No. 10-6

In The
# Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC.,
and PENTALPHA ENTERPRISES, LTD.,

*Petitioners,*

v.

SEB S.A., INC.,

*Respondent.*

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

**BRIEF OF *AMICI CURIAE* THE CLEARING HOUSE ASSOCIATION AND SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION IN SUPPORT OF PETITIONERS**

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## INTERESTS OF THE *AMICI CURIAE*[1]

Established in 1853, *Amicus Curiae* The Clearing House is the nation's oldest banking association and payments company. The Clearing House Association L.L.C. ("TCH") is owned by the world's largest commercial banks, which collectively employ 1.4 million people in the United States and hold more than half of all United States deposits. TCH is a nonpartisan advocacy organization representing – through regulatory comment letters, *amicus* briefs and white papers – the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the United States.

*Amicus Curiae* Securities Industry and Financial Markets Association ("SIFMA") is a trade association representing the shared interests of hundreds of

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[1] No counsel for a party or a party to this proceeding authored this brief in whole or in part and no counsel for a party or party to this proceeding made a monetary contribution intended to fund either the preparation or the submission of this brief. No person other than *Amici Curiae*, their members, or their counsel made a monetary contribution to the preparation or submission of this brief. Petitioners and Respondent have filed with this Court blanket consents to the filing of *amicus* briefs.

securities firms, banks, and asset managers. SIFMA members include the leading investment banks, broker-dealers, and mutual fund companies. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth, while building trust and confidence in the financial markets. SIFMA is the U.S. regional member of the Global Financial Markets Association ("GFMA").

The financial markets rely heavily on computerized systems for information processing. As such, today's financial-services industry (the "Industry") is built on extensive relationships and transactions among banks, brokerage firms, depositories, data processors, market-data vendors, exchanges, and clearing entities. These systems and subsystems embody devices, processes, software, and business methods that in many cases pre-existed new patents. This interdependence of systems and subsystems, and on the provision of financial products and services to other financial entities and corporate and retail banking customers, makes the Industry a ripe target for claims of inducement of patent infringement.

The "purposeful, culpable expression and conduct" standard set by this Court in *MGM Studios v. Grokster, Ltd.*, 545 U.S. 913 (2005) is the correct standard for determining the state-of-mind element for inducement of patent infringement. TCH believes that upholding the Federal Circuit's lower "deliberate indifference of a known risk" standard of inducement would be detrimental to the global economy. The Industry is a frequent target of non-practicing entities ("NPEs") in patent-infringement actions. NPEs do not make or market any products. In many cases, their principal or even sole business is to buy or develop patents and then license them to those companies that use a product or business method that is somehow related, however remotely, to the patent. Financial-services companies may learn of patents held by NPEs and other parties through various communications or through their business activities. From time to time, financial-services companies receive unsolicited letters from NPEs offering to license or sell patents. If a company ignores the initial NPE letter or does not agree to license or purchase the patent, the NPE may sue, alleging patent infringement with the hope of achieving a fast settlement. *See* Thomas S. Kim & Michael D. Stein, *Patent Value: Increased Interest Extends Beyond "Trolls,"* LEGAL INTELLIGENCER, July 25, 2005 (describing NPEs as entities that extract profits by offering a target entity an option of purchasing a license or facing litigation). TCH is concerned that the lower "deliberate indifference" standard of inducement provides an even greater incentive for NPEs to assert questionable claims of inducement against the Industry, particularly in light of the extensive relationships and transactions among banks, brokerage firms, customers, depositories, data processors, market-data vendors, exchanges, and clearing entities.

The cost of defending against a single patent-infringement action is substantial. TCH is concerned that affirming the "deliberate indifference" standard would make TCH's members even more vulnerable to NPEs with questionable patents looking to extract a quick settlement. Any person with a financial interest in the global economy – in other words, everyone – shares this burden. TCH is interested in making certain that accused inducers are given a fair opportunity to defend against questionable claims of induced infringement. This opportunity can only be assured if the standard of liability for patent-infringement inducement is maintained at the higher "purposeful, culpable expression and conduct" set by this Court in *Grokster*.

## SUMMARY OF ARGUMENT

The text of the inducement statute provides that "[w]hoever *actively* induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b) (emphasis added). Not only does the inclusion of the term "actively" make clear that Congress intended a state-of-mind element, but the term "actively," by definition, means an affirmative act. A "deliberate indifference," by definition, refers to *inaction*. The Federal Circuit's "deliberate indifference" standard runs afoul of the letter and spirit of the text of the statute and the legislative history.

Section 271(b) has been interpreted consistently as requiring an intent element. However, in *SEB, S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010), the Federal Circuit departed from this Court's holding in *Grokster* and lowered the requisite intent standard to prove induced infringement under Section 271(b).

