or selling the plotters.<sup>46</sup>

*B. Specific Intent: Manville Sales Corp. v. Paramount Systems, Inc.*

Three months after articulating the inducement intent standard in *Hewlett-Packard*, the Federal Circuit addressed a case in which this standard would be critical to the fate of two individual defendants facing personal liability for allegedly inducing infringement. In *Manville Sales Corp. v. Paramount Systems, Inc.*, Manville Sales Corp. (“Manville”) brought suit against Paramount Systems, Inc. (“Paramount”) alleging infringement of a patent directed to a lighting assembly.<sup>47</sup> Manville later added as defendants Robert S. Butterworth and Anthony J. DiSimone, corporate officers of Paramount, alleging these individuals directly infringed the patent and induced infringement.<sup>48</sup>

In the course of developing and marketing the lighting assembly, Manville's research director sent confidential drawings of the device to various state officials to request permission to use the new design within these states.<sup>49</sup> Mr. DiSimone, Paramount's corporate secretary, obtained a copy of one of the drawings submitted to the Florida Department of Transportation.<sup>50</sup> He then forwarded the drawing to Mr. Butterworth, Paramount's president, who gave the drawing to a Paramount designer to aid in the design of lighting assembly products later sold by Paramount.<sup>51</sup>

The case reached the Federal Circuit after the district court held Paramount liable for direct infringement, and DiSimone and Butterworth personally liable for both direct and induced

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<sup>43</sup> *Id.* at 1469.

<sup>44</sup> *See id.*

<sup>45</sup> *Id.*

<sup>46</sup> *Id.* at 1469–70.

<sup>47</sup> 917 F.2d 544, 549 (Fed. Cir. 1990) (noting that Manville filed suit against Paramount alleging infringement of patent number 3,847,333).

<sup>48</sup> *Id.*

<sup>49</sup> *Id.* at 547–49.

<sup>50</sup> *Id.* at 549.

<sup>51</sup> *Id.*

infringement.<sup>52</sup> After affirming the district court's findings as to validity, enforceability, and Paramount's infringement liability, the court turned to the personal liability of the corporate officers.<sup>53</sup> The court first addressed the officers' personal liability for direct infringement.<sup>54</sup> The Federal Circuit stated that to hold corporate officers personally liable for direct infringement, precedent required "evidence to justify piercing the corporate veil."<sup>55</sup> In general, courts are guided by principles of equity and may pierce the corporate veil to prevent "fraud, illegality, injustice, a contravention of public policy, or prevent the corporation from shielding someone from criminal liability."<sup>56</sup> The court noted that it could justify piercing the corporate veil where the evidence showed the corporation was merely the alter ego of its officers.<sup>57</sup> Specific intent to escape liability for a specific tort might also warrant such equitable action by a court.<sup>58</sup> Thus, the Federal Circuit concluded that, in the absence of unusual circumstances, courts should recognize and uphold the corporate entity.<sup>59</sup>

The court examined the record to determine whether such evidence was present,<sup>60</sup> but found no such unusual circumstances in the record.<sup>61</sup> Although the district court based its direct infringement decision on the officers' actions that led to the copying of the Manville design, the Federal Circuit found these acts were within the scope of the officers' corporate duties, and therefore, were entitled to the protection of the corporate veil.<sup>62</sup> Furthermore, the evidence failed to show the officers were aware of the patent prior to commencement of the lawsuit, and the record demonstrated that Paramount pursued its subsequent activity in good faith reliance on advice of counsel.<sup>63</sup> The Federal Circuit also noted that the district court made no finding that Paramount was the alter ego of the officers.<sup>64</sup> Clearly troubled by this record, the Federal Circuit held that the district court abused its equitable powers and reversed as to the personal liability of the officers for direct infringement:

Based on the district court's own underlying findings, and the record presented to us, we conclude that the court's determination that Butterworth and DiSimone were personally liable, because it was based on piercing the corporate veil, was an abuse of its equitable powers. The district court's findings establish that the officers were acting within the scope of their employment. The court's findings preclude any inference that Butterworth and DiSimone were attempting to avoid liability under the protection of the corporate veil. Accordingly, we reverse as to the liability of the officers in their individual capacities with respect to infringement under section 271(a).<sup>65</sup>

This portion of the decision turned on the corporate law protection of the corporate veil rather than patent law.

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<sup>52</sup> *Id.*

<sup>53</sup> *Id.* at 552.

<sup>54</sup> *Id.* at 552–53.

<sup>55</sup> *Id.* at 552 (citing *A. Stucki Co. v. Worthington Indus., Inc.*, 849 F.2d 593, 596 (Fed. Cir. 1988)).

<sup>56</sup> *Id.* at 552 (quoting *Zubik v. Zubik*, 384 F.2d 267, 272 (3d Cir. 1967)).

<sup>57</sup> *Id.* (citing *Zubik*, 384 F.2d at 271–72).

<sup>58</sup> *Id.*

<sup>59</sup> *Id.*

<sup>60</sup> *Id.* at 552–53.

<sup>61</sup> *See id.* at 552–53.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 553.

<sup>64</sup> *Id.*

<sup>65</sup> *Id.*

The Federal Circuit next turned to personal liability for inducement. The court again began the analysis by examining its corporate law precedent with respect to inducement.<sup>66</sup> The Federal Circuit stated its jurisprudence holds corporate officers who actively induce infringing acts by their corporation may be personally liable, regardless of whether the circumstances would permit piercing the corporate veil.<sup>67</sup> Obviously, the corporate veil would not protect DiSimone and Butterworth from inducement liability.

