

No. 12-786

In The
Supreme Court of the United States

—◆—
LIMELIGHT NETWORKS, INC.,

Petitioner,

v.

AKAMAI TECHNOLOGIES, INC. and
MASSACHUSETTS INSTITUTE OF TECHNOLOGY,

Respondents.

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

—◆—
**AMICUS CURIAE BRIEF OF NEWEGG AND
L.L. BEAN IN SUPPORT OF PETITIONER**

—◆—
PETER J. BRANN
(Counsel of Record)
DAVID SWETNAM-BURLAND
STACY O. STITHAM
BRANN & ISAACSON
184 Main St., P.O. Box 3070
Lewiston, Maine 04243-3070
(207) 786-3566
pbrann@brannlaw.com

Attorneys for Amici Curiae

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INTEREST OF AMICI CURIAE

Amici Curiae Newegg, Inc. and L.L. Bean, Inc. (collectively, “Newegg”) submit this brief in support of Petitioner.* According to *Internet Retailer*, Newegg is the fourteenth largest Internet retailer in the country, and the third largest web-only retailer in the country, with estimated annual sales of \$2.8 billion. *Internet Retailer, Top 500 Guide*, 115 (2013); *see also id.* at 130 (Internet Retailer ranks L.L. Bean as 29th largest Internet retailer, with \$1.12 billion in online sales). With that high profile comes patent litigation. Newegg and L.L. Bean have been repeatedly sued for patent infringement, not based on the features of the thousands of products and services they sell, but rather based on the fact that they sell their products and services on the Internet.

Under the new rule announced by the Federal Circuit, Newegg can be sued for induced infringement when they allegedly perform several steps of a patent claim by operating their websites, and their customers or potential customers allegedly perform one of the steps of the patent claim on their own computers or smartphones. Thus, even though no one person or

* In accordance with S. Ct. R. 37.3(a), all parties have consented to the filing of this brief. The Petitioner filed a consent letter with the Clerk. The Respondents consented by email to the filing of this brief. Pursuant to S. Ct. R. 37.6, counsel for *Amici* state that no counsel for a party authored this brief in whole or in part, and no person or entity other than *Amici* or its counsel made a monetary contribution to the preparation or submission of this brief.

entity, including Newegg, directly infringes the patent, Newegg as the deep-pocketed defendant can – and will – still be sued for patent infringement for “inducing” someone it does not control to take action that does not itself infringe the patent.

Since many e-commerce patent lawsuits concern allegations that a company’s website or mobile application works in conjunction with technology supplied by someone else (QR codes, web browsers, smartphones, etc.) or is used by someone else (customers or potential customers), the standard of induced infringement is important to e-commerce companies like Newegg and L.L. Bean. Therefore, they seek to reverse the radical rule pronounced by a bare majority of the *en banc* Federal Circuit, and return to the standard that this Court has followed for many years – a person cannot be held liable for inducing infringement under 35 U.S.C. § 271(b) if no single person or entity has committed direct infringement under 35 U.S.C. § 271(a).



SUMMARY OF ARGUMENT

The *en banc* Federal Circuit properly held – and the Court has not agreed to review – that “[w]hen a single actor commits all the elements of infringement, that actor is liable for direct infringement under 35 U.S.C. § 271(a).” *Akamai Technologies, Inc. v. Lime-light Networks, Inc.*, 692 F.3d 1301, 1305 (Fed. Cir. 2013) (*en banc*) (brackets added). The *en banc* Federal

Circuit also properly held that “[w]hen a single actor induces another actor to commit all the elements of infringement, the first actor is liable for induced infringement under 35 U.S.C. § 271(b). *Id.* (brackets added). Newegg has no quarrel with either of these two longstanding propositions.

The *en banc* Federal Circuit veered off course, however, when it held that “all the steps of a claimed method must be performed in order to find induced infringement, but . . . it is not necessary to prove that all the steps were committed by a single entity.” *Id.* at 1306 (ellipsis added). In such a case, even though no one is liable for direct infringement, a defendant nevertheless may be liable for induced infringement. This effectively rewrites Section 271(b) to impose infringement liability on whoever actively induces infringement whether or not *anyone* actually infringes the patent.

In an unbroken line of cases from *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), through *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011), the Court has concluded that there cannot be indirect infringement, including induced infringement, without direct infringement. A bare majority of the *en banc* Federal Circuit brushed aside 60 years of constant and consistent interpretation of the 1952 Patent Act, which, in turn, codified about 80 years of regular enforcement of the principles of contributory infringement, in favor of a radical new rule that divorces induced infringement from direct infringement. This is like staging *Hamlet* without the Prince.

