

No. 10-6

IN THE
Supreme Court of the United States

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

v.

SEB S.A.,
Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

**BRIEF FOR CISCO SYSTEMS, INC., DELL INC., AND
INTEL CORPORATION AS *AMICI CURIAE*
IN SUPPORT OF REVERSAL**

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QUESTION PRESENTED

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 taught in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005)?

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INTEREST OF THE *AMICI CURIAE*¹

Amici are leading businesses in the information-technology and electronics industries. *Amici* design, manufacture, and sell hardware and software that others incorporate into hundreds of sophisticated and innovative products, systems, and methods. For example, *amici*'s products are found in laptops, smart

¹ Pursuant to Rule 37.6, *amici* certify that no counsel for a party authored this brief in whole or in part, and that no person or party, other than *amici* or counsel made a monetary contribution to the preparation or submission of this brief. This brief is filed with the parties' written consent, which is on file with the Clerk.

phones, netbooks, financial systems, communication systems, medical devices, ATMs, security systems, air-traffic control systems, radar systems, military systems, aircraft, automobiles, and televisions, among other commonplace electronic products. Because *amici*'s products can be used in such varied combinations, and because they are amenable to manifold uses in consumer and commercial electronic goods and services, *amici* are susceptible to allegations of secondary liability based on their manufacture and sale of products with legitimate commercial purposes. *Amici* accordingly have a strong interest in ensuring that the active inducement provision of 35 U.S.C. § 271(b) is enforced according to its terms, which reflect Congress's careful balancing of the patentee's rights in its particular invention against the public's strong interest in legitimate commerce and innovation.

In this brief, *amici* explain why the Federal Circuit's decision adopts a state-of-mind standard for Section 271(b) that contravenes the language, legislative history, and policy rationale of the statute. *Amici* also explain that the Federal Circuit's decision, if allowed to stand, will burden to an unacceptable degree legitimate innovation and trade in products that have substantial non-infringing uses. Accordingly, *amici* respectfully submit that the judgment of the Federal Circuit should be reversed.

SUMMARY OF THE ARGUMENT

In *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), this Court emphasized that the liability standard for inducement of copyright infringement is limited, targeting only "purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a

lawful promise.” *Id.* at 937. This Court explicitly tied its reasoning in the copyright context to similar decisions in the context of active inducement of patent infringement under 35 U.S.C. § 271(b).

Until the decision below, federal courts—including the Federal Circuit—were generally in accord that, to prove active inducement of patent infringement, a patentee was required to prove (among other things) that the defendant *actually knew* of the patent’s existence.² See *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) (an inducement claim “necessarily includes the requirement that [the defendant] knew of the patent”); see also *Vita-Mix Corp. v. Basic Holding, Inc.*, 581 F.3d 1317, 1328 (Fed. Cir. 2009) (“Inducement requires a showing that the alleged inducer knew of the patent, knowingly induced the infringing acts, and possessed a specific intent to encourage another’s infringement of the patent.”); *Cortelyou v. Charles Eneu Johnson & Co.*, 207 U.S. 196, 200 (1907) (no inducement liability where there was “no sufficient evidence of notice” to the accused inducer because it was not “notified by the plaintiffs of the rights which

² Actual knowledge of the patent is not the only required intent element, though it was the one on which the decision below turned. An inducement plaintiff must also show that the defendant knew of a third party’s direct infringement and took affirmative steps with the specific intent to *encourage* it, *i.e.*, it “actively” induced infringement. See, *e.g.*, *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1378 (Fed. Cir. 2005) (requiring “that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another’s infringement” (internal quotation marks omitted)).

they claimed, or that anything which it did was considered by them an infringement upon those rights”).³

The requirement of actual knowledge of the patent reflected Congress’s proper balancing of the public interest in fostering innovation against the patentee’s right to intellectual property protection. Patentees could demonstrate a defendant’s actual knowledge through circumstantial evidence, or by showing that the defendant possessed the legal equivalent of actual knowledge—*e.g.*, that the defendant was willfully blind to, or consciously avoided learning of, the existence of the patent. The Federal Circuit’s decision, however, allows an infringement plaintiff to press an active inducement claim without proof—indeed, without even an *allegation*—that the defendant actually knew of the patent-in-suit or possessed the legal equivalent of actual knowledge, as long as the plaintiff asserts that the defendant “deliberately disregarded a known risk” that a patent existed. Pet. App. 31a. In addition to permitting liability for what is essentially recklessness, the court appeared to countenance an even lower “constructive knowledge” standard. *Id.* at 28a; *see also id.* at 49a (district court opinion holding that “an inducer must have actual or constructive knowledge of the patent”).