The court then examined the knowledge and intent requirements for inducement, and found that an alleged infringer must have knowingly induced infringement.<sup>68</sup> However, in examining the intent standard, the Federal Circuit ran head-on into *Hewlett-Packard* and a curious thing happened – the court cited *Hewlett-Packard* and another case, *Water Technologies v. Calco, Ltd.*, for a new specific intent standard not contained in either of those cases.<sup>69</sup> Specifically, the court stated:

[t]he alleged infringer must be shown, however, to have *knowingly* induced infringement.<sup>[70]</sup> It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts *and* that he knew or should have known his actions would induce actual infringements.<sup>71</sup>

For a Federal Circuit panel troubled by the prospect of exposing the corporate officers to personal liability for inducement on these facts, the problem was clear: under the *Hewlett-Packard* standard, the officers' activities would meet the requisite level of intent for inducement. The record amply supported a finding that DiSimone and Butterworth intended to cause the acts that constituted infringement.<sup>72</sup> Specifically, between the two of them, they had discovered Manville's design drawing and submitted it to Paramount's designers for them to work with in developing the ultimately infringing lighting assembly.<sup>73</sup> However, the record could not support a finding that DiSimone and Butterworth intended to cause *actual* infringement because they were unaware of the patent before the lawsuit was filed, and they relied on an opinion of counsel thereafter.<sup>74</sup> For that reason, the Federal Circuit's solution was to raise the intent bar; thereby requiring that an alleged inducer must intend to cause *actual* infringement.<sup>75</sup> In light of this new standard, the court was able to reverse as to personal liability of the officers for inducing infringement.<sup>76</sup>

In support of the new intent standard, the *Manville Sales* court cited three cases, none of which provided precedent for the universal application of a stricter intent requirement.<sup>77</sup> The first,

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<sup>66</sup> *Id.*

<sup>67</sup> *Id.* (citing *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1578–79 (Fed. Cir. 1986)).

<sup>68</sup> *Id.* (citing *Water Techs. Corp. v. Calco Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)).

<sup>69</sup> *Id.*

<sup>70</sup> *Water Techs Corp.*, 850 F.2d at 668.

<sup>71</sup> *Manville*, 917 F.2d at 553 (emphasis in original).

<sup>72</sup> *See id.* at 549.

<sup>73</sup> *Id.*

<sup>74</sup> *Id.* at 553–54.

<sup>75</sup> *Id.*

<sup>76</sup> *See id.*

<sup>77</sup> *Id.* at 553. *See generally* *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964); *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1468–69 (Fed. Cir. 1990); *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988).

*Aro Manufacturing Co. v. Convertible Top Replacement Co.*, a Supreme Court case, did not address inducement at all, but was a post-1952 Patent Act contributory infringement case.<sup>78</sup> Of the two remaining inducement cases, one was *Hewlett-Packard*, which established the lower general intent standard.<sup>79</sup> The other was *Water Technologies Corp. v. Calco*, a case in which the Federal Circuit articulated a knowledge requirement, not a specific intent standard, for inducement liability.<sup>80</sup>

In *Water Technologies*, the Federal Circuit held that an individual inventor-licensor of resins, and a consultant to defendant Calco Ltd. (“Calco”) were liable for inducing infringement for providing infringing resin formulas to Calco, helping Calco make the infringing resins, and preparing consumer use instructions for the infringing resins.<sup>81</sup> The court affirmed the finding of inducement because there was no “clear evidence of lack of intent,” and therefore, the district court did not err in inferring intent to induce from the circumstantial evidence.<sup>82</sup> Although the Federal Circuit mentioned that there is a knowledge requirement for inducement liability, it is not the equivalent of intent.<sup>83</sup> Thus, the *Manville Sales* court’s citation to *Water Technologies* does not justify the creation of a universal specific intent standard for all accused inducers.

*Manville Sales*, therefore, appeared to create a conflict as to which level of intent was required to prove liability for inducing infringement under 35 U.S.C. § 271(b). This doubt lasted for over sixteen years, until the Federal Circuit, responding to internal and external calls to resolve this “lack of clarity,” handed down the *DSU Medical* opinion.<sup>84</sup>

### III. “RESOLUTION OF CONFLICTING PRECEDENT”

#### A. *DSU Medical Corp. v. JMS Co.*

In *DSU Medical Corp. v. JMS Co.*, DSU Medical Corporation and Medisystems Corporation (collectively “DSU”) sued JMS Company, Ltd. (“JMS”), JMS North America (“JMSNA”) and ITL Corporation Pty, Ltd. (“ITL”) for direct infringement, contributory infringement, and inducing infringement of two patents directed to a needle assembly with a guard designed to reduce the risk of accidental needle-stick injuries.<sup>85</sup> The allegedly infringing device, sold under

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<sup>78</sup> 377 U.S. 476, 488 (1964) (stating that section 271(c) requires a showing that an alleged contributory infringer knew that its acts would be infringing).

<sup>79</sup> 909 F.2d 1464, 1468–69 (Fed. Cir. 1990).

<sup>80</sup> 850 F.2d 660, 668–69 (Fed. Cir. 1988).

<sup>81</sup> *Id.*

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> See *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1364 n.4 (Fed. Cir. 2006) (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1332 (Fed. Cir. 2005) (“It should be noted that ‘there is a lack of clarity concerning whether the required intent must be merely to induce the specific acts [of infringement] or additionally to cause an infringement’”); see also *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1377 (Fed. Cir. 2005) (“This court recently recognized a ‘lack of clarity’ about the appropriate level of intent for inducement. Specifically, this court has historically required either a general or a specific level of intent to induce infringement.”) (internal citations omitted); see, e.g., Michael N. Rader, *Toward a Coherent Law of Inducement to Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for Intent Under § 271(b)*, 10 FED. CIR. B.J. 299, 320–22 (2000).

<sup>85</sup> *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1297 (Fed. Cir. 2006).

the brand name Platypus, was a configured plastic needle guard.<sup>86</sup> The Platypus resembles an open clam shell prior to use, and the two halves of the shell close around a needle assembly to form a guard during use.<sup>87</sup> ITL manufactured the allegedly infringing needle guards in Malaysia and Singapore and sold them to JMS.<sup>88</sup> JMS bought Platypus devices in the open shell configuration and generally closed the guards around needle assemblies before distributing them to customers.<sup>89</sup> DSU alleged that the Platypus directly infringed its patents and that JMS and ITL contributed to and induced each other's infringement.<sup>90</sup>

The district court granted summary judgment for defendants finding non-infringement on many of the asserted claims, but held that the Platypus product infringed several claims as a matter of law.<sup>91</sup> The jury returned verdicts holding JMS and JMSNA liable for direct and contributory infringement and found JMS liable for inducing JMSNA's direct infringement.<sup>92</sup> However, the jury found ITL not liable for direct infringement, contributory infringement, or inducing infringement.<sup>93</sup> The district court subsequently denied DSU's motion for a new trial on contributory infringement and inducement.<sup>94</sup>

On appeal, DSU argued that the jury instruction on inducement was improper.<sup>95</sup> Specifically, DSU asserted that the state of mind necessary for a finding of inducement was inaccurately stated in the instructions, which required that the inducer possess specific intent to encourage another's infringement.<sup>96</sup> The disputed jury instruction read, in relevant part:

In order to induce infringement, there must first be an act of direct infringement and proof that the defendant knowingly induced infringement with the intent to encourage the infringement. The defendant must have intended to cause the acts that constitute the direct infringement and must have known or should have known that [sic] its action would cause direct infringement.<sup>97</sup>

DSU argued that the proper intent standard is that the inducer need only intend to cause the acts constituting infringement, as stated in *Hewlett-Packard*.<sup>98</sup>

The Federal Circuit first observed the jury charge followed the *Manville Sales* standard and reiterated that section 271(b) provides no guidance as to the level of intent required to prove inducement.<sup>99</sup> Then the court turned to copyright law, and in a rather cursory analysis based primarily on *Grokster*, the court held the proper standard for proving inducement liability is specific intent as set forth in *Manville Sales*.<sup>100</sup> The court quoted a passage from the *Grokster* decision that states little more than the fundamental principles of the inducement doctrine and the rationale for charging liability to a party that promotes the infringing use of a product having both

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<sup>86</sup> *Id.* at 1298.

