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Grokster's Impact on Patent Law: Does It Resolve a Federal Circuit Split?

By Stephen R. Buckingham and Matthew Savare

Much has been written in the legal press over the past few months regarding the impact on copyright law of the US Supreme Court's unanimous *Grokster*¹ decision, which ruled that distributors of peer-to-peer (P2P) file-sharing software can be held liable for their users' copyright infringements. Surprisingly, little to no attention has been paid to the potential impact of *Grokster* on patent law in providing guidance that would settle a longstanding conflict within the Federal Circuit regarding the standard for imposing liability for inducement of patent infringement. Although the *Grokster* case was decided under copyright law, the decision cited many patent cases, and the holding itself was reached by borrowing from patent statutes to set standards under the copyright laws. *Grokster* therefore may ultimately prove controlling in resolving an issue that has vexed patent law for decades and has resulted in conflicting decisions by the Federal Circuit, namely, the level of *mens rea* required for inducement liability under the Patent Act. In two lines of cases, the Federal Circuit has held inconsistently that inducement liability requires proof merely of intent to cause the acts that constitute infringement and, more restrictively, that the defendant also knew that such acts

would constitute patent infringement. *Grokster* suggests that the latter standard is required under the Patent Act.

Active Inducement Liability Under the Patent Act

Unlike the Copyright Act, under which principles of secondary infringement liability have been developed by the courts, the Patent Act includes two specific statutory provisions, 35 U.S.C. §§ 271(b) and 271(c),² which codify secondary liability for causing another to infringe a patent. The inducement statute, § 271(b), provides: "Whoever actively induces infringement of a patent shall be liable as an infringer."

Inducement of infringement is a theory of liability under which a person who does not commit direct patent infringement can be held liable for causing others to commit such infringement. Inducement claims are often asserted against corporate officers and directors personally for directing the infringing acts of their corporate employer. Inducement claims also can be asserted against a parent corporation that causes its subsidiary corporation to commit infringing acts or against corporations that sell non-infringing products to customers who then use the corporation's products in an infringing manner. Inducement claims can be asserted for several purposes, such as to bring deeper-pocket parties into a suit to ensure a judgment is collectible, as a means to sue a competitor that is not itself committing direct infringement, or, in the case of corporate

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officers, to exert pressure personally on business executives making decisions regarding the defense of patent infringement suits.

The Level of Intent Required for Inducement Liability

Section 271(b) by its terms imposes liability upon those who “actively induce” patent infringement, but provides no guidance as to what that term means. Much litigation in the courts has focused on the level of intent that is required on the part of the inducer to become legally liable for the infringement of others. In two conflicting lines of cases, the Federal Circuit and various district courts have followed two disparate standards for the level of intent required to prove active inducement.³

In one line of cases, courts have held that liability may be imposed based merely on proof of intent to cause the acts that constitute infringement, regardless of whether the party had knowledge of the patent in question or of the fact that the acts would constitute patent infringement. This line of cases is perhaps best exemplified by *Moba, B.V. v. Diamond Automation, Inc.*,⁴ in which the Federal Circuit stated unequivocally that the “only intent required of the [defendant] is the intent to cause the acts that constitute infringement.”

In another line of cases, the courts have required a specific intent to cause another party to commit patent infringement. This line of cases is best represented by *Manville Sales Corp. v. Paramount Sys., Inc.*,⁵ in which the Federal Circuit held that:

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. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.

Manville's holding was reaffirmed by a panel of the Federal Circuit in *Ferguson Beauregard/Logic Controls v. Mega Sys., LLC*,⁶ mere months after the *Moba* decision was issued. As recently as this year, the Federal Circuit has acknowledged the inconsistency of its precedents on this issue, stating: “We have construed that statute to require proof of intent, although there is a lack of clarity concerning whether the required intent must be merely to induce the specific acts of infringement or additionally to cause an infringement.”⁷ This split within the Federal Circuit has led to the seemingly

contradictory opinions discussed above and uncertainty in patent litigation.