³ *See also, e.g., Cybiotronics, Ltd. v. Golden Source Elecs., Ltd.*, 130 F. Supp. 2d 1152, 1165-1166 (C.D. Cal. 2001) (“A finding of actual knowledge of the patent is clearly a prerequisite to finding that an accused infringer ‘actively induced’ infringement of that same patent.”); *Black & Decker (US) Inc. v. Catalina Lighting, Inc.*, 953 F. Supp. 134, 138 (E.D. Va. 1997) (a plaintiff must prove “an inducer’s knowledge of the asserted patent” in order to prove induced infringement).

The Federal Circuit’s new standard, if upheld, would “block the wheels of commerce.” *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48 (1912). All issued patents are public, and thus a “constructive notice” standard risks eliminating any meaningful requirement of knowledge of the patent in active inducement cases, thereby exposing innocent companies that sell non-infringing, general-purpose products to liability for supposedly encouraging infringement of patents that they did not even know about. “Deliberate disregard of a known risk” paves the way for any plaintiff to reach the jury merely by alleging that the defendant “deliberately disregarded” the ever-present “risk” of unexpired patents that purportedly cover a downstream use that customers make of the defendant’s product, even if the product has numerous other, non-infringing uses.

It is unclear what a manufacturer of general-purpose products like *amici* could do to protect against an inducement lawsuit under the Federal Circuit’s standard. A plaintiff could always argue that any patent search that did not uncover the patent-in-suit was insufficiently diligent—an allegation that is easily made in a complaint, will surely result in protracted and costly discovery, and is unlikely to be adequately policed for support short of a full-blown trial.

The established standards of actual knowledge of the patent and “active” conduct undertaken with culpable intent to encourage infringement comport with the statute’s policy goal of protecting innovation while not unduly inhibiting lawful commerce. The Federal Circuit’s judgment should be reversed and the case remanded for further proceedings in light of the correct standard.

ARGUMENT**I. ACTIVE INDUCEMENT OF PATENT INFRINGEMENT UNDER SECTION 271(b) REQUIRES ACTUAL KNOWLEDGE OF THE PATENT'S EXISTENCE AND CULPABLE INTENT TO ENCOURAGE INFRINGEMENT**

The law is “reluctan[t] to find liability when a defendant merely sells a commercial product suitable for some lawful use.” *MGM Studios, Inc. v. Grokster*, 545 U.S. 913, 936 (2005). Section 271(b), which imposes secondary liability for “actively induc[ing]” infringement, permits just such a result and, for that very reason, must be carefully circumscribed to ensure that it does not punish legitimate commercial behavior.

Congress and this Court have been careful to ensure that the sale of staple articles or general-purpose goods (*i.e.*, goods with substantial non-infringing uses) does not trigger inducement liability absent specific, culpable intent to encourage downstream infringement—a standard that necessarily requires (among other things) that the defendant know of the intellectual property protection at issue. The Federal Circuit improperly disregarded that critical limitation in the present case. Under the standard articulated by the Federal Circuit, inducement liability could be imposed for the sale of goods with legitimate and substantial non-infringing uses, even when the accused inducer was wholly unaware that the acts it encouraged infringed a valid patent. Such a standard is detrimental to innovation and the patent system and contrary to the constitutional mandate that the patent system “promote the *Progress* of ... useful Arts.” U.S. Const. art. I, § 8, cl. 8 (emphasis added).

