

No. 10-6

In the Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., *ET AL.*,

Petitioners,

v.

SEBS.A.,

Respondent.

**On Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit**

**BRIEF OF BUSINESS SOFTWARE ALLIANCE
AS *AMICUS CURIAE*
IN SUPPORT OF PETITIONERS**

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**BRIEF OF BUSINESS SOFTWARE ALLIANCE
AS *AMICUS CURIAE*
IN SUPPORT OF PETITIONERS**

INTEREST OF THE *AMICUS CURIAE*

The Business Software Alliance (BSA) is an association of the world's leading software and hardware technology companies. On behalf of its members, BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members develop hundreds of new products every year, contributing to a significant sector of the U.S. economy. And by virtue of their inventions, BSA members hold tens of thousands of patents. Because they are both innovators as well as substantial patent holders, BSA members have a particularly acute interest in properly calibrated liability for claims of patent infringement.

BSA members include Adobe, Altium, Apple, Autodesk, AVEVA, AVG, Bentley Systems, CA Technologies, Cadence, Cisco Systems, CNC/Mastercam, Correl, Dassault Systèmes SolidWorks Corporation, Dell, HP, IBM, Intel, Intuit, Kaspersky Lab, McAfee, Microsoft, Minitab, Progress Software, PTC, Quark, Quest Software, Rosetta Stone, Siemens, Sybase, Symantec, Synopsys, and The MathWorks.¹

¹ Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part and that no person other than *amicus* and its counsel made a monetary contribution to its preparation or submission. The parties' letters consenting to the filing of this brief have been filed with the Clerk's office.

SUMMARY OF ARGUMENT

Since the end of the nineteenth century, the federal courts have agreed that individuals may be held liable for indirect patent infringement. This secondary liability “exists to protect patent rights from subversion by those who, without directly infringing the patent themselves, engage in acts *designed* to facilitate infringement by others.” *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 188 (1980) (emphasis added). “This protection is of particular importance in situations * * * where enforcement against direct infringers would be difficult, and where the technicalities of patent law make it relatively easy to profit from another’s invention without risking a charge of direct infringement.” *Ibid.*

Secondary liability is thus designed to prevent individuals who have engaged in intentional wrongdoing from escaping through some technical loophole in the patent laws. Because it is meant to sanction *purposeful* actions, secondary liability for patent infringement has always required proof of specific intent and actual knowledge. When it adopted the Patent Act of 1952, Congress codified these common law principles.

That approach reflects the proper balance between the rights of patent holders and innovators whose creativity benefits the public at large. Patent holders enjoy substantial protection for their property rights: *direct* infringement is a strict liability offense. But because indirect infringement claims can be presented through an enormous assortment of varying theories—many of which are simply unpredictable to inventors and competitors—overly broad secondary liability “would block the wheels of commerce.” *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48 (1912),

superseded on other grounds by 38 Stat. 731, as recognized by Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 517-518 (1917).

This is increasingly true in the modern patent landscape where enormously complex products may potentially implicate many thousands of patents representing the inventive effort of as many different entities. Pegging secondary liability to proof of specific intent and knowledge of the underlying infringement ensures that patent holders have appropriate remedies against those who seek to profit by inducing others to infringe, but does not hold innovators liable for unintentional conduct.

This Court has already endorsed these principles. In *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), the Court applied in the copyright context the standards governing liability for inducing patent infringement. In so doing, it affirmed the actual knowledge and specific intent requirements of inducement liability. These elements, the Court explained, properly “limit[] liability to instances of more acute fault” and thus “leave[] breathing room for innovation and a vigorous commerce.” *Id.* at 932-933. Precisely that same balance controls the construction of Section 271(b) here.

ARGUMENT

PATENT INDUCEMENT CLAIMS REQUIRE PROOF OF PURPOSEFUL MISCONDUCT.

Section 271(b) of the Patent Act creates liability for “[w]hoever actively induces infringement of a patent.” 35 U.S.C. § 271(b).