In *Grokster*, a copyright case applying patent law, this Court held that the state-of-mind element for actively inducing infringement requires a "purposeful, culpable expression and conduct." *Grokster*, 545 U.S. at 937. Following *Grokster,* the Federal Circuit, in *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (*en banc*), held that the culpable mental state for actively inducing patent infringement requires that the alleged infringer (1) knew or should have known that his actions would induce infringement and (2) had *actual knowledge* of the patent being infringed. Nonetheless, the Federal Circuit in the instant case departed from this Court's precedent in *Grokster* and its own teachings in *DSU Medical*.

In *SEB*, the Federal Circuit stated that the requisite state of mind for induced infringement under Section 271(b) is a "deliberate indifference of a known risk" that an infringement may occur. *SEB*, 594 F.3d at 1377. This lower standard of liability does not require an *active and affirmative* intent that the product be used to infringe, as required by *Grokster* and the text of the statute itself.

Where a party is put on notice of another's patent rights, there is no affirmative duty to determine whether he is directly infringing the patent. In *Seagate,* the Federal Circuit confirmed that there is no affirmative obligation to obtain an opinion of counsel when a party receives notice of another's patent and that the failure to do so does not give rise to willful infringement. *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007). Under the "deliberate indifference" standard, however, if a party rightfully decides not to seek an opinion of counsel after becoming aware of the existence of a patent, that party could nonetheless be charged with inducement of patent infringement. The Federal Circuit's application of the "deliberate indifference" standard in *SEB* undermines the express determination in *Seagate* that there is no affirmative duty to seek an opinion of counsel. In effect, *SEB* reinstates the very duty that the Federal Circuit itself discarded in *Seagate*.

The inherent conflict between the Federal Circuit's standard for inducing infringement in *SEB* and its standard for willful infringement under *Seagate* has the potential to lead to absurd and inconsistent results. For example, under the "deliberate indifference" standard of *SEB*, a party could be subject to liability for "actively inducing" others to commit infringing acts, based on facts that would not give rise to a claim for willfully engaging in direct infringement.

The Industry is particularly vulnerable to patent disputes. It is a target of patentees holding questionable patents and NPEs, whose entire business consists of enforcing the patents they own. Holding accused infringers liable under the "deliberate indifference" standard adds to the NPEs' incentive to continue to harass the financial industry with unsolicited requests for licensing agreements, often followed by protracted litigation. Maintaining the "deliberate indifference" standard will likely have the effect of requiring the Industry to affirmatively investigate *every* patent that is the subject of *every* unsolicited communication identifying a patent or offering to license or sell one, an onerous undertaking that is not otherwise required under *Seagate*.

Unlike most other industries, the Industry does business with virtually every segment business and society. The "deliberate indifference" standard could be interpreted to, in effect, require companies in the Industry not only to investigate all relevant patents in the financial-services field, but also to survey the technical fields and thereafter investigate the patents of the numerous customers of the Industry.

Under the "deliberate indifference" standard, a jury could find that the accused inducer had a "deliberate indifference to a known risk" that an infringement could occur in virtually any situation. For example, if a company learns of a patent through an unsolicited communication from a patent owner but does not obtain an opinion of counsel as to all patents referenced in that letter, the company could be alleged to have had a "deliberate indifference to a known risk" of patent infringement. Similarly, an accused inducer of a patent in the financial-services field that does not conduct a patent search in such field before launching a financial product or service could be held to have a deliberate indifference to a known risk of infringement. As well, an accused inducer that conducts a patent search before launching a product or service but does not obtain an opinion of counsel risks liability under the "deliberate indifference" standard. These scenarios are just a sampling of the many fact patterns that highlight the inadequacy and lack of clarity of the Federal Circuit's "deliberate indifference" standard.

The Industry has seen monumental growth in the past 50 years, in part due to technological advances that allow transactions to be processed reliably and rapidly. Today, nearly half of all United States households invest in the markets and nearly three-quarters use online banking or bill-paying services. Because financial-services markets operate across borders, an actual or threatened disruption of any part of the Industry as a result of a patent dispute can have global implications. If the patent dispute stems from anything less than purposeful conduct within the Industry, the cost to society of such an interruption is difficult to justify.

Holders of patents, with their presumed validity, already enjoy an advantageous position in any patent-infringement dispute. Affirming the lower "deliberate indifference" standard will further tilt the playing field by increasingly forcing businesses in the financial sector to enter into settlement agreements or licensing agreements to avoid a catastrophic disruption to their services or lengthy, expensive litigation where the balance of power remains with the patentees, whose standard of proof in proving liability is lower than the standard for negligence. Recent transparency laws enacted by Congress may encourage patentees who are bent on enforcing questionable patents to assert claims of induced infringement against large financial institutions in an effort to tap into "deep pockets." For the reasons summarized above and discussed below, TCH respectfully asks the Court to overturn the Federal Circuit's ruling.

