

No. 10-6

IN THE
Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC. AND
PENTALPHA ENTERPRISES, LTD.,
Petitioners,

v.

SEB S.A.,
Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF OF YAHOO! INC., EBAY INC.,
ELECTRONIC ARTS INC., GENERAL MOTORS LLC,
HEWLETT PACKARD COMPANY, MCAFEE, INC.,
RED HAT, INC., AND SYMANTEC CORPORATION
AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

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INTEREST OF AMICI CURIAE¹

Amici are a diverse group of innovative companies with a shared interest in a balanced patent system. Each company is an intellectual property owner with innovative products that compete successfully in the marketplace. As such, they each appreciate from experience the need for healthy market competition unimpeded by the threat of excessive patent litigation as well as the importance of respect for valid patent rights.

The doctrine of inducement infringement, if bounded properly, plays a critical role in protecting the balance between patent enforcement and the free commerce in new and innovative goods and services. This balance is threatened, for example, when a market participant is exposed to all the burden of patent litigation for their support of their legitimate multi-purpose products when they do not even know that their products are being used by *others* to infringe and they have no culpable purpose to promote infringement. But the decision below creates such a threat. Accordingly, Amici submit this brief in the hope that it is helpful to this Court in restoring balance to the doctrine of inducement infringement.

¹ The parties have consented to the filing of this brief. Their consent letters have been filed with the court. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *Amici Curiae*, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

The Question Presented asks whether *Grokster's* “purposeful,” “culpable” state of mind test for inducement infringement applies to patent cases rather than the “deliberate indifference” test created by the Federal Circuit. It should for the following good reasons.

First, this Court has steadfastly protected legitimate commerce from secondary liability absent proof of a culpable purpose to promote an unlawful objective. In *Grokster*, this Court emphasized the wisdom of limiting secondary liability to the truly culpable given “the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential.” *Metro-Golden-Mayer Studios Inc. v. Grokster*, 545 U.S. 913, 937 (2005). The importance of safeguarding innovators who engage in legitimate commerce is no less applicable to Section 271(b) of the patent code than to copyright law. Determining secondary liability in both areas involves an analysis of the circumstances under which it is reasonable and fair to hold one individual accountable for the actions of another.

Second, the Federal Circuit panel’s newly minted “deliberate indifference” test is inconsistent with this Court’s *Grokster* decision and the legal principles upon which that decision is based. In creating its new test, the Federal Circuit opinion failed to acknowledge the culpable purpose requirements of *Grokster*. In fact it did not even cite that decision. Although the Federal Circuit suggested that “deliberate indifference” is a form of

“specific intent,” which could be consistent with *Grokster*, it repeatedly used the language of *negligence* to describe its test. Indeed, it improperly applied a negligence test.

Third, to find culpable purpose, at a minimum there must be proof of knowledge of infringement, which in turn requires at least knowledge of the specific patent and that the patent covers the allegedly infringing activity. Absent such actual knowledge there is no purpose to promote infringement violations. Because of the complexities and ambiguities endemic to patent analysis and because of the ubiquity of patents, a general knowledge of a patent or the potential that a product may encounter patent conflicts is necessarily insufficient to prove culpable purpose to promote infringement violations.

Fourth, a negligence-type standard such as that applied below is not only inconsistent with this Court’s authority, it would discourage innovation and beneficial commerce. Such a rule would siphon resources that could be used to innovate or to ensure that there is no infringement when proper notice is given of potential infringement. Specifically, companies offering products that do not infringe would be forced to expend limited corporate resources to cope with an expansion of potential inducement infringement assertions based on all the ways their customers might use their products. Given the growing problem of over-aggressive patent enforcement, this unwarranted expansion of liability and creation of a large gray zone, threatens to chill innovation and waste resources in a time of shrinking research and development budgets.

In sum, this Court should ensure that secondary liability is not imposed on those who create and distribute multi-purpose products that do not infringe any patents unless they act with the culpable purpose to encourage others to use those products in ways that they know to be unlawful.

ARGUMENT

I. SECONDARY LIABILITY FOR INDUCEMENT REQUIRES A CULPABLE PURPOSE TO ENCOURAGE UNLAWFUL ACTS

This Court has long supervised the development of the law of secondary liability for infringement. When faced with the issue, this Court has acted with caution, recognizing the “problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.” *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417, 435 (1984). The central theme of this Court’s jurisprudence in this area has been to maintain a just and healthy balance so that valid rights can, under proper circumstances, be enforced even against those who are not committing the underlying violation – but *without* stifling legitimate and pro-competitive commerce in goods with many lawful uses.