There is no dispute regarding the conduct elements of a Section 271(b) claim. There must be an

underlying patent infringement: “the inducement theory of course requires evidence of actual infringement.” *Grokster*, 545 U.S. at 940. See also *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526 (1972) (“[I]t is established that there can be no contributory infringement without the fact or intention of a direct infringement.”); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961) (same); *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 687 (Fed. Cir. 1986) (“Absent direct infringement of the patent claims, there can be neither contributory infringement nor inducement of infringement.” (citations omitted)).

And the defendant’s acts must constitute “affirmative steps taken to foster infringement.” *Grokster*, 545 U.S. at 936-937; see also *Tegal Corp. v. Tokyo Electron Co.*, 248 F.3d 1376, 1378 (Fed. Cir. 2001) (“‘Actively inducing,’ like ‘facilitating,’ requires an affirmative act of some kind.”); *Individual Drinking Cup Co. v. Errett*, 297 F. 733, 739-740 (2d Cir. 1924) (to be held liable for contributory infringement a defendant must have “done some act without which the infringement would not have occurred”).

The question in this case involves the mental state element of an inducement claim. It is clear from the Court’s recent decision in *Grokster*—as well as from this Court’s earlier patent jurisprudence—that specific intent to induce infringement is a necessary prerequisite to inducement liability. It is equally clear that the specific intent requirement can be satisfied only when the defendant has actual knowledge of the underlying infringement.

Notwithstanding this Court’s decisions, the Federal Circuit has been unable to settle on a clear formulation of the mental element for this statute.² Recently, that court approved a particularly lax knowledge requirement, suggesting that a party’s recklessness—and even potentially its negligence—could trigger inducement liability. This approach represents an extraordinarily dangerous expansion of liability for inventors of new products and servic-

² In *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990), the court applied a broad intent requirement, requiring only “proof of actual intent to cause the acts which constitute the infringement.” But the court did not expressly require a plaintiff to prove that the defendant actually knew of the underlying infringement. *Ibid.* Less than three months later, in *Manville Sales Corp. v. Paramount Systems Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990), the court concluded that a plaintiff must prove “that the defendant possessed specific intent to encourage another’s infringement” and “he knew or should have known his actions would induce actual infringements.”

In the years that followed, the court frequently recognized its own “lack of clarity” on this point (see, e.g., *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1378 n.4 (Fed. Cir. 2005) (citation omitted)), and in *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293, 1304-1306 (Fed. Cir. 2006), the court revisited this issue en banc. Viewing *Grokster* as dispositive, the court concluded that “the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement,” thus “the inducer must have an affirmative intent to cause direct infringement.” *Id.* at 1306.

Notwithstanding the en banc court’s determination that “inducement requires evidence of culpable conduct, directed to encouraging another’s infringement” (*DSU Med. Corp.*, 471 F.3d at 1306), the court below viewed the “the scope of the knowledge requirement for intent” as an open question, and proceeded to craft its minimal standard. *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1376 (Fed. Cir. 2010)

es. The actual knowledge and specific intent requirements are essential to properly balance the rights of patent holders with those of innovators and, in turn, the public.

A. A Recklessness Standard Would Threaten Technology Companies With Unjustified And Extraordinarily Broad Inducement Liability.

Left uncorrected, the recklessness standard adopted by the Federal Circuit will have dramatic negative implications for technology businesses, significantly increasing the cost of developing new products and services—costs that will be passed to consumers.

First, inducement liability based on a recklessness standard would, in the modern patent landscape, result in nearly limitless liability, especially for companies in technology industries.