## ARGUMENT

Petitioners ask the Court to clarify a very narrow question: whether the legal standard for the state-of-mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference of a known risk" that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or "purposeful, culpable expression and conduct" to encourage an infringement, as this Court held in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005). To that end, TCH adopts Petitioners' brief in full and agrees that the proper standard is "purposeful, culpable expression and conduct" to encourage an infringement, as this Court has held.

## I. The Federal Circuit's "Deliberate Indifference" Standard Conflicts With This Court's Holding In *Grokster* And The Federal Circuit's Prior Teachings.

The Federal Circuit's "deliberate indifference" standard is at odds with this Court's holding in *Grokster* on the requisite state-of-mind element for inducement. Further, the lack of clarity in the Federal Circuit's holding will lead to inconsistent rulings in lower courts. As this Court has warned, "courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (citing *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.,* 520 U.S. 17, 28 (1997)).

### A. Historically, Inducement Liability Has Required Affirmative Conduct.

The text of the statute provides that "[w]hoever *actively* induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b) (emphasis added). Not only does the inclusion of the term "actively" make clear that Congress intended a state-of-mind element, but the term "actively," by definition, means an affirmative act. A "deliberate indifference," by definition, refers to *inaction*. The Federal Circuit's "deliberate indifference" standard, therefore, runs afoul of the letter and spirit of the text of the statute and the legislative history.

Statutory liability for inducement of infringement derives from the common law in which acts that the actor *knows* will lead to the commission of a wrong by another place shared liability on the actor. *See National Presto Indus. v. West Bend Co.*, 76 F.3d 1185, 1194 (Fed. Cir. 1996). The Federal Circuit has repeatedly held that inducement liability under Section 271(b) requires a showing of specific intent to induce infringement; mere knowledge of possible infringement by others does not amount to inducement. *See, e.g.*, *Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1364 (Fed. Cir. 2003) ("Precedent holds that . . . specific intent and action to induce infringement must be proven"); *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) ("It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement."). Further, the legislative history of the inducement standard refers to "aiding and abetting" and is reflected in the text of the statute, which limits liability to instances where the defendant "actively" induces infringement. *See* S. Rep. No. 82-1979, at 8 (1952) ("One who actively induces infringement as by aiding and abetting the same is liable as an infringer."); H.R. Rep. No. 82-1923, at 9 (1952) ("Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer."); *see also C.R. Bard, Inc. v. Advanced Cardiovascular Systems, Inc.*, 911 F.2d 670, 675 (Fed. Cir. 1990) ("A person induces infringement under 35 U.S.C. § 271(b) by actively and knowingly aiding and abetting another's direct infringement.") (citation omitted).

The Federal Circuit's holding in *SEB* ignores decades of firmly-rooted authority that a defendant must undertake some *affirmative act* and have *actual knowledge* of the patent-in-suit in order to be potentially liable as an active inducer. *See, e.g.*, *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1364 n.4 (Fed. Cir. 2006) (explaining that the inducing-infringement standard was satisfied "because it is undisputed that [the alleged infringer] had notice of the patent"); *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1380 (Fed. Cir. 2005) (holding that knowledge of the patent is "relevant for supporting proof of intent for inducement"); *cf. Black & Decker (US) v. Catalina Lighting*, 1997 U.S. Dist. LEXIS 5917, at *5 (E.D. Va. Feb. 5, 1997) (finding defendant who lacked knowledge of patent, whether through marking or otherwise, before filing of suit not liable for inducement).

### B. The Proper Standard for Inducement Is "Purposeful, Culpable Expression and Conduct."

As the *Grokster* Court unanimously acknowledged, liability for inducing patent infringement under 35 U.S.C. § 271(b) requires "purposeful, culpable expression and conduct." *Grokster*, 545 U.S. at 937. *Grokster* was a copyright case in which this Court considered whether a distributor of software with significant non-infringing uses could be held secondarily liable for copyright infringement if it intentionally designed and advertised its product for an infringing purpose. *See id.* at 941. Borrowing the patent law concept of induced infringement, this Court found secondary copyright liability premised not on mere deliberate indifference of a known risk, but on Grokster's *intentional acts* of encouraging others to infringe the copyright in dispute. In doing so, this Court acknowledged that:

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

*Id.* at 936 (citations omitted) (emphases added). This Court held that the requisite culpable mental state for inducement is:

> . . . one who distributes a device with the object of promoting its use to infringe . . . , *as shown by clear expression or other affirmative steps taken to foster infringement*, is liable for the resulting acts of infringement by third parties . . . [M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. *The inducement rule . . . premises liability on purposeful, culpable expression and conduct*.