<sup>87</sup> *Id.*

<sup>88</sup> *Id.* at 1299.

<sup>89</sup> *Id.*

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 1300–02.

<sup>92</sup> *Id.* at 1302.

<sup>93</sup> *Id.*

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* at 1304.

<sup>96</sup> *Id.* at 1305.

<sup>97</sup> *Id.*

<sup>98</sup> *Id.*

<sup>99</sup> *Id.* at 1306.

<sup>100</sup> *Id.*

lawful and unlawful uses.<sup>101</sup> In the court's view, *Grokster's* requirement of "purposeful, culpable expression and conduct" to impose inducement liability provided the "validation" it needed to resolve the conflict in favor of *Manville Sales*:

*Grokster*, thus, validates this court's articulation of the state of mind requirement for inducement . . . . In *Manville*, this court held that the "alleged infringer must be shown . . . to have knowingly induced infringement," . . . not merely knowingly induced the acts that constitute direct infringement.<sup>102</sup>

The court even read the *Grokster* decision as an affirmative repudiation of *Hewlett-Packard*:

Although this court stated "that proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement," . . . *Grokster* has clarified that the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement. Beyond that threshold knowledge, the inducer must have an affirmative intent to cause direct infringement . . . . Accordingly, inducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities.<sup>103</sup>

Based on the newly-clarified intent standard, the court upheld the district court's jury instructions. Furthermore, the court affirmed the denial of defendants' motion for a new trial because the jury verdict was reasonable in light of defendants' reliance on opinions of counsel and testimony that ITL did not intend to infringe the asserted patents.<sup>104</sup> However, the opinion made no mention of the implications of adopting the specific intent standard.

In a brief concurrence, Chief Judge Michel and Judge Mayer expressed their view that there was no actual conflict between *Hewlett-Packard* and *Manville Sales* and, thus, it was unnecessary for an *en banc* review of the intent issue.<sup>105</sup> Had *Hewlett-Packard* held that "proof of actual intent to cause the acts which constitute the infringement is a necessary and sufficient prerequisite to finding active inducement," then *Hewlett-Packard* would have conflicted with *Manville Sales*.<sup>106</sup> The concurring judges would have simply held that the district court properly rejected DSU's

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<sup>101</sup> See *id.*

The rule on inducement of infringement as developed in the early cases is no different today. Evidence of 'active steps . . . taken to encourage direct infringement,' such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use."

*Id.* (citing *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936 (2005)).

<sup>102</sup> *Id.* (internal citations omitted).

<sup>103</sup> *Id.* (emphasis added) (internal citations omitted) (citing *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990)).

<sup>104</sup> See *id.* at 1307.

<sup>105</sup> *Id.* at 1311 (Michel and Mayer, JJ., concurring).

<sup>106</sup> See *id.* (Michel and Mayer, JJ., concurring) (emphasis added).

proffered jury instructions because DSU misunderstood *Hewlett-Packard* and incorrectly stated the law.<sup>107</sup>

### B. Analysis of the En Banc Opinion

#### 1. *Manville Sales and Its Progeny Do Not Support the En Banc Holding*

The Federal Circuit followed *Manville Sales* in adopting the specific intent standard.<sup>108</sup> However, *Manville Sales* does not support a universal application of the specific intent standard, and a brief survey of its progeny demonstrates that this higher standard may appropriately be limited to corporate officer inducement liability.<sup>109</sup> As discussed above, *Manville Sales* was decided on its basic equities.<sup>110</sup> Application of the general intent standard would have exposed corporate officers to personal liability for inducing infringement for simply performing acts within the scope of their corporate duties. To avoid this inequitable result, the *Manville Sales* panel used a specific intent standard.<sup>111</sup> Accordingly, there is a compelling argument that its holding might only apply to inducement liability of corporate officers.<sup>112</sup>

Moreover, in subsequent decisions, the Federal Circuit has recognized that the specific intent standard should apply to corporate officers accused of inducing infringement. For example, in *Hoover Group, Inc. v. Custom Metalcraft, Inc.*, the Federal Circuit reversed a district court ruling that Dwayne Holden, the president, chief executive officer, and principal shareholder of Custom Metalcraft, Inc. (“Custom”), was personally liable for inducement.<sup>113</sup> The Hoover Group (“Hoover”) alleged that Holden induced the infringement of two patents, relating to storage tanks for holding and transporting liquids, because he controlled Custom and made all of its major business decisions.<sup>114</sup> Similar to the *Manville Sales* court, the panel in *Hoover Group* noted that the record did not support piercing the corporate veil, and in fact, the district court had not done so.<sup>115</sup> Furthermore, the record showed that Holden promptly consulted with counsel upon learning of Hoover’s assertions of patent infringement.<sup>116</sup>

When the court turned to the intent question, it held that mere knowledge of the allegedly infringing acts did not demonstrate sufficient culpability to hold a corporate officer personally liable for inducement.<sup>117</sup> The court cited both *Manville Sales* and *Hewlett-Packard*, but rejected application of the *Hewlett-Packard* standard to these facts, stating:

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<sup>107</sup> *Id.*

<sup>108</sup> *See id.* at 1304 (discussing the holding of *Manville Sales*).

<sup>109</sup> *See Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990).

<sup>110</sup> *Id.* at 553.

<sup>111</sup> *Id.* at 554.

<sup>112</sup> This interpretation provides an additional basis for concluding that there was no actual conflict between *Hewlett-Packard* and *Manville Sales*. *See DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1311 (Fed. Cir. 2006) (Michel and Mayer, JJ., concurring).