A. This Court’s Decision In *Grokster* Requires Actual Knowledge And Culpable Intent In The Analogous Context Of Copyright Infringement

In *Grokster*, this Court treated inducement liability in the patent and copyright contexts as analogous, recognizing that they were motivated by the same policies and rationales. *See* 545 U.S. at 936-937. Although the Court articulated the inducement test in various ways, each formulation made plain that *actual* knowledge of the patent (or copyright) and *active* steps undertaken with *culpable intent* to “entic[e] or persuad[e]” direct infringement were required. *Id.* at 935 (internal quotation marks omitted); *id.* at 937 (requiring more than “mere knowledge of infringing potential or of actual infringing uses”); *id.* at 936 (requiring “an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged”); *id.* at 936-937 (requiring “clear expression or other affirmative steps taken to foster infringement”); *id.* at 919 (requiring the alleged inducer have “the object of promoting [a] use to infringe”). As the Court explained, requiring such actual knowledge and culpable intent in inducement liability is necessary to ensure that the doctrine “leaves breathing room for innovation and a vigorous commerce.” *Id.* at 933.

Indeed, none of the patent cases—or for that matter, the copyright cases—relied upon in *Grokster* permitted a finding of liability based only on constructive knowledge of the intellectual property protection at issue. Rather, in each situation, actual knowledge of the protected right and culpable affirmative conduct to encourage its infringement were required. *See, e.g., Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162-63 (2d Cir. 1971) (“With

knowledge that its artists included copyrighted compositions in their performances, CAMI created the Port Washington audience as a market for those artists. CAMI’s *pervasive participation* ... amply support the district court’s finding that it ‘caused this copyright infringement.’” (emphasis added)); *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (liability for inducement where one “actively and *knowingly* aid[s] and abet[s] another’s direct infringement” (emphasis added)).

As the Court explained, the actual-knowledge requirement ensures that inducement liability rests on “purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.” *Grokster*, 545 U.S. at 937. The Court recognized that anything less than this stringent standard would “trench[] on regular commerce or discourag[e] the development of technologies with lawful and unlawful potential.” *Id.*

This rationale applies with equal if not greater force in the patent context. Technology companies often face inducement suits based on their manufacture and sale of hardware and software with a myriad of substantial non-infringing uses. In such cases, direct infringement is alleged to arise only when the products are used by downstream customers or end-users in combination with other products or in particular methods. The Federal Circuit’s suggestion that inducement liability could be imposed based on “constructive knowledge” of a patent’s public existence and its direct infringement by a third party potentially exposes manufacturers to inducement liability in a broad array of technological fields, and even for unanticipated innovative uses of their products. The actual-knowledge standard is an essential limitation to ensure that the

law “absolves the equivocal conduct of selling an item with substantial lawful and unlawful uses, and limits liability to instances of *more acute fault* than the mere understanding that some of one’s products will be misused. It leaves breathing room for innovation and a vigorous commerce.” *Grokster*, 545 U.S. at 932-933 (emphasis added).

B. The Text And Legislative History Of Section 271(b) Require The Plaintiff To Prove “Actual Knowledge” And Culpable Intent

Requiring actual knowledge of the patent and culpable intent to encourage infringement correctly reflects Congress’s intent in enacting the “active[] induce[ment]” provision of Section 271(b). As the Federal Circuit has recognized, Section 271(b) requires “specific intent to encourage another’s infringement and not merely that the defendant had knowledge of the acts alleged to constitute infringement.” *Ferguson Beauregard/Logic Controls v. Mega Sys., LLC*, 350 F.3d 1327, 1341-1342 (Fed. Cir. 2003) (internal quotation marks omitted); *see also Water Techs.*, 850 F.2d at 668 (“Although section 271(b) does not use the word ‘knowing,’ the case law and legislative history uniformly assert such a requirement.”). Indeed, the Federal Circuit has continued to recognize the specific-intent requirement even after the present decision issued. *See, e.g., Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1315 (Fed. Cir. 2010) (“[I]nducement requires that the alleged infringer knowingly induced infringement and possessed *specific intent* to encourage another’s infringement.” (internal quotation marks omitted; emphasis added; alteration in original)).