*Id.* at 936-37 (emphasis added).

The Federal Circuit's attempt to equate its new "deliberate indifference" standard with the "purposeful, culpable expression and conduct" standard set forth in *Grokster* is irreconcilable. *Grokster* requires evidence of "affirmative steps" in order to establish the requisite intent, but the Federal Circuit, in lowering this standard, held that *inaction* may give rise to inducement liability under the "deliberate indifference" standard. Not only is the Federal Circuit's holding at odds with *Grokster*, but also, as a matter of law and logic, one cannot have the requisite affirmative intent to foster infringement without at least having actual knowledge of the underlying patent.

It would be inconsistent, and indeed illogical, to maintain differing standards for inducement in copyright and patent disputes, particularly where this Court in *Grokster* imported from patent law the requisite culpable mental state for induced infringement. Accordingly, because the Federal Circuit has articulated a standard for the state-of-mind element for inducing infringement that is inconsistent with this Court's holding in *Grokster*, this Court should overturn the Federal Circuit's holding.

### C. The Federal Circuit's "Deliberate Indifference" Standard Erroneously Departs From Its Prior Holding in *DSU*.

The "deliberate indifference" standard conflicts with the Federal Circuit's own prior *en banc* decision in *DSU Medical*, which correctly applied the higher standard of "purposeful, culpable" conduct for inducement. In *DSU Medical*, the Federal Circuit held that Section 271(b) requires a showing that the alleged infringer "knew or should have known his actions would induce actual infringements," which "necessarily includes the requirement that he or she knew of the patent." *DSU Medical*, 471 F.3d 1304. In *SEB*, however, the Federal Circuit directly addressed this "knowledge" requirement and concluded that actual knowledge of the patent is not required. *SEB*, 594 F.3d at 1377.

In *SEB*, defendant Pentalpha Enterprises, Ltd. ("Pentalpha") copied a version of the patentee's product that it purchased in Hong Kong and that had no patent markings. *SEB*, 594 F.3d at 1366. Pentalpha then hired an attorney to perform a right-to-use opinion but did not advise its attorney that it had copied a product. The attorney found and analyzed 26 patents and concluded that Pentalpha's deep fryer did not infringe on any of those patents. *Id.* While Pentalpha's president was patent-savvy, there was no direct or circumstantial evidence on the record that Pentalpha knew of patents covering the infringing product. Nonetheless, the panel concluded that induced infringement may stand on this record. The Federal Circuit held that the record supported a conclusion that the party accused of inducement "deliberately disregarded a known risk that SEB had a protective patent," and found this level of culpable conduct sufficient to meet the state-of-mind requirement for inducement. *SEB*, 594 F.3d at 1377.

The Federal Circuit's attempt to reconcile its opinion in *SEB* with *DSU* by explaining that the latter addresses "the target of the knowledge" while the former addresses "the nature of the knowledge" is unsound. *See SEB,* 594 F.3d at 1376. Simply put, one cannot actively induce infringement without at least having knowledge of the underlying patent. By turning *DSU* on its head, the *SEB* decision improperly lowers the state-of-mind element under 35 U.S.C. § 271(b) by concluding that inducement does not, as a threshold matter, require actual knowledge of the patent-in-suit.

### D. The "Deliberate Indifference" Standard Undermines The Federal Circuit's Holding in *Seagate*.

Under the Patent Act, a defendant that willfully infringes a patent could be found liable for treble damages and attorneys' fees. Prior to *Seagate*, Federal Circuit precedent suggested that a party that was put on notice that it might be infringing a patent should promptly obtain an opinion of counsel. Unless the opinion concluded either that the company did not infringe or that the patent was invalid, the company risked a finding of willful infringement. In *Seagate*, the Federal Circuit, in an *en banc* decision, raised the bar by requiring clear and convincing evidence of "objective recklessness" on the part of the accused infringer, rather than a mere failure to exercise "due care" to avoid patent infringement. *Seagate*, 497 F.3d at 1371. In expressly abandoning the affirmative duty of due care, the Federal Circuit "reemphasize[d] that there is no affirmative obligation to obtain opinion of counsel." *Id.*

The "deliberate indifference" standard undercuts the Federal Circuit's teachings in *Seagate*. Under this new standard for inducement, a company that chooses not to seek an opinion of counsel upon receiving notice of another's patent could be held liable for deliberate indifference of a known risk of infringement. As crafted, the Federal Circuit's "deliberate indifference" standard circumvents *Seagate* and effectively requires a company to seek an opinion of counsel for every unsolicited request it receives or else risk liability under this new standard. To require an opinion of counsel as a shield against inducement liability imposes substantial costs on the Industry and other industries that are inundated with unsolicited requests for license agreements from NPEs.

