Inducing Infringement: Specific Intent and Damages Calculation

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And Damages Calculation

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ABSTRACT

This Comment examines recent developments in the area of inducement of patent infringement. Specifically, the Comment addresses the specific intent required for inducement liability to attach and questions relevant to inducement damages calculations. With respect to intent, there has never been, nor is there now unfortunately, clear resolution regarding the intent required to induce patent infringement. Should intent to induce acts that happen to cause patent infringement be enough or must the inducer actually intend to induce patent infringements? The Supreme Court recently determined that the latter intent was most appropriate, but also explained that such intent may be shown through willful blindness. With respect to damages, there are significant proof issues. Specifically, patent infringement damages are typically based on the number of infringing acts. An inducer is liable for the underlying direct infringements, but how can those infringements be proven? For example, if only one small function of a large software program infringes a patent, then how does the patentee prove how many software users carried out the patented function? The Federal Circuit has laid out some guidance. This Comment provides a practical analysis of this guidance and offers advice to practitioners in proving (or refuting) inducement damages.
I. INTRODUCTION

This summer the Supreme Court decided a question that has plagued courts and commentators for nearly sixty years: What state of mind is required for inducement patent infringement liability? In 1952, Congress codified the concept of inducement of patent infringement liability. In 1952, Congress codified the concept of inducement of patent infringement liability.1

1 See Vivian Lei, Is the Doctrine of Inducement Dead, 50 IDEA 875, 875 (2010) (referring to the intent required to establish inducement liability as “unclear”); Eric L. Lane, The Federal Circuit’s Inducement Conflict Resolution: The Flawed Foundation and Ignored Implications of DSU Medical, 6 J. MARSHALL REV. INTELL. PROP. L. 198, 202 (2007) (describing the intent required to induce patent infringement as an open question); Timothy R. Holbrook, The Intent Element of Induced Infringement, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 399, 404...
infringement. Unfortunately, the codification of this offense did not define what specific intent an accused inducer must possess in order for liability to attach. Courts have been struggling to find the required intent since. Two competing views have emerged: (1) the inducer must only possess the intent to induce the acts that constitute patent infringement, or (2) the inducer must possess the intent to induce patent infringement. Both arguments have strengths; both have weakness. Part II of this Comment chronicles the development of the required specific intent for inducing infringement and summarizes the Supreme Court’s resolution of the issue.

Inducement of infringement also poses a problem as far as damages calculation is concerned. Specifically, the inducer does not actually infringe the patent. The inducer merely begins a chain of events that may or may not lead to infringement. Because there is no harm to the patentee without any infringement, how are damages apportioned when a million potentially infringing widgets are sold and there is no indication of how many actual infringements took place? Part III addresses this damages quandary and proffers modest guidance to practitioners seeking to substantiate (or refute) a damages award.

II. **Specific Intent in Inducement Law**

Liability for inducing patent infringement originated in United States courts in 1871.\(^2\) Congress later codified this concept in the Patent Act of 1952 (the “Patent Act”).\(^3\) Section 271 of the Patent Act states that “Whoever actively induces infringement of a patent shall be liable as an infringer.”\(^4\) It is accepted that the phrase “actively induces” requires some level of intent on

\(^2\) *See* Wallace v. Holmes, 29 F. Cas. 74, 79–80 (C.C. Conn. 1871) (No. 17,100) (introducing the concept of inducing infringement). In *Wallace*, the claimed invention was a burner and chimney combined to make a lamp. *Id.* at 79. The defendant sold only the burner but actively encouraged its customers to add the chimney to complete the infringing device. *Id.* 79–80. The court held that even though the defendant had not directly infringed, its actions inducing others to infringe created liability to the patentee:

> It cannot be, that, where a useful machine is patented as a combination of parts, two or more can engage in its construction and sale, and protect themselves by showing, that, though united in an effort to produce the same machine, and sell it, and bring it into extensive use, each makes and sells one part only, which is useless without the others, and still another person, in precise conformity with the purpose in view, puts them together for use.

*Id.* at 80. The hypothetical propounded by the *Wallace* court could by equally applied to the concept of joint infringement. This Comment only addresses inducement of infringement and will not be treating joint infringement.


behalf of the inducer to cause the underlying direct infringement. The exact level of intent required for liability to attach, however, has caused much confusion in the patent world. Two distinct viewpoints have emerged from the confusion: (1) that the inducer must intend the direct infringer to engage in the acts that constitute patent infringement, or (2) that the inducer must intend the direct infringer to engage in patent infringement. The essential distinction is that the

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6 See Lei, supra note 1, at 875 (noting that the “magnitude of intent required to establish [inducement] liability is unclear”).

7 Compare Hewlett-Packard Co. v. Bausch & Lomb, Inc., 909 F.2d 1464, 1469 (Fed. Cir. 1990) (stating that “proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement”), and Brief for Law Professors as Amici Curiae Supporting Respondents at 1, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Jan. 6, 2011) (proffering that the Patent Act and subsequent court decisions “solely require[] specific intent merely to further the acts that constitute[] direct infringement”), with Manville Sales Corp. v. Paramount Sys., 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.”), and Brief for Yahoo! Inc. et al. as Amici Curiae Supporting Petitioners at 13, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Dec. 6, 2010), 2010 WL 4973152 at *13 (hereinafter Brief for Yahoo!) (arguing that the “an inducement infringer must, at a minimum, actually know of the specific patent”).

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latter viewpoint demands that the inducer know or should know that he is encouraging patent infringement; or more simply, it demands that the inducer know something about the patent. The Supreme Court accepted certiorari in *Global-Tech Appliances, Inc. v. SEB, S.A.* to settle the dispute. This section examines progression of the intent requirement in inducement cases and summarizes the Supreme Court’s decision.

A. *The Legislative History Regarding Intent to Induce Infringement*

In 1952, Congress enacted the most recent Patent Act. Before that time there was no statute defining what constituted patent infringement. Pre-1952 courts divided infringement liability into two categories: (1) direct infringement, which consisted of unlawful making, using, or selling of a patented machine or process, and (2) indirect or contributory infringement, which encompassed any other activity that did not technically constitute direct infringement but rose to

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8 See, e.g., DSU Med. Corp. v. JMS Co., Ltd., 471 F.3d 1293, 1304 (Fed. Cir. 2006) (explaining that an inducer must have knowledge of the patent to be liable for active inducement); *Manville Sales*, 917 F.2d at 553–54 (reversing a finding of inducing infringement because accused inducers had no knowledge of the patent).


10 See *infra* notes 11–215 and accompanying text.


a level sufficient to hold the defendant accountable for infringement.\textsuperscript{13} Congress codified these judicially created infringement doctrines in Section 271 of the Patent Act.\textsuperscript{14} Section 271(a) codified the concept of direct infringement.\textsuperscript{15} Sections 271(b), (c), and (d) codified the concept of contributory infringement.\textsuperscript{16} These latter sections had “as their main purpose clarification and stabilization” of the principles of contributory infringement.\textsuperscript{17} In its attempts at stabilization, however, Congress created uncertainty with regard to the specific state of mind, or intent, required to be held liable for inducement of infringement.

\textsuperscript{13} Id. With regard to contributory infringement, see, e.g., Individual Drinking Cup Co. v. Errett, 297 F. 733, 739–40 (2d Cir. 1924) (defining contributory infringement in broad terms). In \textit{Errett}, the Second Circuit provided examples of contributory infringement as it was known at that time, such as, “assisting the infringer by active participation in the sale of the infringing device, or in inducing a person to use an infringing device, in order that the inducer may sell some article used in connection with the device.” Id. at 740.


\textsuperscript{15} See S. Rep. No. 82-1979, at 8 (1952), \textit{as reprinted in} 1952 U.S.C.C.A.N. 2394, 2402 (stating that subsection (a) defines what constitutes patent infringement); \textit{see also} 35 U.S.C. § 271(a) (2006) (“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent.”).

\textsuperscript{16} See S. Rep. No. 82-1979, at 8 (1952), \textit{as reprinted in} 1952 U.S.C.C.A.N. 2394, 2402 (“Paragraphs (b), (c), and (d) relate to the subject referred to as contributory infringement.”).

\textsuperscript{17} S. Rep. No. 82-1979, at 8 (1952), \textit{as reprinted in} 1952 U.S.C.C.A.N. 2394, 2402.
An examination of Sections 271(b) and (c) is warranted to illustrate this uncertainty. As mentioned earlier, Section 271(b) states, “Whoever actively induces infringement of a patent shall be liable as an infringer.” Section 271(c), on the other hand, states that:

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.

Thus, Section 271(c) explicitly requires that the seller know that its customer is infringing a patent. This requires that the seller have knowledge of the patent’s scope. While Section 271(c) does include a knowledge requirement, it does not include an intent requirement.

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18 See S. Rep. No. 82-1979, at 21 (1952), as reprinted in 1952 U.S.C.C.A.N. 2394, 2421 (“Paragraphs (b) and (c) define and limit contributory infringement of a patent and paragraph (d) is ancillary to these paragraphs.”). Section 271(d) is inapplicable to this Comment.
20 Id. The Supreme Court later clarified that to satisfy the knowledge requirement of Section 271(c) the patentee must show 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) (Aro II); see also Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 539 (1953) (stating that the thing sold must be “especially made . . . for use in an infringement and the vendor knows that” as an essential element of contributory infringement liability).
21 Hewlett-Packard Co. v. Bausch & Lomb, Inc., 909 F.2d 1464, 1469 n.4 (Fed. Cir. 1990) (citing Aro II and acknowledging that Section 271(c) requires knowledge of the patent).
Section 271(b), at least on its face, does not have a knowledge requirement. Congress intended this section to broadly encompass those acts, not within the purview Section 271(c), that rise to a level of sufficient culpability to hold the inducer liable for the underlying infringement. But Section 271(b) does not merely require inducement for infringement liability; it requires active inducement. Courts and commentators universally hold that active inducement necessitates some sort of intent.

So where does this leave the casual observer? There is Section 271(c), which requires the seller of a material component of a patented machine to have knowledge of the patent’s reach for contributory infringement liability, but does not require any kind of specific intent. And there

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22 See id. at 1469 (“Section 271(c) . . . made clear that only proof of a defendant's knowledge, not intent, that his activity cause infringement was necessary to establish contributory infringement.” (emphasis in original)).


25 See Water Techs. Corp. v. Calco, Ltd., 850 F.2d 660, 668 (Fed. Cir. 1988) (requiring a showing of intent for inducement liability); Rich, supra note 20, at 537 (“A significant point, and one which differentiates paragraph (b) from paragraph (c), is that in proving a case under (b) the evidence must establish active inducement and that involves intent.” (emphasis added)). The statements of Judge Rich are particularly convincing as co-author of the Patent Act. See A. Samuel Oddi, Assault on the Citadel: Judge Rich and Computer-Related Inventions, 39 HOUS. L. REV. 1033, 1036 (2002) (discussing Judge Rich’s involvement in drafting the Patent Act).

26 See supra notes 19–22 and accompanying text.
is Section 271(b), which requires some sort of specific intent to induce infringement, but does not explicitly require any knowledge of the patent or its coverage or its validity. 27 Thus, the stage was set for the courts to determine the level of intent required for inducement liability. The question was, and remains today: Must the inducer, without knowledge of the patent, simply encourage the acts that constitute patent infringement (the “intent to induce the acts” state of mind), or must the inducer encourage the acts that constitute patent infringement knowing that said acts will result in patent infringement (the “intent to induce infringement” state of mind)?

B. The Case Law Regarding Intent to Induce Infringement

After the codification of contributory infringement, courts struggled with the meaning of “active inducement.” Pre-Federal Circuit 28 cases either did not recognize or at least did not directly address the issue of the requisite intent for inducement. 29 Even the Federal Circuit, established in 1982 30 to bring uniformity to the patent law, contributed to the confusion as to what intent an inducer must possess for inducement liability. 31 Indeed, there were opinions that endorsed the “intent to induce the acts” state of mind, 32 and conversely there were opinions that endorsed the “intent to induce infringement” state of mind. 33 The latter presumably includes

27 See supra notes 23–25 and accompanying text.


29 See infra notes 34–53 (discussing a pre-Federal Circuit case on inducement).


31 See infra notes 55–96 and accompanying text.

32 See infra notes 55–75 and accompanying text.

33 See infra notes 77–96 and accompanying text.
knowledge that the acts of the induced person will amount, as a matter of law, to actionable infringement. Eventually, the Federal Circuit adopted the “intent to induce infringement” state of mind. This section discusses a typical pre-Federal Circuit decision on inducement and subsequent Federal Circuit decisions on the same.