<sup>113</sup> 84 F.3d 1408, 1412 (Fed. Cir. 1996).

<sup>114</sup> *Id.* at 1410.

<sup>115</sup> *Id.* at 1412.

<sup>116</sup> *Id.*

<sup>117</sup> *See id.* (holding that an officer must “actively and knowingly assist with the corporation’s infringement” in order to be held personally liable).

It is an insufficient basis for personal liability that the officer had knowledge of the acts alleged to constitute infringement. . . . In sum, unless the corporate structure is a sham, as is not here asserted, personal liability for inducement to infringe is not automatic but must be supported by personal culpability.<sup>118</sup>

In another case, *Micro Chemical, Inc. v. Great Plains Chemical Co.*, the Federal Circuit also adopted the *Manville Sales* standard as a rule applicable to corporate officers.<sup>119</sup> The *Micro Chemical* court affirmed a grant of summary judgment absolving the president of defendant corporation of personal liability for inducing the corporation's infringing activity.<sup>120</sup> The president had taken reasonable steps to avoid infringement, including seeking advice of counsel and relying on that advice in redesigning the accused machines.<sup>121</sup> In affirming, the court cited *Manville Sales* and held, "[o]fficers of an allegedly infringing corporation can be held personally liable for actively inducing infringement under 35 U.S.C. § 271(b) only if they 'knew or should have known [their] actions would induce actual infringements.'" <sup>122</sup>

Similarly, in *Ferguson-Beauregard/Logic Controls v. Mega Systems, LLC*, the Federal Circuit affirmed a district court determination that the president-majority owner of Mega Systems was not liable for inducement, citing *Micro Chemical* and *Manville Sales* as controlling precedent.<sup>123</sup> The appellant relied on *Hewlett-Packard* and argued the proper standard for inducement liability was that the officer only be aware of his activities, not necessarily that he be aware that the activities constitute infringement.<sup>124</sup> The court rejected this argument, stating that the application of the "less stringent test" is "contradicted by our precedent."<sup>125</sup> The Federal Circuit first cited *Micro Chemical* for its articulation of inducement law with respect to corporate officers and then quoted the specific intent standard from *Manville Sales* and affirmed the finding of no personal liability for inducement stating, "Ferguson's position is untenable based on *Manville Sales*, which makes clear that 'it must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute infringement.'" <sup>126</sup>

*Ferguson-Beauregard* is significant in that the court affirmatively rejected the application of the *Hewlett-Packard* standard to corporate officers.<sup>127</sup> Rather, the court joined the trend of Federal Circuit decisions following *Manville Sales* and applied the specific intent standard to corporate officers accused of inducement.<sup>128</sup> The court interpreted *Manville Sales* and selectively applied the specific intent standard to cases in which corporate officers stand accused of inducement; this provides support for the notion that the factual scenario in *Manville Sales* is the proper context for application of this intent standard.<sup>129</sup> Accordingly, there is some doubt that the Federal Circuit's

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<sup>118</sup> *Id.* (internal citations omitted) (citing *Manville Sales Corp., v. Paramount Sys., Inc.*, 917 F.2d 944, 553 (Fed. Cir. 1990); *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1468–69 (Fed. Cir. 1990).

<sup>119</sup> 194 F.3d 1250, 1261 (Fed. Cir. 1999).

<sup>120</sup> *Id.*

<sup>121</sup> *See id.* at 1257.

<sup>122</sup> *Id.* at 1261 (internal citations omitted) (citing *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990)).

<sup>123</sup> 350 F.3d 1327, 1342 (Fed. Cir. 2003).

<sup>124</sup> *Id.*

<sup>125</sup> *Id.*

<sup>126</sup> *Id.* (quoting *Manville Sales*, 917 F.2d at 553).

<sup>127</sup> *Id.*

<sup>128</sup> *Id.*

<sup>129</sup> *Id.*

own precedent supports universal application of the specific intent standard adopted in *DSU Medical*.<sup>130</sup>

## 2. *Grokster* Does Not Support Adopting the Specific Intent Standard and Is a Problematic Source for Resolving the Issue of Intent in Inducement

The *en banc* section of *DSU Medical* rested primarily on the Supreme Court's *Grokster* opinion.<sup>131</sup> However, it is far from clear that *Grokster* endorses a specific intent requirement for inducing infringement under section 271(b). In *Grokster*, the Supreme Court borrowed patent law's inducement doctrine without comment as to which level of intent should apply, in part because the level of intent was not critical to make a determination of liability.<sup>132</sup> Moreover, *Grokster* is an inappropriate source for divining the proper intent standard for patent law inducement because copyright law lacks a significant opinion of counsel defense.

*Grokster* stands for the proposition that a party who introduces an article having both infringing and non-infringing uses into the stream of commerce may not rely on the article's non-infringing uses as a shield from liability if that party acts to promote the article's infringing uses.<sup>133</sup> In other words, by adopting patent law's inducement rule, the Supreme Court merely held that contributory infringement's staple article of commerce rule need not be the end of the indirect infringement inquiry in copyright law. In particular, the staple article doctrine adopted by the Court in *Sony Corp. of America v. Universal City Studios, Inc.* does not foreclose a finding of intent from other factors.<sup>134</sup> The Court stated that with the inducement doctrine, also available for copyright, courts may look beyond the article itself to evidence of intent, which is separate and apart from the characteristics or uses of the article, specifically:

*Sony's* rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law . . . . Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony's* staple-article rule will not preclude liability.<sup>135</sup>

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<sup>130</sup> It is worth noting that, while Judge Rader authored the *DSU Medical en banc* opinion holding that the specific intent standard applies to all inducement cases, he was part of a prior traditional panel that issued a per curiam opinion holding that the general intent standard should apply to the facts of that case. See *Moba, B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1318 (Fed. Cir. 2003) (per curiam) ("In this case, the only intent required of [alleged inducer] FPS is the intent to cause the acts that constitute infringement").

<sup>131</sup> *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1303, 1305–06 (Fed. Cir. 2006).

<sup>132</sup> See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 545 U.S. 913, 934 (2005).

<sup>133</sup> See *id.* at 935 ("[W]here evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony's* staple-article rule will not preclude liability").

<sup>134</sup> 464 U.S. 417, 426 (1984) ("Selling a staple article of commerce . . . technically contributes to any infringing use subsequently made thereof, but this kind of 'contribution,' if deemed sufficient as a basis for liability, would expand the theory beyond precedent and arguably beyond judicial management"). See also *Grokster*, 545 U.S. at 934 (analyzing the standard set forth by *Sony* for addressing evidence of intent in contributory infringement).