A new technology product or service may incorporate hundreds if not thousands of separate patents. Fed. Trade Comm’n, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, *Executive Summary*, at 6 (Oct. 2003) (“FTC REPORT”) (“In some industries, such as computer hardware and software, firms can require access to dozens, hundreds, or even thousands of patents to produce just one commercial product.”). This is because “computer hardware and software contain an incredibly large number of incremental innovations.” *Ibid.*³

³ In 2003, for example, it was estimated that more than 10,000 parties held more than 90,000 patents related to microprocessors and 40,000 parties held more than 420,000 patents related

Given that a single device may implicate thousands of patents, an inventor that exercises the utmost good faith will sometimes fail to uncover a relevant patent. See FTC REPORT, CH. 2, *The Role of Competition & the Patent System in Spurring Innovation*, at 26 (“One panelist from the software industry noted that programs can contain millions of lines of code and include ‘potentially hundreds of thousands’ of patentable inventions.”). The general counsel of one large technology company explained that “the large number of issued patents in [the computer hardware industry] makes it virtually impossible to search all potentially relevant patents, review the claims, and evaluate the possibility of an infringement claim or the need for a license.” *Id.* at 28.

A company that directly infringes a patent is strictly liable. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (“patent infringement is a strict liability offense”). The unlawful conduct is sufficient to establish liability, even if it is unintentional, unknowing, or otherwise innocent. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Inducement liability, however, by its very nature involves conduct that is entirely lawful; it is the defendant’s mental state that defines the scope of liability. A mental state element as boundless as recklessness will create a significant chilling effect, causing companies to avoid a wide variety of perfectly lawful (and economically productive) activity out of

to semiconductors. FTC REPORT, CH. 3, *Business Testimony: Current Innovation Landscape in Selected Industries*, at 34. See also Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 RAND J. ECON., No. 1, 101, 110 (2001).

fear that innocent actions may nonetheless pave the road for inducement claims. Moreover, because of the practical realities of litigation and the discretion courts accord jury verdicts, a recklessness standard is hardly distinguishable from mere negligence.

A few examples illustrate this danger:

- **Supplier liability.** In today's economy, one company often sells a device or licenses a technology to a third party, who then integrates that device or technology into its own product. The company that supplies the device or technology may have no control over the final product nor any knowledge as to whether that product somehow infringes a patent. But a plaintiff could nonetheless contend that the supplier facilitated and thus induced the final product. Under a recklessness standard, the supplier's lack of knowledge would not suffice as a defense. Instead, a supplier would have to investigate how downstream producers will use its devices and technology—an utterly cost prohibitive and practically impossible burden. Cf. *nCube Corp. v. Seachange Int'l, Inc.*, 436 F.3d 1317 (Fed. Cir. 2006).
- **Alternative uses.** A product's primary and intended usage may not infringe a patent, but a product may be susceptible to be used in an infringing manner. Under a recklessness standard, a company could be sued for inducement even if it had no actual knowledge that its product could be used to infringe nor any intent to cause infringing activities—a result squarely at odds with *Grokster*.

- **Financing agreements.** Companies routinely obtain outside financing to bring a product to market, to construct a facility to manufacture a new device, or to otherwise facilitate their activities. That financier may be claimed to have induced the production of the device. A recklessness rule could impose a duty on the financier to investigate independently whether the product infringes any patent.
- **Extraterritorial liability.** If a company lawfully manufactures a product abroad (indeed, U.S. patent law generally does not extend overseas), but a third party imports it to the United States, the foreign party may be sued for inducing the third party to infringe. Thus inducement liability may serve as an end-run around territorial limitations on patent law. Cf. *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2005).

And this is just the tip of the inducement iceberg; numerous other parties, from advertising agencies to online marketplaces may be characterized as entities that unwittingly provide substantial assistance to infringement of a patent. But “[t]hird-party liability should be the exception and not the rule. While designed to allow patentees to seek recovery in circumstances where it may be impractical to do so, the doctrine should not create a windfall for patentees against innocent parties.” Timothy R. Holbrook, *The Intent Element of Induced Infringement*, 22 SANTA CLARA COMP. & HIGH TECH. L.J. 399, 408 (2006).