1. *Fromberg, Inc. v. Thornhill*[^34]: The Beginnings of Ambiguity

In *Fromberg* the patentee, Fromberg, Inc. (“Fromberg”), developed a device used to repair a punctured tubeless automobile tire.[^35] The device consisted of two components: (1) a hollow metal tube and (2) a rubber plug inserted inside of the hollow metal tube.[^36] The rubber plug was held inside the metal tube via compression force.[^37] For repairs, the entire Fromberg plug was inserted into the puncture site.[^38] Then, utilizing a specially adapted tool, the hollow metal tube was pulled out leaving the rubber plug in the tire.[^39] Without the constraint of the metal tube, the rubber plug expanded to create a snug seal.[^40] The metal tubes were essentially useless after one tire repair.[^41]

[^34]: 315 F.2d 407 (5th Cir. 1963).
[^35]: *Id.* at 409.
[^36]: *Id.* at 410.
[^37]: *Id.* The Fromberg plug was marketed and sold in this condition; that is, as one piece with the rubber plug inside the tube.
[^38]: *Id.*
[^39]: *Id.* The specially adapted tool was claimed in a separate Fromberg patent. *Id.* at 410 n.6.
[^40]: *Id.* at 410.
[^41]: *Id.*
Thornhill created a device called the “Miracle-Plug.”42 The Miracle-Plug was a tapered rubber plug that could be pulled into a used Fromberg metal tube.43 After pulling the Miracle-Plug all the way through the metal tube and snipping off the tapered end, the resulting product was exactly the same as the Fromberg plug.44 Fromberg sued Thornhill for inducement of infringement and contributory infringement under Sections 271(b) and (c) respectively.45

The Fifth Circuit first noted that the district court findings, or lack thereof, were insufficient to evaluate its ruling with respect to contributory infringement under Section 271(c).46 With regard to inducement of infringement, however, the court held that there was sufficient evidence in the record to hold Thornhill liable as an inducer.47 The Fifth Circuit began its legal analysis by acknowledging three unchallenged facts. First, Thornhill knew that his Miracle-Plug was capable of being used with the Fromberg tubes.48 Second, he knew that a

42 Id.
43 Id. This was an excellent product for automotive repair shops that had several empty Fromberg tubes lying around. Id.
44 Id.
45 Id. at 409.
46 Id. at 410. The court noted the following questions were unanswered:

[W]e do not know what the District Judge concluded as to whether Defendant (a) sold Miracle Plugs for the purpose of being used in empty Fromberg tubes, (b) knew that this was the purpose for which they would actually (as distinguished from theoretically) be used, or (c) whether such plugs are actually suitable for substantial noninfringing use as a staple article.

Id.
47 Id. at 412.
48 Id. at 410.
significant number of Miracle-Plugs were in fact being used with the Fromberg tubes.\textsuperscript{49} In fact on sales calls Thornhill “personally demonstrated how that Plug could be inserted in an empty Fromberg tube to recreate the original device.”\textsuperscript{50} Third, and most importantly for the current discussion, Thornhill knew that the Fromberg device was patented.\textsuperscript{51}

This is a pretty clear case of active inducement. There are two components that, in combination, make the exact patented device. The inducer is actually urging customers to put the components together, with knowledge that the resulting combination is patented. But still, the Fifth Circuit’s summarization of inducement intent leaves questions. For example, the court states that “inducement has connotations of active steps knowingly taken—knowingly at least in the sense of purposeful, intentional, as distinguished from accidental or inadvertent.”\textsuperscript{52} The court further notes that inducement is “as broad as the range of actions by which one in fact causes, or urges, or encourage, or aids another to infringe a patent.”\textsuperscript{53} Unfortunately, these words simply do not evince what the inducer actually has to intend; the infringement or the acts that constitute infringement? This intent issue was not squarely addressed until the formation of the Federal Circuit. The following provides an account of this issue’s development in the Federal Circuit.\textsuperscript{54}

\begin{footnotes}
\footnotetext{49}{\textit{Id.}}
\footnotetext{50}{\textit{Id.} at 412.}
\footnotetext{51}{\textit{See id.} (“[H]e knew [the Fromberg plug] to be patented.”).}
\footnotetext{52}{\textit{Id.} at 411.}
\footnotetext{53}{\textit{Id.}}
\footnotetext{54}{\textit{See infra} notes 55–143 and accompanying text.}
\end{footnotes}

In *Hewlett-Packard* the patented device was an X-Y plotter used to make two-dimensional graphical representations having an X and Y-axis.\(^{56}\) Both Hewlett-Packard (“HP”) and Bausch & Lomb (“B & L”) acquired patent rights on these types of machines.\(^{57}\) An integral characteristic common to each of these devices was a mechanism to hold the paper in place as the plotter drew the graph.\(^{58}\) Both X-Y plotters used pinch rollers to accomplish this.\(^{59}\) B & L’s patent called for at least one of the pinch rollers to have a “surface with a high coefficient of friction formed . . . by a layer of rubber or the like” to aid in keeping the paper in place.\(^{60}\) HP’s patent, on the other hand, taught that covering the pinch roller with silicon carbide grit would be preferred to prevent slippage.\(^{61}\)

B & L began selling X-Y plotters having grit-covered pinch rollers through its subsidiary, Houston Instruments.\(^{62}\) These sales constituted direct infringement of HP’s patent.\(^{63}\) B & L later

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\(^{56}\) *Id.* at 1466.

\(^{57}\) *Id.*

\(^{58}\) *Id.*

\(^{59}\) *Id.*

\(^{60}\) *Id.*

\(^{61}\) *Id.*

\(^{62}\) *Id.* at 1467.

\(^{63}\) See *id.* (discussing B & L’s admission of direct infringement); see also 35 U.S.C. § 271(a) (2006) (explaining that the unauthorized sale of a patented device constitutes direct infringement).
sold Houston Instruments to Ametek, and Ametek continued sales of the infringing plotters.\textsuperscript{64} HP brought suit against B & L alleging (1) direct infringement of its patent for plotter sales occurring before B & L sold Houston Instruments, and (2) active inducement of infringement for Ametek’s plotter sales occurring after B & L sold Houston Instruments.\textsuperscript{65} B & L admitted direct infringement for plotter sales prior to the Houston Instruments sale, but denied liability for active inducement of Ametek’s plotter sales.\textsuperscript{66} B & L argued that its actions surrounding the Houston Instruments sale did not constitute active inducement.\textsuperscript{67} The district court agreed with B & L with respect to the inducement issue and, thus, B & L was not liable as an inducer for plotter sales subsequent to the sale of Houston Instruments and HP appealed.\textsuperscript{68}

The Federal Circuit began its analysis with a brief synopsis surrounding the historical development of active inducement.\textsuperscript{69} Noting that the actual level of intent required was unresolved, the Federal Circuit made the often quoted statement, “[W]e are of the opinion that proof of actual intent to cause the acts which constitute the infringement is a necessary

\textsuperscript{64} Hewlett-Packard, 909 F.2d at 1467.

\textsuperscript{65} Id.

\textsuperscript{66} Id. While B & L admitted to direct infringement, it defended itself on grounds that the HP patent was invalid for obviousness in light of B & L’s patent. Id. This defense ultimately failed and the HP patent was held valid and infringed with respect to the direct infringement charge. Id. at 1467–68.

\textsuperscript{67} Id. at 1467.

\textsuperscript{68} Id.

\textsuperscript{69} Id. at 1468–69.
prerequisite to finding active inducement.” The court decided that B & L did not possess this intent in selling Houston Instruments to Ametek.

More precisely, B & L was “merely interested in divesting itself of Houston Instruments at the highest possible price.” B & L was solely interested in getting rid of Houston Instruments rather than encouraging Ametek to perpetuate patent infringement. This was true even though B & L knew of HP’s patent.

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71 Hewlett-Packard, 909 F.2d at 1469–70.

72 Id. at 1469.

73 See id. (stating that B & L “certainly did not care one way or the other whether Houston Instruments, under Ametek’s ownership, continued to make grit wheel plotters”).

74 Id. The purchase agreement under which the sale to Ametek took place specifically provided, inter alia, that (1) Ametek would have a license under B & L’s X-Y plotter patent, and (2) B & L would indemnify Ametek against liability for infringement of the HP X-Y plotter patent up to $4.6 million. Id. at 1467. Thus, B & L certainly had knowledge of the HP patent. The court struggled with the question of whether the indemnification clause itself was sufficiently probative of intent to induce infringement. See id. at 1470 (referring to the indemnification clause as “troubling”). Ultimately the court concluded that the clause’s primary purpose was to facilitate the sale of Houston Instruments rather than induce Ametek to infringe HP’s patent. Id.
And thus, the “intent to induce the acts” state of mind requirement was born. But is it fair to say that the court was announcing the entirety of the specific intent required for inducement of infringement with the “necessary prerequisite” language, or only part of it? The “necessary prerequisite” statement merely addresses one aspect of the intent requirement; a minimum intent threshold, which the defendant in this case did not possess and thus, the court went no further. Indeed, at least two judges on the Federal Circuit explained later that although intent to induce the acts was necessary, it was not “sufficient” for a finding of inducement.\textsuperscript{75} If, however, \textit{Hewlett Packard} did create the “intent to induce the acts” state of mind requirement, then it was largely contradicted only months later the next time the Federal Circuit addressed the specific intent required for inducement of infringement.\textsuperscript{76}

3. \textit{Manville Sales Corp. v. Paramount Systems, Inc.}\textsuperscript{77}: Intent to Induce Infringement

In \textit{Manville Sales}, Manville Sales Corp. (“Manville”) had developed and patented a self-centering mechanism for a street light assembly.\textsuperscript{78} The self-centering mechanism allowed for

\textsuperscript{75} See DSU Med. Corp. v. JMS Co., Ltd., 471 F.3d 1293, 1311 (Fed. Cir. 2006) (Michel, J. & Mayer, J., concurring) (“[The patentee] misreads \textit{Hewlett-Packard} as if we had said ‘proof of actual intent to cause the acts which constitute the infringement is a necessary and sufficient prerequisite to finding active inducement,’ but we did not.” (emphasis in original)).

\textsuperscript{76} See infra notes 77–96 and accompanying text.

\textsuperscript{77} Manville Sales Corp. v. Paramount Sys., Inc. 917 F.2d 544 (Fed. Cir. 1990).

\textsuperscript{78} \textit{Id.} at 547–49. These particular types of streetlights consisted of a pole with the light assembly attached. \textit{Id.} at 547. The light assembly consisted of several lights extending radially from the pole in a circular pattern. \textit{Id.} at 548 fig.1.
unhindered travel of the light assembly up and down the pole to which it was attached.\textsuperscript{79} This was desired because maintenance on the light assembly was accomplished much more conveniently on the ground than high up in the air.\textsuperscript{80} The self-centering mechanism prevented the light assembly from becoming stuck somewhere along the pole when it was being lowered or raised for maintenance.\textsuperscript{81} Manville began marketing its technology to state Departments of Transportation across the country.\textsuperscript{82}

A Paramount Systems, Inc. ("Paramount") representative, Anthony DiSimone, procured a picture of Manville’s device from the Florida Department of Transportation.\textsuperscript{83} He and two other persons from Paramount, Robert Butterworth and Ralph Bloom, used the picture to make a similar self-centering device for use in Paramount products.\textsuperscript{84} Manville sued Paramount for direct infringement of its patent.\textsuperscript{85} Manville also sued DiSimone and Butterworth in their personal capacities alleging that they had induced Paramount’s direct infringement.\textsuperscript{86}

The Federal Circuit began its inducement analysis by recognizing that corporate officers assisting their corporation's infringement may be personally liable for inducement of

\textsuperscript{79} Id. at 547.
\textsuperscript{80} Id.
\textsuperscript{81} Id.
\textsuperscript{82} Id. at 548–49.
\textsuperscript{83} Id. at 549.
\textsuperscript{84} Id.
\textsuperscript{85} Id.
\textsuperscript{86} Id.
infringement. The court further explained, however, that a plaintiff alleging inducement must show that “the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.” It specifically rejected the notion that knowledge of the acts alleged to cause infringement was sufficient for inducement liability. Applying this standard the court noted that DiSimone and Butterworth did not have knowledge of Manville’s patent until the suit was filed. Without further elaboration, the court absolved DiSimone and Butterworth from inducement liability holding that they did not possess “specific intent to cause another to infringe.”

The Manville decision essentially created the “intent to induce infringement” state of mind requirement, which implicitly required that the inducer have at least some sort of knowledge about the patent. Thus, there were arguably two conflicting levels of intent announced by the Federal Circuit within months of each other. Surprisingly, the conflict was

87 Id. at 553. (citing Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565, 1578–79 (Fed. Cir. 1986)).

88 Manville Sales, 917 F.2d at 553. Interestingly, among other decisions, the court cited to Hewlett-Packard as substantiation of the above assertion. Id.