In the arena of statutory interpretation, and particularly in the arena of statutory interpretation of the patent laws, in which constancy and consistency is considered critical, *stare decisis* has special force. Thus, profound changes in patent law based on policy concerns should be made by Congress instead of the courts. It is Congress who has the authority and ability to determine whether the hypothetical loophole discussed by the Federal Circuit is an actual policy problem. Accordingly, the Federal Circuit erred when it ignored this long history and detached induced infringement from the moorings of direct infringement.

This is not simply a fascinating, intellectual inquiry for e-commerce companies such as Newegg. Although an entity cannot be held liable for “actively” inducing infringement under Section 271(b) unless it acts with scienter, which the Federal Circuit held means that the entity knew about the patent, that is little more than a speed bump at the pleading stage. Once a plaintiff alleges such knowledge, it is difficult to dispute, certainly at the motion to dismiss stage, and often even at the summary judgment stage. Indeed, once the plaintiff files suit, a defendant can scarcely claim to be unaware of the plaintiff’s patent, thus often permitting full-throated litigation to proceed on a claim for on-going damages for induced infringement from the date of the complaint. Since the principal concern of most e-commerce companies is the cost of full-blown litigation, simply limiting the damage period is unlikely to change the settlement

calculus in which companies often settle even weak e-commerce patent claims.

The practical consequence of the Federal Circuit's revision of the longstanding law on induced infringement is that e-commerce companies such as Newegg can be sued for induced infringement even when they cannot be sued for direct infringement, and the cases are unlikely to be resolved short of trial because central issues will include amorphous issues of intent, and the actions of third parties that the e-commerce companies do not control, *e.g.*, customers, potential customers, smartphone manufacturers, etc. Given the well-known cost and distraction of patent litigation, the likely result for most e-commerce companies will be to accept a cost-of-litigation settlement regardless of the merits of the induced infringement patent claim. The Court, therefore, should recalibrate the scales and return the rule on induced infringement to the requirement that a person cannot be liable for induced infringement unless a single person or entity is liable for direct infringement.



ARGUMENT

I. A PERSON SHOULD NOT BE HELD LIABLE FOR INDUCED INFRINGEMENT IF NO SINGLE ENTITY COMMITTED DIRECT INFRINGEMENT.

The question in this case – whether a defendant can be held liable for inducing patent infringement

under 35 U.S.C. § 271(b) even though no one has committed direct infringement under 35 U.S.C. § 271(a) – can only be understood in the context of two longstanding pillars of patent infringement law that are not at issue in this Court. The *en banc* Federal Circuit correctly held, and the Court has not agreed to review, the requirement that a single entity must perform all of the steps of a claim to directly infringe a patent, and the requirement that a person infringes a patent if he or she actively induces a single entity to perform all of the steps of a claim.

First, “[w]hen a single actor commits all the elements of infringement, that actor is liable for direct infringement under 35 U.S.C. § 271(a).” *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301, 1305 (Fed. Cir. 2013) (*en banc*) (brackets added). Although Respondents sought to review that conclusion not to impose direct infringement liability on multiple, independent parties (No. 12-960), the Court has thus far refused to do so. Because “a direct infringer’s knowledge or intent is irrelevant,” *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2065 n.2 (2011), this would be an even more radical expansion than redefining induced infringement to include multiple, independent actors, which at least requires scienter on the part of the person who “actively” induces the infringement. Suffice it to say, Newegg opposes Respondents’ effort to rewrite the law of direct infringement. Until that revolution occurs, no one can be held liable for direct infringement of a patent claim unless it performs, directly or

vicariously, each step of that claim. *BMC Research, Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1378 (Fed. Cir. 2007).

Second, “[w]hen a single actor induces another actor to commit all the elements of infringement, the first actor is liable for induced infringement under 35 U.S.C. § 271(b). *Akamai*, 692 F.3d at 1305 (brackets added). No one questions this standard. This means, of course, that returning the standard of induced infringement to its former roots will not render Section 271(b) superfluous.

Once these two unquestionable or unquestioned conclusions are considered, it becomes a short, straight line to the proper resolution of the issue presented in this case. If direct infringement only occurs when a single actor directly or vicariously performs all of the steps of the claim, and if induced infringement occurs when a person actively induces a single actor to perform all of the steps of the claim, it likewise makes sense that induced infringement *only* occurs when a person actively induces a single actor to perform all of the steps of the claim.