Second, the unpredictability of a recklessness standard will be magnified greatly by “non-practicing

entities” (or NPEs), the “industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” *eBay Inc.*, 547 U.S. at 396 (Kennedy, J., concurring). The number of suits brought by NPEs has exploded in recent years, currently accounting for over ten percent of the total intellectual property litigation in the United States, a *four-fold* increase from the period between 1994 and 2002. Daniel P. McCurdy, *Patent Trolls Erode the Foundation of the U.S. Patent System*, SCIENCE PROGRESS (Jan. 12, 2009), available at <http://tinyurl.com/2cayudf>.

Because NPEs are often investment-backed vehicles that acquire patent portfolios for the purpose of litigating against innovators to turn a profit (McCurdy, *supra*), they have a strong incentive to seize on this substantially broadened liability to bring actions against ever-widening pools of defendants. See James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 16 (2005). This is not speculative—NPEs have levied numerous inducement claims in recent years. See, e.g., *Tech. Patents LLC v. Deutsche Telekom AG*, No. AW-07-3012, 2010 WL 3895338 (D. Md. Sept. 29, 2010); *epic-Realm, Licensing, LLC v. Autoflex Leasing, Inc.*, 492 F. Supp. 2d 608 (E.D. Tex. 2007); *Ronald A. Katz Tech. Licensing, L.P. v. Verizon Commc’ns, Inc.*, No. 01-5627, 2002 WL 31834833 (E.D. Pa. Dec. 18, 2002). The Federal Circuit’s rule will compound this cost on innovators, with no benefit to the public.

Third, the costs of such expanded liability would be enormous. This is especially true in the technology context, where the interactive nature of products

and services combined with broad inducement liability could result in the assertion of truly gigantic damages claims.

These costs, and the potential of fundamentally undermining a company's business, create substantial incentives for a company to settle a claim rather than litigate, regardless of the actual merits of the suit. See Wesley M. Cohen et al., *Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)*, Nat'l Bur. Econ. Research Working Paper No. 7552, at 27 (Feb. 2000) (patents can be used effectively to threaten litigation "even if they are weak or untested" because "[t]hey need only confer the right to sue and thus impose the costs of litigation and possible injunctive relief"). Inducement liability premised on recklessness or negligence will serve primarily as additional hooks for extracting larger settlements from innovators. Cf. *eBay Inc.*, 547 U.S. at 396 (Kennedy, J., concurring) (threat of injunction used as "bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent"); *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 740-743 (1975) (recognizing the risk of unjustified settlements).

The substantial costs of the recklessness approach to inducement liability are particularly distressing insofar as they provide no ascertainable benefits for patent compliance. Inducement liability can have no prophylactic effect where a party is unaware of the underlying infringement.

The Federal Circuit's rule will thus have two principal effects: it will erect a significant deterrent for would-be inventors of new products and, for those producers that nonetheless do continue to innovate, it will increase costs to consumers because of un-

known and unknowable risks of infringement leading to increased costs of legal compliance and increased costs born through litigation or settlements.

But the Patent Act should not favor the rights of patent holders to the exclusion of innovators and, in turn, the public. “From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). And these interests necessarily inform interpretation of the statute, because Congress does not “enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby.” *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966).

B. An Inducement Claim Requires Proof Of Both Specific Intent To Induce Infringement And Actual Knowledge Of The Infringement.

A claim of induced patent infringement requires proof that a defendant specifically intended to induce a third party to commit acts that constitute patent infringement and that the defendant actually knew of the underlying infringement.