89 See id. (“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.”).

90 Id.

91 Id.

92 See id. (requiring “specific intent to cause another to infringe”).

93 Hewlett-Packard was decided July 30, 1990. Manville Sales was decided October 23, 1990.
not resolved in that court until over sixteen years later. In the interim, there were several decisions in the district courts, and even in the Federal Circuit, following one standard over the other. Recognizing the split, the Federal Circuit attempted to settle the matter in *DSU Medical Corp. v. JMS Co., Ltd.*

4. *DSU Medical Corp. v. JMS Co., Ltd.: That Sets It (or does it?)*

In *DSU*, DSU Medical Corp. (“DSU”) was the assignee of a patent claiming a “guarded, winged-needle assembly.” Medisystems Corp., owned by DSU, manufactured and sold the patented device under the product names, MasterGuard and PointGuard. The accused infringing device, the Platypus Needle Guard, was manufactured by ITL Corp. Pty, Ltd. (“ITL”)

94 *See infra* notes 97–117 and accompanying text (discussing *DSU Medical*).

95 Compare *Moba, B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1318 (Fed. Cir. 2003) (“[T]he only intent required of [the defendant] is the intent to cause the acts that constitute infringement.”), *and CVI/Beta Ventures, Inc. v. Tura LP*, 905 F.Supp. 1171, 1196 (E.D.N.Y. 1995), *rev’d on other grounds*, 112 F.3d 1146 (Fed. Cir. 1997) (“[I]nducement does not require intent to cause another to infringe a patent, but focuses instead upon the intent to cause another to commit acts which constitute patent infringement.”), *with Anton/Bauer, Inc. v. PAG, Ltd.*, 329 F.3d 1343, 1348 (Fed. Cir. 2003) (quoting *Manville Sales* for the proposition that the inducer must intend to cause infringement), *and L.A. Gear, Inc. v. E.S. Originals, Inc.*, 859 F. Supp. 1294, 1300 (C.D. Cal. 1994) (“[T]here must also be a specific intent to encourage infringement of the patent.”).

96 471 F.3d 1293 (Fed. Cir. 2006).

97 *Id.* at 1297. The purpose of the invention was to prevent inadvertent needle prick injuries. *Id.*

98 *Id.* at 1298.
and sold in the United States by JMS Co. Ltd. ("JMS"). 99 DSU sued ITL and JMS accusing each of direct infringement and further alleging that each induced the other to infringe. 100

At the district court, the jury returned a verdict that JMS had induced its North American subsidiary to infringe, but cleared ITL of any inducement liability. 101 On appeal DSU challenged the district court’s jury instructions regarding inducement. 102 Specifically, DSU claimed that the district court instructed the jury in accordance with the specific intent required in Manville Sales when it should have used the standard set forth in Hewlett-Packard. 103

The Federal Circuit addressed the matter en banc. 104 The court quickly embraced the “intent to induce infringement” state of mind requirement set forth in Manville Sales and subsequently affirmed the district court’s jury instructions. 105 The court further explained that “[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the

99 Id. at 1298–99.
100 Id. at 1299.
101 Id. at 1302.
102 Id. at 1304.
103 Id. at 1304–05.
104 Id. at 1304. Section III.B, titled “RESOLUTION OF CONFLICTING PRECEDENT” was the only portion of the opinion considered en banc. Id.
105 Id. In fact, the court quoted Manville Sales directly in its recitation of the standard. See id. (explaining that the plaintiff must prove “‘the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements’” (quoting Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 554 (Fed. Cir. 1990))).
The court justified its choice of the “intent to induce infringement” standard over the “intent to induce the acts” standard by citing to a number of its own opinions\(^{107}\) as well as the

\(^{106}\) *Id.* (emphasis added). This statement sent shockwaves throughout the patent law community. See, e.g., Lei, *supra* note 1, at 883 (positing that DSU may have “killed the doctrine of inducement”); Shawn G. Hansen, *Perspectives on U.S. Patent Reform: The Next Steps are Crucial*, ASPATORE, 2009 WL 535244, at *8 (2009) (citing DSU for the proposition that patentee rights in the area of inducement had been “[s]eriously curtailed”). Indeed, there is a level of uncertainty and ambiguity in the phrase “knew of the patent.” This phrase could mean that the inducer (1) knows the patent exists, (2) knows the inducing activities fall within the scope of a particular claim(s) of the patent, (3) knows that any applicable claim is valid, or (4) has no reason to believe that any applicable claim is invalid. This imprecision was recognized by one amici in the matter when it was pending before the Supreme Court. See Brief for Google, Inc. as Amicus Curiae Supporting Petitioners at 23–24, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Dec. 6, 2010), 2010 WL 5043107 at *23–24 (hereinafter Brief for Google) (arguing that “knowledge that a patent exists tells companies little about the possibility of infringement”).

\(^{107}\) *See DSU*, 471 F.3d at 1304–05 (citing Golden Blount, Inc. v. Robert H. Peterson Co., 438 F.3d 1354, 1364 n. 4 (Fed. Cir. 2006), Water Techs. Corp. v. Calco, Ltd., 850 F.2d 660, 668 (Fed. Cir. 1988), and Warner-Lambert Co. v. Apotex Corp., 316 F.3d 1348, 1363 (Fed. Cir. 2003)).
Supreme Court decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.* A summary of *Grokster* in the inducement context is appropriate to elucidate the Federal Circuit’s reasoning.

*Grokster* is a copyright case. There, a conglomerate of copyright holders ("MGM") sued Grokster, Ltd. and StreamCast Networks, Inc. (collectively “Grokster”) for “knowingly and intentionally distrib[ing] [Grokster’s] software to enable users to reproduce and distribute . . . copyrighted works.” In other words, MGM claimed that Grokster was inducing copyright infringement by providing peer-to-peer software that allowed its users to copy music, movies, etc. from one another in violation of copyright laws.

The Court recognized that although the Copyright Act did not supply liability for indirect copyright infringement, the common law provided for such liability if the accused induced direct infringement or profited from direct infringement. In illustrating the standard for inducing copyright infringement, the Court turned to patent law. It seemed to endorse the “intent to induce infringement” state of mind requirement rather than the “intent to induce the acts” state of

108 545 U.S. 913 (2005). *Grokster* is an important case for a number of reasons. Indeed, a search of Westlaw reveals that the opinion has been cited over eight hundred times in journals and law reviews. This Comment merely focuses on the inducement aspect of *Grokster* and more specifically, the Federal Circuit’s justification of the DSU decision under *Grokster*.

109 *Grokster*, 545 U.S. at 920.

110 *Id.* at 921.

111 *Id.*

112 *Id.* at 930. Note that liability for profiting from direct infringement only attaches if the accused has the power to stop the infringement yet declines to do so. *Id.*

113 *Id.* at 935–36 (discussing inducement of patent infringement).
mind requirement. For example, after explaining that it had adopted patent law’s inducement standard, the Court held “that one who distributes a device with the object of promoting its use to infringe copyright . . . is liable for the resulting acts of infringement by third parties.”

Furthermore, and perhaps most illustrative, the Court explained:

[M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

The above quote tends to show that there must be something more than a mere intent to induce the acts that constitute patent infringement. Indeed, in the second sentence the Court specifically states the mere supportive acts are not enough. Thus, it appears that the DSU court was on solid footing adopting the “intent to induce infringement” state of mind requirement, but it may have strayed by including that such a state of mind “necessarily” includes knowledge of the patent. The Federal Circuit backpedaled slightly from this knowledge necessity in SEB, S.A. v. Montgomery Ward & Co., Inc. where it answered the question of how much knowledge of the patent an inducer actually has to have before it inducement liability can attach.

\[114\] Id. at 936–37.

\[115\] Id. at 937 (emphasis added).

\[116\] See supra text accompanying note 115.

\[117\] DSU Med. Corp. v. JMS Co., Ltd., 471 F.3d 1293, 1304 (Fed. Cir. 2006).


In SEB, SEB S.A. (“SEB”) owned a patent directed to deep fryer for use in the home.\textsuperscript{119} The point of novelty for the SEB fryer is that it incorporates an inexpensive outer shell that remains cool to the touch during frying operations.\textsuperscript{120} Global-Tech Appliances, Inc., through its subsidiary Pentalpha Enterprises, Ltd. (collectively “Pentalpha”), manufactured and sold deep fryers infringing the SEB fryer to United States corporations such as Sunbeam Products, Inc. (¨Sunbeam¨), Fingerhut Corp. (¨Fingerhut¨), and Montgomery Ward & Co., Inc. (¨Montgomery Ward¨).\textsuperscript{121} SEB sued Pentalpha and Montgomery Ward in the Southern District of New York alleging direct infringement against both parties and inducement of infringement against Pentalpha.\textsuperscript{122} The jury returned a verdict that Pentalpha was liable for both willful infringement and inducement of infringement.\textsuperscript{123} After denial of its Motion for Judgment as a Matter of Law (JMOL), Pentalpha appealed.\textsuperscript{124}

Pentalpha’s argument with regard to inducement liability was that the district court erred in denying its JMOL motion because Pentalpha “had no actual knowledge of the patent during

\textsuperscript{119} Id. at 1365.

\textsuperscript{120} Id. Fryers of the past had outer shells that remained cool to the touch, but at a much higher cost than SEB’s design. Id.

\textsuperscript{121} Id. at 1366. Neither Sunbeam nor Fingerhut were parties to the litigation. Id. SEB had sued Sunbeam in separate litigation for direct infringement and the matter settled for $2 million. Id.

\textsuperscript{122} Id. at 1365. This Comment focuses only on the inducement charge against Pentalpha.

\textsuperscript{123} Id.

\textsuperscript{124} Id.
part of the time it was selling deep fryers to Sunbeam." And that was true. The Federal Circuit noted that the district court had observed in motion proceedings that “there [was] no evidence that Pentalpha was aware of the [] patent” during the time period at issue. In light of the DSU “knowledge of the patent” requirement Pentalpha appeared to have a valid argument; that is, if knowledge of the patent is necessary for inducement liability, then a showing of no knowledge should exonerate an inducement defendant. Nevertheless, the Federal Circuit affirmed the district court’s denial of Pentalpha’s JMOL motion and allowed the inducement liability to stand based on the peculiar circumstances in this case.

First, and perhaps foremost, Pentalpha had purchased one of SEB’s fryers in Hong Kong and copied its design to make the infringing Pentalpha fryer. Second, Pentalpha hired a patent

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125 Id. at 1373. It is important to clarify the time period of sales at issue. As mentioned in note 121, SEB had sued Sunbeam earlier for direct infringement and the matter subsequently settled. Id. at 1366. Pentalpha learned of the Sunbeam action on April 9, 1998. Id. Thus, when Pentalpha argued that it did not have the requisite knowledge of the SEB patent required for inducing infringement, that argument was only in reference to those sales to Sunbeam occurring prior to April 9, 1998. Id. at 1366–67. Incidentally, all sales of infringing fryers to Montgomery Ward and Fingerhut occurred after Pentalpha had knowledge of the Sunbeam action. Id. at 1366.  

126 Id. at 1367 (internal quotations omitted).

127 See supra note 106 and accompanying text.

128 SEB, 594 F.3d at 1377–78.

129 Id. at 1366. The SEB fryer purchased did not have a U.S. patent mark. Id. at 1378.
attorney in Binghamton, New York, a relatively small town, to conduct a “right-to-use study.” Third, Pentalpha did not tell the patent attorney retained that it had developed its fryer by copying the SEB fryer. Fourth, there was evidence that John Sham, Pentalpha’s president, had familiarity with the U.S. patent system and previous experience with SEB in the patent context. The Federal Circuit examined all of these circumstances and determined that Pentalpha “deliberately ignored the risk” of the SEB patent’s existence.

The court justified this apparent departure from the DSU “knowledge of the patent” requirement with a discussion of “knowledge” in general. The court recognized the DSU

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130 The U.S. Census Bureau reported that Binghamton, NY had a population of 47,380 in 2000, about one year after the suit was filed. U.S. Census Bureau, State & County QuickFacts, http://quickfacts.census.gov/qfd/states/36/3606607.html (last visited Feb. 19, 2011). The district court noted the strangeness of Pentalpha, a Hong Kong corporation, seeking legal advice from such a small market locale. See SEB, 594 F.3d at 1367 (“‘There are a zillion patent attorneys in New York City [yet] [t]hey go to this guy in the middle of nowhere to do this patent search.’” (quoting statements of Robinson, J. from the district court record)).

131 Id. at 1366. A “right-to-use study” involves giving a patent attorney a product and asking him or her to provide an opinion as to whether or not the product infringes any patents. Id.

132 Id.

133 See id. at 1377 (noting that Sham was the “named inventor on 29 U.S. patents and that Pentalpha and SEB had an earlier business relationship that involved one of Pentalpha’s patented steamer products”).