Because patent infringement judgments are often in the millions of dollars, the lack of clarity in the law of inducement liability can have substantial consequences. The uncertainty manifests itself in that district courts and parties are without clear guidance as to when corporate officers and other parties not accused of direct infringement should be retained as parties, when summary judgment is appropriate, and how juries should be instructed. Confusion in the law also may incline trial courts not to dismiss inducement claims pre-trial and may cause parties accused solely of inducement to incur substantial but ultimately unnecessary legal fees.

In addition, the choice of which conflicting standard will be applied can impact directly on the availability to a party accused of inducement of the defense of good faith reliance on the advice of legal counsel that the activities at issue did not constitute infringement. In *Manville*, for example, the Federal Circuit reversed the judgment of liability for inducement based in large measure on evidence that the defendant had relied in good faith on the advice of patent counsel.⁸ Under the *Moba* standard, however, which requires only knowledge of the acts that constitute infringement and not knowledge that such acts are infringing, good faith reliance on advice of counsel is irrelevant.⁹

A clear and unequivocal definition of the *mens rea* required to prove inducement liability would largely mitigate these uncertainties in patent litigation. The *Grokster* decision provides a clear articulation of the level of intent now required under copyright law. Because the Supreme Court in *Grokster* drew heavily on its understanding and interpretation of patent law in reaching its decision under copyright law and believed that it was extending settled patent law concepts to copyright law by analogy, *Grokster* offers persuasive authority that arguably requires the Federal Circuit to reconcile its internal split and adopt the *Manville* standard for inducement liability under § 271(b).

Sony and Grokster: The Confluence of Copyright and Patent Law

In its landmark 1984 Sony Betamax case,¹⁰ the US Supreme Court borrowed § 271(c) of the Patent Act and applied the concept of contributory infringement to copyright law. Specifically, the Court held that anyone who sells a device that is especially made to infringe a copyright and that has no substantial non-infringing uses is liable for infringement. Although the Court ultimately found that VCRs did have a substan-

tial noninfringing use, namely time-shifting of television programs, it demonstrated its willingness to extend the laws governing patents to copyrights.

More than 20 years later, the Court again drew directly from patent law in deciding an issue of copyright law. In *Grokster*, the Court embraced the doctrine of liability for inducement of infringement, which was developed at common law and codified in § 271(b) of the Patent Act, holding that “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”¹¹ In reaching this conclusion, the Court drew from a body of patent case law in which inducement liability was based on “active steps . . . taken to encourage direct infringement” and “actively and knowingly aid[ing] and abet[ting] another’s direct infringement.”¹² The Court additionally justified the standard that it adopted by citing favorably to the Prosser and Keeton treatise on torts for the proposition that the law tends to “impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong.”¹³ Thus, the Court concluded that inducement liability may be imposed only when a party has acted with the object of promoting copyright infringement as evidenced by “clear expression or other affirmative steps taken to foster infringement.”¹⁴ To leave no doubt that it was setting a high bar for proving inducement liability, the Court concluded that “the inducement rule . . . premises liability on purposeful, culpable expression and conduct.”¹⁵ Applying this standard to the well developed factual record, the Court vacated the Ninth Circuit’s summary judgment in favor of *Grokster* and *StreamCast* and remanded the case, finding that the P2P providers “acted with a purpose to cause copyright violations by use of software suitable for illegal use.”¹⁶

Active Inducement Liability After *Grokster*

In *Grokster*, the Supreme Court did not believe that it was creating a new standard for secondary liability for infringement. Instead, the Court stated that its holding in *Sony* did not automatically preclude a cause of action for inducement liability, which it concluded had already been developed at common law and codified in the Patent Act.

Sony’s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to fore-

close rules of fault-based liability derived from the common law.¹⁷

In borrowing principles of inducement liability from patent law for use under copyright law, the Court cited numerous patent law cases¹⁸ and emphasized that “[i]nducement has been codified in patent law.”¹⁹ As such, the Court’s articulation of the level of intent required to prove inducement liability in a copyright infringement action appears also to set forth quite clearly the Court’s understanding of that concept as it applies under the patent laws. Thus, it is both reasonable and logical to conclude that the intent standard outlined in *Grokster* can and should be applied not only in copyright cases, but in patent cases as well.