These twin elements were well-recognized as essential features of pre-1952, common-law patent inducement claims. In the Patent Act of 1952, Congress “designed” Sections 271(b) and (c) “to ‘codify in statutory form principles of contributory infringement’ which had been ‘part of our law for about 80 years.’” *Aro Mfg. Co. v. Convertible Top Replacement*

Co., 377 U.S. 476, 485 n.6 (1964) (“*Aro II*”) (quoting H.R. Rep. No. 1923); see also S. Rep. No. 1979, at 8 (1952), reprinted in 1952 U.S.C.C.A.N. 2394, 2402 (same)); 5 Donald S. Chisum, *Patents* § 17.04 (2005).⁴ Accordingly, a statutory claim for induced patent infringement requires proof of specific intent and actual knowledge.⁵

1. *Specific intent.*

In the course of applying the patent law’s inducement standard in the copyright context, this Court in *Grokster* expressly recognized that a patent inducement claim requires evidence of “intent to bring about infringement.” *Grokster*, 545 U.S. at 940. An inducement claim “premises liability on *purposeful, culpable expression and conduct.*” *Id.* at 937 (emphasis added). It requires proof of “words and deeds * * * show[ing] a purpose to cause and profit from third-party acts of * * * infringement.” *Id.* at 941.

This stringent standard stems from “the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential.” *Grokster*, 545 U.S. at 937. By requiring clear evidence of purposeful conduct, the inducement standard “does nothing to compro-

⁴ The Act divided the then-existing common law secondary liability into two parts: the sale of a component especially adapted for infringing use (35 U.S.C. § 271(c)) and all other forms of secondary infringement—labeled inducement liability (35 U.S.C. § 271(b)).

⁵ Because the mental element of a Section 271(b) claim turns upon the standards applied by courts in patent infringement claims at the time the statute was enacted, the Court’s decision in this case will not affect the standards for establishing secondary liability in other statutory contexts.

mise legitimate commerce or discourage innovation having a lawful promise.” *Ibid.*

Grokster’s holding is fully consistent with the statutory text of Section 271(b), which—by imposing liability only on a person who “*actively* induces infringement” (emphasis added)—makes clear that the defendant must affirmatively intend to promote that result.

And the specific intent requirement is consistent with Congress’s goal—specifically recognized by this Court (see pages 12-13, *supra*)—of codifying the pre-1952 case law, which required a plaintiff to prove a defendant acted with the specific intent to aid the underlying infringement. See Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 537 (1953) (“[T]he evidence must establish active inducement and that involves intent.”).

In *A.B. Dick*, which involved a claim to “aid[] and abet[]” patent infringement (224 U.S. at 14), the Court explained that merely selling an article that promotes infringement “is not enough to make the seller a contributory infringer. * * * There must be an intent and purpose that the article sold will be so used” (*id.* at 48). A rule to the contrary, the Court noted, “would block the wheels of commerce.” *Ibid.*⁶

⁶ Numerous other pre-1952 staple-article of commerce contributory infringement decisions reached precisely the same result. See, e.g., *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 432-433 (1894) (contributory infringement claim requires selling device “with intent that it shall be united to the other elements”); *Bassick Mfg. Co. v. Adams Grease Gun Corp.*, 52 F.2d 36, 40 (2d Cir. 1931) (goods must be “sold with knowledge and intent that they were to be

To be sure, *A.B. Dick* involved a specially-adapted article of commerce claim, a claim that is presently cognizable under Section 271(c). But prior to 1952, “contributory infringement” included the present-day Section 271(b) inducement claim as well as the Section 271(c) staple-article claim. See *Hewlett-Packard Co.*, 909 F.2d at 1469 (In the Patent Act of 1952, “the single concept of ‘contributory infringement’ was divided between §§ 271(b) and 271(c) into ‘active inducement’ (a type of direct infringement) and ‘contributory infringement,’ respectively.”). Thus, the *A.B. Dick* rule necessarily applies with full force here.

Indeed, the specific intent requirement was applied routinely in pre-1952 inducement claims. For example, in *Rumford Chemical Works v. Hecker*, 20 F. Cas. 1342, 1346 (C.C.D. N.J. 1876) (a case that this Court cited approvingly in *Grokster*, 545 U.S. at 935), the patent holder claimed that a manufacturer induced the users of its products to infringe—a claim with substantial similarity to the inducement claim at issue in this case. The court found that such a claim requires proof that the defendant “use[d] the constituents of the complainant’s patent with the intent and further purpose of enabling the buyer” to infringe the patent. 20 F. Cas. at 1346.