134 Id. at 1378.

135 See id. at 1376–77 (discussing “knowledge” in other legal contexts).
knowledge requirement, but further explained that DSU did not “set out the metes and bounds” of the knowledge required.\textsuperscript{136} The court then cited numerous cases where evidence of active disregard to a known risk or deliberate indifference had been sufficient to impute the requisite knowledge or specific intent to the defendant.\textsuperscript{137} The Federal Circuit concluded that these doctrines could be used in the inducement context to impute knowledge of the patent to Pentalpha in the instant case.\textsuperscript{138}

Pentalpha argued that application of these doctrines would be inappropriate because the DSU court did not say “know or should have known” about the patent; it said “know” about the patent.\textsuperscript{139} The Federal Circuit countered by explaining that deliberate indifference or deliberately disregarding a known risk are not “should have known” standards; they are

\textsuperscript{136} Id. at 1376. Additionally, the Federal Circuit noted that the purpose of DSU was to resolve the conflict between the “intent to induce the acts” and “intent to induce infringement” state of mind requirement; it was not to determine the scope of the knowledge requirement. Id.; see also DSU Med. Corp. v. JMS Co., Ltd., 471 F.3d 1293, 1311 (Fed. Cir. 2006) (Michel, J. concurring) (“[W]e write to make clear that we do not set forth a new standard here as to what satisfies the “knowledge of the patent” requirement in cases brought under 35 U.S.C. § 271(b).”). Because the record showed that the DSU defendant had actual knowledge of the patent, there was no need to address the knowledge requirement. See SEB, 594 F.3d at 1376 (citing DSU, 471 F.3d at 1311 (Michel, J. concurring)).

\textsuperscript{137} See id. at 1376–77 (discussing cases).

\textsuperscript{138} Id.

\textsuperscript{139} Id. at 1376.
alternatives to proving actual knowledge. So it appears that knowledge of the patent must still be proven under the requirement of DSU, but such knowledge can be imputed to a deliberately indifferent defendant under proper circumstances.

The Federal Circuit closed its “knowledge of the patent” discussion by stating that even this opinion did not set forth the “outer limits” of the knowledge required. Perhaps situations existed where constructive knowledge plus other details would be sufficient for inducement liability. The Supreme Court granted certification to evaluate this reasoning of the Federal Circuit. The following section explains the arguments on both sides of the issue, discusses oral arguments at the Supreme Court, and summarizes the Supreme Court’s conclusion.

140 Id. at 1376–77; see also United States v. Carani, 492 F.3d 867, 873 (7th Cir. 2007) (“Deliberate avoidance is not a standard less than knowledge; it is simply another way that knowledge may be proved.”); Woodman v. WWOR-TV, Inc., 411 F.3d 69, 84 n.14 (2d Cir. 2005) (“We note that a party's knowledge of a disputed fact may also be proved through evidence that he consciously avoided knowledge of what would otherwise have been obvious [to] him.”).

141 SEB, 594 F.3d at 1378.

142 See id. (using “constructive knowledge with persuasive evidence of disregard for clear patent markings” as an example).

C. Resolution of the Issue at the Supreme Court

The requisite state of mind for inducement liability is an important question and attracted the attention of numerous amici.144 In general, Pentalpha and its supporters argued that “deliberate indifference” is not enough to give rise to inducement liability, and instead, actual knowledge of the patent should be required.145 SEB, as one might expect, argued that actual knowledge should not be required and that whatever lesser scienter requirement the Supreme


145 See infra notes 149–163 and accompanying text.
Court fashions inevitably captures Pentalpha’s actions. SEB’s supporters, however, sought a more drastic change in inducement liability law and advocated for a return to the “intent to induce the acts” state of mind requirement of *Hewlett Packard*. This section outlines these arguments, discusses oral arguments at the Supreme Court, and summarizes the Supreme Court’s conclusion.

1. **Arguments Supporting Pentalpha**

Pentalpha, as petitioner, argued that the correct standard for inducing infringement should be “purposeful, culpable expression and conduct” as stated by the Supreme Court in *Grokster*. And this makes sense. After all, the Supreme Court in *Grokster* seemed to be articulating what it believed to be the state of mind required for inducement of infringement in patent law, even though *Grokster* was a copyright infringement case. While Pentalpha’s argument regarding the proper inducement standard is consistent with prior case law, it fails to explain why its

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146 See infra notes 166–191 and accompanying text.

147 See, e.g., Brief for AIPLA, supra note 70, at 9 (“The appropriate standard should be consonant with the approach taken by the Federal Circuit in *Hewlett-Packard.*”).

148 See infra notes 149–215 and accompanying text.


150 See *Grokster*, 545 U.S. at 937 (stating that it would adopt patent law’s “sensible” inducement rule for copyright).
conduct was not purposeful or culpable. For example, Pentalpha purposefully copied SEB’s fryer, and it purposefully withheld that it copied the fryer from the attorney conducting the “right-to-use study.” Furthermore, Pentalpha failed to clarify why the Federal Circuit’s “deliberate indifference” standard does not fit the “purposeful, culpable” standard of the Supreme Court. Indeed, both “deliberate” and “purposeful” are listed as synonyms for the word “intentional” in a leading thesaurus. In sum, Pentalpha tried to make its arguments contiguous with Supreme Court jurisprudence, but, in doing so, it did little to persuade the court that inducement liability does not exist in this case.

151 See Brief for Petitioners, supra note 149, at 14 (presuming that “[a] fortiori an accused inducer cannot engage in ‘purposeful, culpable expression and conduct’ without actual knowledge of the patent”). In other words, Pentalpha appears to be arguing that “purposeful, culpable” requires actual knowledge of the patent, but such logic does not necessarily follow. In fact, none of the defendant’s found liable in Grokster had knowledge of the specific copyrights infringed. Brief for Respondent at 14, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Dec. 30, 2010), 2010 WL 5488407 at *14 (hereinafter Brief for Respondent) (recognizing this fact).


153 See id. at 13 (concluding, without support, that deliberate indifference is a lower standard than “purposeful, culpable expression and conduct”).

Supporters of Pentalpha made more policy-based arguments, asserting that broad inducement liability poses a serious threat to legitimate and beneficial commercial enterprise. These are valid concerns as Google, Inc. explains:

[I]n the field of information technology, thousands of patents potentially are pertinent to a given technology. The cost to search for a patent may be $5,000 or more. Small companies unable to afford the costs of searching may withhold new products or product features out of concern for patent risks; and large technology companies that introduce hundreds of new products and services each year cannot reasonably be expected to rundown every rabbit hole in search of potentially relevant patents.

Several other amici made similar assertions. Further, and perhaps even more persuasively, many technology companies create products that have a multitude of non-infringing uses in

155 See Brief for Google, supra note 106, 20–23 (arguing that “deliberate indifference” places an extraordinary burden on technology companies).

156 Id. at 22–23 (internal citations omitted).

157 See, e.g., Brief for Yahoo!, supra note 7, at 17–18 (explaining that companies would have to research a “dizzying number of patents” at staggering costs); Brief for Comcast Corp. et al. as Amici Curiae Supporting Petitioners at 29, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Dec. 6, 2010), 2010 WL 4973147 at *29 (hereinafter Brief for Comcast) (“Few innovators possibly could scrutinize all potential uses of all existing company products and compare them with every conceivably relevant patent without draining resources from actual innovation.”) (emphasis in original); Brief for NewEgg, Inc. as Amicus Curiae in Support of Petitioners at 6–7, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Dec. 2, 2010), 2010 WL 4954356, at *6-7 (hereinafter Brief for NewEgg) (“[A]n Internet retailer now must fear that the launch of its retail website may also have represented the launch of an ill-defined duty to
addition to an infringing use. The amici convincingly argued that the Federal Circuit’s deliberate indifference standard might require a company to not only assess whether its purported use constitutes infringement of a patent, but also to assess whether all possible uses of a product might constitute infringement.\textsuperscript{158} Such a burden would be cost prohibitive to innovation,\textsuperscript{159} contravening the patent system’s objective “to promote the progress of . . . useful arts.”\textsuperscript{160}

know something about the approximately 200,000 patents that cover software, an estimated 11,000 of which cover some aspect of the Internet.”).

\textsuperscript{158} See Brief for Comcast, \textit{supra} note 157, at 29 (asserting that companies would have to research all potentially infringing uses to avoid inducement liability); \textit{see also} Brief for Cisco Sys. Inc. et al. as Amici Curiae Supporting Reversal at 17, \textit{Global-Tech Appliances, Inc. v. SEB, S.A.}, No. 10-06 (U.S. Dec. 6, 2010), 2010 WL 5043106 at *17 (explaining how easily large manufacturers may be subjected to inducement liability under a broad standard). Cisco elucidates potential dangers of broad inducement liability, “[I]f 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 . . . any manufacturer that supplied a portion of the system or method used by the direct infringer.” \textit{Id.}

\textsuperscript{159} See Brief for Yahoo!, \textit{supra} note 7, at 18 (discussing the cost of opinion letters). Yahoo! explains that companies will often enlist patent attorneys to draft opinion letters regarding a product or process infringing a specific patent. \textit{Id.} A letter assessing one patent can cost up to $100,000. \textit{Id.} Yahoo! argues that the Federal Circuit deliberate indifference standard may widen the universe of required research to an unworkable level. \textit{See id.} (“Envision now a comprehensive patent search covering all aspects of how a product functionality \textit{might be used by others} . . . and the legal costs could easily reach into the millions.” (emphasis in original)).
Most of the amici supporting Pentalpha, however, made one questionable assumption in offering these doomsday predictions; they all seem to equate deliberate indifference with negligence. But there is no reason to believe that this is the case. To the contrary, the Federal Circuit specifically articulated that it was not announcing a negligence-based standard. The court explained that “deliberate indifference” in the context of inducement liability was a substitute for actual knowledge of the patent rather than a mechanism for imposing “should have known” liability on commercial innovators. Moreover, these policy-based arguments are

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161 U.S. CONST. art. 1, § 8, cl. 8. Some posit that the risk of inadvertent patent infringement imposes a significant “disincentive” to invest in technology. JAMES BESSEN & MICHAEL JAMES MEURER, PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK 9 (Princeton University Press 2008); see also id. (“[I]f the risk of inadvertent infringement is too great, the net incentives provided by the patent system will be negative.”).

161 See, e.g., Brief for Yahoo!, supra note 7, at 11 (asserting that even though the Federal Circuit said deliberate indifference, it applied negligence); Brief for NewEgg, supra note 157, at 5 (declaring the Federal Circuit standard as “negligence based on ‘deliberate indifference’”). Some go as far as arguing that a deliberate indifference standard is more problematic than a negligence standard. Brief for Google, supra note 106, at 16 (“[D]eliberate indifference would impose liability under a standard less exacting than negligence.” (internal quotations omitted)).


163 See id. at 1376–77 (clarifying that deliberate indifference is a “form of actual knowledge”).
exactly that; based in policy, not in law. Amici supporting Pentalpha may have a more receptive audience in the House of Representatives than in the Supreme Court. Indeed, there are more compelling legally based arguments concluding “deliberate indifference” is a generous standard of liability for Pentalpha’s supporters.\textsuperscript{164} The following section explores some of these arguments made by SEB and its supporting amici.\textsuperscript{165}

2. Arguments Supporting SEB

SEB began its argument by explaining that there is nothing in Section 271(b) or its legislative history to indicate that inducing infringement requires actual knowledge of the patent as Pentalpha proposes.\textsuperscript{166} If anything, the statutory structure of Section 271 as a whole gives credence to the proposition that the “intent to induce the acts” state of mind requirement of \textit{Hewlett-Packard}\textsuperscript{167} was correct all along.\textsuperscript{168} The logic is as follows. Section 271(a) creates liability for direct infringement\textsuperscript{169} and direct infringement is a strict liability offense.\textsuperscript{170} Section 271(b) was enacted to create aider and abettor liability for those who are not direct infringers, but

\textsuperscript{164} \textit{See infra} notes 166–178 and accompanying text (explaining these legal arguments).

\textsuperscript{165} \textit{See infra} notes 166–202 and accompanying text.

\textsuperscript{166} Brief for Respondent, \textit{supra} note 151, at 18.

\textsuperscript{167} \textit{See supra} notes 69–75 and accompanying text.

\textsuperscript{168} \textit{See infra} notes 169–173 and accompanying text.

\textsuperscript{169} \textit{See} 35 U.S.C. § 271(a) (2006) (creating liability for anyone who “makes, uses, offers to sell, or sells any patented invention”).