After all, Section 271(b) states that “[w]hoever actively induces *infringement* of a patent shall be liable as an infringer. 35 U.S.C. § 271(b) (brackets and emphasis added). Although a person who “actively induces infringement of a patent shall be liable *as* an infringer,” *id.* (emphasis added), what “infringes the patent” is defined by 35 U.S.C. § 271(a). Section 271(a), however, limits “infringement of a patent” to

actions taken by a single actor. Logic and syntax dictate, therefore, that that single actor must be actively induced by the defendant to infringe the patent before the defendant is also “liable as an infringer” under Section 271(b).

We are not limited to logic in reaching this conclusion since “the life of the law has not been logic but experience.” *Neder v. United States*, 527 U.S. 1, 15 (1999) (citing Oliver Wendell Holmes, *The Common Law*, 1 (1881)). Experience teaches, again and again, that there cannot be indirect infringement without direct infringement.

As the Court recently noted, Sections 271(b) and 271(c) of the Patent Act “have a common origin in the pre-1952 understanding of contributory infringement,” and thus should be interpreted in tandem. *Global-Tech*, 131 S. Ct. at 2068. It thus would be “strange” to treat the two provisions differently. *Id.* Cases interpreting both Sections 271(b) and 271(c) lead inexorably to the conclusion that there cannot be induced infringement under Section 271(b) if there is no direct infringement under Section 271(a).

In *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (“*Aro I*”), the Court observed that “it is settled that if there is no direct infringement of a patent there can be no contributory infringement.” *Id.* at 342. In support, the Court pointed to a pre-1952 opinion from Justice Frankfurter: “In a word, if there is no infringement of a patent there can be no contributory infringer.” *Id.* (quoting

Mercoid Corp. v. Mid-Continent Co., 320 U.S. 661, 677 (1944) (Frankfurter, J., dissenting on other grounds)). Quite simply, one cannot contribute to a non-existent infringement. *Id.*

A dozen years later, the Court treated this as a foregone conclusion. “But it is established that there can be no contributory infringement without the fact or intention of a direct infringement.” *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 527 (1972). Indeed, the Court added language to Justice Frankfurter’s opinion to emphasize the inextricable connection between direct and indirect infringement: “In a word, if there is no [direct] infringement of a patent there can be no contributory infringer.” *Id.* (brackets added by Court).

A generation later, in a case “which looked to the law of contributory patent infringement for guidance in determining the standard to be applied in a case claiming contributory copyright infringement,” *Global-Tech*, 131 S. Ct. at 2067, the Court matter-of-factly observed that “the inducement theory of course requires evidence of actual infringement by recipients of the device, the software in this case.” *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 940 (2005). Unless someone actually infringed the copyright, there could be no induced infringement by anyone else.

Finally, the Court recently concluded that “a party who ‘actively induces infringement of a patent’ under 35 U.S.C. § 271(b) must know that the induced

acts constitute patent infringement.” *Global-Tech*, 131 S. Ct. at 2063. In reaching that conclusion, the Court noted that Section 271(b) “may require merely that the inducer lead another to engage in conduct that happens to amount to infringement” under Section 271(a), or it may require “the inducer [to] persuade another to engage in conduct that the inducer knows is infringement.” *Global-Tech*, 131 S. Ct. at 2065 (brackets added). In either event, the Court assumed that one could not induce infringement under Section 271(b) unless the defendant induced “another” to take action that constituted direct infringement under Section 271(a).

Furthermore, the Court observed that Section 271 of the 1952 Patent Act “was designed to ‘codify in statutory form principles of contributory infringement’ which had been ‘part of our law for about 80 years.’” *Global-Tech*, 131 S. Ct. at 2066 (quoting *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 485-86 n.6 (1964) (“*Aro II*”) (legislative history citation omitted)). Accordingly, it is still relevant today that the Court concluded in a case decided during the Taft Administration under the common law that “[t]here could have been no contributory infringement by the defendants unless the use of Miss Skou’s machine with ink not made by the complainants would have been a direct infringement.” *Henry v. A.B. Dick Co.*, 224 U.S. 1, 12 (1912). Stated differently, in case after case decided by this Court in the last 100 years, it has been either announced or assumed that there could not be indirect infringement, including

induced infringement, unless someone directly infringed the plaintiff's patent or copyright.