The most recent and relevant precedent on this subject is *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). Interestingly, the Grokster music swapping service at issue affirmatively encouraged the underlying acts of copyright infringement by promoting heavily the

copying of *both* copyrighted and uncopyrighted works. But that active encouragement of *acts* that were undisputedly infringing was not enough to justify secondary liability under an inducement theory. Instead, this Court ruled inducement liability turned on whether the secondary actor exhibited a culpable purpose to promote law-breaking with knowledge of the infringement – not just to promote acts that happened to violate the law. The essence of this Court’s ruling was that it is fair to require culpable purpose before holding one person responsible for the damage that is caused by the legal violation of another.

Grokster’s “unmistakable” unlawful objective was critical to the Court’s analysis. *Grokster*, 545 U.S. at 940. This Court made clear that there must be a “culpable” state of mind to foster the legal wrong of infringement, using language of unlawful purpose throughout its opinion:

- “fault-based,”
- “unlawful purpose,”
- “foster infringement,”
- “purposeful, culpable expression and conduct,”
- “designed to stimulate others to commit violations,”
- “unlawful purpose,”
- “unlawful purpose disqualifies him from claiming protection,”
- “purpose to cause copyright violations,”

- “unlawful objective,”
- “unlawful intent,”
- “illegal objective.”

See generally, id.

As the Federal Circuit summarized *en banc* in *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006), “*Grokster* has clarified that the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement....the inducer must have an affirmative intent to cause direct infringement.”

In confirming the culpable purpose requirement, this Court explained that it is necessary for fairness and balance when holding one entity responsible for the legal violations of another. This Court promised that inducement infringement “will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective.” *Grokster*, 545 U.S. at 941. The Court explained that, because there is only liability for “purposeful, culpable expression and conduct,” inducement infringement law “does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.” *Id.* at 937. Further, this Court noted that this rule is a safeguard “to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential.” *Id.*

These basic principles of fairness apply with no less force to patent law. At the outset, as a matter of logic, the culpable purpose requirement of *Grokster* applies to patent law. *Grokster* expressly

borrowed the inducement law that it applied to copyright law in *Grokster* from patent law, much as the Court in *Sony* acknowledged the “historic kinship” between patent and copyright law. *See Grokster*, 545 U.S. at 936 (“*Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright”). If *Grokster* borrowed the state of mind principles for inducement infringement from patent law, that is an explicit recognition that these principles apply to patent law. In deriving the culpable purpose requirement from patent law in *Grokster*, this Court traced the history of the requirement of culpable intent in patent law in cases new and old. *See id.* (“The [patent] rule on inducement of infringement as developed in the early cases is no different today.”).

Put simply, the two most recent and fundamental cases from this Court addressing secondary liability, *Sony* and *Grokster*, both applied the same basic principles and framework to patent and copyright law with an eye towards consistency. This case should be no different and should respect the “historic kinship” between these two areas of the law by applying the culpable purpose rule in patent law with no less certainty than it did in *Grokster*.

Functionally, the protection of free commerce in innovative products is no less deserving of safeguards in patent law as in copyright law. The proliferation of flexible, multi-functional, and configurable products is core to our national prosperity and competitiveness. Each of us encounters and benefits from such products everyday. Producers of such powerful products pride themselves on their

robust and assiduous support of their products for all the potential and varied uses to which they are put. The diversity and extent of the uses of modern, multi-purpose products can include everything from: (1) hosting other technologies, such as computer “apps,” (2) powering larger products such as processors that are used in a everything from cars to kitchen appliances, and (3) interconnecting computing elements in a network. It would be unfair to expose the creators of these innovative products to secondary liability for each of the almost limitless supported uses of their products in these larger systems absent a showing that they actually know they are being used to infringe.

There will always be an argument from customer service records, field service reports, extensive “help” functions on websites, and encyclopedic product manuals that the underlying acts of infringement themselves are being “encouraged” specifically by the product-maker. Successful companies in these competitive times are intensely customer-centric. Most companies are loathe to deny that they have encouraged and supported specific functionality or configurations of their multi-purpose products – especially when they do not believe such functionality infringes any third-party rights. Thus, protection for innovators from unbounded secondary liability based on the uses their products are put to by others must come from requiring an “unlawful intent.” As explained further below, this requires knowledge that they are encouraging the legal wrong of infringement.

