No. 10-6

In The
Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC., *et al.*,

Petitioners,

v.

SEB S.A.,

Respondent.

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

AMICUS CURIAE BRIEF OF NEWEGG, INC. IN SUPPORT OF PETITIONERS

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INTEREST OF *AMICUS CURIAE*

Amicus Curiae Newegg, Inc. is a retailer that sells goods exclusively on the Internet.* It submits this brief in support of Petitioners to highlight the adverse, real world consequences for e-commerce if this Court affirms the Federal Circuit's holding that "deliberate indifference to a known risk" that infringement may occur is sufficient to prove an induced patent infringement claim. Newegg has no direct stake in this particular case's outcome, but it does have an interest in patent jurisprudence that creates certainty, thereby promoting lawful commerce and efficient resolution of legal disputes, all to the benefit of consumers, courts, and legitimate companies.

Internet retailers face an increasing number of patent infringement lawsuits asserting patents that purport to cover some function or feature of their retail websites. For businesses geared to sell goods, not write source code, the Federal Circuit's prior "actual knowledge" test offered a measure of certainty – the validity of induced infringement claims could be directly tested by the retailers' actual knowledge. The

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

Federal Circuit's recent substitution of a lesser standard of negligence based on "deliberate indifference" for this bright-line rule of knowledge erodes that certainty to the detriment of the public interest.

Founded in 2001, Newegg is one of the world's most successful Internet retailers. *See Internet Retailer Top 500 Guide* 136 (2010) (No. 12, $2.3 billion). Headquartered in California, Newegg sells electronics, software, appliances, and electronic games through its website, www.newegg.com. Although Newegg is increasingly involved in patent litigation focused on the mechanics of its website, Newegg points elsewhere to the source of its meteoric rise, as attested by the numerous industry awards for customer satisfaction and service it has received from third-party rating and ranking organizations, including, for example, the Computer Shoppers' Choice Award awarded to Newegg yearly between 2003 and 2009. As Newegg's business has taken flight, it has become Velcro for patent litigation from "non-practicing entities," claiming a reasonable royalty measured as a percentage of Newegg's substantial online sales, but, in actuality, seeking a settlement based on a discount of the very high cost of patent litigation.

Although Newegg offers over 40,000 products online, it has been sued only a handful of times for patent infringement based on the products themselves, and, in those cases, it has been indemnified by its product vendors. Instead, Newegg frequently must defend itself against non-practicing entities that assert patents allegedly covering systems and methods which are, at best, miniscule contributors to Newegg's business success. Indeed, in a suit brought against Newegg by Soverain Software LLC, which is currently on appeal to the Federal Circuit, claiming that Soverain's patents covered, among other things, online "shopping cart" functionality, the jury rejected claims of direct infringement, but found Newegg somehow induced its customers to infringe. Suffice it to say, Newegg has an interest in the proper standard used to measure induced infringement claims.

SUMMARY OF ARGUMENT

The Federal Circuit's apparent relaxation of the state-of-mind standard to plead and prove induced infringement – from "actual knowledge" of an asserted patent to "deliberate indifference" of a known risk that there might be such a patent – is a distinction with a real difference to Internet retailers such as Newegg. Frequently subject to business method and software patent suits, online retailers face allegations of indirect infringement pled on information and belief that generally accuse the retailers of inducing unspecified and unnamed third parties into infringing patents that plaintiffs claim can be read onto some aspect of e-commerce.

Prior to its decision below, the Federal Circuit's inducement test, which required actual knowledge of the allegedly infringed patent, offered a measure of certainty. Claims' validity could be directly tested by exploring the alleged inducer's actual knowledge. Evidence that the accused retailer did or did not have knowledge of the asserted patent at the time it hired a website design firm or launched its website could settle the question.

For Internet retailers, this certainty was crucial because it is not feasible for them to research and analyze all patents potentially reading on their websites. This is especially true because, until they are sued, Internet retailers generally are unaware of the software and business method patents they are accused of infringing. In many situations, Internet retailers may lack thorough knowledge of how the accused systems work because they do not write the computer code or create the technology that facilitates the consumer interactions – they rely on third parties to provide that functionality. At least until the decision below, Internet retailers could do business without fear of somehow inducing customers or others to infringe unknown patents covering features the retailers did not even create.

