ARE Patent Law Alert: Developments in the Law of Inducement and Direct Infringement

March 8, 2010

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(March 8, 2010) As discussed more fully in our accompanying article, *SEB v. Montgomery Ward: Extending the Reach of U.S. Patent Laws to Foreign Defendants—Developments in the Law of Direct Infringement and Inducement*, the Federal Circuit's decision in *SEB S.A. v. Montgomery Ward & Co.*, 2009-1099, 2009-1108, 2009-1119 (Fed. Cir. February 5, 2010) is significant in that it may expand the scope of infringement liability, particularly for foreign defendants, in multiple respects.

First, regarding inducement, *SEB* marks a shift away from the understanding that a defendant must have actual knowledge of the patent-in-suit in order to be potentially liable as an active inducer. As set forth in the Federal Circuit's en banc decision in *DSU Medical* , proving indirect infringement based on active inducement under 35 U.S.C. § 271(b) requires a showing of specific intent to induce infringement (and not merely the intent to induce the acts that lead to infringement). *DSU Medical* further provides that a party cannot meet this standard if it does not have knowledge of the patent. In *SEB*, however, the Federal Circuit directly addressed this "knowledge" requirement, and concluded that actual knowledge of the patent is not required. Rather, according to the Federal Circuit in *SEB* , the knowledge requirement may be satisfied by a showing that the defendant "deliberately disregarded the risk that a patent existed." In *SEB*, the Federal Circuit found that this "deliberate indifference" standard was met based on the following evidence: (i) the defendant copied the plaintiff's product; (ii) the defendant hired an attorney to do a right-to-use study, but did not inform the attorney that it had copied plaintiff's product; and (iii) the defendant did not produce any exculpatory evidence tending to show that defendant actually believed that plaintiff did not have a relevant patent.

Second, on the direct infringement front, *SEB* is another in the line of recent Federal Circuit cases (including its earlier decision in *Litecubes*) that emphasize that even where the sale transaction of the allegedly infringing product technically takes place outside the U.S., the foreign seller can still be liable as a direct infringer under 35 U.S.C. § 271(a) where the evidence shows that the ultimate destination for the product was intended to be the U.S.

With the above in mind, here are some points that companies should keep in mind in light of *SEB*:

- Foreign firms with manufacturing and sales activities outside of the U.S. must remain

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aware of direct infringement risks. The Federal Circuit's decisions in *SEB* and *Litecubes* make it clear that even where title to the allegedly infringing product is technically transferred outside of the U.S., this may not be sufficient to avoid potential liability as a direct infringer, if there is evidence that the ultimate destination of the goods is the United States.

- Companies can no longer mechanically rule out the possibility of inducement liability in situations where they were not aware of the actual patent. Defendants must now ensure that they are not "deliberately indifferent" to the existence of a patent. Practically, this means that defendants cannot avoid inducement by burying their heads in the sand. At the very least, where a product or feature is similar to a competitor's product or feature, it may be prudent to investigate whether that competitor has patent coverage for that product or feature. This is particularly true where the competitor's product has been marked with particular patent numbers or where the product or feature under consideration was copied from a competitor's product, even if that product was not marked with a patent number.

- Finally, *SEB* illustrates that when obtaining opinions of counsel or right-to-use opinions, parties should make sure to provide all relevant information to opinion counsel. It is wrong to suppose that providing less than complete information will lead to a stronger opinion. This is not the case, and *SEB* proves that such behavior may be held against you. If a company is taking the step of getting an opinion of counsel, care should be taken to provide that attorney with complete information. Indeed, where the process of obtaining an opinion of counsel is properly done, that opinion can be used as evidence to establish that the "specific intent" requirement of inducement is not met.

Please feel free to contact us to learn more about this case and its impact on U.S. patent law.

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