The particular structure of Section 271 confirms that inducement in patent law also requires a

specific intent to encourage legal violations, knowing of the illegality. Section 271(b) authorizes secondary liability only for one who “actively induces *infringement*.” 35 U.S.C. § 271(b) (2006) (emphasis supplied). This use of the legal term “infringement” contrasts with Section 271(a). That section, which governs direct infringement, sets forth the underlying acts which constitute infringement (such as selling, offering to sell or importing an invention), and then describes performance of those underlying acts as constituting direct infringement. If Section 271(b) only required the active inducement of the underlying acts which constitute infringement (such as selling, offering to sell or importing an invention), rather than the legal wrong itself, it would parallel the language of Section 271(a). For example, that section could have easily stated that “actively inducing the sale of an invention” is an infringement. In that case, there might be an argument that there is no culpable purpose requirement. By requiring instead the active inducement of the wrong of infringement using the legal conclusion “*infringement*,” Section 271(b) makes clear that there must be a culpable purpose to be liable for inducement infringement. Moreover, the statutory requirement of an “*active* inducement” of the legal wrong of “infringement” makes clear that a culpable purpose to foster infringement is required to find a Section 271(b) violation.

Section 271(c) further confirms this conclusion. That section codifies secondary liability relative to products which are specially adapted for infringement. Even though such products have no

other use than infringement, the product maker is only secondarily liable if it is proven that he “knew that the combination for which his component was especially designed was both patented and infringing.” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964). It would defy all logic to require those trafficking in goods that are only useful for infringement to know of such infringement before they are held secondarily liable, but to set a *lower* scienter standard to prove secondary infringement for those who create and distribute goods and services with potentially thousands of substantial non-infringing uses.

SEB may argue that, unlike copyright infringement at issue in *Grokster*, 271(b) is a strict liability statute just like direct infringement under 271(a) because there is no express requirement in the statute for knowledge. However, there can be no dispute that section 217(b) explicitly addresses “actively inducing infringement” and thus the notion of secondary liability. The culpable purpose requirement derives from the nature and character of the liability, and not the state of mind requirement of the underlying offense of direct infringement.

In short, the culpable purpose requirement for inducement infringement reaffirmed in *Grokster* should and does apply with equal force to patent law.

II. THE LOOSE “DELIBERATE INDIFFERENCE” STANDARD CREATED BY THE FEDERAL CIRCUIT REQUIRED ONLY NEGLIGENCE AND IS INCONSISTENT WITH GROKSTER

The Federal Circuit panel opinion below announced a new standard for the culpable state of mind requirement, borrowing the “deliberate indifference” test applied in this Court’s Eighth Amendment case law. This “deliberate indifference” test is problematic, particularly as set forth below, because it is inconsistent with this Court’s authority. Specifically, it fails to meet this Court’s secondary liability standards.

Although the panel below appeared to acknowledge this Court’s culpable purpose requirement, it instead described a recklessness standard that it ultimately applied as though the standard were negligence, as explained further below. If allowed to stand, this mode of analysis would not only create more confusion about the proper level of culpability required, it would improperly tilt the balance struck by this Court necessary to protect free commerce, market competition, and technological innovation.

Consistent with *Grokster*, the panel correctly acknowledged that inducement requires a showing of a “specific intent to encourage another’s infringement.” *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360, 1376 (Fed. Cir. 2010). Nevertheless, it appeared to lower the standard to attempt to capture disregard, rather than true culpable purpose: “‘specific intent’ in the civil con-

text is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists.” *Id.*

In attempting to create a “disregard” standard, the Federal Circuit panel borrowed the “deliberate indifference” standard from *Farmer v. Brennan*, 511 U.S. 825, 834 (1994) relating to the Eight Amendment. However, the panel did not apply the “deliberate indifference” test as set forth in *Farmer* and its progeny. As explained in *Farmer*, “deliberate indifference” is a recklessness standard requiring “deliberate indifference to a *substantial* risk of *serious* harm.” *Id.* at 836. (emphases supplied). As this Court noted in *Farmer*, in civil cases recklessness requires at a minimum that the failure to act occurred “in the face of an *unjustifiably high* risk of harm.” *Id.* (emphasis supplied). Yet, the Federal Circuit panel’s “deliberate indifference” test merely required a failure to act in the face of a “known risk,” without requiring the risk to be “high” or “substantial.” As a consequence, the panel set forth what reduces to a negligence test. That is flatly inconsistent with *Grokster’s* culpable purpose requirement.