As the Court observed in slightly different circumstances in *Deepsouth*, “[w]hen so many courts have so often held what appears so evident . . . we are not prepared to break the mold and begin anew.” 406 U.S. at 532 (brackets and ellipsis added). On the contrary, since the 1952 Patent Act was designed to codify about 80 years of law concerning indirect infringement, and since Congress has not seen fit to change the law of indirect infringement in the 50 years since *Aro I* and its progeny were decided, the Court should be loath to blaze a new path. *See Global-Tech*, 131 S. Ct. at 2066. Rather, “the doctrine of *stare decisis* with regard to questions of statutory interpretation” has “special force” in such circumstances. *Id.* (citation omitted). Accordingly, if the law of induced infringement is to be changed as a matter of policy, that change should come from Congress. *See Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1305 (2012) (“we must hesitate before departing from established general legal rules” and “we must recognize the role of Congress in crafting more finely tailored rules where necessary”); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 457 (2007) (only Congress should consider and close any alleged “loop-hole” in the patent laws). Unless and until Congress changes the law, the Court should stay the course and continue the constant requirement that there cannot be indirect infringement, including induced infringement under Section 271(b), in the absence of proof

that someone committed direct infringement under Section 271(a).

II. THE STANDARD OF INDUCED INFRINGEMENT IS IMPORTANT TO E-COMMERCE COMPANIES.

A. Eliminating The Requirement Of Proof Of Direct Infringement By A Single Actor Will Lead To A Significant Increase In Induced Infringement Claims Against E-Commerce Companies.

The standard of induced infringement is not a dry academic issue for e-commerce companies like Newegg and L.L. Bean. On the contrary, it has immediate, practical consequences in light of the types of method claims that are routinely asserted against e-commerce companies.

Newegg, L.L. Bean, and others are routinely sued for patent infringement based not on the countless products and services that they sell, but rather based on the mere fact that they sell those products and services over the Internet. Typically, plaintiffs allege that the e-commerce company's website or mobile application works in conjunction with technology supplied by someone else (QR codes, web browsers, smartphones, etc.) or is used by someone else (customers or potential customers), and together these multiple actors perform all of the steps of the plaintiff's patent. Since the plaintiff cannot assert direct infringement because no single actor performs all of

the steps of the patent, and cannot assert contributory infringement because e-commerce companies are often not writing the accused software or source code, that leaves induced infringement.

In *Soverain Software LLC v. Newegg, Inc.*, 836 F. Supp. 2d 462 (E.D. Tex. 2010), *rev'd in part, vacated in part on other grounds*, 705 F.3d 1333 (Fed. Cir. 2013), *cert. denied*, 2014 WL 102440 (U.S. Jan. 13, 2014) (No. 13-477), the plaintiff asserted that Newegg infringed its patent through its operation of a website and its customers' actions on their own computers utilizing "shopping cart" technology that interacted with Newegg's website. A jury rejected claims of direct infringement, but found induced infringement and awarded \$2.4 million in damages. Newegg prevailed on appeal not by overturning the finding of induced infringement, but rather by invalidating the patent. Just tracing the case history from the district court to this Court shows that Newegg's final victory came only after four years of expensive litigation.

We need only consider the aftermath of *Akamai* to realize the extent of the effects of the expansion of induced infringement liability. Following the decision below, in cases in which courts found that there was no direct infringement because no single actor performed all of the steps of the patent and therefore committed direct infringement, courts nevertheless reinstated claims of induced infringement. *See, e.g., Travel Sentry, Inc. v. Tropp*, 497 Fed. Appx. 958, 959-60 (Fed. Cir. 2012) ("Tropp's patents claim methods involving the steps of (1) providing to consumers a

‘special’ dual-access luggage lock having an ‘identifying structure,’ (2) marketing the special lock to consumers, (3) the identification structure signaling to a luggage screener that the lock may be opened with a master key, and (4) the luggage screener using the master key to open the lock.”); *Move, Inc. v. Real Estate Alliance Ltd.*, 709 F.3d 1117, 1120, 1122 (Fed. Cir. 2013) (“Move operates and maintains multiple interactive websites that allow users to search for available real estate properties” but “the Move computer does not do the selecting; a user does the selecting, and then the [user’s] computer merely updates display variables to reflect the user’s selection”) (brackets added); *Aristocrat Technologies Australia Pty. Ltd. v. Int’l Game Tech.*, 709 F.3d 1348, 1350 (Fed. Cir. 2013) (patents relating to gaming machines that “require two separate actors: (1) the casino via the gaming machine and (2) the player”); *Civix-DDI, LLC v. Hotels.com, LP*, 904 F. Supp. 2d 864, 868 (N.D. Ill. 2012) (a method claim of selecting, storing, and supplying information in which the “Hotels.com database does not store advertising information” and “Hotels.com, as opposed to a third party, [does not deliver] advertising information about a business”) (brackets added).