This requirement is consistent with the view of “one of the main drafters of the [Patent] Act,” Judge Giles S. Rich. *Bilski v. Kappos*, 130 S. Ct. 3218, 3247-3248 (2010). Shortly after the Act’s passage, Judge Rich explained that Section 271(b) differs from Section 271(c) because, “in proving a case under (b) the evidence must establish active inducement and that involves intent.” Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 Geo. Wash. L. Rev. 521, 537 (1953).

As this Court has indicated, specific intent requires a “bad purpose ... to violate a known legal duty.” *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 57-58 n.9 (2007). Given that the “legal duty” in a patent infringement case arises from the patent itself, a defendant cannot have a “purpose” to induce violation of a “known” legal duty if it does not even know that a patent exists and imposes such a duty.

The legislative history of the active inducement statute confirms this understanding by making explicit reference to civil aiding and abetting liability. See S. Rep. No. 82-1979, at 8 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402 (“Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer.”); H.R. Rep. No. 82-1923, at 9 (1952) (same). Civil aiding-and-abetting liability typically depends on actual knowledge that the primary violator’s conduct is wrongful: “liability for aiding or abetting requires, *inter alia*, proof of knowledge of unlawfulness, also articulated as intent to violate the law.” *United States v. Hitachi America, Ltd.*, 172 F.3d 1319, 1337 (Fed. Cir. 1999) (emphasis added); see also *Central Bank of Denver, N.A. v. First Interstate Bank of Denver*, 511 U.S. 164, 181 (1994) (aiding and abetting requires “knowing aid to persons” in violation of the

law, “with the intent to facilitate” the violation); *National Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1196 (Fed. Cir. 1996) (“[A]iding and abetting not only requires assistance, but also knowledge of a wrongful purpose. The purpose must be wrongful at the time of the action with which the abettor is charged.” (internal quotation marks omitted)); *Board of Tr.’s of Teamsters Local 863 Pension Fund v. Foodtown, Inc.*, 296 F.3d 164, 174 (3d Cir. 2002) (“In order to be found liable for aiding and abetting a breach of a fiduciary duty, one must demonstrate that the party *knew that the other’s conduct constituted a breach of a fiduciary duty* and gave substantial assistance or encouragement to the other in committing that breach.” (emphasis added)). Given that the legal wrong in patent infringement cases is a violation of a patent, and in light of the sheer number of unexpired patents, it is particularly important that wrongful intent in this context require actual knowledge of the patent. See Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, 12 Am. L. & Econ. Rev. 280, 281 (Fall 2010) (1.8 million U.S. patents issued in the decade ending 2009).

C. Inducement Liability Under Section 271(b) Necessarily Requires Greater Culpability Than Contributory Liability Under Section 271(c)

The Federal Circuit’s decision also is inconsistent with the broader statutory scheme in which Section 271(b) was enacted. In Section 271(c), Congress separately imposed contributory liability on parties that sell, offer for sale, or import components “knowing the same to be especially made or especially adapted for use in an infringement of [a] patent, and not a staple article or commodity of commerce suitable for substan-

tial noninfringing use.” 35 U.S.C. § 271(c). Contributory infringement does not require proof of specific intent to encourage infringement because, as this Court recognized in *Grokster*, “where an article is good for nothing else but infringement, there is no legitimate interest in its unlicensed availability, and no injustice in presuming or imputing an intent to infringe.” *Grokster*, 545 U.S. at 932 (internal quotation marks and citation omitted). That is, the intent to infringe can be inferred precisely because the component has no substantial non-infringing use.