In effect, the panel found a culpable state of mind in the process Pentalpha used to obtain an opinion of counsel. The central critique of Pentalpha’s conduct is that it failed to identify for its patent counsel the manufacturers of the fryers used as models by its engineers so it could check specifically if they had relevant patents.

To meet the culpable purpose test, however, one would have to consider why Pentalpha went to

the trouble and expense of obtaining an opinion of counsel from an independent attorney if it were truly acting knowing that it was infringing SEB's patent and without care that it was doing so. But, because the appeal panel applied a negligence standard, the panel never considered this central issue.

Negligence is a manifestly lower standard than the culpable purpose standard applied by this Court in *Grokster*. Likewise, a "deliberate indifference" or other recklessness standard is at odds with this Court's requirement that an induced infringer must have a culpable *purpose* to promote an unlawful object. This Court should vacate the ruling below and remand for the lower courts to apply the culpable purpose test.

III. AT A MINIMUM, TO ACT WITH CULPABLE PURPOSE, AN INDUCEMENT INFRINGER MUST ACTUALLY KNOW OF THE SPECIFIC PATENT AND THAT IT COVERS THE ALLEGEDLY INFRINGING ACTIVITY

To act with culpable purpose, an inducement infringer must, at a minimum, actually know of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim. There simply cannot be culpable purpose without this kind of specific knowledge. This is because with millions of existing United States patents, and hundreds of thousands more issuing each year, patent infringement will always be ar-

gued to be a known risk for successful American businesses.²

It is impossible to incorporate virtually any technology into a product without entering a potential minefield of patent conflicts. The existence of what has been described as a patent thicket is well-documented in the literature. *See* Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting*, in *Innovation Policy and the Economy* 1, 119-150 (Adam B. Jaffe, Josh Lerner & Scott Stern eds., MIT Press 2001); Georg von Graevenitz, Stefan Wagner & Dietmar Harhoff, *How to Measure Patent Thickets - A Novel Approach*, Discussion Paper 2009-9, Munich School of Management (2009).

With global competitiveness increasing all the time, the proliferation of patents as an active tool of commerce is also growing. The existence of aggressive market participants with patents are a fact of the life for most commercial enterprises. In addition, sophisticated players seeking to monetize patents, without producing products, commonly patent specifically to block the technology paths where they expect potential licensing targets will

² As an example, by one count there are at least 200,000 issued software patents. *See* James Bessen & Michael J. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk* 22 (2008), available in part at <http://researchoninnovation.org/dopatentswork/>. The growth in such patents has been estimated to be approximately 20,000 more software patents per year. *See* James Bessen & Robert Hunt, *An Empirical Look at Software Patents*, 16 *J. Econ. & Mgmt. Strategy* 157, 158 (2007).

tread – even if they have no plans to commercialize the patented technology on their own.

In addition to the ubiquity of patents, the nature of modern technology and product development makes the need for a firm knowledge requirement all the more important. For instance, the greater the flexibility and the more powerful the functionality of the product, the more appealing the argument that patent disputes are a known risk to the innovator. Most computer systems can take advantage of thousands of different functions and integrate with countless other products, including many configurations the original source of the product may not have even contemplated (but which they may fully encourage as part of their commitment to product support). Many of these functions will tread in areas in which there are literally thousands of patents. To treat the development and distribution of such products to be a “known risk” sufficient to establish a culpable purpose to infringe a particular patent relating to a particular feature would be to eviscerate the concept of culpable purpose that maintains the balance inherent in this Court’s secondary liability authority.

Knowledge of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim is particularly important because of the complexity of a patent analysis. Determining the scope of a patent, how it applies to a product and whether the patent is even valid is a major undertaking. True culpability requires more than knowing that there may be a general risk of a patent assertion. Indeed, true culpa-

bility requires more than mere knowledge of a particular patent without notice of how one's conduct would infringe that patent.

Thus, as a predicate to inducement infringement, one must actually know of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim. The importance of actual knowledge is long-established in law, just as it is rooted in logic.

As noted above, in *Aro* this Court made clear that even for those involved with products with no substantial use other than infringement, secondary liability would only attach if there were actual knowledge of the infringement. No lesser rule should apply to commerce in goods and services with beneficial and substantial non-infringing uses.

Long before *Aro*, in *Cortelyou v. Charles Eneu Johnson & Co.*, 207 U.S. 196, 200 (1907), a patent infringement case, this Court affirmed a finding of no inducement infringement because there was not even *notice* to the defendant of the patent-in-suit or its relationship to the staple goods (ink) it was selling. Specifically there was no evidence that the defendant was “notified by the plaintiffs of the rights which they claimed, or that anything which it did was considered by them an infringement upon those rights.” *Id.* These long-standing teachings were codified as Section 271(b) when the Patent Act was passed in 1952.