These reported decisions represent the proverbial tip of the iceberg because most companies, faced with the prospect of lengthy patent litigation, choose instead to accept a cost-of-defense settlement rather than litigate the merits of even dubious patent claims. Particularly if the decision below is affirmed,

e-commerce companies are unlikely to litigate induced infringement claims if the plaintiff need only allege that the company somehow knew about the plaintiff's patent, maintains a website, and "induces" its customers to interact with that website and take certain actions on their own computers or use third party technology, like a QR code, on their smartphones or tablets.

To be sure, the plaintiff must allege that the defendant acted with scienter, which means knowledge of the patent and knowledge that its induced actions constitute infringement of the patent. *See Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2068 (2011). However, this likely will only slow, not stop, most claims of induced infringement.

The Federal Circuit has concluded that the plaintiff need not identify any specific, alleged direct infringer (and now need not even allege that there is a direct infringer). *See In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323, 1336 (Fed. Cir. 2012). Indeed, the plaintiff need only allege "indirect infringement premised on circumstantial evidence of direct infringement by unknown parties." *Id.* (citation omitted). Concerning intent to induce others to infringe a patent, this is not proving to be a high bar – courts have found, for example, "specific intent to encourage users' infringement" simply by providing a user guide that "provides instructions for use that, if followed, would infringe the patent-in-suit." *Tierra Intelectual Borinquen, Inc.*

v. Toshiba America Information Systems, Inc., 2014 WL 605431, *3 (E.D. Tex. Feb. 14, 2014).

Concerning knowledge of the patent, prior to suit, a plaintiff need only allege facts that give rise to an inference that the defendant was aware of the patent. *See, e.g., Radware, Ltd. v. A10 Networks, Inc.*, 2014 WL 61047 (N.D. Cal. Jan. 7, 2014) (defendant's three email subject lines that refer to plaintiff; plaintiff's claim that defendant's product was sufficiently similar that it might have been copied; and public documents referring to plaintiff's patent, are sufficient to infer defendant's knowledge of patent). Furthermore, after filing suit, a "majority of the lower courts . . . have held that a plaintiff may state a cause of action for indirect infringement limited to a defendant's post-litigation conduct by pleading knowledge of the patents-in-suit as of the date of the filing of the complaint." *Zond v. SK Hynix, Inc.*, 2014 WL 346008, *4 (D. Mass. Jan. 31, 2014) (ellipsis added and footnote and citations omitted). Since most patent settlements are driven by the cost of litigation, the prospect of limiting the plaintiff to "only" post-filing damages or a possible injunction for maintaining a website after the plaintiff files suit is cold comfort indeed. Thus, Newegg believes that decoupling induced infringement from the requirement that a single actor be actively induced to commit direct infringement will lead to a dramatic increase in patent litigation against e-commerce companies.

B. Increased Induced Infringement Claims Will Worsen An Intolerable Situation And Lead To Additional Cost-Of-Litigation Settlements.

“[T]he primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is ‘to promote the progress of science and useful arts.’” *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917) (quoting U.S. Const. art. I, § 8, cl. 8) (brackets added).

Patent protection is, after all, a two-edged sword. On the one hand, the promise of exclusive rights provides monetary incentives that lead to creation, invention, and discovery. On the other hand, that very exclusivity can impede the flow of information that might permit, indeed spur, invention, by, for example, raising the price of using the patented ideas once created, requiring potential users to conduct costly and time-consuming searches of existing patents and pending patent applications, and requiring the negotiation of complex licensing arrangements.

Mayo Collaborative Servs. v. Prometheus Labs., Inc., 132 S. Ct. 1289, 1305 (2012). Thus, courts seek to maintain the “careful balance” between innovation and competition that “the federal patent laws . . . embod[y].” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) (ellipsis and brackets added).

In the world of e-commerce patents, however, “[t]hings fall apart; the centre cannot hold; Mere anarchy is loosed upon the world.” W.B. Yeats, *The Second Coming* (1919) (brackets added). Due to the current imbalance, “[t]he best lack all conviction, while the worst [a]re full of passionate intensity.” *Id.* (brackets added). Stated more prosaically, there is a significant and accelerating problem of weak e-commerce patents being used to extract enormous unearned sums through cost-of-litigation settlements, and lowering the standard for establishing induced infringement will only make an intolerable situation worse.

In brief, empirical studies demonstrate that a confluence of factors – the generally low quality of e-commerce patents, the uncertainty of patent litigation outcomes, and the rising costs of patent infringement litigation – have combined to create an untenable situation. E-commerce patents are *more* likely to be litigated yet *less* likely to be valid. At the same time, lawsuits under e-commerce patents are the *least* likely to reach claim construction, let alone judgment on the merits. In other words, external factors, chiefly expense and uncertainty, are leading companies to settle the very cases that the merits suggest they ought to defend most vigorously.