Moreover, the inherent conflict between the Federal Circuit's standard for inducement of infringement in *SEB* and the standard for willful infringement under *Seagate* has the potential to lead to absurd and inconsistent results. Under the "deliberate indifference" standard of *SEB*, a party could be subject to liability for "actively inducing" others to commit infringing acts based on facts that would not be sufficient to support a claim against that party for willfully engaging in direct infringement through its own actions. For example, if a company receives from an NPE a letter that identifies a patent but does not investigate it, the company could be held liable for inducing infringement by its customers. Yet precisely the same conduct would not give rise to willful infringement against the company if it had directly infringed the patent.[2]

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[2] Although intent is not an element for direct infringement under 35 U.S.C. § 271(a), intent is an element for inducement of infringement under 35 U.S.C. § 271(b) and for willful direct infringement. *Seagate*, 497 F.3d at 1368. Intent is not required for direct infringement because the accused direct infringer can control its own actions. Intent is required for a finding of inducement because "[t]here is a definite tendency to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong." *Grokster*, 545 U.S.

(Continued on following page)

### E. "Deliberate Indifference," By Definition, Requires An Underlying Duty, But There Is No Underlying Duty in Section 271(b).

In an attempt to find support among this Court's precedent, the Federal Circuit imported the "deliberate indifference" standard from *Farmer v. Brennan*, 511 U.S. 825 (1994), a case involving a constitutional *Bivens* claim under the Eighth Amendment. In *Farmer*, this Court set forth a subjective "deliberate indifference" standard under which liability can attach when the defendant "knows of and disregards an excessive risk." *Id.* at 837. Notably, in *Farmer*, there was an underlying duty to protect prisoners from violence at the hands of other prisoners. Indeed, this Court has traditionally applied the deliberate indifference standard in cases where there is some underlying affirmative duty. *See, e.g., Gebser v. Lago Vista Indep. Sch. Dist.*, 524 U.S. 274, 297 (1998) (applying deliberate indifference standard in a suit for harassment under Title IX, which places a duty on public schools not to discriminate on the basis of gender); *Estelle v. Gamble*, 429 U.S. 97, 105-106 (1976) (holding that due process clause of Fourteenth Amendment requires the state to provide adequate medical care to prisoners and applying deliberate

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913 (quoting PROSSER AND KEETON ON LAW OF TORTS 37 (5th ed. 1984)). Inducement and willfulness are analogous insofar as they arise only when a party has the requisite mental state underlying the acts that give rise to liability.

indifference standard). In sharp contrast, and as the Federal Circuit in *Seagate* re-emphasized, where a party has notice of another's patent rights, there is no affirmative duty to determine whether he is directly infringing the alleged patent. *Seagate*, 497 F.3d at 1371. Thus, the "deliberate indifference" standard cannot be applied to claims of inducement because there is no underlying duty to breach.

Further, the "known risk" in *Farmer* was clear: it is a commonplace that prisons are inherently prone to incidents of violence, and experienced professionals with expertise such as prison guards cannot "bury their heads in the sand" and deliberately ignore this risk. By contrast, because patentability is not intuitively obvious and because the existence of a patent that covers a particular invention is not necessarily discoverable even after an exhaustive search, a "known risk" cannot be said to exist in the context of inducement of patent infringement. More than seven million patents have been issued in the United States. In 2009 alone, the United States Patent and Trademark Office issued nearly 500,000 patents. *See* U.S. Patent Statistics, Calendar Years 1963-2009, available at http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf. In view of the volume of issued patents, it can be difficult for members of the public to identify whether a relevant patent may exist in a particular field. If a "known risk" exists in the patent-inducement context, the Federal Circuit failed to identify it. More fundamentally, it is not clear which risks, if any, may be "known" in the patent-inducement context (*e.g.*, a "known risk" that patents exist in a particular field, or even a "known risk" outside of a particular field).

The "deliberate indifference" standard leads to the impractical result of requiring companies in the Industry not only to investigate all relevant patents in the financial-services field, but also to survey the technical fields and patents of the millions of customers of the Industry. By failing to articulate clearly what constitutes a "known risk," the Federal Circuit has placed accused inducers in a virtually defenseless position against claims of inducement.

## II. Upholding The "Deliberate Indifference" Standard Will Make The Industry Especially Vulnerable To Claims of Inducement By Owners Of Questionable Patents.