<sup>135</sup> *Grokster*, 545 U.S. at 934.

Just as the Court had borrowed contributory infringement from patent law some twenty years earlier in *Sony*, this time it borrowed inducement. Accordingly, the Court held that a party who sells a device with non-infringing uses, yet demonstrates through affirmative steps that it intends to promote infringing uses, is liable for inducing copyright infringement.<sup>136</sup>

Thus, it was the availability of extrinsic indicia of intent that prompted the Supreme Court to adopt inducement liability for copyright law, and the Court declined to borrow a particular level of intent from patent law inducement.<sup>137</sup> While the Court found defendants possessed the requisite state of mind to be held liable for inducement based on a record “replete with other evidence” showing that they “acted with the purpose to cause copyright violations,” nothing in the *Grokster* decision demonstrates an express preference for either the general or the specific intent standard.<sup>138</sup> Indeed, the facts did not require the Court to select an intent standard because defendants’ conduct would have subjected them to inducement liability under either standard. The evidence showed the defendants targeted former users of the known infringer Napster; this persuaded the Court that defendants intended to cause actual copyright infringement, which necessarily includes the lesser general intent to cause acts constituting copyright infringement.<sup>139</sup>

On this score, it is worth noting that the Supreme Court did not once cite to *Hewlett-Packard* or *Manville Sales* throughout its substantial discussion of patent law’s inducement doctrine. One could infer that such a notable absence means the Court did not wish to rule directly on the apparent conflict between the two decisions. Indeed, the only Federal Circuit precedent cited in *Grokster* is *Water Technologies Corp. v. Calco, Ltd.*, which was decided two years before *Hewlett-Packard* and *Manville Sales*, and, except for one opinion by the District Court for the Western District of Michigan, all of the cited authority was decided before the *Hewlett-Packard – Manville Sales* conflict emerged.<sup>140</sup> If the Court had wished to weigh in on the proper intent standard for inducement, it certainly would have at least mentioned the two leading decisions on the issue or subsequent opinions that addressed the conflict.

The only Federal Circuit decision cited by the Supreme Court was *Water Technologies*, which does not support application of the specific intent standard. As discussed above, in *Water Technologies* the court affirmed the finding of inducement because there was no “clear evidence of lack of intent,” so the district court did not err in inferring intent to induce from the circumstantial evidence.<sup>141</sup> There the court articulated a knowledge component, which is not the equivalent of intent. Thus, *Grokster*’s citation to *Water Technologies* does not demonstrate the Supreme Court’s “validation” of a universal specific intent standard for inducing infringement.

In addition to being misplaced, the Federal Circuit’s heavy reliance on *Grokster* is highly problematic because of a critical distinction between the defenses available in copyright law and patent law. In patent law, an alleged infringer accused of willful infringement will often rely on an opinion of counsel to rebut the willfulness charge.<sup>142</sup> The analogous defense is extremely rare

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<sup>136</sup> *Id.* at 919 (“[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties”).

<sup>137</sup> *See id.* at 936–37.

<sup>138</sup> *See id.* at 923, 938.

<sup>139</sup> *See id.* at 937–38.

<sup>140</sup> *See id.* at 936 (citing *Haworth Inc. v. Herman Miller Inc.*, 37 U.S.P.Q.2d 1080, 1090 (W.D. Mich. 1994) for the proposition that “evidence that defendant ‘demonste[d] and recommend[ed] infringing configurations’ of its product could support inducement liability”).

<sup>141</sup> *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988).

<sup>142</sup> Wilson L. White, Comment, *Attorney-Client Privilege as a Patent Sword and Shield: The Role of the Adverse Inference Rule in the Efficiency of the Patent System*, 84 N.C.L. Rev. 1049, 1065 (2006) (“The potentially

in the copyright context. Because of this distinction, the common law of copyright inducement as articulated in *Grokster* is not an appropriate source for resolving the role of intent in patent law inducement. Thus, the requirement of specific intent in patent law inducement disproportionately raises the possibility of an opinion of counsel defense and all of the issues associated with it, the implications of which are discussed in Section IV.

#### IV. THE IMPLICATIONS OF DSU MEDICAL: THE NEW IMPORTANCE OF THE OPINION OF COUNSEL

##### *A. The Opinion of Counsel Will Now Be a Consistently Potent Defense to Inducement*

Notably absent from the *DSU Medical* court's *en banc* analysis is any mention of the implications of universal application of the specific intent standard for inducement. In this author's mind, the most significant implication is the importance of the opinion of counsel defense to inducement. Before *DSU Medical*, practitioners could not be sure which intent standard would be employed by the courts, thus there was doubt as to the effectiveness of the opinion of counsel defense to a charge of inducing infringement, and often it would not be raised. As discussed in this section, the *DSU Medical* decision eliminated any such doubt, and the opinion of counsel is now a potent, if not complete, defense to inducement.

It is well-established that an opinion of counsel provides a defense to a charge of willful patent infringement.<sup>143</sup> However, it is less well-established, and has been somewhat controversial, that an opinion of counsel can be a critical factor in establishing a defense to a charge of inducing infringement.<sup>144</sup> While many courts, including the Federal Circuit, have found an opinion of counsel to be relevant exculpatory evidence negating intent,<sup>145</sup> the holding in *DSU Medical*

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devastating financial consequences of the treble damages for willful infringement very often made the decision to obtain and disclose opinion of counsel 'unavoidable.'").

<sup>143</sup> See, e.g., *Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 793–94 (Fed. Cir. 1995) (affirming a finding that defendant was not liable for willful infringement based on reasonable reliance on an opinion of counsel); *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944–45 (Fed. Cir. 1992).

<sup>144</sup> See *Symbol Tech, Inc. v. Metrologic Instruments, Inc.*, 771 F. Supp. 1390, 1405 (D.N.J. 1991) (holding that advice of counsel is applicable toward finding willful infringement, but that "[a]dvice of counsel has no relevance here in determining whether [defendant] induced infringement under § 271 (b)"); see also Recent Case: *Patent Law – Active Inducement of Infringement – District Court Holds That Inducement Liability Requires Proof of Intent To Induce Violation of the Law: Amersham Pharmacia Biotech, Inc. v. Perkin-Elmer Corp.*, 115 HARV. L. REV. 1246, 1249 (2002) ("[T]he notion that a defendant may escape liability under 271(b) merely by obtaining a plausible noninfringement opinion remains highly controversial among both courts and commentators."); Michael N. Rader, *Toward a Coherent Law of Inducement to Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for Intent Under § 271(b)*, 10 FED. CIR. B.J. 299, 330 (2000) ("[E]nabling alleged inducers to escape liability by obtaining a noninfringement opinion from counsel, as suggested in *Manville Sales*, would result in highly uneven patent protection across different industries.").