The Federal Circuit's decision, however, creates uncertainty by applying a nebulous standard, namely, "deliberate indifference to a known risk" that an infringement may occur. What it takes to avoid liability under this standard is unknown. What *is* known is that it will require a case-by-case analysis of facts bearing on whether the alleged inducer knew that a third party might infringe, yet was "indifferent" to that possibility. This is a daunting prospect for e-commerce companies that are targeted as perceived deep pockets. Under the hazier "deliberate indifference" standard, even meritless claims will be more likely to survive discovery and summary judgment given the inherent difficulty in disproving "indifference." It leaves Internet retailers with costly and unsatisfactory options, such as thoroughly vetting e-commerce technology so they are not perceived as "indifferent" to inducement risks, or engaging in lengthy litigation through trial concerning their state of mind in order to prove that they were not "indifferent" to such risks.

Internet retailers will not bear these costs alone. They will be passed on to the hundreds of millions of consumers who shop online. And courts will expend more time and resources as even meritless claims are carried to trial on the wings of such a hazy standard. By eliminating the bright-line rule requiring knowledge of the patent and substituting a lesser standard of negligence based on "deliberate indifference," the Federal Circuit has tilted the balance away from lawful commerce and towards confusion. This does not serve the patent laws' goals or the interests of the public. Instead, it will harm consumers through higher prices, and through delay of the spread of technology's benefits, as Internet retailers scale back existing offerings or hesitate to deploy e-commerce innovations for fear of being accused of inducing infringement of unknown patents by their customers or others.

ARGUMENT

THE COURT SHOULD RESTORE THE BRIGHT-LINE STANDARD OF "ACTUAL KNOWLEDGE" FOR INDUCED PATENT INFRINGEMENT TO PROVIDE NEEDED CERTAINTY TO INTERNET RETAILERS AND OTHER BUSINESSES.

Newegg's interest in the outcome of a dispute between competing deep fryer manufacturers is neither abstract nor indirect. The outcome of this lawsuit has the potential to add fuel to the firestorm of non-competitor patent litigation against Internet retailers. Internet retailers have been the frequent target of patent lawsuits filed by non-practicing entities wielding e-commerce patent portfolios, not only because online retailers have performed relatively well even in grim economic times, but also because e-commerce transactions occur in the center of a complicated web of interactions among a number of different participants – the retailers themselves, website developers, retail software providers, web browser software providers, and consumers.

One can see how easy it is to allege – and how hard it is to disprove – that an Internet retailer induced a website developer, a software vendor, or even a customer with a home computer and a web browser to infringe a patent that can arguably be read onto some aspect of a retail website. A diffuse standard of proof based on the defendant's "deliberate indifference" promotes the assertion of this type of claim in a legal landscape in which an Internet retailer now must fear that the launch of its retail website may also have represented the launch of an ill-defined duty to know something about the approximately 200,000 patents that cover software, an estimated 11,000 of which cover some aspect of the Internet. *See* James Bessen & Michael J. Meurer, *Patent Failure* 8-9, 22 (2008) ("Bessen & Meurer"). If a competing deep fryer manufacturer like Pentalpha with an opinion of counsel in its pocket can be held liable for induced infringement of a patent that its counsel was not able to locate, then what chance does an Internet retailer that is not in the software or web design business have of finding the poisoned needle in a haystack of 200,000 stalks?

