

Patent Inducement
Global-Tech Appliances, Inc. v. SEB S.A.

Background

A. What is Inducement to Infringe?

Section 271 of the Patent Law defines infringement. Subsection (a) defines direct infringement, subsection (b) defines inducement to infringe, and subsection (c) defines contributory infringement.

35 U.S.C. § 271. Infringement of patent.

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States 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.

Inducement to infringe occurs when a defendant does not directly infringe, but its activities induce others to directly infringe.

Examples of inducement:

- A controlling entity, such as a parent company or corporate officer, causes the controlled entity to commit direct infringement
- A foreign manufacturer sells infringing goods overseas for eventual sale by U.S. retailers, causing the retailers to infringe in the United States
- A seller of a device which could operate in different modes advertises or gives instruction on how to use the device in an infringing manner

Section 271(b) prohibits indirect infringement by “active inducement” of a direct infringement. Section 271(c) prohibits indirect infringement by contributory infringement, a situation where the indirect infringer knowingly sells non-patented goods for use in a patented combination. To prove indirect infringement in either case, a patentee must demonstrate an underlying act of direct infringement.

B. Legislative Background Of Section 271(b)

In drafting the 1952 Patent Act, Congress sought to codify pre-1952 case law involving what was, at the time, known interchangeably as contributory infringement or inducement. Virtually all of those cases involved the supply of staple and non-staple articles and components for use in a patented combination. The contributory infringement provision of Section 271(c) represents that codification.

Section 271(b), in contrast, is not a codification of prior authority. Instead, it was introduced as a general catch-all provision for acts of indirect infringement which do not constitute contributory infringement as defined in Section 271(c). Giles S. Rich, then-President of the New York Patent Law Association, was one of the drafters of the Patent Act. He described the intent of Section 271(b) to Congress:

I cannot see how anyone who actively induces an infringement could be innocent.... I can see nothing wrong in catching an unintentional contributory infringer, which is the law according to my understanding. Anyone who makes, uses, or sells an infringement of a patent, whether or not he knows of the patent or intends to commit infringement, is liable. So, if a person sells something especially adapted for infringing use, and having no actual commercial noninfringing use, does that act without intent to infringe, why should we not hold him likewise?¹

Hearings on H.R. 3866 before Subcommittee No. 4 of the Committee on the Judiciary House of Representatives, 81st Cong., 1st Sess. (1949) (statement of Giles S. Rich).

¹ Hon. Giles S. Rich served as a judge on the Court of Customs and Patent Appeals and later on the successor Court of Appeals for the Federal Circuit from 1956 until 1999. In 1947, as President of the New York Patent Law Association, he was part of a two-person committee that worked with Congress in drafting the Patent Act.

After its enactment, Judge Rich described the purpose of Section 271(b) as follows:

Its intention is to hold liable the mastermind who plans the whole infringement and sits back and watches it happen, somehow himself managing to avoid either making, using or selling. This can happen in a variety of ways. The architects of a structure may be responsible, or a firm of engineers or the vendor of a kit sold with instructions, or of a machine which can operate only to perform a patented process. The possibilities are unlimited. These people are, legally speaking, joint tortfeasors, and they ought to be held liable. So the active inducer is made and denoted an infringer. Section (b) fills a gap between the simple direct infringement of (a) and the type of contributory infringement defined in (c). The courts have frequently been at a loss in trying to classify the active inducer. It is often confusing to call an active inducer a contributory infringer. Now we have a clear statement that he "shall be liable as an infringer." As a joint tortfeasor that is precisely what he is.²

C. Development of the Law Of Inducement.

Over the years, the Federal Circuit has struggled with the quantum and nature of knowledge, intent and/or activity required to demonstrate indirect infringement by "active" inducement. The Court introduced a specific intent requirement in Water Technologies Corporation v. Calco, Ltd., 850 F.2d 660, 668 (Fed. Cir. 1988). This requirement was confirmed two years later by a Federal Circuit panel in the Hewlett-Packard case on July 30, 1990:

[W]e are of the opinion that proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.

Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464, 1469 (Fed. Cir. 1990). Three months later, on October 23, 1990, a different Federal Circuit panel decided the Manville Sales case and restated differently the test for specific intent:

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.