<sup>145</sup> See *Micro Chem., Inc. v. Great Plains Chem. Co.*, 194 F.3d 1250, 1261 (Fed. Cir. 2000) (affirming summary judgment of no inducement liability for defendant corporate officer because "[a]mong other things, [defendant] sought and relied on the advice of counsel in redesigning the accused machines"); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553–54 (Fed. Cir. 1990) (reversing the district court's determination that defendants were liable for inducement because defendants were unaware of the asserted patent until suit was filed and "subsequent infringing acts continued upon [defendant's] 'good faith belief,' based on advice of counsel, that [the accused] product did not infringe"); *Amersham Pharmacia Biotech, Inc. v. The Perkin-Elmer Corp.*, 2000 U.S. Dist. LEXIS 18751, at \*16–17 (N.D. Cal. Dec. 22, 2000) (denying patentee's motion for summary judgment on inducement because defendant offered evidence that it had been "operating under a good faith belief, based on an

cements the opinion of counsel as at least a substantial element of an inducement defense and perhaps a complete defense for the accused inducer.

In an opinion of counsel, a patent attorney analyzes patents that may present obstacles to the production, marketing and sale of a product and usually concludes that the manufacturer or seller has reasonable non-infringement, invalidity and/or unenforceability defenses should those patents be asserted in an infringement action. Such opinions are generally obtained to rebut a potential charge of willful infringement, which, if proved, gives rise to a trebling of damages under 35 U.S.C. § 284.<sup>146</sup> A competent opinion of counsel generally provides a defense to a charge of willful infringement because consultation with patent counsel and reasonable reliance on an opinion discharges the alleged infringer's duty of care to avoid infringement of known patents.<sup>147</sup> Thus, an accused infringer who relies on a competent opinion of counsel analyzing the patents-in-suit has a reasonable belief that the accused products do not infringe those patents.

To reiterate, under *DSU Medical*, to prove a defendant liable for inducing infringement, the patentee must show that defendant has "an affirmative intent to cause direct infringement."<sup>148</sup> This requires that the alleged infringer possess "specific intent to encourage another's infringement."<sup>149</sup> That is, in the words of *Manville Sales*, "he knew or should have known that his actions would induce actual infringements."<sup>150</sup> The key to this standard is a culpable state of mind, something akin to the *mens rea* requirement in criminal law, and the procurement of an opinion of counsel almost invariably negates such a state of mind. If the opinion is competent and reasonably concludes that the accused product does not infringe, or the asserted patents are invalid or unenforceable, the alleged inducer clearly does not possess the intent to cause actual infringements. Armed with such an opinion, an accused inducer believes that the analysis in the opinion provides him with reasonable arguments against infringement liability and therefore lacks the requisite *mens rea* for specific intent.

It should be noted that an opinion of counsel would not provide a defense under the lower general intent standard articulated in *Hewlett-Packard*, which required only that the alleged inducer intended to cause the acts constituting infringement.<sup>151</sup> Under that standard, an opinion of counsel would be immaterial because it pertains to the issue of actual infringement on a technical level, not the acts constituting infringement such as manufacturing and sales, which are still

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opinion of counsel, that its products do not induce infringement"); *but see Symbol Tech*, 771 F. Supp. at 1405 (finding under general intent standard that "[a]dvice of counsel has no relevance here in determining whether [defendant] induced infringement under § 271 (b)").

<sup>146</sup> See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (noting the determination of willful infringement turns on whether the potential infringer had notice and failed to exercise due care by not obtaining legal advice from counsel before continuing alleged infringement activities); See also 35 U.S.C. § 284 (2006) ("[T]he court may increase the damages up to three times the amount found or assessed").

<sup>147</sup> See *Knorr-Bremse*, 383 F.3d at 1345-46 ("[T]here continues to be 'an affirmative duty of due care to avoid infringement of the known patent rights of others'" (quoting *L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993); see also *Ortho Pharm. Corp.*, 959 F.2d at 944 ("[C]ounsel's opinion must be thorough enough, as combined with other factors, to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable").

<sup>148</sup> *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006).

<sup>149</sup> *Id.* (quoting *Minn. Mining & Mfg. Co. V. Chemque, Inc.*, 303 F.3d 1294, 1304-05 (Fed. Cir. 2002)).

<sup>150</sup> *Id.* (quoting *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990)).

<sup>151</sup> *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) ("[P]roof of actual intent to cause acts which constitute the infringement is a necessary prerequisite to finding active inducement.").

intended by the inducer.<sup>152</sup> Therefore, had *DSU Medical* adopted the *Hewlett-Packard* standard, the opinion of counsel would have been eliminated as a factor in defending against inducement liability. As long as the perceived conflict between the two standards existed, the opinion of counsel remained only a potential defense, and its effectiveness depended on which standard the court chose to follow. But the *DSU Medical* holding now puts the opinion of counsel defense to inducement squarely in play and elevates it to possibly the single most important factor in defending against inducement liability.

*B. Reliance on an Opinion of Counsel for an Inducement Defense Will Likely Trigger a Waiver of Privilege and Work-Product Immunity*

A significant issue that practitioners and the courts may now have to grapple with is whether reliance on an opinion of counsel solely as an inducement defense should trigger the same waiver of the attorney-client privilege and work-product immunity with regard to certain subject matter as does reliance on an opinion in defense of a willfulness claim. This is particularly important in view of the wide scope of this waiver, which now extends to all attorney-client communications relating to the subject matter of the opinion, and even to documents that refer to attorney-client communications, but are not themselves communications between attorney and client.<sup>153</sup>

At least one court has addressed this issue and held that the defendant waived the attorney-client privilege with respect to the subject matter of opinions relied upon for an inducement defense.<sup>154</sup> In *SEB v. Montgomery Ward & Co.*, defendants asserted that reasonable reliance on counsel's non-infringement opinion letters precluded a finding of the requisite intent to induce infringement and thus, provided a complete defense to liability.<sup>155</sup> During discovery, defendants produced two of the opinion letters at issue, but withheld production of a third.<sup>156</sup> The court held that since defendants claim their "reliance on opinions from counsel shield[s] them from liability under § 271(b)" they have waived the attorney-client privilege with respect to the opinions and must produce the third opinion letter and related materials.<sup>157</sup>