A 2008 estimate put the number of software patents at over 200,000. *See* James Bessen & Michael J. Meurer, *Patent Failure* 22 (2008). Of these, some 11,000 covered some aspect of the Internet. *Id.* at 8-9. Since that time, the number of software patents has

increased dramatically. James Bessen, *A Generation of Software Patents*, 18 B.U.J. Sci. & Tech. L. 241, 252-53 & Fig. 1 (2012). The Government Accountability Office recently estimated that as of 2011, patents related to software made up more than half of all issued patents. U.S. Government Accountability Office, Report to Congressional Committees, *Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, GAO-13-465 at 13 (August 2013) (“GAO Report”).

Data on litigation outcomes suggest that e-commerce patents are of lower quality compared with patents in other fields. See John R. Allison, Mark A. Lemley & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677, 680 (2011) (software patent-owners overall win only 12.9% of their cases.). Even so, Internet patents in particular are between 7.5 and 9.5 times *more* likely to be litigated than patents in other fields. John R. Allison, Emerson H. Tiller & Samantha Zyontz, *Patent Litigation and the Internet*, 2012 Stan. Tech. L. Rev. 1, 6 (Feb. 14, 2012). Ironically, the very weakness of e-commerce patents actually makes it more likely that they will be litigated aggressively by plaintiffs because aggressive litigation increases the odds that other potential defendants, concerned about the cost of such potential litigation, will agree to take a cost-of-litigation settlement. Erik Hovenkamp, *Predatory Patent Litigation*, 1-5 (Aug. 5, 2013) (available at <http://papers.ssrn.com/sol3/papers.cfm?>

abstract_id=2308115). Thus, the patents most likely to be litigated are the least likely to survive battle-testing.

It may be an understatement to say that the growth of patent infringement litigation generally, and in the technology sector in particular, has been explosive. *See* Bessen, *supra*, at 259 (“Clearly, the number of software patent lawsuits has continued to grow rapidly, meaning that the risk of litigation from software patents has necessarily increased.”). Measured by total number of defendants – which provides a more accurate measure than the total number of cases, given the presence of large multi-defendant patent infringement litigation in some districts – the total number of patent infringement defendants increased six-fold between 1990 and 2010. Kyle Jensen, *Patently-O, Counting Defendants in Patent Litigation* (available at <http://www.patentlyo.com/patent/2010/10/guest-post-counting-defendants-in-patent-litigation.html>). Growth in the litigation of software patents has kept, if not exceeded, this pace. *See* Bessen, *supra*, at 259 (measuring rapid growth of software litigation by number of lawsuits); GAO Report (number of overall defendants in patent infringement lawsuits increased approximately 129% from 2007 to 2011; 89% of which was due to lawsuits involving software-related patents).

One driver of this growth is the rapid increase in litigation by “patent assertion entities,” which are also known as “non-practicing entities” or “patent trolls.” Given that the business of the patent

assertion entity depends upon asserting patents in litigation, it is little wonder that the growth of this industry would increase the volume of patent infringement litigation. In a recent study, researchers concluded that plaintiffs whose business is to extract money from patents through litigation and licensing, as opposed to developing products under those patents, accounted for 40% of all patent cases filed in 2011, up from the already significant figure of 22% in 2007. See Sara Jeruss, Robin Feldman & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, at 5 & 43-57, Duke Law & Tech. Review (2012); see also James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, at 2, Boston Univ. School of Law Working Paper No. 12-34 (June 28, 2012) (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210) (patent assertion entity litigation affected 5,842 defendants in 2011, and cost the country \$29 billion). Professor Colleen Chien, who has conducted several studies of patent assertion entity litigation, estimates that 62% of patent lawsuits in 2012 were brought by patent assertion entities, up from 45% in 2011. Colleen Chien, Patently-O, *Patent Trolls by the Numbers* (Mar. 14, 2013) (available at <http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html>).

The number of companies, organizations, and persons threatened with patent litigation by non-practicing entities is even more dramatic. Conservatively, at least 60,000 companies, organizations, and persons have been threatened with suit by such

entities, and the more likely number is over 100,000. See Executive Office of the President, *Patent Assertion and U.S. Innovation*, at 6 (June 2013).

The explosive growth of patent litigation concerning weak e-commerce patents by patent assertion entities would not be a crisis if there was a quick, inexpensive way to separate the wheat from the chaff. One of the critical reasons to return the law of induced infringement to the state of the law for the last 100 years is to provide an early opportunity for defendants to dispose of weak induced infringement claims (particularly when the plaintiff cannot assert in good faith a direct infringement claim) – if a plaintiff cannot “plausibly” assert that a single actor actually directly infringed the patent, the induced infringement claim would not make it out of the starting gate.