Maintaining a "deliberate indifference" standard for inducing patent infringement under Section 271(b) will perpetuate a system that allows patent owners to hold the Industry hostage to claims of infringement based on questionable theories. Financial-services-related patents are being litigated at a rate 27 times greater than that of patents as a whole, and the most frequent plaintiffs in such litigation are overwhelmingly NPEs. Joshua Lerner (2006): *Trolls on State Street?: The Litigation of Financial Patents*, 1976-2005. Working Paper. Last retrieved on November 9, 2010 at http://www.people.hbs.edu/jlerner/Trolls.pdf.

According to Harvard professor Lerner, "Larger entities are disproportionately targeted in litigation." Daniel Pruzin, *Study Suggests That Patents on Financial Products Are More Likely To Be Litigated*, PATENT, TRADEMARK & COPYRIGHT LAW DAILY (July, 8, 2010). Lowering the standard for inducement will serve only to increase the number of patent-infringement claims asserted against the Industry by providing an additional vehicle for alleging questionable theories of liability. Under the "deliberate indifference" standard, industries that are targets of unsolicited licensing requests from NPEs will be virtually defenseless against claims of inducement.

### A. The Industry Already Is Burdened By Patent Litigation Asserted by NPEs.

Patents on software, electronics, and business methods have never played as significant a role in the Industry as they do today. That fact was recognized by the Court in *Bilski v. Kappos*, 561 U.S. ___, 130 S. Ct. 3218 (2010), which noted that "business method patents were rarely issued until modern times." *Id*. at ___, 130 S. Ct. at 3219. "Computerized business method patents" affect a number of industries, but "such patents, especially by virtue of the surprise factor, have most seriously affected the financial industry," particularly banking. Frederick C. Williams, *Giving Inter Parties Patent Examination a Chance to Work*, 32 AIPLA Q. J. 265, 268-69 (2004).

NPEs employ aggressive tactics against the Industry. For example, over the past decade, DataTreasury Corporation, an NPE, has sued dozens of banks and financial services, including some of the largest in the United States. *See* Dan Browning, *U.S. Bank penalized in patent case; A federal judge in Texas ordered punitive damages in a dispute over electronic check processing patents*. STAR TRIBUNE (Minneapolis, MN) (Sept. 29, 2010). It is estimated that annual median damages awards for patent infringement range from $2.2 to $10.6 million, with damages awarded to NPEs averaging more than double those for practicing entities since 1995. *See A Closer Look – Patent Litigation Trends and The Increasing Impact of Non Practicing Entities*, PricewaterhouseCoopers, 2009. Lowering the standard for inducement will open the floodgates for NPEs to assert even more questionable claims of patent infringement and, presumably, thereby inundate district courts.

### B. The "Deliberate Indifference" Standard Places the Industry in an Untenable Position.

The Federal Circuit's holding that the intent requirement under Section 271(b) may be satisfied even if there is no "direct evidence that the accused infringer actually knew of the patent-in-suit" is not only at odds with *Grokster* and the Federal Circuit's opinion in *DSU Medical*, but it also is problematic because the Federal Circuit failed to define what constitutes a "known risk." *SEB*, 594 F.3d at 1377. Under the Federal Circuit's framework for "deliberate indifference," a jury could thus find that the accused infringer deliberately disregarded a known risk that an infringement may occur in virtually any situation, including the following:

- if the accused inducer receives an unsolicited communication identifying a patent but does not obtain an opinion of counsel as to all patents referenced in the letter;
- if an accused inducer of a patent in the financial-services field does not conduct a patent search in such field before launching a financial product or service;
- if an accused inducer of a patent outside the financial-services field does not conduct a patent search outside such field before launching a financial product or service;
- if a financial-services company becomes aware of the existence of a patent in connection with a loan to the patentee or a routine banking transaction, and the patent is subsequently assigned to an NPE and that entity accuses the lender of inducement;
- if a lender does business with Companies A and B (competitors in the same field), thereafter learns of Company A's patent, and then makes a loan to

Company B to build a factory that could be used to infringe Company A's patent;

- if the accused inducer conducted a patent search before launching an accused product or service but does not obtain an opinion of counsel; or
- if the accused inducer obtains a right-to-use opinion that, as is customary, includes a statement that a jury could reach a different conclusion on the issue of infringement.

The lack of clarity in what constitutes a "known risk" places accused inducers in a virtually defenseless position. In cases where the accused infringer was unaware of the patent-in-suit (or simply received the patent as part of an unsolicited invitation to explore a license), it is not difficult to imagine that virtually every patentee will contend that the accused inducer should have been aware of all patents not only in the field of the accused products, but also in other, unrelated fields, and that this circumstance suffices to create a "deliberate indifference of a known risk."

