

# Intent to Induce: Accomplice Liability in Patent Cases

By Craig E. Countryman

On Oct. 12, 2010, the U.S. Supreme Court agreed to consider *Global-Tech Appliances v. SEB*, 594 F.3d 1360 (Fed. Cir. 2010), a patent case involving the doctrine of induced infringement. Inducement is similar to accomplice liability in criminal cases. It subjects an entity that aids and abets another's infringement to the same liability it would face if it had engaged in the same amount of "direct" infringement itself. And, as with accomplice liability, the law requires the plaintiff to show the inducer acted with intent to encourage another's direct infringement.



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The intent requirement is meant to protect "innocent" parties from incurring liability for acts that might seem lawful. By contrast, direct infringers are in some instances strictly liable for damages because their conduct is thought sufficiently culpable. The different types of conduct warrant the different mental state requirements. As a practical matter, though, one cannot draw too much of a distinction between acts and intent. Ill intent is almost inferred from actions (or the failure to act). So the intent requirement really just ensures the inducer's conduct is comparable in culpability to the direct infringer's conduct.

The Federal Circuit has struggled to set the standard for intent necessary to establish inducement. *DSU Medical v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006), held that an inducer must have the specific intent to induce the direct infringer's acts and have known or should have known that those acts would constitute infringement of the patent. The court added that the latter element "necessarily" requires that the inducer "knew of the patent." But, as two judges noted in a concurring opinion, that comment was *dicta* because the parties had stipulated the defendant knew of the patent.

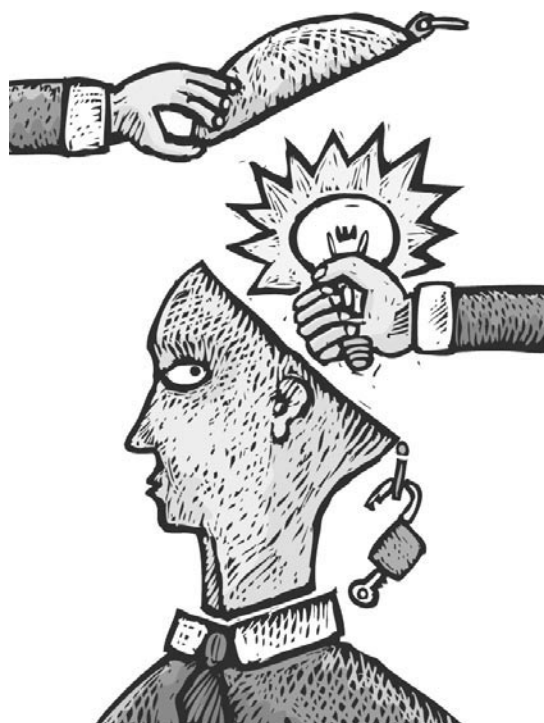
The Federal Circuit reversed course in *Global-Tech*, holding that an entity can be liable for inducement even if it is not specifically aware of the patent. In

this instance, Pentalpha designed its product by copying a version of the plaintiff's product sold in Hong Kong. SEB's product was not marked with a U.S. patent number. Pentalpha hired a lawyer to search for patents and determine if it was at risk of infringement but did not tell the lawyer it copied SEB's product. The search did not uncover SEB's patents, and none of the patents it turned up presented an issue. Pentalpha sold its product outside the United States to a distributor, which resold it in the United States, thereby directly infringing. The question was whether Pentalpha induced its distributor to infringe.

The Federal Circuit found that Pentalpha had the requisite "specific intent to encourage another's infringement" for inducement because it "deliberately disregarded a known risk that SEB had a protective patent." The Court relied on: Pentalpha's copying of the SEB product, the fact that Pentalpha did not tell the attorney who conducted a freedom to operate search that it copied SEB's product, the fact that Pentalpha's president was "versed in the U.S. patent system," a named inventor on 29 patents, and understood SEB to be cognizant of patents because of an earlier business relationship between SEB and Pentalpha, and Pentalpha produced no exculpatory evidence showing its employees did not actually believe the SEB patent did not exist.

The result is arguably defensible, but the Federal Circuit's rationale was less so. To avoid contradicting *DSU Medical's* statement that inducement requires showing the defendant "knew of the patent," the court claimed that deliberate indifference is "not different from actual knowledge, but is a form of actual knowledge." It is true that deliberate indifference requires knowing of a risk that a patent exists. That is not the same as knowing with 100 percent certainty a patent exists, as the phrase "knew of the patent" requires. It may well be that these two types of knowledge warrant the same legal treatment. But they are different, and there are significant implications to equating them.