Indeed, prior to the panel opinion below, the Federal Circuit itself had recognized *en banc* that to establish someone is an inducement infringer

there is a “requirement that he or she knew of the patent.” *DSU*, 471 F.3d at 1304.

The minimum requirement that one must know of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim is grounded in the law and an important safeguard to maintain balance in the patent system.³ Simply put, it would not be reasonable or fair to hold someone liable for the direct patent infringement by another if that someone did not even know of the specific patent.

IV. THE DELIBERATE INDIFFERENCE STANDARD WOULD SIPHON RESOURCES FROM PRODUCTIVE USES TO LITIGATION BUDGETS

The culpable purpose test is fair and pro-competitive because it ensures that only those with unlawful intent are exposed to secondary liability for the wrongful activity of others under Section 271(b). The watered down “deliberate indifference” test applied below, to the contrary, would detract from innovation in favor of litigation.

With the proliferation of patents and growth of a patent monetization industry, responsible companies come into contact with a dizzying num-

³ Of course, willful blindness to a fact is itself knowledge of the fact. *See United States v. Santos*, 553 U.S. 507, 521 (2008). We do not suggest one can intentionally blind itself to a fact to insulate itself from liability. However, in this context the fact must be of a specific patent and that it covers the infringing activity that is the subject of the inducement claim— not so-called blindness to the existence of patents more generally.

ber of patents. In the course of prosecuting a patent application, for example, a companies' legal team can have dozens of patents brought to its attention in some sense. Licensing negotiations, literature reviews, and conference attendance can introduce employees of a company to countless additional patents on a routine basis.

If exposure to patents in or out of competitive contexts could be argued to alone create an obligation for responsible companies to perform a patent analysis to conclude that there is no infringement of a valid patent, the only beneficiaries would be patent attorneys. The cost of a patent opinion – especially one that would have a chance to stand up to litigation second-guessing – can cost more than \$100,000. If you multiply that times the number of patents in which the company might come into contact, rather those that present a true issue, the cost becomes staggering. Envision now a comprehensive patent search covering all aspects of how a product functionality *might be used by others*, where there is arguably a “known risk” that a patent conflict may exist, and the legal costs could easily reach into the millions. In real world terms, the budget for such expanded lawyer activity would compete with budgets for research and development.

Exacerbating this problem further is the frequency with which products are updated, upgraded, expanded, extended, and otherwise improved. This constant evolution of modern products multiplies the frequency of the patent evaluations that would need to take place under the Federal Circuit's “deliberate indifference” standard.

Even where the substantial expense of a patent analysis is incurred, if there is valid debate about whether there is infringement, an opinion of counsel becomes a litigation target where every arguable flaw can be used to suggest negligence. Whether it is a failure to anticipate the latest shifts in patent law, a missed patent in an otherwise thorough search, or alleged bias of the authoring attorney, the satellite litigation over the adequacy of such analyses has real cost. Under a negligence standard, discovery battles and privilege fights are sure to consume disproportionate resources. Likewise, such a rule would spur satellite disputes about what a company, in hindsight, should have known, and should have done, which can distract from a focus on the merits of a patent infringement claim itself.

With the culpable purpose rule, patent holders have an incentive to present those they would like to pursue for secondary liability with clear notice of their patent rights and why they believe their patents are infringed. If that happens, responsible companies can efficiently focus their attorney resources on these patent assertions.

On the other hand, those seeking to monetize patents will be given additional motivation to bring lists of patents to the attention of potential litigation targets if there were to be no culpable purpose requirement. Such notices, depending on how the law develops, could impose huge additional costs on companies to help extract cost-of-patent-attorney settlements. Indeed, companies might face a choice of occupying a stable of patent attorneys to attempt to protect the company from secondary liability for

the acts of others or to settle to avoid a wasteful use of much needed resources.

In sum, under the culpable purpose standard, commercial actors can focus their resources to ensure that they do not in fact encourage others to infringe patents where they know of the patent and that it covers the allegedly infringing activity that is the subject of the inducement claim. A negligence standard, on the other hand, would needlessly expand the expensive practice of obtaining opinions of counsel, invite potential gamesmanship and encourage “gotcha” litigation.

CONCLUSION

For all these reasons, the decision of the Federal Circuit panel should be reversed.

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