Even under an "actual knowledge" state-of-mind requirement, attenuated claims of "induced infringement" are frequently pled in business method or software patent suits, vaguely pointing a finger at "others" or "end users" as the direct infringers allegedly prompted to infringe by retailers. *See, e.g., Bender v. Nat'l Semiconductor Corp.*, 2009 WL 4730896, *3 (N.D. Cal. Dec. 7, 2009) ("customers and others"); *PA Advisors, LLC v. Google, Inc.,* 2008 WL 4136426, *8 (E.D. Tex. Aug. 8, 2008) (generic group of end users); *One World Techs., Ltd. v. Robert Bosch Tool Corp.*, 2004 WL 1576696, *2 (N.D. Ill. July 21, 2004) ("others"); *Fuji Mach. Mfg. Co., Ltd. v. Hover-Davis, Inc.*, 936 F. Supp. 93, 95 (W.D.N.Y. 1996) ("others"). Though there has been hope that the twin lights of *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), and *Ashcroft v. Iqbal*, 129 S. Ct. 1937 (2009), might extinguish such ethereal claims, the success rate is a mixed bag at best.

Because it takes a village to raise a website – service providers, software vendors, the retailer, and its customer base – a non-practicing entity asserting a patent infringement claim against an online retailer often raises indirect infringement allegations alongside its direct infringement claims, on the grounds that the retailer induces *someone* (a software vendor, web developer, or customer) to infringe the patent-in-suit. Since a retailer specializes not in web design but in the sale of goods, it nearly always turns out that the retailer has not heard of the patent-in-suit until sued by a non-practicing entity. The problem is exacerbated if the plaintiff is a non-practicing entity that produces no products under its patents or if the claims asserted are method or process claims, because there is generally no marking requirement in such instances and there is nothing in the marketplace to which to compare the accused feature. *See Wine Ry. Appliance Co. v. Enter. Ry. Equip. Co.*, 297 U.S. 387 (1936); *Am. Med. Sys., Inc. v. Med. Eng'g Corp.*, 6 F.3d 1523, 1528 (Fed. Cir. 1993). Thus, Internet retailers find themselves at a treble disadvantage. They are most likely to be sued in a field that is not their primary business (software or web design), by parties least likely to have an obligation to provide public notice of their patents (non-practicing entities that do not make products using their patents), asserting patents for which there is no marking requirement (software or business method or process claims).

Even so, under the Federal Circuit's *en banc* opinion in *DSU Medical Corp. v. JMS Co. Ltd.,* 471 F.3d 1293 (Fed. Cir. 2006), requiring actual knowledge to prove intent to induce infringement, Internet retailers could take some measure of comfort from the fact that such a claim could be dispatched once the retailer could show that it lacked awareness of the patent it was alleged to have somehow convinced others to violate. *See id.* at 1304 ("The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.") (citations omitted). Alternatively, if an Internet retailer did have knowledge of the patent, presumably then that would be grounds for concluding that the underlying claim had legs. Either way, the dispositive facts could be developed quickly in discovery.

The effect of the Federal Circuit's opinion in *SEB S.A. v. Montgomery Ward & Co., Inc.,* 594 F.3d 1360 (Fed. Cir. 2010), however, is to substitute for this clear, bright-line rule a murky standard of "deliberate indifference." *Id.* at 1377 ("The record contains adequate evidence to support a conclusion that [Petitioners] deliberately disregarded a known risk that [Respondent] had a protective patent.") (brackets added). Though the Federal Circuit suggested that, by so doing, it was not changing the legal standard – and that deliberate indifference "is not different from actual knowledge, but is a form of actual knowledge," *id.* – the decision below has for all practical purposes lowered the bar of necessary proof. Whereas, under *DSU Medical*, actual knowledge ineluctably required knowledge of the patent, under *SEB*, something less (though precisely how much less is unclear) is sufficient to pursue induced infringement claims. *See SEB,* 594 F.3d at 1376-77.

The "deliberate indifference" standard has already muddied the waters of discovery, as plaintiffs are now able to respond to inquiries about the factual bases of their induced infringement claims through references to "information and belief" that defendants have been deliberately indifferent to the existence of the asserted patents. Plaintiffs are now free to admit in discovery that they did not provide notice to the defendants of the pertinent patent until service of the complaint, so long as they also charge the defendants with induced infringement based on allegations of defendants' deliberate indifference to the existence of the very same patents of which those defendants admittedly had no notice before the lawsuit was filed.