Unlike most other industries, the Industry does business with virtually every segment of industry, business, and society. The "known risk" standard could be interpreted, in effect, to require companies in the Industry not only to investigate all relevant patents in the Industry, but also to survey the technical fields and thereafter investigate the patents of the millions of Industry customers. Similarly, the

Industry often becomes aware of patents in connection with routine transactions such as conducting due diligence investigations prior to loan issuances. It would, therefore, be impracticable to effectively require the Industry to "investigate" each of these patents as a prerequisite to each of its business transactions in order to avoid "known risks."

As the examples above illustrate, a patentee might assert an inducement claim against a member of the Industry for nothing more than providing a loan to an accused direct infringer. If the lender is aware of the patent-in-suit through a routine lending transaction, the lender should not be liable for inducement simply because it did not investigate the patent. To require companies to investigate patents in order to avoid a "known risk" is tantamount to recreating the duty that was expressly abandoned in *Seagate*.

While the Federal Circuit noted that "proof of knowledge through a showing of deliberate indifference may be defeated where an accused infringer establishes that he actually believed that a patent covering the accused product did not exist," the court did not explain how this standard can be met and otherwise, in effect, shifted the burden to the accused inducer. *SEB*, 594 F.3d at 1378. For the Industry and other favorite targets of NPEs, the Federal Circuit's failure to articulate an appropriate standard for actively inducing infringement under Section 271(b) makes it exceptionally difficult for such targets to protect themselves from speculative patents and overcome trumped-up charges of inducement.

## III. It Is In The Public Interest To Overturn The "Deliberate Indifference" Standard, As The Industry Is A Favorite Target Of Patentees Seeking Exorbitant Fees Or Monetary Settlements Based Upon Questionable Claims of Infringement.

It is no secret that the last half-century has seen revolutionary changes within the Industry. The United States, and indeed most of the world, has gone from a paper-based economy to one that cannot be sustained without its supporting technology and business methods. The paper-based financial world of the 1960s has ceased to exist, both in response to the rapid technological changes affecting virtually every industry and to legislative action based upon Congress's recognition that the United States markets are important national assets. *See* H.R. Rep. No. 94-123, at 44 (1975) (*reprinted in* FEDERAL SECURITIES LAWS LEGISLATIVE HISTORY 1933-1982, Vol. III at 2514 (1983)). Accordingly, Congress required the Industry to implement "[m]odern communication and data processing facilities." *See* 15 U.S.C. § 78k-1(a)(1)(A)-(B). Technological advances in the United States alone make the standard of inducement at stake here of vital interest, but it is not just the United States financial markets that are affected by dubious assertions of patent rights and liability theories.

### A. Decisions And Settlements Affecting The Industry Impact The Global Economy.

Our economy is global; the markets have become so interdependent that a decision in the United States also affects people well beyond its borders. Indeed, technological advances have brought more trading to the market than ever before. Although it would have been difficult to imagine at one time for the New York Stock Exchange to have traded three billion shares in a year, it is now expected that the technology can support daily trading of well over three billion shares. In February 2008, for example, NYSE-Euronext announced that its United States-based cash-equities exchanges, NYSE and NYSE Arca, had collectively traded an average of 3.9 billion shares per day during the January 2008 trading month. *NYSE-Euronext Business Summary for January 2008*, available at http://nyse.com. That NYSE-Euronext operates a family of exchanges located in six countries, including the New York Stock Exchange, underscores just how interdependent technology has become to the global economy. *Id.*

Everywhere in the Industry is evidence of the daily volume of transactions and the speed with which the economy has come to rely on their occurrence. The underlying business methods and the critical importance of reliably maintaining the systems they support are nowhere more apparent than on today's all-electronic markets and exchanges. At closing time on June 25, 2010, for example, NASDAQ processed 1.04 billion shares encompassing 2,056 NASDAQ-listed stocks and $11.2 billion in market value in merely 0.885 seconds. *NASDAQ OMX Reports Strong Second Quarter 2010 Results*, available at http://nasdaq.com.

It is not just significant stockholders, of course, who depend on the reliability of the financial markets. Nearly half of all United States households participate in the financial markets, either through direct stock purchases, mutual funds, or retirement accounts. *See, e.g.*, Investment Company Institute & SIFMA, *Equity and Bond Ownership in America, 2008*, available at http://www.ici.org.com/rpt_08_equity_owners-1.pdf. The banking industry also has seen an enormous groundswell in technological advances. Indeed, a recent study suggests that over 36 million United States households now use online bill-payment services and about twice as many use online banking services. Matt Gunn, *Online Banking, Payments Outpace Growth of Internet*, Bank Systems and Technology, May 25, 2010, available at http://www.banktech.com. That usage represents an "84 percent increase in online banking and 78 percent in online bill pay" since 2000. *Id*.