Similar cases abound. See, e.g., *Chas. H. Lilly Co. v. I.F. Laucks, Inc.*, 68 F.2d 175, 185 (9th Cir. 1933) (“the intent that it should be used in an infringing way must be affirmatively shown” (quoted as “used” to infringe); *Rupp & Wittgenfeld Co. v. Elliott*, 131 F. 730, 733 (6th Cir. 1904) (“The intent that the article sold shall be used in an infringing way must be made out.”); *Edison Elec. Light Co. v. Peninsular Light, Power & Heat Co.*, 101 F. 831 (6th Cir. 1900).

tion omitted)); *Westinghouse Elec. & Mfg. Co. v. Precise Mfg. Corp.*, 11 F.2d 209, 212 (2d Cir. 1926) (plaintiff must prove seller of device capable of infringing “sold with the intent that it shall be so used”); *Sandusky Foundry & Mach. Co. v. De La-vaud*, 274 F. 607, 610-611 (6th Cir. 1921); *Elevator Appliance Co. v. Atlantic Metal Prods., Inc.*, 19 F. Supp. 343, 344 (E.D.N.Y. 1937) (“[T]here must be present in the record evidence of conduct which consists in intentionally giving aid to, or intentionally co-operating in, an infringement.” (citation omitted)); *Activated Sludge, Inc. v. Filtros, Inc.*, 10 F. Supp. 241, 243 (W.D.N.Y. 1935); *Emery v. G.C. Murphy Co.*, 4 F. Supp. 575, 580 (D. Conn. 1933) (“One must in some manner participate intentionally in some subsequent infringement of a patent * * * to be classified and held as a contributory infringer thereof.”).

2. Actual knowledge.

Not only must a plaintiff prove that a defendant specifically intended to cause a third party to commit acts that constitute infringement, but the plaintiff must also prove that the defendant had actual knowledge that the primary violator engaged in patent infringement.

a. Proof of actual knowledge of the underlying patent infringement is not by itself sufficient to satisfy the specific intent requirement, but such proof is a necessary to demonstrate specific intent. Because a plaintiff must prove that the defendant knew its acts would cause a third party to infringe a patent, the plaintiff necessarily must prove that the defendant had actual knowledge—a defendant could not have specific intent to induce patent infringement if it did not know that the unlawful conduct was taking place.

Not surprisingly, therefore, this Court has squarely held in the context of Section 271(c) that a plaintiff must “show[] that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing.” *Aro II*, 377 U.S. at 488. See also *Dawson Chem.*, 448 U.S. at 219 (*Aro II* held that “[Section] 271(c) requires a showing that an alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing”).

Because Sections 271(b) and 271(c) are codifications of the same pre-1952 common law (see pages 12-13, 15, *supra*), *Aro II*'s analysis of the historical knowledge requirement applies with full force to an active inducement claim. As a leading treatise has noted, “[t]he *Aro II* requirement that the defendant have some knowledge of the patent as well as the nature of his acts and their consequences would * * * seem to apply equally to Section 271(b) and 271(c).” 5 Chisum, *Patents* § 17.04[2].⁷

Moreover, prior to the 1952 Act, a claim of induced patent infringement plainly required knowledge of the underlying infringement. For example, in *Activated Sludge*, 10 F. Supp. at 243, the plaintiff sued a defendant for inducing patent infringement

⁷ If anything, the scienter requirement for Section 271(b) inducement claims should be *greater* than for a Section 271(c) claim. Contributory infringement under Section 271(c) requires a clearly-defined concrete act—“sell[ing],” “offer[ing] to sell,” or “import[ing] into the United States” an item “especially made or especially adapted for use” to infringe. 35 U.S.C. § 271(c). Inducement on the other hand may turn on a much wider variety of affirmative acts involving conduct that in no way provides notice that it could lead to potential liability.