Contributory infringement does, however, “require a showing that the alleged contributory infringer *knew* that the combination for which his component was especially designed *was both patented and infringing.*” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964) (emphasis added). *Aro* has regularly been interpreted to impose the requirement that a plaintiff alleging contributory infringement demonstrate that the defendant actually knew of the patent. *See, e.g., Celotex Corp. v. V.E. Power Door Corp.*, No. 77 C 532, 1979 WL 25068, at *3 (E.D.N.Y. July 13, 1979) (unpublished) (“The opinions of Justices White and Black, in unmistakable terms, state that § 271(c) requires actual, not constructive, knowledge of the patent allegedly infringed. Joining these separate opinions with the opinion of the court, there can be no question that, under *Aro*, actual knowledge is required under § 271(c).”); *see also Ductmate Indus., Inc. v. Famous Supply Corp.*, 55 F. Supp. 2d 777, 786 n.10 (N.D. Ohio 1999) (liability under Section 271(c) requires proof “that the accused indirect infringer have actual knowledge of the patents in question”); *R2 Med. Sys., Inc. v. Katecho, Inc.*, 931 F. Supp. 1397, 1441 (N.D. Ill. 1996) (holding that, under Section 271(c), a “patentee must demon-

strate that the defendant had actual knowledge of the asserted patent”).

In contrast to Section 271(c), inducement liability under Section 271(b) can be imposed regardless of whether the component has substantial non-infringing uses. *See, e.g., Astrazeneca LP v. Apotex, Inc.*, __ F.3d __, 2010 WL 4286284, at *15 (Fed. Cir. Nov. 1, 2010). In other words, the *activity* that is targeted by a Section 271(b) claim is not problematic in itself, in contrast to cases of direct infringement under Section 271(a), where the defendant’s accused product or activity *necessarily* infringes, or cases of contributory infringement under Section 271(c), where the defendant’s component has *no substantial non-infringing use*. Accordingly, whereas intent can be inferred in a contributory-inducement case from the absence of any non-infringing use for the component, an inducement case under Section 271(b) necessarily requires a separate showing of culpable intent, because the defendant’s conduct has a “lawful promise” (*Grokster*, 545 U.S. at 937), there is a “legitimate public interest” in an accused component’s availability (*id.* at 932), and it is only the actions of *others* that give rise to the patent’s infringement. Unless properly limited, Section 271(b) has the risk of affecting *lawful* commercial activities.

As this Court recognized, the patent and copyright laws effect the necessary limitation by imposing inducement liability only in situations where the defendant actually knows of the relevant intellectual property protection and specifically intends its infringement. *See Grokster*, 545 U.S. at 937. Indeed, decisions rendered prior to Section 271’s enactment in 1952 “required, if anything, a *greater* showing of knowledge and intent where the defendant induced infringement other than by sale of a component especially designed for in-

fringing use.” 5 *Chisum on Patents* § 17.04[2] (2010) (emphasis added); see also Lemley, *Inducing Patent Infringement*, 39 U.C. Davis L. Rev. 225, 238 n.67 (2005).

The Federal Circuit’s decision disregarded the settled requirement that an inducement claim must rest on conduct more culpable than a contributory infringement claim. Indeed, the decision below appeared to make it *easier* in many cases to prove inducement of infringement than contributory infringement. The Federal Circuit permitted Section 271(b) liability based on “deliberate disregard of a known risk” or even “constructive knowledge” that a relevant patent exists and is infringed—a standard far below the requirement of “knowledge” of the patent and infringement that this Court held in *Aro* was required for contributory infringement liability. Thus, in cases where the defendant had no knowledge of the patent’s existence, the Federal Circuit’s ruling would appear to make it easier to saddle a company with liability if its products have substantial non-infringing uses than if they do not—a topsy-turvy system that finds no support in the Patent Act or the policy rationales that underlie it.⁴

⁴ In other contexts, the Federal Circuit has expressly warned against interpreting Section 271(b) in a manner that makes inducement liability easier to establish than contributory liability. See, e.g., *Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1365 (Fed. Cir. 2003) (“Especially where a product has substantial non-infringing uses, intent to induce infringement cannot be inferred even when the defendant has actual knowledge that some users of its product may be infringing the patent.”).