Unlike direct infringement claims, which currently need only satisfy the minimalist pleadings requirements of Form 18 of the Federal Rules of Civil Procedure, see *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354, 1357 (Fed. Cir. 2007), allegations of indirect infringement must satisfy the more robust “plausibility” standard of *Ashcroft v. Iqbal*, 556 U.S. 662 (2009), and *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007). See *In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323, 1331-32 (Fed. Cir. 2012). For purposes of a motion to dismiss or an early motion for summary judgment, requiring the plaintiff not only to identify a single actor that infringes the patent, but also to explain

“plausibly” how that single actor infringes the patent is vital. Given the cost of full-blown patent litigation, eliminating weak infringement claims early in litigation is essential if such weak infringement claims are to be eliminated at all.

It belabors the obvious to state that patent litigation is breathtakingly expensive. The American Intellectual Property Law Association estimates that the cost of patent litigation ranges from \$350,000 to reach the end of discovery and \$650,000 to fully complete litigation when less than \$1,000,000 is at risk, to \$3,000,000 to reach the end of discovery and \$5,000,000 to fully complete litigation when more than \$25,000,000 is at risk. Am. Intell. Prop. Ass’n, *Report of the Economic Survey* (2011). Since plaintiffs frequently seek a percentage of a company’s online revenues as damages for implementation of the alleged invention on the company’s website, the amount at stake often reaches the high end of these estimates, and thus the projected cost of pursuing patent litigation through the final reel is likely to meet or exceed the \$5,000,000 estimate. Also, given the asymmetry between parties in which plaintiffs are frequently patent assertion entities, and therefore have little discovery to provide, these costs are usually borne largely by defendants. Furthermore, these litigation costs continue to increase. See Stijepko Tokic, *The Role of Consumers in Deterring Settlement Agreements Based on Invalid Patents: the Case of Non-Practicing Entities*, 2012 Stan. Tech. L. Rev. 2, 8 (Jan. 9, 2012).

Efforts to streamline patent litigation through adoption of local patent rules have made it even less likely that most defendants will litigate the merits of even weak patent claims, given the asymmetry between patent assertion entities and e-commerce companies. Currently, 26 districts, including some of the districts with the heaviest patent caseloads, have local patent rules. *Local Patent Rules: Patent Rules Made Easy* (available at <http://www.localpatentrules.com/>). These local patent rules generally frontload requirements relating to infringement and invalidity analysis, which often require defendants to produce both their non-infringement and invalidity analyses shortly after the plaintiff presents them with its infringement contentions.

The burden here falls more heavily on defendants. To prepare infringement contentions, plaintiffs must only match up the claim language of their patents against the defendants' accused functionality, by, for example, placing claim language next to screen-shots of the defendants' public website – a task that they presumably already performed as part of their pre-filing investigation. To prepare invalidity contentions, defendants, by contrast, must conduct a thorough worldwide search of existing patents and patent applications, technical journals, and other written works, for specific pieces of prior art that match the claim language of the asserted patent point-for-point, and they must perform this search on the tight timeline set by the rules.

For example, Local Patent Rule 3.2 in the Northern District of Illinois requires a defendant's non-infringement, unenforceability, and invalidity contentions within 14 days after getting the plaintiff's infringement contentions. Additionally, Local Patent Rule 3.1 in the Northern District of Illinois requires defendants to provide along with their initial disclosures:

- (1) documents sufficient to show the operation and construction of all aspects or elements of each accused apparatus, product, device, component, process, method or other instrumentality identified with specificity in the pleading of the party asserting patent infringement; and
- (2) a copy of each item of prior art of which the party is aware that allegedly anticipates each asserted patent and its related claims or renders them obvious or, if a copy is unavailable, a description sufficient to identify the prior art and its relevant details.

The local patent rules elsewhere generally require defendants to conduct a comprehensive search for prior art early in the litigation, and to disclose under pain of forfeiture shortly after learning the plaintiff's theory of infringement all of the defendant's specific theories of invalidity. *See, e.g.*, E.D. Tex. Local Patent Rule 3-3 (disclosure of invalidity theories within 45 days of receipt of infringement contentions); N.D. Cal. Local Patent Rule 3-3 (same); S.D.N.Y. Local Patent Rule 7 (same); D.N.J. Local Patent Rules 3.2A, 3.3

(disclosure of non-infringement and invalidity theories within 45 days of receipt of infringement contentions).

