

# **DIVIDED INFRINGEMENT:**

*Golden Hour Data Systems, Inc. v.  
Emscharts, Inc.*

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# Infringement Theories

- Direct Infringement
- Indirect
  - Inducement
  - Contributory
- Joint or “Divided” Infringement
  - Usually system or method claims

# Divided Infringement Background

- Legal Issue – Infringement requires a showing that accused infringer has practiced each element of the claimed invention
- Practical Problem – Enforcing claims when no one person or entity performs each claim element.

## Recent Case Law – Divided Infringement

- *BMC Res. Inc. v. Paymentech L.P.*, 498 F.3d 1373 (Fed. Cir. 2007)
  - Patent directed to method of conducting a debit transaction over telephone without a PIN
    - Claim required action by a financial institution, a debit network, and a customer
    - No infringement by defendant debit network because it did not perform **every step** of the claimed method and did not have **direction and control** over entities performing the other steps of the method

## Recent Case Law – Divided Infringement

- *Muniauction Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008)
  - Patent directed to web-based auction & trading process
    - Claim required action by auctioneer and bidders
    - Auctioneer not liable for infringement because it did not have **direction and control** over bidders

## *Golden Hour* Divided Infringement

- Patent directed to information management in connection with emergency medical transport
  - System claims and method claims
  - Both claim sets required action by two distinct software programs
- Two separate accused infringers – one for each of the programs

## *Golden Hour* Divided Infringement

- Majority – Where infringement based on combined actions of multiple parties, there must be one “mastermind” that exercised direction or control.
- No infringement because neither defendant directed or controlled the other.

## *Golden Hour* Divided Infringement

- Dissent – Defendants should be liable as joint infringers
  - Formed strategic partnership that enabled their two programs to work together
  - Collaborated to sell two programs as a single unit
  - “Collaborative” infringement is a type of joint infringement



# **INDUCING INFRINGEMENT:** *Global-Tech Appliances v. SEB*

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## Inducing Infringement - Statutory Basis

35 U.S.C. § 271(b)

“Whoever actively induces infringement of  
a patent shall be liable as an infringer.”

## Two Requirements for Finding Inducement

- A showing that the conduct being induced is directly being infringed by a third party
- Proof of intent

## Intent - Overview

- Analogous to an accessory before the fact
- Patentee must prove that Defendant knowingly aided and abetted another's direct infringement.

# Varying Standards for Intent

- *Hewlett-Packard Co. v. Bausch & Lomb Inc.*,  
909 F.2d 1464 (Fed. Cir. 1990)
  - Inducement Requirement
    - Only need intent to cause the ACTS:
      - To prove inducement, there must have been “actual intent to cause the acts which constitute the infringement.”

# Varying Standards for Intent

- *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544 (Fed. Cir. 1990)
  - Inducement Requirement
    - Intent to cause the acts not enough, need intent to cause INFRINGEMENT
      - “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 infringement.”

# Fed. Circuit Resolves Conflict

- *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006)
  - Inducement Requirement
    - Culpable conduct required
      - “[I]nducement requires evidence of culpable conduct, directed to encouraging another’s infringement, not merely that the inducer had knowledge of the direct infringer’s activities.”
    - Knowledge of the patent
      - “The 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 patent.”

# Facts of *SEB*

- '312 Patent
  - Owned by SEB
  - Deep fryers
- Alleged Infringement
  - Pentalpha purchases SEB deep fryer and copies
  - Sells to Sunbeam, Montgomery Ward, and Fingerhut
- Opinion of Counsel
  - Pentalpha obtains opinion, but does not disclose copying



## *SEB* – District Court

- Before verdict, Pentalpha makes motion for JMOL
  - Argues Pentalpha's lack of knowledge of the '312 patent before the Sunbeam suit (1998)
- JMOL denied
  - Court infers specific intent to induce from Pentalpha failure to disclose its copying to the attorney writing its opinion of counsel

## *SEB* – District Court

- Jury instruction: Pentalpha can be liable for inducement if it “knew or should have known” its actions would induce infringement
- *SEB* wins
- Pentalpha appeals

## *SEB* – Federal Circuit

- Issue
  - Did Pentalpha have intent to induce?
- Analysis of *DSU Medical*
  - D must have known of patent under *DSU Medical*
  - **BUT** *DSU Medical* did not “set out the metes and bounds of the knowledge-of-the-patent requirement”

## SEB – Federal Circuit

- Specific intent required
  - Court says inducement requires specific intent
    - However, specific intent does not allow defendant to “actively disregard a known risk that an element of the offense exists”
- How does one “know” of a patent?
  - Can be shown by deliberate indifference of a known risk

## *SEB* – Federal Circuit

- What is “deliberate indifference”?
  - Active disregard of known risk
    - consciously avoid knowledge of what would otherwise have been obvious to him
  - Deliberate indifference a form of actual knowledge
  - Deliberate indifference another way to prove actual knowledge

## *SEB* – Federal Circuit

- How is “deliberate indifference” defeated?
  - Deliberate indifference may be defeated by a showing that defendant was “genuinely unaware even of an obvious risk”

## *SEB* – Federal Circuit

- Pentalpha liable because it deliberately disregarded a known risk
- Factors considered:
  - Copying
  - Failed to disclose copying to opinion counsel
  - Company president well versed in US patent law
  - Lack of exculpatory evidence

# Question Presented to Supreme Court

“Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is ‘deliberate indifference of a known risk’ that an infringement may occur... or instead ‘purposeful, culpable expression and conduct’ to encourage an infringement...?”



# Potential Impact of *SEB*

- May impose *de facto* duty to affirmatively search for patents
- Opinion of counsel defense, similar to willfulness
  - Side issues regarding waiver, scope, competency.