D. Actual Knowledge May Be Proven By Circumstantial Evidence And Through The Legal Equivalents Of Willful Blindness And Conscious Avoidance

As the foregoing discussion makes clear, actual knowledge of the underlying patent is necessary (though not sufficient) to prevail on an inducement claim. If “deliberate disregard of a known risk” that a patent exists constitutes knowledge at all, it is constructive knowledge at best. *See, e.g., City of Canton v. Harris*, 489 U.S. 378, 396 (1989) (O’Connor, J., concurring in part and dissenting in part) (liability for “deliberate indifference” is appropriate when policymakers are “on actual or constructive notice” of the need to train), cited with approval in *Farmer v. Brennan*, 511 U.S. 825, 841 (1994).⁵

The Federal Circuit’s adoption of a “deliberate indifference” standard may have been driven by a concern that defendants who take deliberate steps to avoid learning about the patent-in-suit should not necessarily evade liability. But actual knowledge of the patent—like the additional requirement of culpable intent to encourage infringement—can be established through circumstantial evidence. *See, e.g., United States v. Santos*, 553 U.S. 507, 521 (2008) (“As for the knowledge element of the money-laundering offense—knowledge that the transaction involves profits of unlawful activity—that will be provable (as knowledge must almost always be

⁵ This Court made clear in *Farmer* that deliberate indifference is a form of recklessness. 511 U.S. at 839-840. We are aware of no ruling suggesting that a finding of active inducement can be premised on a defendant’s mere recklessness in failing to discover the patent.

proved) by circumstantial evidence.”); *Water Techs.*, 850 F.2d at 668 (“While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice.”); *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69, 83-84 (2d Cir. 2005) (“‘Knowledge’ is a fact often established—even in criminal cases where the prosecution’s burden is beyond a reasonable doubt—simply through circumstantial evidence.”).

Actual knowledge can also be proven through the familiar doctrines of “willful blindness” and “conscious avoidance.” Unlike deliberate indifference to a known *risk*, which requires only that a party be aware of the existence of a *possibility* that a particular fact is true (no matter how negligible the possibility), those doctrines require that a party actively “take[] steps to make sure that [it] does not acquire full or exact knowledge.” *United States v. Giovannetti*, 919 F.2d 1223, 1228 (7th Cir. 1990); *see also Kirschner v. Bennett*, 648 F. Supp. 2d 525, 544 (S.D.N.Y. 2009). Thus, while deliberate indifference to a known risk demonstrates only *constructive* knowledge, “knowledge consciously avoided is the legal equivalent of knowledge actually possessed.” *United States v. Svoboda*, 347 F.3d 471, 480 (2d Cir. 2003); *see also Holder v. Humanitarian Law Project*, 130 S. Ct. 2705, 2740 (2010) (Breyer, J., dissenting).

A jury properly charged under the active-inducement statute may accordingly consider all the relevant facts in determining whether a defendant actually knew of the patent’s existence. The actual-knowledge standard properly cordons off legitimate commerce from secondary liability; it is faithful to the text, legislative history, and policy rationales of the

statute and imposes no undue burden on patentees to prove their claims.⁶

II. THE FEDERAL CIRCUIT'S DECISION IMPROPERLY BURDENS LEGITIMATE COMMERCE IN PRODUCTS WITH SUBSTANTIAL NON-INFRINGEMENT USES

The Federal Circuit's decision is particularly troubling for the information technology industry, which is one of the Nation's most vital sectors. General-purpose products like microprocessors and routers can be incorporated into numerous other products or systems and—when combined with software—can be used in almost limitless ways. Most of those downstream uses are non-infringing. But if a patentee can allege that one or more end-users have created a combination or performed a method that infringes a patent, the temptation becomes great to sue not only the direct infringer, but also any manufacturer that supplied a portion of the system or method used by the direct infringer—if for no other reason than that the manufacturers typically have deeper pockets. Recently, such suits have proliferated not only in frequency, but also in the number of defendants that patentees choose to target—and not just in the information technology industry. *See, e.g., Wacoh Co. v. Chrysler, LLC*, No. 08 Civ. 456 (W.D.

⁶ In this case, the jury was never asked to determine whether Respondent had proven—by circumstantial evidence or otherwise—that Petitioners had actual knowledge of the patent-in-suit. The jury charge permitted a finding of liability as long as the jury found that Petitioners “*should have known* that their actions would induce actual infringement.” J.A. 148a (emphasis added). *Amici* take no position on whether a reasonable and properly-instructed jury could have found for Respondent on the present record.