Additionally, in the busiest patent district, the Eastern District of Texas, standing discovery orders generally require parties at the outset of the case, without the necessity of a document request, to “produce or permit the inspection of all documents, electronically stored information, and tangible things in the possession, custody, or control of the party that are relevant to the pleaded claims or defenses involved in this action[.]” Judge Rodney Gilstrap, *Discovery Order – Patent* (brackets added) (available at <http://www.txed.uscourts.gov/page1.shtml?location=info;judge&judge=17>). Thus, defendants frequently must provide not only a complete accounting of their invalidity positions and prior art, but also a complete document production on a compressed schedule. Again, plaintiffs do not share this burden as their document production, particularly in the case of patent assertion entities, generally amounts to little more than a copy of the patent and its file history and records of prior settlement agreements.

Accordingly, once sued for patent infringement, Newegg incurs early in the case the disproportionate costs necessary to develop their non-infringement and invalidity positions (including scouring the world for potential invalidating prior art), and to produce all potentially relevant documents, including all electronically stored information, which, in turn, necessitates significant internal investment and distraction. But, even if Newegg incurs such costs and distraction,

there is no obvious exit ramp from the litigation other than settlement because infringement and invalidity analysis frequently must await claim construction before being ripe for summary judgment. “[I]n almost every patent case claim construction is a dispositive issue.” David L. Schwartz, *Courting Specialization: An Empirical Study of Claim Construction Comparing Patent Litigation Before Federal District Courts and the International Trade Commission*, 50 Wm. & Mary L. Rev. 1699, 1708 (2009) (brackets added). This means, however, that Newegg, L.L. Bean, and others usually must incur the cost and distraction of a patent case through discovery and claim construction before they even have the opportunity to convince the court that they do not infringe the specific claims of the patent or that the specific claims of the patent are invalid.

Although claim construction may be a dispositive issue, it rarely is a settled issue. Studies show that the reversal rate by the Federal Circuit on claim construction ranges between 33% and 44%. Ted L. Field, “*Judicial Hyperactivity*” in *the Federal Circuit: an Empirical Study*, 46 U.S.F. L. Rev. 721, 734-35 & Table 1 (2012). This means that even if an e-commerce company is prepared to pursue the matter through trial, its odds on appeal on the dispositive issue in the litigation are little better than the flip of a coin.

The reality of modern patent litigation is that e-commerce companies often face the Sisyphean prospect of spending upwards of \$5,000,000 through the end of the litigation, preparing and producing

early in the litigation their non-infringement and invalidity positions, producing early in the litigation their documents and electronically stored information, conducting full-blown discovery, and litigating dispositive claim construction issues that are reversed nearly half the time on appeal, just to be able to have a court rule that they do not infringe the specific claims of the patent-in-suit or that the specific claims of the patent-in-suit are invalid as anticipated, obvious, lacking a written description, and the like. So long as the plaintiff prices the settlement at less than the massive costs of defense through judgment and appeal, most defendants will opt to settle instead of defending against even a weak patent. *Cf. Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011) (defendant spent over \$600,000 to litigate a case it could have settled for \$75,000 or less). Based on these pragmatic concerns, even though weak e-commerce patents are growing in number, they rarely are litigated to a final judgment that is affirmed on appeal.

Against this backdrop, lowering the standard for asserting induced infringement claims in which a plaintiff need not even identify anyone who actually infringes the patent, much less plausibly explain how that person infringes the patent, in order to proceed against the deep-pocketed e-commerce company on an amorphous claim that it “induced” infringement by operating a website in which customers and potential customers interact and take independent actions or use web browsers, QR codes, or smartphones supplied

by someone else, only worsens a broken system. The Court should restore some balance to the patent laws by resuscitating the law of induced infringement and requiring a single entity to have directly infringed a patent under Section 271(a) before a person can be found to have actively induced that infringement under Section 271(b).

◆

CONCLUSION

Amici Curiae Newegg, Inc. and L.L. Bean, Inc. request that the Court reinstate the test for induced infringement that a person cannot be held liable for inducing infringement under 35 U.S.C. § 271(b) if no single entity has committed direct infringement under 35 U.S.C. § 271(a), and remand for reconsideration in light of the announced standard.

Respectfully submitted,

PETER J. BRANN
(*Counsel of Record*)
DAVID SWETNAM-BURLAND
STACY O. STITHAM
BRANN & ISAACSON
184 Main St., P.O. Box 3070
Lewiston, Maine 04243-3070
(207) 786-3566

*Attorneys for Amici Curiae
Newegg, Inc. and L.L. Bean, Inc.*

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