

February 16, 2010

Copying Products is Risky Business: Inducing Patent Infringement

Freedom-to-operate opinions are often a wise business investment when taking a product to market. A thorough freedom-to-operate analysis includes not only the client's activities that might directly result in infringement, but also the possibility that a client may be liable when others directly infringe a patent. Under 35 U.S.C. § 271(b), "[w]hoever actively induces infringement of a patent shall be liable as an infringer." Induced infringement commonly involves an entity selling a product, whereby end-use by a customer amounts to patent infringement. It was long held that in order to actively induce infringement of a patent, however, the inducer needed actual knowledge of the existence of that patent. This is no longer entirely true, and it should be noted that inducing infringement can lead to damage awards similar to those awarded for direct infringement.

On February 5, 2010, the U.S. Court of Appeals for the Federal Circuit affirmed a district court decision and further held that "deliberate indifference" to potential patent rights satisfies the knowledge requirement for induced infringement. SEB S.A. v. Montgomery Ward & Co., Nos. 2009-1099, 2009-1108, 2009-1119 (Fed. Cir. Feb. 5, 2010). At issue in SEB was whether actual knowledge of existing patent rights was required before infringement could be induced. The court's interpretation of § 271(b) was that deliberate indifference to a known risk was not different from actual knowledge, but was instead a form of actual knowledge. Id. at 12. Therefore, a deliberate disregard of a known risk that patent rights exist can satisfy the "actual knowledge" requirement of § 271(b).

SEB S.A., owner of U.S. Patent No. 4,99,312 ("the '312 patent"), filed a lawsuit in the U.S. District Court for the Southern District of New York against Montgomery Ward & Co, Inc. ("Montgomery Ward"), Global-Tech Appliances, Inc. ("Global-Tech"), and Pentalpha Enterprises, Ltd. ("Pentalpha") for alleged infringement of the '312 patent directed toward construction of a deep fryer with a well-insulated outer skirt. A jury returned a verdict and found that Pentalpha both willfully infringed and induced infringement of claim 1 of the '312 patent. SEB initially was awarded reasonable royalty damages of \$4.65 million, an amount that later was reduced by the district court by \$2 million. Pentalpha appealed asserting errors by the district court that relate to the jury verdict and several post-trial rulings. SEB cross-appealed and sought enhanced damages.

In its opinion, the Federal Circuit concluded that "Pentalpha deliberately disregarded a known risk that SEB had a protective patent." SEB S.A. v. Montgomery Ward & Co., slip op. at 13. The Federal Circuit also stated that, even without actual knowledge, "a claim for inducement is viable even where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit." Id. There is, however, a distinction between "deliberate indifference" and a "should have known" standard of care. Farmer v. Brennan, 511 U.S. 825, 840 (1994). A "should have known" standard uses an objective test, while "deliberate indifference" uses a subjective determination of whether the defendant knew of a risk and then disregarded that risk. Effectively, deliberate indifference to a known risk can rise to the level of "actual knowledge" for the purpose of actively induced infringement suits when the accused infringer chooses to ignore the potential patent rights of another.

The court pointed to three facts that supported a finding of deliberate indifference in this case. Pentalpha purchased an SEB deep fryer and copied the product. Pentalpha hired a patent attorney to conduct a freedom-to-operate study, but failed to tell him it copied SEB's product. "A failure to inform one's counsel

© 2010 Sutherland Asbill & Brennan LLP. All Rights Reserved.

This communication is for general informational purposes only and is not intended to constitute legal advice or a recommended course of action in any given situation. This communication is not intended to be, and should not be, relied upon by the recipient in making decisions of a legal nature with respect to the issues discussed herein. The recipient is encouraged to consult independent counsel before making any decisions or taking any action concerning the matters in this communication. This communication does not create an attorney-client relationship between Sutherland and the recipient.

of copying would be highly suggestive of deliberate indifference in most circumstances.” SEB S.A. v. Montgomery Ward & Co., slip op. at 13. Finally, the president of Pentalpha also studied patent law, so he was aware of the concepts of infringement in the U.S. patent law system. These factors all contributed to strong evidence of deliberate indifference and, therefore, actively induced infringement.

Accordingly, SEB somewhat clarifies the bounds of what level of knowledge is sufficient for a finding of actively induced infringement. In this regard, “deliberate indifference” can satisfy the requirements of § 271(b). SEB is self-limiting, however, because the opinion explicitly stated that it “does not purport to establish the outer limits of the type of knowledge needed for inducement.” Id. at 14. The court further provided a defense to a showing of deliberate indifference “where an accused infringer establishes that he actually believed that a patent covering the accused product did not exist.” Id. at 13. Nevertheless, SEB provides additional deterrence to the intentional copying of patents and should stand as a reminder that copying a product without reasonable IP diligence is risky business.



If you have any questions regarding this Legal Alert, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.

Peter G. Pappas
Ian M. Wasser

404.853.8064
404.853.8149

pete.pappas@sutherland.com
ian.wasser@sutherland.com