The Supreme Court will probably reverse or at least vacate the judgment. Because the Federal Circuit hears all patent appeals, there would be no need for the Supreme Court to intervene unless it planned to change the legal standard. In doing so, the Court should focus on the practical effect of its decision. Legal analysis of the various types of knowledge and intent usually devolves a series of vague pronouncements. Hand-wringing over how to word the standard is less important than explaining in plain English why the facts of a particular case justify or do not justify imposing liability. And it is often a futile exercise. The subtle differences among the various standards will surely be lost on the juries that decide patent cases — it is difficult enough for the courts to apply at sum-



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mary judgment.

Should the law impose liability on the defendant in *Global-Tech*? The answer turns on at least two things: whether we want to encourage copying a competitor's product, and how hard it would have been for Pentalpha's lawyer to find SEB's patent had he known that he should spend extra time reviewing its portfolio because Pentalpha copied the SEB design.

Copying is not always bad. When a product is unpatented, copyists are free to replicate it and sell a competing version. This drives down prices and may result in more innovation if the copyist makes improvements while using the knowledge that led to the original product as a starting point. The patent system encourages copying once a patent has expired because it requires the patent to describe the invention in a way that enables others to make and use it. When a product is patented, however, copying imposes social costs. It interferes with the patent

holder's ability to charge a higher price for its product and thereby recover his investment in developing it. The copyist often bears little or no development costs, which enables it to undercut the patent holder's price, perhaps so much that the patent holder can no longer make a profit. And if companies knew that copyists could freely duplicate new products, they would stop investing in new technology because they would be unable to recoup that investment.

So whether we want to encourage copying depends on whether a product is patented. The question then becomes whether the patent holder or copyist should bear the burden of finding the other. It seems like the copyist is in the better position to bear this burden, unless it can show it would have been prohibitively hard to find the patent. Sometimes it is hard. If the product is complex, like a cellphone, there could be thousands of patents owned by different companies that cover various components. In *SEB*, however, the product was a deep fryer, which seems relatively simple. The Federal Circuit faulted Pentalpha for keeping its lawyer in the dark about using SEB's product to design the product. But it is difficult to tell whether Pentalpha would have been better off conducting no search, or whether the court was saying that a copyist must find the patent at any cost.

Another issue is whether it might be imprudent to expand inducement liability if the patentee already has an adequate remedy for direct infringement. Here, the induced infringement involves Pentalpha's sales to a single U.S. distributor. Why not make SEB sue the distributor instead? Pentalpha is probably obliged to indemnify the distributor, so it would not get off the hook, and it would be unnecessary to strain the law of inducement.

The problem is that it will often not be economically feasible for the patentee to pursue the direct infringer. Inducement allegations are most common for patents where individual customers are the direct infringers by virtue of using a product sold by a large company. A common example is software that, when installed and used by a customer, performs a series of steps covered by a patent. In these cases, it is inducement or nothing — the patentee cannot feasibly name each customer as a defendant. Nor would we want it to.

*Global-Tech* is a poor vehicle for analyzing the proper standard for inducement because it is a less common use of the doctrine. Most inducement cases involve actual notice of the patent, do not involve copying, and require the court to determine whether the defendant reasonably believed its customers were not directly infringing. The Supreme Court should avoid broad pronouncements in this unusual case, which could have unintended consequences in the more common ones.

# The Privacy Implications of Facebook On Your Life and Practice

By Mari J. Frank and Alyssa J. Frank

Since hitting the Internet six years ago as a more exclusive and streamlined version of MySpace, the ingenious social network known as Facebook has systematically mastered the art of obtaining the personal data of the masses. Information is valuable to marketers, law enforcement, government, and identity thieves. It used to be difficult to collect the vast data that is now readily available on the categorized profile pages of over 500 million Facebook users worldwide. Repressive governments since time immemorial have surreptitiously gathered information on the thoughts, political stances, and behavior of citizens in order to maintain control — but now with Facebook, there is a treasure-trove of information available in a nanosecond. The formation of omnipotent, faceless bureaucracies unnerved early privacy advocates like George Orwell, who correctly predicted the demise of privacy, but got the agent wrong. It turns out that you don't have to enlist government resources to find out secrets about people — they will happily divulge the information themselves. Fascists would roll in their graves if they knew how easy it is to find out anything about anyone. Facebook hit the nail on the head: give users an easy-

to-use platform to divulge their most private thoughts and moments, scantily-clad party pictures, or inane oversharing about "gym and then a movie with Pete!" — and people will happily reveal it all.