Manville Sales Corp. v. Paramount Systems, Inc., 917 F.2d 544, 553 (Fed. Cir. 1990). As a result, for many years it was unclear whether inducement required intent to cause an actual

² Giles S. Rich, Address of Giles S. Rich, Nov. 6, 1952, reprinted in 75 JPTOS 3 (Special Issue 1993).

infringement, or intent to cause the acts which themselves constitute infringement. A diverging line of cases developed.

The conflict was resolved in 2006. In DSU, the Federal Circuit *en banc* held that Manville Sales was the correct standard. The Court held that inducement of patent infringement occurs when the infringer “knew or should have known his actions would induce actual infringements.” DSU Medical Corporation v. JMS Co., Ltd., 471 F.3d 1293, 1304 (Fed. Cir. 2006).

In DSU, the Federal Circuit held that the requirement that an inducer knew or should have known its actions would induce infringements “necessarily includes the requirement that he or she knew of the patent.” DSU, 471 F.3d at 1304. In a concurring opinion, Judges Michel and Mayer clarified that the Court was not, at that time, articulating a standard for the “knowledge of the patent” requirement.³ *Id.* at 1311. The SEB case presented an opportunity for the Court to consider a standard for the lesser included element of “knowledge of the patent.” SEB S.A. v. Montgomery Ward & Co., Inc., 594 F.3d 1360 (Fed. Cir. 2010), *cert. granted*, ___ U.S. ___ (2010) (No. 10-6, 2010 Term).

B. The SEB Case.

In SEB, the plaintiff SEB owned a patent with claims drawn to a deep fryer kitchen appliance. SEB accused Pentalpha, a household appliance manufacturer located overseas, of direct and inducing infringement, under Sections 271(a) and (b), by selling infringing deep fryers to American retailers and distributors for resale to consumers in the United States.

Pentalpha denied liability for direct infringement, alleging that its activities were extraterritorial.⁴ It denied liability for indirect infringement by inducement, alleging that it could not have intended to cause acts of infringement as required by DSU because it allegedly had no actual knowledge of SEB’s U.S. patent until shortly before the litigation began.

³ This clarification was based on the Court’s brief discussion of the “knowledge of the patent” requirement in Insituform Technologies, Inc. v. Cat Contracting, Inc., 161 F.3d 688, 695 (Fed. Cir. 1998) (“A crucial element of induced infringement is that the inducer must have actual or constructive knowledge of the patent.”).

⁴ Pentalpha manufactured and sold the infringing deep fryers based on Purchase Orders from, and invoices to, the U.S. retailers and distributors. The deep fryers had U.S. electrical fittings and bore the distributors’ and retailers’ American trademarks.

At trial, there was no direct evidence that Pentalpha had actual knowledge of SEB's patent when the infringement commenced. However, there was evidence that Pentalpha purchased a SEB deep fryer in Hong Kong and copied the patented invention. There also was evidence that Pentalpha asked patent counsel for a noninfringement opinion, but did not tell counsel that it had copied SEB's deep fryer. Pentalpha did not offer any exculpatory evidence. The District Judge found there was sufficient evidence to permit the jury to infer, based on circumstantial evidence, that Pentalpha knew or should have known its actions would induce actual infringements, including that Pentalpha knew or should have known of SEB's patent. The jury found Pentalpha liable for inducement to infringe, and Pentalpha appealed.⁵

On appeal, the Federal Circuit recognized that direct evidence of knowledge of a patent rarely exists and confirmed that a claim for inducement is viable even without it. SEB, 594 F.3d at 1377. The Court concluded that, based on the evidence at trial, Pentalpha "deliberately ignored the risk" that SEB had a patent covering Pentalpha's product, and such "deliberate indifference" satisfied the "knowledge of the patent" element of inducement.⁶ The Federal Circuit denied Pentalpha's petition for rehearing *en banc*.

The U.S. Supreme Court granted Pentalpha's petition for certiorari based on Pentalpha's argument that the Federal Circuit's "deliberate indifference" test is inconsistent with the "purposeful, culpable expression or conduct" test for inducement of copyright infringement set forth in Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005). Amici which supported the petition for certiorari sought clarification of the test for inducement of patent infringement.

⁵ The jury found Pentalpha liable for both direct infringement and inducement to infringe.

⁶ The Court based its conclusion on authority from other circuits that "deliberate indifference to a known risk is not different from actual knowledge, but is a form of actual knowledge." SEB, 594 F.3d at 1376-77 (citations omitted).