by selling a product capable of infringing use. The court found that such a claim is permissible only where the product “made with knowledge” of the infringement and “sold with the intent that it shall be so used.” *Ibid.* And in *Tubular Rivet & Stud Co. v. O’Brien*, 93 F. 200, 202-205 (C.C.D. Mass. 1898), the court explained that there must be proof that the defendant “actually knew [of] the existence of the complainant’s patent.”

Numerous other cases apply this same principle. See, e.g., *Westinghouse Elec.*, 11 F.2d at 212 (requiring “knowledge of the contemplated infringement”); *Individual Drinking Cup*, 297 F. at 737 (same); *Cortelyou v. Charles E. Johnson & Co.*, 145 F. 933, 936 (2d Cir. 1906) (holding that “defendant’s knowledge” of the infringement “must be proved”), *aff’d*, 207 U.S. 196 (1907); *Rupp & Wittgenfeld Co. v. Elliott*, 131 F. 730, 733 (6th Cir. 1904); *Perfect Tailboards v. Nat’l Bent Steel Corp.*, 27 F. Supp. 550, 551-552 (E.D.N.Y. 1939); *Beidler v. Photostat Corp.*, 10 F. Supp. 628, 631 (W.D.N.Y. 1935) (plaintiff must prove that a product is “is manufactured and/or sold to infringers with knowledge and intent and with the purpose that it will be so used”), *aff’d per curiam*, 81 F.2d 1015 (2d Cir. 1936); *Edison Phonograph Co. v. Pike*, 116 F. 863, 867 (C.C.D. Mass. 1902); *Emery*, 4 F. Supp. at 580 (contributory infringement only lies where one “knowingly aid[s] and abet[s] infringement”).

This Court in *Grokster* strongly suggested that actual knowledge is a necessary (though not sufficient) condition for inducement liability; “mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability.” 545 U.S. at 937. And the Court

quoted approvingly the Federal Circuit’s holding that there may be “liability for inducement where one ‘actively and knowingly aid[s] and abet[s] another’s direct infringement.’” *Id.* at 936 (quoting *Water Tech. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)).

b. The Federal Circuit held that the mental element of a patent infringement inducement claim is satisfied wherever “the alleged infringer knew *or should have known* that his actions would induce actual infringements.” *SEB*, 594 F.3d at 1376. “Should have known,” of course, is a negligence standard. Apparently recognizing that negligence is incompatible with the history and purpose of the Patent Act, the court then appeared to retreat, adopting the “deliberate indifference” doctrine of *Farmer v. Brennan*, 511 U.S. 825 (1994). See *SEB*, 594 F.3d at 1376-1377.

But deliberate indifference is not a means of proving actual knowledge; rather, it is as a practical matter a synonym for recklessness. Thus, *Farmer* acknowledged that “[t]he civil law generally calls a person reckless who acts or (if the person has a duty to act) fails to act in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known.” 511 U.S. at 836.

Other courts have likewise found that deliberate indifference extends far beyond the bounds of actual knowledge. See *Jones v. Muskegon County*, No. 09-2125, 2010 WL 4352392, at *4 (6th Cir. July 28, 2010) (“The Supreme Court has defined ‘deliberate indifference’ as being more than mere negligence but less than acting with purpose or knowledge. Instead, the prison official must have acted with a state of mind similar to recklessness.” (citation omitted));