It is likely that other courts would also find that the waiver applies with equal force to inducement opinions because the same rationale for waiver in the willfulness context exists in the inducement scenario. In each case, the accused infringer relies on the opinion, and therefore, puts the opinion in issue on the matter of his state of mind with respect to infringement. Specifically, the accused infringer's defense depends on his state of mind, which in turn hinges on the subject matter of the opinion. For the alleged willful infringer to prove that he exercised his duty of care to avoid infringing the patents-in-suit, he must show that his reliance on the opinion of counsel was reasonable.<sup>158</sup> Therefore, the opinion must be competent, and a determination of competence requires that the opinion be produced and examined.<sup>159</sup> Furthermore, a complete determination of

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<sup>152</sup> See, e.g., *Symbol Techs., Inc. v. Metrologic Instruments, Inc.*, 771 F. Supp. 1390, 1405 (D.N.J. 1991) (finding, under the general intent standard, that "[a]dvice of counsel has no relevance . . . in determining whether [defendant] induced infringement under § 271(b)").

<sup>153</sup> See *In re EchoStar Comm. Corp.*, 448 F.3d 1294, 1304 (Fed. Cir. 2006).

<sup>154</sup> *SEB, S.A. v. Montgomery Ward & Co.*, 412 F. Supp. 2d 336, 348–49 (S.D.N.Y. 2006).

<sup>155</sup> *Id.* at 344.

<sup>156</sup> *Id.* at 348.

<sup>157</sup> *Id.* at 348–49.

<sup>158</sup> *Ortho Pharmaceutical Corp., v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992).

<sup>159</sup> See *In re EchoStar Comm. Corp.*, 448 F.3d 1294, 1303 (Fed. Cir. 2006).

defendant's state of mind requires that all communications to the client pertaining to the subject matter of the opinions be produced.<sup>160</sup>

However, the objective nature of the willfulness inquiry<sup>161</sup> may provide a slim basis for the defendant, relying on an opinion solely for an inducement defense, to draw a distinction that may persuade a court to reach a different result on the waiver issue. Specifically, the alleged inducer could argue that the inquiry into the required state of mind for specific intent to induce infringing acts differs from the reasonable reliance inquiry for willfulness because it is subjective. Specific intent, the argument goes, requires a guilty state of mind, like the *mens rea* requirement in criminal law. Therefore, the dispositive issue is the inducer's subjective intent, reasonable or not. Under a subjective standard for intent, it should be immaterial whether the reliance on the opinion was reasonable or unreasonable, and the opinion does not need to be examined for competence, and therefore, does not need to be produced. This argument provides the inducement defendant with at least some basis for distinguishing inducement and fighting the waiver.

The argument is unlikely to be widely successful, however, because it does not address the basic fairness considerations underpinning the waiver rule. The rationale for the waiver rule is that it prevents the unfairness that would result if the accused infringer were permitted to rely on self-serving documents while withholding unfavorable or damaging information.<sup>162</sup> But it also puts the defendant in the difficult position of choosing between providing the best defense against willfulness and suffering the consequences of the broad waiver, or severely handicapping the willfulness defense and maintaining the protection of the attorney-client privilege and work-product immunity on the other.

A common remedy to relieve this burden and alleviate the risk of waiver is to bifurcate the patent infringement trial into a first phase on liability issues and a second phase, if necessary, on willfulness and damages.<sup>163</sup> This arrangement permits the defendant to delay the decision to rely on an opinion of counsel until after liability has been determined.<sup>164</sup> Defendants in the future may attempt to modify this bifurcation tool to provide similar aid when the opinion of counsel defense is asserted in the inducement context. Thus, courts may start entertaining motions to bifurcate the infringement trial into a first phase on direct infringement liability and a second phase on inducement and damages issues. If there is a charge of willfulness as well, the defendant may

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<sup>160</sup> See *id.*

<sup>161</sup> *SRI Int'l, Inc. v. Advanced Tech. Labs, Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997) ("precedent displays the consistent theme of whether a prudent person would have had sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated"); see also *Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1428 (Fed. Cir. 1988) ("[t]he test [for willful infringement] is whether, under all the circumstances, a reasonable person would prudently conduct himself with any confidence that a court might hold the patent invalid or not infringed"); *Sharper Image Corp. v. Honeywell Int'l Inc.*, 222 F.R.D. 621, 630 (N.D. Cal. 2004) ("it is clear from the authorities that 'willfulness' can be found even if the evidence is not sufficient to enable the fact finder to determine what subjective state of mind actually accompanied the defendant's infringing conduct . . . while the target of the willfulness inquiry remains in some sense the state of mind of the alleged infringer, the courts seem prepared to permit a plaintiff to prove 'willfulness' under either a subjective or an objective standard").

<sup>162</sup> See *Greene, Tweed of Del., Inc v. DuPont Dow Elastomers, L.L.C.*, 202 F.R.D. 418, 421 (E.D. Pa. 2001) ("The rationale underlying the waiver of the attorney-client privilege in this situation is one of 'fairness.' 'A party should not be allowed to rely on self-serving documents in its defense while withholding potentially damaging information under the guise of attorney-client privilege'" (quoting *Mushroom Ass'n. v. Monterey Mushrooms, Inc.*, No. C-91-1092 BAC (PJH), 1992 U.S. Dist. LEXIS 19664, \*10 (N.D. Cal. May 19, 1992)).

<sup>163</sup> Thomas Presson, Comment, *Knorr-Bremse and Questions About Production of an Exculpatory Legal Opinion and the Adverse Inference*, 44 IDEA 409, 422 (2004).

<sup>164</sup> *Id.*

move to bifurcate inducement, willfulness and damages from the first phase on liability for direct infringement.

A patent infringement case divided in this manner could create jury confusion as to defendant's intent, as the jury deciding the second phase would have to determine whether the defendant possesses either the requisite state of mind for willfulness, or intent to induce infringement, or both. As will be discussed in the following section, a potentially destructive implication of the inducement opinion is this confusion of willfulness and inducement issues.