\textsuperscript{170} \textit{Aro Mfg. Co. v. Convertible Top Replacement Co.}, 377 U.S. 476, 484 (1964) (\textit{Aro II}) (“[I]t has often and clearly been held that unauthorized use, without more, constitutes infringement.”).
under the circumstances, are likewise culpable. Thus, there is a rational argument that an inducer under Section 271(b) must have the same knowledge of the infringement required of a direct infringer under 271(a)—none. In other words, the “actively induces” language of

171 See S. Rep. No. 82-1979, at 8 (1952), as 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.”).

172 In the criminal context, it is almost always the case that the aider/abettor must share the same mental state as the actual perpetrator. See, e.g., Appleton v. U.S., 983 A.2d 970, 977 (D.C. 2009) (“[A] defendant needs to have the mens rea required of the underlying crime in order to be convicted of the crime as an aider and abettor.”). But this theory might not hold up in the context of strict liability offenses. See Keating v. Hood, 922 F. Supp. 1482, 1491 (C.D. Cal. 1996) (stating that there is an “inherent impossibility of aiding and abetting a strict liability offense”). Nevertheless, there are areas of tort law, such as products liability, that impose broad strict liability on tangential defendants. See RESTATEMENT (THIRD) OF TORTS: PRODS. LIABILITY § 1 cmt. e (“Liability attaches even when such nonmanufacturing sellers or distributors do not themselves render the products defective and regardless of whether they are in a position to prevent defects from occurring.”). The answer might be clearer if active inducement was characterized explicitly as either (1) a form of direct infringement or (2) indirect infringement—separate from direct infringement. Then it would be practical to conclude that inducing infringement and direct infringement should share, or not share, the same mental state. Alas, there is no resolution here either. Compare Hewlett-Packard Co. v. Bausch & Lomb, Inc., 909 F.2d 1464, 1469 (Fed. Cir. 1990) (Rich, J.) (referring to active inducement as “a type of direct infringement” (emphasis added)), with Rich, supra note 20, at 537 (“Reliance on paragraph (b)
Section 271(b) might mean that an inducer need only encourage acts which happen to constitute direct infringement rather than encourage those acts with knowledge that infringement is likely to occur. Many amici in support of SEB posited this exact outcome.\footnote{See Brief for AIPLA, supra note 70, at 9 ("[T]he appropriate standard should be consonant with the approach taken by the Federal Circuit in \textit{Hewlett-Packard}."); Brief for Hoffman-La Roche Inc. et al. as Amici Curiae Supporting Respondent at 17, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Jan. 6, 2011) ("Under a straightforward reading, the text of \$ 271(b) imposes liability on any person who actively induces another to perform acts that constitute patent infringement under \$ 271(a).")} 

SEB also brings to light an inherent conflict with Pentalpha’s “actual knowledge of the patent” proposal in the context of damages. The Patent Act provides for enhanced damages in the judge’s discretion up to triple the amount of the jury award.\footnote{See 35 U.S.C. \$ 284 (2006) ("[T]he court may increase the damages up to three times the amount found or assessed.")} It has long been the case that damages may only be enhanced for willful infringement.\footnote{In re Seagate Tech., LLC, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (explaining that willful infringement was the “well-established” standard for enhanced damages).} A showing of objective recklessness on the part of the defendant is sufficient to support willfulness.\footnote{See \textit{id.} at 1371 (announcing the minimum threshold for willfulness as objective recklessness).} Under Pentalpha’s requirement for “actual knowledge of the patent,” every inducer would also be liable as a willful

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\item as a basis for liability is in itself a clear indication that the party held liable is not a \textit{direct} infringer and if he is to be called any kind of an infringer there is no applicable recognized term except "contributory infringer." (emphasis in original)).
\end{itemize}

\footnote{173 See Brief for AIPLA, supra note 70, at 9 ("[T]he appropriate standard should be consonant with the approach taken by the Federal Circuit in \textit{Hewlett-Packard}."); Brief for Hoffman-La Roche Inc. et al. as Amici Curiae Supporting Respondent at 17, Global-Tech Appliances, Inc. v. SEB, S.A., No. 10-06 (U.S. Jan. 6, 2011) ("Under a straightforward reading, the text of \$ 271(b) imposes liability on any person who actively induces another to perform acts that constitute patent infringement under \$ 271(a).").}

\footnote{174 See 35 U.S.C. \$ 284 (2006) ("[T]he court may increase the damages up to three times the amount found or assessed.").

\footnote{175 In re Seagate Tech., LLC, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (explaining that willful infringement was the “well-established” standard for enhanced damages).

\footnote{176 See \textit{id.} at 1371 (announcing the minimum threshold for willfulness as objective recklessness).}
infringer; that is, every inducement case would have the potential to result in enhanced damages.\textsuperscript{177} Such an interpretation would thwart congressional intent to provide different damage awards for different levels of culpability.\textsuperscript{178}

Notwithstanding these statutory interpretation arguments tending to show that intent to induce the acts constituting infringement is sufficient for inducement, SEB also offered the Court three higher states of mind that the it could adopt.\textsuperscript{179} Not surprisingly, SEB wins under all

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\textsuperscript{177} See Brief for Respondent, supra note 151, at 23 (recognizing this fact). SEB also notes that it was suggested that “actively induces” be replaced with “willfully induces” in committee hearings near in time to the drafting of the Patent Act. \textit{Id.} at 26–28. This suggestion was rejected. \textit{Id.} at 26; see also Hamdan v. Rumsfeld, 548 U.S. 557, 579-80 (2006) (“Congress's rejection of the very language that would have achieved the result the Government urges here weighs heavily against the Government's interpretation.”) (plurality opinion).

\textsuperscript{178} See Trans World Airlines, Inc. v. Thurston, 469 U.S. 111, 127–28 (discussing the consequences of a broad willfulness standard in another context). In \textit{Thurston}, Trans World Airlines, Inc. (TWA) was sued under the Age Discrimination and Employment Act of 1967 (ADEA). \textit{Id.} at 114. The ADEA provides for double damages in the case of “willful” violations. \textit{Id.} The plaintiffs argued that willfulness required a showing that the “employer simply knew of the potential applicability of the ADEA.” \textit{Id.} at 128. The Court rejected this interpretation as overly broad concluding that the “standard proposed by [plaintiffs] would result in an award of double damages in almost every case” and would frustrate the intent of Congress to provide a “two-tiered liability scheme.” \textit{Id.}

\textsuperscript{179} See Brief for Respondent, \textit{supra} note 151, at 47 (listing three alternative states of mind for inducement liability).
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three. First, SEB, like Pentalpha, argues that the “purposeful, culpable expression or conduct” standard of *Grokster* could control.\(^{180}\) Unlike Pentalpha, however, SEB asserts that Pentalpha’s conduct easily fits under the *Grokster* parameters for inducement liability.\(^{181}\)

Second, SEB contended that evidence of willful blindness supports imposing inducement liability.\(^{182}\) SEB equated “willful blindness” with the “deliberate indifference” standard announced at the Federal Circuit.\(^{183}\) Willful blindness has no universally accepted definition but it can generally be stated that under the willful blindness doctrine, knowledge of a fact may be imputed to the defendant if he is “aware of a high probability” of the fact and “consciously and deliberately trie[s] to avoid learning about this fact.”\(^{184}\) In other words, if an inducer must have knowledge that his acts are encouraging actual infringements, then an inducer who was willfully

\(^{180}\) *See id.* at 29–30 (discussing Pentalpha’s conduct in the context of *Grokster*).

\(^{181}\) *Id.* at 30. SEB further asserts that Pentalpha was in fact more culpable than the defendants in *Grokster*. *See id.* at 32–33. (“Grokster merely sold a product with the knowledge and intent that others would use it to infringe, Pentalpha purposely and directly infringed itself and then deceived other innocent third parties into doing the same.”).

\(^{182}\) *Id.* at 33–34.

\(^{183}\) *See id.* at 38–39 (explaining that no matter what language the Federal Circuit used, its basis for affirming the district court was willful blindness).

\(^{184}\) United States v. Stadtmauer, 620 F.3d 238, 257 (3d Cir. 2010); *see also* United States v. Svoboda, 347 F.3d 471, 480 (2d Cir. 2003) (“[K]nowledge consciously avoided is the legal equivalent of knowledge actually possessed.”).
blind to the existence of an applicable patent would be deemed to have such knowledge.\textsuperscript{185} Pentalpha was willfully blind to the existence of SEB’s patent because (1) Pentalpha copied SEB’s fryer and (2) Pentalpha did not inform its attorney that it had copied SEB’s fryer.\textsuperscript{186}

Third, and finally, SEB offered the Court a standard tailored specifically to this case. SEB proposes that if there is evidence of copying a particular product in a foreign country, then the copier has the affirmative duty to ascertain whether a United States patent protects the copied product before selling the copy in the United States.\textsuperscript{187} Pentalpha would still be liable under this narrow knowledge of the patent requirement because it copied, but did not perform a patent search regarding, the SEB fryer.\textsuperscript{188}

In sum, SEB’s brief suggests that inducement of infringement might require no knowledge of the patent, but focuses more on standards that the Supreme Court may adopt that conform closely to how inducement liability has evolved in case law.\textsuperscript{189} Pentalpha’s brief and,

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\textsuperscript{185} United States v. One 1973 Rolls Royce, 43 F.3d 794, 808 (3d Cir. 1994) (“[W]illful blindness is a subjective state of mind that is deemed to satisfy a scienter requirement of knowledge.”).
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\textsuperscript{186} Brief for Respondent, \textit{supra} note 151, at 36.
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\textsuperscript{187} Brief for Respondent, \textit{supra} note 151, at 47.
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\textsuperscript{188} \textit{Id.}
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\textsuperscript{189} \textit{Supra} notes 166–188 and accompanying text. After all, SEB is just trying to win its case and is not particularly interested in changing the substantive law. When asked by Justice Sotomayer at oral argument “[W]hat do you think the rule should be...?” counsel for SEB replied “With respect, my client doesn’t care --(Laughter.)-- as long as the result is at the end, the opinion is affirmed.” Transcript of Oral Argument at 51, Global-Tech Appliances, Inc. v. SEB S.A., 563
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more persuasively, Pentalpha’s amici briefs focus on the negative commercial consequences that broad inducement liability might impose.\textsuperscript{190} The Supreme Court heard oral argument on February 23, 2011.\textsuperscript{191} The following section summarizes the issues discussed.

3. Oral Argument at the Supreme Court

One thing is certain; the Supreme Court had its work cut out for it. Both the legislative history and case law regarding inducement is paradoxical to say the least. For example, Congress stated that inducement liability attaches to one who “aids and abets” the strict liability tort of direct infringement signaling that the inducer need have no knowledge of the infringement.\textsuperscript{192} Nevertheless, P.J. Federico, a primary author of the Patent Act,\textsuperscript{193} seemed to say the exact opposite when discussing the interaction between Sections 271(b) and 271(c)\textsuperscript{194}:

\textsuperscript{190} Supra notes 150–163 and accompanying text.

\textsuperscript{191} Transcript, supra note 189, at 1.

\textsuperscript{192} S. Rep. No. 82-1979, at 8 (1952), as reprinted in 1952 U.S.C.C.A.N. 2394, 2402. But note that the exact same Congress referred to contributory infringement as “an expression both of law and morals.” \textit{Id.} Referring to morals does not exactly mesh with strict liability.


\textsuperscript{194} Recall that Section 271(c) applies only to non-staple commodities that are not suitable for a substantial noninfringing use. \textit{See} 35 U.S.C. § 271(c) (2006) (stating that the thing sold must be “not a staple article or commodity of commerce suitable for substantial noninfringing use”).
Paragraphs (b) and (c) are independent as written but, in connection with the sale of such things as staple articles and commodities of commerce suitable for substantial noninfringing use, which fall within the specific exception of paragraph (c), clearly something more than mere knowledge of an intended infringing use would have to be shown to make out a case of active inducement under paragraph (b).

Federico explicitly states the knowledge of the infringing use is not enough in such a situation. Furthermore, Giles Rich, the other principal drafter of the Patent Act, referred to active inducement as “a type of direct infringement” in case law, but explicitly stated that inducers could not be called direct infringers in commentary. The case law is muddled with confusing intent standards like “intent to induce the acts” or “intent to induce the infringement” and “knowledge of the patent” or “deliberate indifference” as to the existence of the patent. So what is a High Court to do?

The Supreme Court, justifiably, had many concerns about the rule they were to fashion. There was general consensus on at least two points. First, actual knowledge of the patent and infringement is too narrow a burden for patentees. Second, the justices were concerned about


197 Rich, supra note 20, at 537 (explaining that a party liable for active inducement was “not a direct infringer” (emphasis in original)).

198 See supra notes 55–143 and accompanying text.

199 See Transcript, supra note 189, at 4 (statement of Ginsburg, J.) (positing that an actual knowledge of infringement standard would be “impossible to meet”); see also id. at 5 (statement
their ruling’s effect on commerce. 200 Otherwise, it was extremely difficult to predict how the justices would come out. There were several justices that seemed intrigued by SEB’s proposed willful blindness standard. 201 Additionally, the justices appeared reluctant to simply transfer the “purposeful, culpable” standard of Grokster from copyright law to patent law. 202

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200 See id. at 14 (statement of Roberts, C.J.) (criticizing a standard that would “bring the semiconductor industry to a halt”). There was actually a bit of levity during the proceedings when Justice Scalia explained, “[W]e’re not going to adopt a special rule for the deep-fryer industry.” Id. at 15. Chief Justice Roberts followed by stating, “But we might decide that it’s more important to consider what’s going to happen to the semiconductor industry in articulating our standard than what’s going to happen to the deep-fryer industry.” Id.