Hernandez ex rel. Hernandez v. Texas Dep't of Protective & Reg. Servs., 380 F.3d 872, 881 (5th Cir. 2004) (in rejecting argument that “that deliberate indifference requires actual knowledge,” the court explained that “[a]lthough deliberate indifference is determined by a subjective standard of recklessness, * * * this court has never required state officials to be warned of a specific danger”); *Hathaway v. Coughlin*, 99 F.3d 550, 554 (2d Cir. 1996) (holding that “culpable recklessness underl[ies] liability for deliberate indifference”); *Miltier v. Beorn*, 896 F.2d 848, 851 (4th Cir. 1990) (“Deliberate indifference may be demonstrated by either actual intent or reckless disregard.”).⁸

⁸ The flaw in the Federal Circuit’s “deliberate indifference” approach is further demonstrated by its willingness to allow juries to find that an alleged inducer acted with the requisite mental state based on the defendant’s failure to produce an opinion of counsel stating that its conduct did not induce infringement. In *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2008)—which the court below cited approvingly—the Federal Circuit affirmed a jury instruction stating that “[w]hen considering whether [the alleged inducer] knew or should have known that the induced actions would constitute infringement, in the totality of the circumstances, you may consider all of the circumstances, including whether or not [the alleged infringer] obtained the advice of a competent lawyer.” *Id.* at 698 (emphasis added). The court found that “[b]ecause opinion-of-counsel evidence, along with other factors, may reflect whether the accused infringer ‘knew or should have known’ that its actions would cause another to directly infringe, we hold such evidence remains relevant to the second prong of the intent analysis.” *Id.* at 699.

This approach contrasts sharply with the Federal Circuit’s holding in the context of willful infringement that failure to obtain advice of counsel will not “provide an inference or evidentiary presumption that such opinion would have been negative,”

The lower court’s dramatically overbroad liability standard will “block the wheels of commerce” (*A.B. Dick*, 224 U.S. at 48) by unduly burdening innocent parties whose acts unintentionally and unknowingly cause another to infringe. Expansive liability standards “inadvertently may have anticompetitive effects [that] can cause unwarranted market power and can unjustifiably increase costs. Such effects can hamper competition that otherwise would stimulate innovation.” FTC REPORT, *Executive Summary*, at 5; see also Holbrook, *supra*, at 408 (“Truly culpable parties are those that intend to induce infringement and not those who simply intend to induce the acts that constitute infringement. To hold otherwise would penalize a ‘good’ actor who holds a belief that the others are not directly infringing.”); pages 10-12, *supra*.

The Federal Circuit’s approach is in addition starkly inconsistent with this Court’s precedents and with the pre-1952 case law codified by Section 271(b). Actual knowledge of the underlying infringement is an essential element of an inducement claim.⁹

because of “the burdens and costs of the requirement, as pressed in litigation, for early and full study by counsel of every potentially adverse patent.” *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345 (Fed. Cir. 2004) (en banc). It therefore confirms the minimalist nature of the “knowledge” standard applied by the court below.

⁹ This case provides no occasion for the Court to address whether the actual knowledge standard may be satisfied by proof of willful blindness. Cf. *United States v. Santos*, 553 U.S. 507, 521 (2008); *Holder v. Humanitarian Law Project*, 130 S. Ct. 2705, 2740 (2010) (Breyer, J., dissenting) (willful blindness is equivalent to actual knowledge). Willful blindness, of course, is a means of proving actual knowledge, not a lesser intent standard. *United States v. One 1973 Rolls Royce*, 43 F.3d 794,

C. The Court Should Remand For Application Of The Proper Standard To This Case.

The trial court instructed the jury that petitioner could be held liable for inducement if it “knew or should have known” of the underlying infringement. Pet. 10. That application of a negligence standard is directly contrary to the requirements of the Patent Act. Because the trial court improperly instructed the jury and the Federal Circuit applied the incorrect knowledge requirement, remand is necessary for consideration under the appropriate legal standard.

CONCLUSION

The judgment of the Federal Circuit should be reversed.

Respectfully submitted.

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808 (3d Cir. 1994) (“the mainstream conception of willful blindness” is “a state of mind of much greater culpability than simple negligence or recklessness”).