These days, it seems everyone has a Facebook page, and they are dying to get into contact with each other. Indeed, Facebook can be a valuable tool for marketing. Whether it's shameless self-promotion or legitimate business promotion, Facebook is revolutionizing the way businesses interact with customers. Unlike setting up a Web page elsewhere on the Internet in which one must be fluent in the hieroglyphics of computer language, anyone who has limited computer skills can easily set up a free Facebook business page. The idea is to acquire "fans" or "likes" from users, which enables the page to be broadcast in their friend network, creating a potential for referral.

But for Facebook to be a profitable venue, it allows developers and third-parties automatic access to user data. Facebook's 26-year-old CEO, Mark Zuckerberg, envisions a new kind of privacy in the digital era, in which people discard conventional mores in favor of "openness" and "transparency" (unfortunately, how your sensitive data is shared by Facebook is not transparent). He has created a world in which your friends can follow you as you sign onto Web sites and surveil you as you view articles, videos, and other content. But instead of seeking the consent of its users before making everything you do online public, Facebook has simply changed its formal "Privacy Policy" numerous times. Privacy-conscious users are challenged to navigate through the convoluted maze of privacy settings in order to return their content to private after Facebook has revealed confidential information. The uncanny feeling that Facebook knows everything about you and this data could be used to your detriment is, indeed, justified. In fact, *The Wall Street Journal* recently pointed out that Facebook applications have been revealing user page addresses (containing a unique Facebook ID, and real name) to advertisers. Many users are not aware of the applications that have been added to their account, as they are often stealthily installed. Class-action lawsuits have been filed in California (*Graf v. Zynga Game Network Inc.*) and Rhode Island against Facebook and Zynga, its largest producer of applications. The California case alleges that Zynga violated the Electronic Communications Privacy Act (18 U.S.C. Section 2510), and California's Computer Crime Law (California Penal Code Section 502) when it sent users' personally identifying information to outside advertisers and tracking companies for substantial profit. The Congressional Privacy Caucus has also sent Facebook a letter of concern regarding privacy breaches.

your client has filed for worker's compensation or a personal injury lawsuit, and his Facebook shows him enjoying the ski slopes. There are infinite damaging ways these online exposures may be used to hurt the attorneys or parties involved. This brings up ethical issues.

Beware of ethical duties: The New York State Bar Association Committee on Professional Ethics recently added a ruling that a lawyer may access the public social networking page of another party for the purpose of obtaining possible impeachment material so long as the person's profile is "public." However, a lawyer wishing to obtain information about a party cannot "friend" that party, or enlist a third party to spy. The bottom line is that lawyers should not covertly use technology to pry into private electronic documents.

Check your clients' social networking for incriminating evidence before you take a case: These days, you or your opposing counsel don't need to hire private detectives because people expose plenty on social networking. It can be embarrassing to find out after you have taken a case that there is publicly ascertainable evidence online that has disproved or damaged the value of your case. It is a good idea to "Google" a new client to see what is lurking in the shadows on the Internet. Set up a "Google alert" on your client and yourself so you'll be notified by e-mail if new data is posted on the Web. Warn your client of the dangers of posting online after the case has been filed.

Read the Privacy Policies and adjust privacy settings on social networks: It is important to opt out of "Instant Personalization," and to disable applications. When Facebook set up lucrative partnerships with third party sites like Pandora and Yelp, they violated their own privacy policy by selling not just your interests, but your *personally* identifying information, including your real name. Information stored in third party databases is easy prey for hackers, who, within days of Facebook's launch of "Instant Personalization," posted the codes to online forums to access Facebook user information via Yelp.

Many attorneys and their clients have revealed far too much on Facebook, and are unaware of the dire consequences of these disclosures. In an Instant Message exchange uncovered in a lawsuit against Mark Zuckerberg, he admitted that Facebook patrons were "dumb \*\*\*\*\*" for trusting him with their information. Let's prove him wrong.



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