*C. Use of the Opinion of Counsel to Defend Against Inducement Liability Could Lead to Confusion of Willfulness and Inducement Intent Issues*

The new central role of the opinion of counsel has the potential to blur the distinction between willfulness and inducement intent, and create doctrinal confusion between the two legal inquiries. In the wake of *DSU Medical*, accused infringers will rely on opinions of counsel in one of three situations: as a defense to a charge of willfulness, as a defense to a charge of inducement, or as a defense to concurrent charges of willfulness and inducement. It is the last scenario that is of the most concern because, when it arises, the finder of fact will have to tease out the distinct, but potentially overlapping states of mind required for willfulness and inducement to determine whether the proffered opinion is an effective defense to either or both assertions.

Thus, courts and practitioners will confront the issue of what sort of conduct rises to the level of willfulness and how it differs, if at all, from the level of conduct that triggers inducement liability. The Federal Circuit has suggested that liability for inducement requires less egregious conduct than that for willful infringement.<sup>165</sup> In *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, the court held that corporate officers who could not be held liable for willful infringement could still be personally liable for the infringing acts of their corporations.<sup>166</sup> Orthokinetics, Inc. ("Orthokinetics") asserted one patent and one reissue patent directed to orthopedic wheelchairs against STC, Entron, and three individual officers of the corporations, alleging direct infringement, inducement, and willful infringement.<sup>167</sup> The jury returned a verdict for the patentee that, *inter alia*, the officers were personally liable for direct infringement and for inducing infringement of both patents.<sup>168</sup> Defendants argued they had a good faith belief that the reissue patent was invalid because the original patent had previously been held invalid, and that belief precluded a finding of willfulness.<sup>169</sup> On a motion for judgment notwithstanding the verdict, the district court held that, as a matter of law, the jury could not find the officers personally liable for any infringing acts of the corporations because the officers could not be liable for willful infringement.<sup>170</sup>

On appeal, the Federal Circuit reversed the grant of judgment notwithstanding the verdict.<sup>171</sup> The Federal Circuit held that the mere fact the corporate officers were not found to be willful infringers did not foreclose infringement liability because the standards for liability are different from those of willfulness:

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<sup>165</sup> See *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986).

<sup>166</sup> *Id.* at 1579–80.

<sup>167</sup> *Id.* at 1569.

<sup>168</sup> *Id.* at 1578.

<sup>169</sup> *Id.*

<sup>170</sup> *Id.*

<sup>171</sup> *Id.* at 1583.

Corporate officers are presumably aware of what they are doing, and in that sense they can be said to have acted “willfully.” However, that does not mean that their acts must rise to the level recognized by the law as constituting willful infringement before they can be liable for infringement by their corporation. Hence the district court erred in positing willful infringement as a prerequisite for the imposition of personal liability for the corporation’s direct infringement.<sup>172</sup>

Accordingly, the court reinstated the jury verdict of direct and indirect infringement.<sup>173</sup>

This is a complex issue that will not quickly be resolved. In the meantime, conflation of inducement with willfulness could frustrate the policy considerations that underlie the patent damages regime. Fundamentally, the two doctrines are very different: inducement is a form of infringement liability, and willfulness is a damages issue.<sup>174</sup> Liability for infringement entitles the patentee to routine damages intended to compensate for the losses suffered due to the infringing acts.<sup>175</sup> By contrast, the goal of assessing treble damages for willfulness is to punish and deter egregious conduct.<sup>176</sup> To maintain these policy distinctions, the nature and levels of proof for each claim and their defenses should be different. It is illogical that the shield for treble damages for willfulness would be coextensive with that for inducement liability. A party whose conduct is not egregious enough to be willful may nonetheless possess the requisite intent to induce infringement. Under *DSU Medical*, however, the opinion of counsel appears to provide a potent defense to both.

#### CONCLUSION

The Federal Circuit’s *en banc* holding in *DSU Medical* finally resolved the perceived conflict in the court’s precedent regarding the level of intent required to prove inducement liability. There, the full court endorsed the specific intent standard articulated in the Federal Circuit’s 1990 *Manville Sales* opinion and held that proof of inducement requires that the patentee show the alleged infringer “knew or should have known his actions would induce actual infringements.”<sup>177</sup> Although the court relied on *Manville Sales* and the Supreme Court’s opinion in *MGM Studios, Inc. v. Grokster*, neither decision supports a universal application of the specific intent standard for inducement.

A close examination of the *Manville Sales* decision reveals that it should apply only to its facts, *i.e.*, where corporate officers are exposed to personal liability for inducement. *Grokster* also does not support adoption of the specific intent standard. In *Grokster*, the Supreme Court turned to patent law’s inducement doctrine because the doctrine permits courts to examine indicia of intent unrelated to the design of the device or product at issue, not because of a particular level of

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<sup>172</sup> *Id.* at 1579.

<sup>173</sup> *Id.*

<sup>174</sup> Lynda J. Oswald, Comment, *The Intent Element of “Inducement to Infringe” Under Patent Law: Reflections on Grokster*, 13 MICH. TELECOMM. & TECH. L. REV. 225, 244 (2006).

<sup>175</sup> 35 U.S.C. § 284 (2006) (“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court”) (emphasis added).

<sup>176</sup> See *Beatrice Foods Co. v. New Eng. Printing & Lithographing Co.*, 923 F.2d 1576, 1579 (Fed. Cir. 1991) (“Under our cases, enhanced damages may be awarded only as a penalty for an infringer’s increased culpability, namely willful infringement or bad faith”).

<sup>177</sup> *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006).

intent. Moreover, as a copyright decision, *Grokster* is a particularly poor source for determining the appropriate level of intent for inducing patent infringement because copyright law lacks a significant opinion of counsel defense, which is ubiquitous in patent law, and critical to rebut the oft-made charge of willful patent infringement.

By adopting the specific intent standard, *DSU Medical* elevated the importance of the opinion of counsel defense to inducement. Probably the most significant implication of this decision is that alleged inducers will increasingly rely on the opinion of counsel to negate specific intent and counter charges of inducing infringement. Such reliance on the opinion of counsel defense in both the inducement and willfulness contexts could lead to doctrinal confusion of willfulness and inducement intent. Specifically, courts and juries may conflate the conduct implicating willfulness and that which triggers inducement liability. Yet, it is important that these issues remain distinct because inducement liability and treble damages for willfulness have very different policy goals. Surely there will be additional implications of *DSU Medical*, a decision that eschewed consideration of such implications. Hopefully, as this and other implications of the *DSU Medical* decision play out, awareness of the challenges created by its holding will prepare courts and practitioners to properly resolve them as they arise.