201 See id. at 51 (statement of Breyer, J.) (proposing a willful blindness standard articulated as “consciously disregarding a known risk where the risk consists of a high probability that that item that you are inducing to be produced will infringe a patent”); id. at 9 (statement of Sotomayor, J.) (asking counsel for Pentalpha to evaluate Pentalpha’s conduct under a willful blindness standard); id. at 16 (statement of Kagan, J.) (“[S]uppose I think that actual knowledge of a patent or willful blindness as to whether a patent exists is the right standard.”).

202 See id. at 43 (statement of Scalia, J.) (expressing reservations about the prospect of applying Grokster “wholesale” to patent law).
4. **The Supreme Court Decision: Willful Blindness.**

Ultimately, the Supreme Court determined that willful blindness was the proper minimum state of mind for inducement of patent infringement liability. The Court began by traipsing through the muddled case law and legislative history regarding the topic. Much of this analysis proved inconclusive. Nevertheless the Court, like the Federal Circuit, found that intent to induce actual infringements was the proper standard for inducement liability, but also held that deliberate indifference to a known risk was an improper standard to show this intent.

Interestingly, the Court settled this question through analysis of the relationship between Section 271(b) and Section 271(c). Recall that Section 271(c) covering contributory infringement explicitly requires knowledge of infringement, while Section 271(b) covering inducement does not. The Court resolved that because Section 271(b) and (c) were born out of the same pre-Patent Act judicial doctrine of “contributory infringement,” both statutes should

\[203\] See Global-Tech Appliances, Inc. v. SEB, S.A., 563 U.S. ___, slip op. at 13 (2011) (holding the doctrine of willful blindness applicable to “civil lawsuits for induced patent infringement”).

\[204\] See id. at 4–9 (discussing many of the same issues elucidated in Parts A and B of this paper).

\[205\] See id. at 4 (finding the text of section 271(b) to be “inconclusive”); id. at 5 (referring to the relevant case law as “less clear than one might hope”).

\[206\] Id. at 10.

\[207\] Id. at 9–10.

\[208\] See Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U. S. 476, 488 (1964) (Aro II) (requiring that a contributory infringer must know that the specially designed component is both “patented and infringing”).

\[209\] See notes 18–27 and accompanying text (discussing these two statutes).
have the same knowledge requirement. Thus, the Court held that “induced infringement under [Section] 271(b) requires knowledge that the induced acts constitute patent infringement.” Thus, under both the Federal Circuit and Supreme Court decisions, “knowledge” (or an adequate substitute for knowledge) that the induced acts will result in patent infringements is required.

The Supreme Court opinion, however, differs from the Federal Circuit’s decision in determining what an adequate substitute for “knowledge” might be. More precisely, the Federal Circuit announced that deliberate indifference to a known risk satisfies the knowledge requirement. The Supreme Court held that this was too broad, however, and that willful blindness was a more appropriate minimum standard of knowledge. The Court determined that willful blindness was the equivalent of knowledge and may be established through a showing of (1) subjective belief in a high probability that a fact exists and (2) deliberate actions taken to avoid learning that fact. The Court then explained that a mere “known risk” would not satisfy the subjective belief required in prong (1) and that “deliberate indifference” would not

210 Global-Tech Appliances, Inc. v. SEB, S.A., 563 U.S. ___, slip op. at 10 (2011) (“It would thus be strange to hold that knowledge of the relevant patent is needed under §271(c) but not under §271(b.”)). This argument, however, has an equally compelling counterargument; that is, why would Congress include the word “knowing” in Section 271(c) and omit it in 271(b) if it intended the same culpable mental state for each.

211 See id. at 10–14 (comparing the “deliberate indifference to a known risk” standard articulated by the Federal Circuit with the “willful blindness” standard announced by the Supreme Court).

212 See id. at 10 (rejecting deliberate indifference to a known risk and adopting willful blindness).

213 Id. at 13. The Court determined that these requirements gave “willful blindness an appropriately limited scope that surpasses recklessness and negligence.” Id. at 14.
satisfy the “active efforts” required in prong (2).\textsuperscript{214} Therefore the Federal Circuit standard painted with too broad a brush in the eyes of the Supreme Court. Nevertheless, the Federal Circuit ruling was affirmed because the Supreme Court found that there was sufficient evidence to uphold the verdict under its new willful blindness standard.\textsuperscript{215}

Inducement of infringement is a concept that has puzzled courts and lawmakers for decades. Nearly sixty years have passed since the adoption of the most recent Patent Act, but the state of mind required for inducement has just been resolved. The commercial industry believed that such a minimal intent requirement would grind innovation to a halt.\textsuperscript{216} The Supreme Court, sensitive to the plight of commercial innovators, fashioned a standard for inducement liability that nearly requires knowledge that the induced acts constitute patent infringement allowing

\textsuperscript{214} Id. at 14.

\textsuperscript{215} Id. One of course wonders what this new standard will require. The requirement of a high probability that a fact is exists is sound. That is, there is always a “known risk” that something might be patented. Something more should be required for inducement liability. But the distinction between active efforts instead of deliberate indifference is a little less clear. In this case, the Federal Circuit states that Pentalpha was deliberately indifferent by failing to disclose that it copied the SEB fryer to its patent attorney. The Supreme Court, however, characterizes this same withholding as an affirmative act. In the future, there may be issue regarding what exactly is a “deliberate action” required for the second prong of willful blindness.

\textsuperscript{216} And the commercial industry might by right. Recently, in \textit{i4i Ltd. Partnership v. Microsoft Corp.}, 598 F.3d 831 (Fed. Cir. 2010), the Federal Circuit upheld a $200 million damages award based on Microsoft’s contributory infringement and inducement of infringement. \textit{i4i}, 598 F.3d at 857. That is quite a hefty penalty, even for Microsoft.
willful blindness to be substituted for knowledge in appropriate circumstances. Only time will tell how the willful blindness standard will effect inducement of patent infringement lawsuits. It was certainly a difficult question with a jumbled history, but the Supreme Court appears to have attempted in earnest to be faithful to the case law and statutory text in articulating its decision.

Damages is another area of inducement law with significant questions. The following section summarizes the state of the law on inducement damages.217

III. DAMAGES IN INDUCEMENT LAW

The Patent Act provides for compensatory damages to the patentee when there is a finding of infringement.218 Damages in any case are based on one or a combination of damages models: (1) lost profits, (2) an established royalty, or (3) a reasonable royalty.219 To a certain extent, the damages award, regardless of the damages model, is intertwined with the pervasiveness of infringement.220 An inducer of infringement is jointly liable with the direct infringer for the infringement.221

217 Infra Part III.

218 See 35 U.S.C. § 284 (2006) (providing for damages “adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer”). Section 284 also allows a judge to treble the damage award at her discretion. Id. This Comment only addresses the compensatory aspect of inducement damages.

219 See 5 CHISUM ON PATENTS, § 20.03 (enumerating these classes of damages). This Comment focuses only on lost profits and reasonable royalty damages with respect to inducement liability.

220 See Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660, 671 (Fed. Cir. 1988) (explaining that proving lost profits requires as showing that the patentee would have made additional sales “but for” the infringer’s activities); Georgia-Pacific Corp. v. United States Plywood Corp., 318
A damages substantiation problem arises when there is a finding of inducement of infringement, but there is no way to tell the prevalence of underlying direct infringement.\(^{222}\) For

\(^{222}\) See Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 500 (1964) (Aro II) (referring to an indirect infringer as a “species of joint-tortfeasor”); Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464, 1469 (Fed. Cir. 1990) (discussing the origins of inducement and explaining that “[s]uch liability was under a theory of joint tortfeasance, wherein one who intentionally caused, or aided and abetted, the commission of a tort by another was jointly and severally liable with the primary tortfeasor”); see also, e.g., Fuji Photo Film Co., Ltd. v. Jazz Photo Corp., 394 F.3d 1368, 1372 n.3 (Fed. Cir. 2005) (affirming judgment when "the district court held [the inducer] jointly and severally liable with the [the direct infringer]"); Sensonics, Inc. v. Aerosonic Corp., 81 F.3d 1566, 1576 (Fed. Cir. 1996) ("Mr. Frank is liable for inducement to infringe[ ] and jointly and severally liable for the judgment.").

\(^{222}\) The proof required to established inducement liability is vastly different than proof required to justify an inducement damage award. Compare Moleculon Research Corp. v. CBS, Inc., 793 F.2d 1261, 1272 (Fed. Cir. 1986) (finding that evidence of extensive sales coupled with instructions on how to solve the Rubik’s cube was sufficient to establish inducement liability) with Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1334–35 (Fed. Cir. 2009) (vacating a damage award where there were extensive sales but “[n]o evidence describ[ing] how many...users had ever performed the patented method or how many times”); see also Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc., 1 Fed. App’x 879, 882 (Fed. Cir.
example, say Company A is the owner of patent claiming a process by which individual computer users program an autocorrect function in a word processing program for misspelled words, abbreviations, etc. Now, assume that Company B markets a word processing program providing end users the ability to program an autocorrect function through Company A’s claimed process. Company B’s product is wildly successful and sells over a million copies. Company A sues for inducement of infringement and Company B is liable. But what are the damages? How many infringements actually took place? It cannot be that every purchaser of Company B’s program used the individualized autocorrect function. Conversely, it is equally improbable that no purchasers used the function. This section examines proof of lost profits and reasonable royalty damages in different inducement of infringement scenarios.223

A. Proving Lost Profits

A pre-Federal Circuit decision, Panduit Corp. v. Stahlin Brothers Fibre Works, Inc.,224 announced a four-factor test for proving lost profits damages.225 The Panduit test required the patentee to establish: “(1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) manufacturing and marketing capability to exploit the demand; and (4) the amount of the profit it would have made.”226 While the Federal Circuit recognizes the utility

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223 See infra notes 224–309 and accompanying text.

224 575 F.2d 1152 (6th Cir. 1978).

225 See id. at 1156 (discussing the four factors).

226 See Rite-Hite Corp. v. Kelley Co., Inc. 56 F.3d 1538, 1545 (Fed. Cir. 1995).
of the Panduit factors, today the actual test for proving lost profits damages is more simply stated, “To recover lost profits damages, the patentee must show a reasonable probability that, ‘but for’ the infringement, it would have made the sales that were made by the infringer.” The following cases provide guidance as to how the Federal Circuit applies the “but for” test with respect to inducement of infringement.

In Standard Havens Products, Inc. v. Gencor Industries, Inc., Standard Havens Products, Inc. (“Standard”) was the assignee of a patent claiming a method for producing asphalt. Standard had enlisted the assistance of a Gencor Industries, Inc. (“Gencor”) subsidiary in designing an asphalt plant capable of carrying out the claimed method. Shortly thereafter, Gencor marketed and sold an asphalt plant known as the Ultraplant, which Gencor’s

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227 Id. (explaining that the Panduit factors are a useful way for a patentee to establish lost profits damages).

228 Id. In Rite-Hite, the Federal Circuit made clear that Panduit was not the only way that a patentee may prove lost profits damages:

Panduit is not the sine qua non for proving “but for” causation. If there are other ways to show that the infringement in fact caused the patentee’s lost profits, there is no reason why another test should not be acceptable. Moreover, other fact situations may require different means of evaluation, and failure to meet the Panduit test does not ipso facto disqualify a loss from being compensable.

Id. at 1548.

229 953 F.2d 1360 (Fed. Cir. 1991).

230 Id. at 1363.

231 Id. at 1365.
customers used to perform Standard’s claimed method. Standard sued Gencor for inducement of infringement.

The district court found Standard’s patent valid and infringed and that Gencor was liable for inducing infringement. The jury awarded Standard $5,931,000 for lost profits associated with the sale of ten Gencor Ultraplants. Gencor appealed to the Federal Circuit alleging, *inter alia*, that the damage award was not supported by substantial evidence.

The Federal Circuit agreed that Standard’s patent was valid and infringed. Moreover, the court noted that the Panduit factors were established; that is, the Federal Circuit upheld the inference that “but for” Gencor’s inducement, Standard would have made the sales that resulted in infringement. Despite this finding, the Federal Circuit vacated the district court’s damage award. Recall the damage award was based on inducement of infringement stemming from the sales of ten Ultraplants. At trial Gencor had produced evidence that three of the ten

232 *Id.*

233 *Id.*

234 *Id.*

235 *Standard Havens*, 953 F.2d at 1372.

236 *Id.*

237 *See id.* at 1367–72 (detailing Federal Circuit findings regarding validity and infringement).

238 *See id.* at 1373 (disagreeing with Gencor’s assertion that the jury erred in its finding that there were no noninfringing substitutes to Standard’s asphalt plant).

239 *Id.* at 1374.