Although the Supreme Court in *Grokster* cited neither the Federal Circuit’s *Manville* nor *Moba* decisions, the scienter requirement articulated in *Grokster* implicitly rejects the intent standard enumerated by the Federal Circuit in *Moba* and adopts the more restrictive standard articulated in *Manville*. For example, the Court held that “mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability,” and instead required “purposeful, culpable expression and conduct.”²⁰ Similarly, the Court emphasized that

[e]vidence 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 use²¹

Accordingly, *Grokster* is entirely consistent with the Federal Circuit’s *Manville* decision, in that the Supreme Court held in *Grokster* that plaintiffs seeking to impose inducement liability must prove not only that the defendant induced the acts later held to constitute infringement, but also that the defendant specifically knew and intended that such acts would constitute infringement.

If faced with an inducement case under the patent laws, it is reasonably certain that the Supreme Court would rely on *Grokster* to hold plaintiffs to a burden of proving liability for inducement of patent infringement that is at least as demanding as it determined to be required under copyright law in *Grokster*. Patent infringement defendants should therefore argue

that the low threshold for inducement culpability adopted in the line of cases exemplified by *Moba* was implicitly rejected by the Supreme Court in *Grokster* and that the level of culpability articulated in *Manville* should be applied to any inducement of patent infringement claim.

Conclusion

Grokster has received significant interest from scholars, lawyers, and industry executives, focusing overwhelmingly on how the decision affects copyright law and its intersection with the entertainment and high-technology industries. Equally important, but widely overlooked, is that *Grokster* may have gone a long way toward resolving the longstanding unsettled issue concerning the level of intent required under the patent law to hold a party liable for actively inducing infringement. If the teachings of *Grokster* are applied under patent law, to prove liability for inducement of infringement, a plaintiff will need to prove that the defendant not only intended a third party to perform acts that constituted infringement but also that the defendant had the specific purpose to induce patent infringement. This standard would seem to require both knowledge of the patent in issue, and knowledge that the induced acts infringed such patent.

Notes

1. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 125 S. Ct. 2764 (2005).
2. Section 271(c), which addresses contributory infringement, provides: "Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."
3. The numerous cases comprising these conflicting lines of authority are collected in Donald S. Chisum, Chisum on Patents § 17.04[2], 17-75-17-84 (2005).
4. *Moba, B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1308 (Fed. Cir. 2003). *Moba* stated that it was following the reasoning articulated by the Federal Circuit in *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464 (Fed. Cir. 1990). Read literally, however, *Hewlett-Packard* held only that knowledge of the acts that constitute infringement is a necessary prerequisite to a finding of inducement liability, without holding that such knowledge was by itself sufficient. See 909 F.2d at 1469.
5. *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).
6. *Ferguson Beauregard/Logic Controls v. Mega Sys., LLC*, 350 F.3d 1327, 1342 (Fed. Cir. 2003).
7. *Mercexchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1332 (Fed. Cir. 2005). The US Supreme Court recently granted a petition to review this decision, but not with respect to the issue of inducement liability.
8. 917 F.2d at 553-554.
9. See *SymbolTechnologies, Inc. v. Metrologic Instruments, Inc.*, 771 F. Supp. 1390, 1405 (D.N.J. 1991).
10. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
11. 125 S. Ct. at 2770 (emphasis added).
12. 125 S. Ct. at 2780.
13. *Id.*
14. *Id.*
15. *Id.*
16. *Id.* at 2781.
17. *Id.* at 2779.
18. *Id.* at 2780.
19. 125 S. Ct. at 2780, n.11.
20. *Id.* at 2780 (emphasis added).
21. *Id.* at 2779 (internal quotes and citations omitted) (emphasis added).

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