We do not want to overstate the problem. Although the new standard necessarily will increase business costs and legal fees, it does not necessarily condemn defendants to liability. We note, for example, that a defense that the retailer cannot possibly direct or control what its customers do on the Internet may negate a finding of joint infringement when customers are a necessary part and parcel of plaintiff's patent infringement theory, regardless of the state-of-mind standard on which the courts settle. *See Muniauction, Inc. v. Thomson Corp.,* 532 F.3d 1318, 1329 (Fed. Cir. 2008); *PA Advisors, LLC v. Google, Inc.*, 2010 WL 986618 (E.D. Tex. Mar. 11, 2010) (Rader, J., sitting by designation). But, if the claim instead focuses on anyone, such as software vendors or service providers, over which a retailer arguably might have "direction or control," depending on the facts of their relationship, a standard of deliberate indifference may generate enough ambiguity to carry such gauzy claims along.

For retailers operating an e-commerce business, it is difficult to manage a risk of "deliberate indifference," the limits of which they may not know until a jury tells them. The new, lower standard might require a retailer contracting with a web developer to spend considerable time and resources, including legal fees, to educate itself in the field of website technology, so as to disprove claims that it turned a blind eye to the possibility of patent infringement. Given the thousands of patents that may apply to the Internet, *see* Bessen & Meurer, *supra*, at 8-9, 22, an Internet retailer could easily spend more time and money educating itself about the intricacies of patent law than attempting to make its website more innovative and customer-friendly, or attempting to sell its products and services. "[A]s we have long explained, patents should not 'embaras[s] the honest pursuit of business with fears and apprehensions of concealed liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith.'" *Bilski v. Kappos*, 130 S. Ct. 3218, 3256 (2010) (Stevens, J., concurring in the judgment) (citing *Atlantic Works v. Brady,* 107 U.S. 192, 200 (1883)). Suffice it to say, the patent laws should not be interpreted in a manner that will delay Internet innovation and squelch entrepreneurial efforts, *i.e.,* fail "[t]o promote the Progress of Science and useful Arts[.]" U.S. Const. Art. I, § 8, cl. 8 (brackets added).

"In the area of patents, it is especially important that the law remain stable and clear." *Bilski*, 130 S. Ct. at 3232. In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.,* 545 U.S. 913 (2005), a copyright case, this Court cited with approval past precedent from the Federal Circuit and elsewhere that liability for inducement must be based on "active steps . . . taken to encourage direct infringement," *id.* at 936 (citing *Oak Indus., Inc. v. Zenith Elecs. Corp.,* 697 F. Supp. 988, 992 (N.D. Ill. 1988)) (ellipses in original), or instances where one "actively and knowingly aid[s] and abet[s] another's direct infringement," *id.* (citing *Water Techs. Corp. v. Calco, Ltd.,* 850 F.2d 660, 668 (Fed. Cir. 1988)) (brackets in original). Recognizing the need to "keep from trenching on regular commerce," 545 U.S. at 937, the emphasis of the *Grokster* Court was barring *active* inducement, which went hand-in-hand with knowledge of and intent to foster infringement. Because the same principles are at stake, the Court should not endorse a standard for patent cases that undermines the *Grokster* standard in copyright cases.

"Active" inducement is also the hallmark of the statutory provision at issue here. *See* 35 U.S.C. § 271(b) ("Whoever *actively* induces infringement of a patent shall be liable as an infringer.") (emphasis added). The *SEB* standard, however, if affirmed, would represent an endorsement of a *passive* inducement theory based on what retailers *should* have known about business method and software patents in fields far beyond the scope of their primary business. Consistent with *Grokster*, the standard that governs induced infringement of a patent should penalize those who take affirmative steps to prompt others to infringe a patent known to exist. The standard should not, as the *SEB* standard does, paint a target on the backs of retailers that contract with software vendors or web design firms to enter the burgeoning Internet marketplace. Without a doubt, such a rule would create unnecessary uncertainty in the patent laws that would promote and prolong litigation at the expense of innovation.

CONCLUSION

Based upon the foregoing, the Court should reverse the judgment of the Federal Circuit.

Respectfully submitted,

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