240 *Supra* note 235 and accompanying text.
asphalt plants sold were not capable of infringing.\textsuperscript{241} Additionally, one of the sales was to a foreign customer that never practiced the claimed method in the United States.\textsuperscript{242} With respect to these four sales, the Federal Circuit explained, “[T]here can be no inducement of infringement or contributory infringement under [the statute] in the absence of direct infringement.”\textsuperscript{243} Accordingly, the Federal Circuit vacated the damage award and remanded to the district court with instructions to award lost profits on six versus ten infringing sales.\textsuperscript{244}

The Standard Havens reasoning was applied recently in \textit{Golden Blount, Inc. v. Robert H. Peterson Co.\textsuperscript{245}} There, Golden Blount, Inc. (“Golden Blount”) was the owner of a patent disclosing a fireplace assembly.\textsuperscript{246} Robert H. Peterson Co. (“Peterson”) sold a combination of prepackaged fireplace parts that, when assembled in accordance with Peterson’s instructions, infringed a variety of claims in the Golden Blount patent.\textsuperscript{247} Golden Blount sued Peterson for direct infringement as well as contributory infringement and inducement of infringement.\textsuperscript{248} The

\textsuperscript{241} Standard Havens, 953 F.2d at 1374. Without belaboring the technical details, Standard’s claimed method required a “counter flow” asphalt plant, while these three Gencor plants operated “parallel flow.” \textit{Id.}

\textsuperscript{242} \textit{Id.}

\textsuperscript{243} \textit{Id.}

\textsuperscript{244} \textit{Id.}

\textsuperscript{245} 438 F.3d 1354 (Fed. Cir. 2006).

\textsuperscript{246} \textit{Id.} at 1359.

\textsuperscript{247} \textit{Id.} at 1360.

\textsuperscript{248} See \textit{id.} at 1360–61 (recounting the district court findings with respect to these allegations).
district court found Peterson liable on all allegations. Applying the “but for” analysis and using the Panduit factors as a guide, the district court awarded Golden Blount lost profits damages in the amount of $429,256.

On appeal, the Federal Circuit upheld the district court’s ruling with respect inducement liability. Furthermore, the court approved of the district court’s application of the Panduit factors to find that (1) there was sufficient demand for the fireplace, (2) there were no noninfringing substitutes; (3) Golden Blount could meet the demand; and (4) Golden Blount had shown its profits per sale. Nevertheless, the court vacated the district courts damages award and remanded for further findings.

249 Id.

250 Id. at 1371.

251 Id. at 1364–65. Interestingly, the Federal Circuit relied primarily on the Hewlett-Packard “intent to induce the acts” state of mind requirement in affirming the district court. See id. at 1364 (“[T]he only intent required of [defendant] is the intent to cause the acts that constitute infringement.” (internal citations and quotations omitted)).

252 See id. at 1370–72 (“[W]e find no clear error in the district court’s application of Panduit and calculation of lost-profit damages.”). Additionally, the district court had determined that Golden Blount and Peterson controlled 95% of the market. Id. at 1370. Thus it was fair to assume that any sale of a potentially infringing fireplace by Peterson could be counted as a lost sale of Golden Blount. Id.

253 Id. at 1373.
The issue was that retailers had returned 802 fireplace assemblies to Peterson. 254 There was no evidence in the record showing whether these 802 fireplaces had been assembled prior to their return. 255 Relying on Standard Havens, the Federal Circuit reinforced the concept that lost profits damages cannot be recovered for sales that did not result in direct infringement. 256 The Federal Circuit summarized its damages logic as follows: “If 802 [fireplaces] were returned before assembly into an infringing configuration, there would be 802 fewer acts of direct infringement and Peterson would be liable for 802 fewer acts of . . . inducing infringement. If there were 802 fewer acts of . . . inducing infringement, Golden Blount would have lost 802 fewer sales.” 257 The district court was instructed to perform an inquiry as to how many, if any, of the 802 fireplaces were assembled into an infringing combination prior to return and adjust the damages award accordingly. 258

Both Standard Havens and Golden Blount are relatively easy cases to understand. They endorse the idea that even though a “but for” analysis indicates that lost profits damages are warranted, if the defendant is an inducer, then there must also be a showing that potentially infringing sales resulted in actual direct infringements. That is, if the defendant can show that a

254 Id. at 1372.
255 Id.
256 See id at 1373. (analogizing Standard Havens to Golden Blount and explaining “[a]lthough the patentee in each case argues that there is a lost sale on which it is entitled to a lost profit, there can be no cognizable lost sale on which to base a damages award under the patent laws without an act of infringement to warrant it”).
257 Id.
258 Id.
portion of the sales did not result in direct infringement, then to award lost profits on those sales would be unreasonable. Yet, these cases deal with concrete facts; four asphalt plants, 802 returned fireplaces. What is the law in the harder cases? For example, what happens when the potentially infringing product can operate over a large range, but operation in only part of that range is patent protected? An intermediate case between Standard Havens and Golden Blount may provide some guidance.259

In Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.260, Chiuminatta Concrete Concepts, Inc. (“Chiuminatta”) sued Green Machine Corporation (“GMC”) for inducing infringement of its patent.261 Chiuminatta’s patent claimed a method for cutting “soft” concrete before hardening.262 More specifically, the claims required that the concrete be cut after a specific point in the hardening process.263 GMC manufactured a concrete cutting saw known as the Green Machine capable of cutting soft concrete at the hardness level specified in

259 See Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc., 1 Fed. App’x 879, 883–84 (Fed. Cir. 2001) (unpublished op.) (requiring the patentee to show a connection between the sales of potentially infringing devices and the direct infringements to recover lost profits).

260 1 Fed App’x 879 (Fed. Cir. 2001).

261 Id. at 881.

262 Id. at 881–82.

263 U.S. Patent No. 4,889,675 col. 18, lines 18–24 (“[T]he cutting step occurring when the concrete has a hardness such that a 1.125 inch diameter steel rod with a flat end, and weighing about 5.75 pounds, would cause an indentation in the surface of the concrete of about 1/32 to 1/2 of an inch when the rod is dropped from a height of about 24 inches above the surface of the concrete.”).
Chiuminatta’s patent.\textsuperscript{264} The Green Machine was also capable of cutting soft concrete \textit{before} the hardness level specified in the patent.\textsuperscript{265} In fact, GMC advertised that its Green Machine could cut concrete in a range hardness levels; part of the range falling outside the claimed method, part of the range falling within the claimed method.\textsuperscript{266} Chiuminatta sued GMC alleging that GMC had induced its customers to infringe by selling the Green Machine and encouraging its use in a manner that infringed Chiuminatta’s patent.\textsuperscript{267}

GMC was found liable as an inducer.\textsuperscript{268} In granting Chiuminatta’s motion for partial summary judgment with respect to damages, the district court determined that Chiuminatta was entitled to lost profits for each and every sale of the GMC Green Machine; that is, Chiuminatta would have sold one of its saws, the SOFF-CUT, but for each sale of the Green Machine.\textsuperscript{269} Referring to the \textit{Panduit} factors, the district court found that (1) there was demand for soft concrete cutting saws, (2) the only competitor to the Green Machine was the Chiuminatta SOFF-CUT, (3) Chiuminatta was capable of meeting the increased demand without the Green Machine

\begin{itemize}
\item \textquote{Chiuminatta, 1 Fed. App’x at 881.}
\item \textquote{Id. at 882.}
\item \textquote{Id.}
\item \textquote{Id. at 881.}
\item \textquote{See id. at 882 (citing to a prior decision affirming the district court’s determination of the GMC’s inducement liability).}
\item \textquote{Chiuminatta Concrete Concepts Inc. v. Cardinal Indus., Inc., No. 95-4995, 1998 WL 766705, at *6 (C.D. Cal. Sep. 3, 1998) (“[T]he undisputed evidence of record establishes that each sale of a Green Machine saw . . . deprived Chiuminatta of one SOFF-CUT® saw sale and the necessary replacement parts.”).}
\end{itemize}
in the market, and (4) Chiuminatta’s profit margin was established with certainty.\textsuperscript{270} GMC appealed the district court’s grant of summary judgment on damages to the Federal Circuit.\textsuperscript{271}

The Federal Circuit agreed with the district court’s assessment of the \textit{Panduit} factors, but disagreed with its application in the inducement context.\textsuperscript{272} GMC had argued that it was inappropriate to assess damages based on each sale of the Green Machine because it was never sufficiently established that each Green Machine user practiced Chiuminatta’s patented method.\textsuperscript{273} The Federal Circuit essentially agreed explaining:

[[\text{If not every sale leads to an instance of infringement, it logically follows that not every lost sale profit should be compensated by the party inducing infringement. Therefore, in cases in which there is a question whether every sale leads to an instance of direct infringement, a patentee must . . . establish the connection between sales and direct infringement.}]\textsuperscript{274}]

The court quickly mentioned that it was not announcing a requirement that patentees like Chiuminatta prove a “one-to-one correspondence between units sold and directly infringing customers” in inducement cases.\textsuperscript{275} It is also important to remember that the Federal Circuit was reviewing a grant of summary judgment where all reasonable inferences should be resolved in favor of the nonmoving party.\textsuperscript{276}

\textsuperscript{270} \textit{Id.}

\textsuperscript{271} \textit{Chiuminatta}, 1 Fed. App’x at 881.

\textsuperscript{272} \textit{See id.} at 883–84 (discussing the \textit{Panduit} factors and inducement).

\textsuperscript{273} \textit{Id.} at 883.

\textsuperscript{274} \textit{Id.} at 883–84.

\textsuperscript{275} \textit{Id.} at 884

\textsuperscript{276} \textit{See id.} at 883 (citing Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 255 (1986)). At trial the president of GMC testified that the majority of saw blades sold to accompany the Green Machine
Practically speaking there are a couple takeaways from the *Standard Havens, Golden Blount*, and *Chiuminatta*. First, in a situation like *Standard Havens* or *Golden Blount* where the only reasonable use of the infringing product infringes one or more claims of its patent, then the patentee may rely on the inducer’s sales as quantitative evidence of the number of direct infringements. Even in this situation, however, the patentee must be careful to ensure that there were no irregularities with the inducer’s sales giving rise to an argument that particular sales did not result in direct infringement. Conversely, the inducer may be able to vastly reduce its inducement liability if it can come forth with persuasive evidence that not every sale resulted in direct infringement. Second, in a situation analogous to *Chiuminatta* where the potentially infringing product has infringing as well as noninfringing uses, the prudent patentee would be wise to put forth some plausible evidence substantiating the number of direct infringements that the lost profits damages award seeks to compensate.²⁷⁷ The following section discusses proof of reasonable royalty damages in the inducement context.²⁷⁸

²⁷⁷ Perhaps the patentee could perform customer surveys, focus groups, etc. The point is that the patentee should probably do something to justify its assertion of direct infringement or else it is in danger losing its lost profits damages award.

²⁷⁸ *See infra* notes 279–310 and accompanying text.
B. Proving a Reasonable Royalty

Even in a straightforward, direct infringement patent case, the reasonable royalty calculation can be complex. In 1970, the United States District Court for the Southern District of New York in Georgia-Pacific Corp. v. U.S. Plywood Corp., announced fifteen factors to be considered when making a reasonable royalty calculation. The fifteen factors are: (1) royalties the patentee has received for licensing the patent to others; (2) rates paid by the licensee for the use of comparable patents; (3) the nature and scope of the license; (4) any established policies or marketing programs by the licensor to maintain its patent monopoly by not licensing others to use the invention or granting licenses under special conditions to maintain the monopoly; (5) the commercial relationship between the licensor and licensee, such as whether they are competitors; (6) the effect of selling the patented specialty in promoting sales of other products of the licensee; (7) the duration of the patent and license term; (8) the established profitability of the product made under the patent, including its commercial success and current popularity; (9) the utility and advantages of the patent property over old modes or devices; (10) the nature of the patented invention and the benefits to those who have used the invention; (11) the extent to which the infringer has used the invention and the value of that use; (12) the portion of profit or of the selling price that may be customary in that particular business to allow for use of the invention or analogous inventions; (13) the portion of the realizable profit that should be credited to the invention as opposed to its non-patented elements; (14) the opinion testimony of qualified experts; and (15) the results of a hypothetical negotiation between the licensor and licensee. Id.
considered in arriving at a reasonable royalty for a patent license. The Federal Circuit has since adopted these factors and Georgia-Pacific continues to be cited with heavy frequency in cases making reasonable royalty determinations. The Georgia-Pacific factors are evaluated in the context of a hypothetical negotiation, assuming that the patent is valid, infringed, and both parties are willing participants. One factor that appears to carry heavy weight in the inducement context is Factor 11, which states: “The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.” The following case provides a glimpse as to how this factor may be used by courts in the future.

In Lucent Technologies, Inc. v. Gateway, Inc. the patent claimed a method for entering information into fields on a computer screen without using a keyboard. The information was entered into appropriate fields through the use of an on-screen keyboard, menu, or calculator. Lucent Technologies, Inc. (“Lucent”) was the assignee of this patent. In 2002, Lucent brought an infringement action against Gateway, Inc. and Microsoft Corp. (“Microsoft”) intervened.

Id. at 1325.