Wis.) (claims of active inducement brought against nine major automobile manufacturers for infringement of patent on air bag restraint component).

The requirement that a plaintiff demonstrate that an alleged inducer specifically intend to encourage infringement—including acting with knowledge of the patent and the infringement—is essential to prevent patentees from halting the commercialization of general-purpose products that have substantial non-infringing uses. If there were no meaningful intent requirement, it is difficult to imagine what steps an honest manufacturer of a multi-purpose product could reasonably take to avoid secondary liability litigation. Given the impossibility of anticipating the numerous uses to which a downstream purchaser could put a multi-purpose product—particularly given the ease with which users can write their own software or download software written by others—it would be difficult, if not impossible, to craft a patent search to cover all such uses. And any patent search that failed to uncover the patent-in-suit would be challenged as insufficiently prescient and accordingly “deliberately indifferent” to the “known risk” that the product could be put to another, unanticipated use that was covered by an unknown patent.

Indeed, under the Federal Circuit’s decision here, a patent search actually risks complicating future litigation, as plaintiffs will take discovery into the scope of patent counsel’s inquiry and expert witnesses would debate whether a reasonable patent attorney would have cast a wider net. The decision below could likely lead federal courts to create common-law rules of acceptable diligence in patent searches. The consequence will be fewer useful technologies in areas where patents are plentiful, for fear that a plaintiff could later

charge that the company was “deliberately indifferent” to a “known risk” that one of those many patents arguably covered a subsequent use to which a product was put by a downstream customer. *See Bilski*, 130 S. Ct. at 3231 (Stevens, J., concurring) (“In the area of patents, it is especially important that the law remain stable and clear.”).⁷

The Federal Circuit’s standard would essentially put manufacturers of general-purpose products at risk of being accused under almost any issued patent. Moreover, it would encourage a patentee not to disclose infringement contentions early (which might permit a defendant to design around them), but instead to lie in wait until research and development costs were sunk, a market for the product was established, and the defendant is more likely to settle an inducement lawsuit rather than risk an injunction against a major product. The established rule that inducement liability depends on knowledge of the patent-in-suit and its infringement has the opposite, salutary effect of encouraging the plaintiff to disclose the patent early.

Of course, actual knowledge of the patent-in-suit is a necessary, but not sufficient basis for finding active inducement. A patentee must also show that the alleged inducer took affirmative steps that “knowingly induced infringement and possessed specific intent to encourage another’s infringement.” *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420

⁷ Indeed, the Federal Circuit’s decision risks resurrecting precisely the unworkable standards for evaluating the advice-of-counsel defense that the *en banc* Federal Circuit jettisoned in *In re Seagate Technology, LLC*, 497 F.3d 1360, 1368-1369 (Fed. Cir. 2007) (*en banc*).

F.3d 1369, 1378 (Fed. Cir. 2005). But by making inducement liability possible without even proof of knowledge of the patent and its infringement, the Federal Circuit potentially put makers of general-purpose products with substantial non-infringing uses in a situation where liability can neither be anticipated nor protected against.

If not reversed, the decision below will severely affect companies' willingness and capability to bring innovative general-purpose products to market. The Federal Circuit's rule provides no offsetting benefit to counterbalance the serious harm that it threatens to one of the national economy's most vibrant sectors. See Bessen & Meurer, *Patent Failure* 8-9 (2008) ("The expected costs of inadvertent infringement imposes a *disincentive* on technology investors. Potential innovators consider not only the reward that they might reap from owning patents, but also the risk of being sued for infringing upon the patents of others. Clearly, if the risk of inadvertent infringement is too great, the net incentives provided by the patent system will be negative, and patents will fail as a property system."); Long, *Information Costs in Patent and Copyright*, 90 Va. L. Rev. 465, 468 (2004) (developers should have "at least enough information to determine where the boundaries of protection lie so as to fulfill their legal duties of avoiding infringement").

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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