The global financial-services industry relies on its business methods to handle this extraordinary volume of transactions quickly, reliably, and cost-effectively. When there is a disruption in the financial system, the effect is instantaneous, deleterious, and potentially profound. For example, the impact of a technological disruption was dramatically displayed in May 2010 when a computer error caused the markets to drop precipitously in a 16-minute period. Nelson D. Schwartz & Louise Story, *Surge of Computer Selling After Apparent Glitch Sends Stocks Plunging*, New York Times, May 6, 2010, available at http://www.nytimes.com. The havoc that the threat of an injunction based on a questionable theory of liability could wreak on the financial markets is not difficult to imagine. The Industry asks only that it be equitably and properly enabled to defend itself against claims of inducement by requiring patent plaintiffs to establish purposeful conduct by the alleged inducer as part of a claim for induced infringement. The Industry should not be expected to shield itself against claims of inducing patent infringement based on nebulous allegations concerning "deliberate indifference of a known risk," whatever that may mean.

The Industry has long been committed to providing a secure and reliable environment to all market participants and ancillary parties in a technologically advanced world. To continue maintaining that security and reliability, allowing the Industry to protect its business methods from speculators interested in holding it hostage to dubious claims of inducement, is profoundly important. The lure of exploiting an industry that controls large flows of money to holders of questionable patents is obvious. Holding the Industry and similarly situated parties liable for inducement based on the lower "deliberate indifference" standard creates an unfair playing field and provides an additional vehicle for NPEs to assert baseless claims of infringement.

### B. Lawsuits Based On Questionable Theories of Infringement Are A Plague Upon The Industry That Risks Stifling Innovation.

The Industry is especially vulnerable to patent suits, and, in particular, inducement claims, because it is built on extensive transactions and interdependent relationships among banks, brokerage firms, customers, depositories, data processors, market-data vendors, exchanges, and clearing entities. These systems and subsystems embody devices, processes, software, and business methods that in many cases pre-existed new patents. The pace at which technology moves in the financial sector places the industry at a greater risk of speculative patent applicants rushing to the United States Patent & Trademark Office to obtain a patent solely to maximize their financial opportunities. If the Industry is forced to defend against claims of inducement under the "deliberate indifference" standard, the expense of defending such suits and the risk of losing despite a lengthy and costly litigation battle will likely stifle industry innovation that could otherwise benefit the broader economy. More fundamentally, one of the key functions of the Industry is to assess financial risk in a variety of transactions. Paradoxically, the lower "deliberate indifference" standard would make it even more difficult for institutions to assess financial risk because it could place at risk, or compromise, the innovative technology used to measure financial risk.

A defendant's cost of litigating a patent dispute is estimated to be at least $1.5 million and may be more than $4 million. Steve Bills, *The Tech Scene: Patent Case Settlements: Economics or Endgame?* Technology, Vol. 173, No. 177, 1, Sept. 12, 2008. Controlling costs is a vital component of innovation for every industry, but nowhere is it more important than in the Industry, where even a momentary technological lapse can have systemic implications for the broader economy. The Industry cannot continue to be given the Hobson's choice of having either to engage in or to settle frivolous patent disputes.

Transparency for the Industry is the byword going forward. Congress has mandated new rules that are intended to forge even more reliable financial markets. While increased transparency is aimed at having a positive effect overall, it leaves the Industry vulnerable to speculative patent applicants and to existing patent holders, many of which are of questionable validity. Applying a lower burden of proof to inducement cases increases the vulnerability of the Industry and other businesses substantially without providing any benefit to society since the lower standard would encourage the filing of questionable claims that involve no purposeful conduct whatsoever concerning a patent. With costs of litigation skyrocketing, more banks and other financial-services companies will be forced to settle and enter into expensive licensing agreements with holders of questionable patents rather than taking the risk of lengthy, unsuccessful litigation or potential injunctive relief that could cripple the markets.

The purpose of the patent system is to promote innovation, not to invite catastrophe or to encourage holders of questionable patents to turn an easy dollar. The importance and value of control measures that discourage patent speculators and patentees from taking advantage of businesses that are extensively interdependent cannot be over-emphasized. Establishing a level playing field by setting "purposeful, culpable expression and conduct" as the standard for liability under 35 U.S.C. § 271(b) will go a long way toward limiting risks to the Industry that otherwise could have a global impact.

## CONCLUSION

For the reasons set forth above, TCH and SIFMA respectfully request that the Court grant Petitioners' request and overturn the Federal Circuit's ruling.

Respectfully submitted,


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