Id. at 1308 n.1.

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280 Id.

281 See, e.g., Lucent Technologies, Inc. v. Gateway, Inc., 580 F.3d 1301, 1325 (Fed. Cir. 2009) (“We review the damages award within the Georgia-Pacific framework.”).

282 Id. at 1325.

283 Georgia-Pacific, 318 F. Supp. at 1120.

284 See infra notes 285–311 and accompanying text.

285 Lucent, 580 F.3d at 1308.

286 Id.

287 Id. at 1308 n.1.

288 Id. at 1308.
Lucent alleged that end-user operation of the Microsoft products Microsoft Money, Microsoft Outlook, and Windows Mobile infringed Lucent’s method patent. In other words, Lucent asserted that Microsoft was inducing its customers to infringe by selling the customers a product with the potential to perform the infringing method and instructing the customers how to perform it. The specific Microsoft application infringing Lucent’s patent was a “date-picker” feature for use with an on-screen calendar found in all three Microsoft products. It goes without saying that this feature was relatively minute compared to all the other functions of the products in suit.

The defendants filed pre-verdict Judgment as Matter of Law (JMOL) motions contending that Lucent’s patent was anticipated, obvious, Microsoft’s products did not infringe, and even if the products did infringe, the damage award should be limited. All of these motions were subsequently denied. The jury found that Microsoft was liable for infringement of two Lucent patent claims. The jury awarded Lucent $357,692,056.18 in damages. Microsoft renewed its aforementioned JMOL motions, but they were again denied. Microsoft appealed the denial.

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289 Id. at 1308–09.

290 Id.

291 Id. at 1317.

292 Id. at 1309.

293 Id.

294 Id.

295 Id. The jury did not divide this award among the three infringing Microsoft products, nor did it divide the award among inducement or contributory infringement. Id.

296 Id.
of its post-trial JMOL motions to the Federal Circuit. 297 The Federal Circuit held that there was sufficient evidence to support the district court outcomes with respect to validity and infringement, and thus, affirmed the district court’s denial of those motions. 298

With respect to damages, however, the court reached a different result. 299 After examining other Georgia-Pacific factors, 300 the Federal Circuit turned to factor 11: the extent of direct infringement. 301 The court began by stating that this factor, among others, provides insight as to “how the parties would have valued the patented feature during the hypothetical negotiation.” 302 The gist is that a frequently used feature is more valuable than a seldom-used feature. 303 The court noted that the record was “conspicuously devoid of any data about how often consumers use the patented [] invention.” 304 The court then concluded that a reasonable royalty in the case of inducement must be tied to the prevalence 305 of underlying direct

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297 Id. at 1308.

298 Id.

299 Id.

300 The court discussed factors 2, 10, and 13 in detail. See id. at 1325–33 (analyzing these three factors).

301 Id. at 1333.

302 Id.

303 Id. The court discussed

304 Id. at 1334.

305 This may not be the right word. Perhaps “importance” or “value” would be more accurate. In this particular circumstance, the Federal Circuit focused on the “extent” to which the “date-picker” was used as a determination of the feature’s value. Infra note 306.
infringement. Because there was no evidence as to pervasiveness of the direct infringements, the court held that the damages award was not supported by substantial evidence.

Lucent is a perplexing case if one reads the opinion closely. On the one hand, the Federal Circuit explicitly states, “[W]e have never laid down any rigid requirement that damages in all circumstances be limited to specific instances of infringement proven with direct evidence.” Nevertheless, Lucent’s failure to provide any evidence of such specific instances of direct infringement proved fatal to its damages award. The court did intimate some devices that patentees might use to substantiate its damages model such as “sales projections based on past sales, consumer surveys, focus group testing, and other sources.” The major takeaway from Lucent is that it appears that the patentee must do something to give credence to the damages award. In an inducement case, such credence most logically comes from the specific instances

306 See id. (“The damages award ought to be correlated, in some respect, to the extent the infringing method is used by consumers.”). The court goes on to state that this is only true because parties to a hypothetical negotiation would consider such usage. Id.

307 Id. at 1335.

308 Id. at 1334. The court explains that the reason for this is actual real-world licensing negotiations are not necessarily premised on the number of times the parties hypothesize that the patented technology will be used. See id. (“[P]otential licensors and licensees routinely agree to royalty payments regardless of whether the invention is used frequently or infrequently by the consumer.”).

309 See id. at 1335 (concluding that the damages award was not supported by substantial evidence, but was “based mainly on speculation or guesswork”).

310 Id. at 1334.
of direct infringement. The difficulty in proving a reasonable royalty in inducement cases may necessitate importing standards of proof from other areas of law such as antitrust.\(^{311}\) For now, direct evidence of instances of direct infringement may not be required, but a sensible patentee will give the court some evidence to justify its claimed reasonable royalty damages.

C. A Procedural Pitfall for Unwary Defendants

The previous two sections tend to show that there is at least some sort of increased burden on the plaintiff to substantiate its damages in an inducement case. As such, inducer defendants would be wise to insure that they are able to challenge the damage award in the first place. One recent case provides a valuable, yet not so intuitive, lesson to practitioners to avoid losing the ability to contest a damage award.

In *i4i Ltd. Partnership v. Microsoft Corp.*,\(^{312}\) Microsoft Corp. (“Microsoft”) was found liable for infringing a patent owned by i4i Ltd. Partnership (“i4i”).\(^{313}\) The patent at issue claimed an improved method for editing custom XML, which is a type of computer language.\(^{314}\) Perhaps Microsoft’s most famous product, Microsoft Word, had been sold with the capability to edit XML in a manner that would infringe i4i’s patent.\(^{315}\) i4i sued Microsoft for direct, contributory,

\(^{311}\) *See* Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519, 552 (1983) (“Insofar as the amount of damages is concerned, an antitrust plaintiff need only provide a reasonable estimate of the damages stemming from an antitrust violation.” (citing Bigelow v. RKO Radio Pictures, 327 U.S. 251, 266 (1946))).

\(^{312}\) 598 F.3d 831 (Fed. Cir. 2010).

\(^{313}\) *Id.* at 839.

\(^{314}\) *Id.* at 840.

\(^{315}\) *Id.*
and induced infringement.\textsuperscript{316} The jury found Microsoft liable for infringement and awarded i4i $200,000,000.00 in compensatory damages.\textsuperscript{317} Microsoft appealed to the Federal Circuit.\textsuperscript{318}

Arguments regarding validity and infringement are immaterial for the present discussion. The Federal Circuit’s affirmation of the damages award, however, warrants some elucidation. At trial, i4i’s damages expert proffered a reasonable royalty of $96 to $98 per unit of Microsoft Word sold.\textsuperscript{319} Based on Microsoft Word’s sales figures, this royalty rate provided for $200 to $207 million in compensatory damages.\textsuperscript{320} Microsoft had only paid $1 to $5 million to license other patented methods used in Microsoft Word.\textsuperscript{321}

Microsoft argued first that i4i’s expert testimony should not have been presented to the jury.\textsuperscript{322} The court found that i4i’s expert had utilized proper methods in making its damages estimate and that the jury was entitled to consider this evidence in making its damages

\textsuperscript{316} \textit{Id.} at 848.

\textsuperscript{317} \textit{Id.} at 840. The jury based its damages award on contributory and induced infringement theories of liability. \textit{See id.} at 850 n.1 (“[H]ere we focus on indirect infringement because that was the basis for i4i’s damages estimate, which the jury apparently credited.”).

\textsuperscript{318} \textit{Id.} at 839.

\textsuperscript{319} \textit{Id.} at 853. This royalty rate was vigorously contested at trial. \textit{Id.}

\textsuperscript{320} \textit{Id.}

\textsuperscript{321} \textit{Id.}

\textsuperscript{322} \textit{See id.} at 852–53 (discussing Microsoft’s arguments regarding the weaknesses of the expert’s conclusions). Unfortunately for Microsoft, the expert’s conclusions are not subject to review if his methodology is correct. \textit{See id.} at 853 (“Microsoft’s quarrel with the facts Wagner used go to the weight, not admissibility, of his opinion.”).
Second, Microsoft challenged the damage award in light of *Lucent*, arguing that the Federal Circuit should reverse because $200 million was not a reasonable royalty. The court held that it could not review the reasonableness of the award under *Lucent* because of the “procedural posture” of the case. More specifically, in *Lucent* the defendant inducer filed a pre-verdict JMOL challenging the sufficiency of the damages evidence, but Microsoft did not file such a motion. The Federal Circuit painstakingly explained that it was this lack of a pre-verdict JMOL that forbade it from reviewing the award. The court certainly hinted at the fact that the result may have been different had Microsoft made such a motion:

> Had Microsoft filed a pre-verdict JMOL, it is true that the outcome might have been different. Given the opportunity to review the sufficiency of the evidence, we could have considered whether the $200 million damages award was “grossly excessive or monstrous” in light of Word's retail price and the licensing fees Microsoft paid for other patents. As this court did in *Lucent*, we could have analyzed the evidentiary basis for the Georgia-Pacific factors . . . . However, we cannot. Instead of the more searching review permitted under Rule 50(b) we are constrained to review the verdict under the much narrower standard applied to denials of new trial motions.

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323 *Id.* at 856.

324 *Id.* at 856–57.

325 *Id.* at 857. This seems odd because Microsoft was a defendant in *Lucent* as well as *i4i*. The pre-verdict JMOL in *Lucent* was actually filed by Dell, Inc., another defendant in the suit.

326 *See id.* (“Though Microsoft could have similarly filed a pre-verdict JMOL, for whatever reason, it chose not to.”); *id.* (“Microsoft waived its ability to have us decide that question by failing to file a pre-verdict JMOL on damages.”).

327 Rule 50(b) refers to review of denied motions for JMOL. FED. R. CIV. P. 50(b).

328 *i4i*, 598 F.3d at 857 (internal citations omitted).
At first, this result seems odd. How does one make a pre-verdict JMOL motion challenging the damage award before knowing what the damage award will be? In practice, the answer to this question simply does not matter. If the defendant wants to argue the reasonableness of a damages award on appeal, then it must challenge the damages award pre-verdict.\footnote{Id. at 857.} To provide a specific example, in \textit{Lucent} the JMOL motion specifically argued that the plaintiff had failed to tie any of its damages award evidence to specific instances of direct infringement.\footnote{Dell Inc.’s Memorandum of Points and Authorities in Support of Its Motion for Judgment as a Matter of Law That Lucent's Damages Are Limited by the Entire Market Value Rule and by Lucent's Failure to Match Dell's Alleged Inducements to Actual Infringements at 2, Lucent Techs., Inc. v. Gateway, Inc. 580 F. Supp. 2d 1016 (S.D. Cal 2008 Mar. 27, 2008), 2008 WL 1896186.} Thus, using \textit{Lucent} as a template, a defendant inducer should make some sort of JMOL motion challenging the sufficiency of the plaintiff patentee’s damages evidence. Perhaps the JMOL motion could state that the damages award would only be supported on a minimal royalty amount or that the award can only be based on a specific number of direct infringements. The point is to make the pre-verdict motion or risk losing the ability to challenge on appeal.

In sum, there can be no doubt that proving specific instances of direct infringement play a role in the damages calculation portion of an inducement case. In the context of lost profits, a defendant may be absolved from some liability if it can show that potentially infringing units never actually infringed.\footnote{Supra Part III.A.} Likewise, in the context of reasonable royalty, the patentee must come forth with some evidence, direct or otherwise, tending to illuminate the breadth of
underlying direct infringements.\textsuperscript{332} Defendant inducers must also remember to take the proper procedural precautions to preserve the right to contest the damages award on appeal.\textsuperscript{333}

IV. \textbf{CONCLUSION}

Even though actively inducing infringement has been a part of United States patent law since the late nineteenth century, there are still many questions surrounding the offense. Codification of the concept in the Patent Act of 1952 did little to elucidate the state of mind that inducers must possess for liability to attach. This lack of statutory clarification has led to a number of conflicting opinions among courts and commentators as to how the state of mind issue should be resolved. The Supreme Court is currently deciding the issue, but its final opinion will likely generate more questions than answers. This is partly because of the contradictions rampant throughout statutory and case law and partly because of the sheer magnitude of patents that one product, such as Microsoft Word, might cover in the present age. It may be that the Court cannot fashion an opinion that will be loyal to the statute without grossly negatively effecting commerce. If this is the case, Congressional amendment is the only answer.

With respect to damages in the inducement context, there appears to be at least some certainty. There is generally a feeling in recent cases that the patentee must come forth with some measure of proof as to the underlying direct infringements. A record devoid of such evidence will not support a substantial damages award. The confusion occurs when a practitioner is asked to produce such proof. What kind of proof would be most persuasive? Future cases will likely provide the answer. This Comment provides only a cautionary warning that a careful patentee will come forth with something.

\textsuperscript{332} \textit{Supra} Part III.B.

\textsuperscript{333} \textit{Supra} Part III.C.