

## Case Study: SEB V. Montgomery Ward

*Law360, New York (May 27, 2010)* -- Let's start at the very beginning. In late 2006, sitting en banc, the Court of Appeals for the Federal Circuit held that a party asserting infringement by inducement has the burden of showing that the actions of the accused party actually induced infringing acts and that accused party knew or should have known that his actions would induce actual infringements.

In no uncertain terms, the Federal Circuit stated that the requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he knew of the patent. See, *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) [DSU]. That seemed pretty clear cut, and it arguably raised, or at least clarified, the state-of-mind requirement for inducement. It was clear that mere recklessness on the part of the accused was not enough to establish liability for infringement under § 271(b).

Consider next the *Seagate* decision of 2007, where the Federal Circuit, sitting en banc, stated that although the patent statute does not define "willful," it is consistently defined as including reckless behavior. In *re Seagate Technology LLC*, 497 F.3d 1360, 1370 (Fed. Cir. 2007) (en banc). The court, wanting to raise the bar for establishing willful infringement, noted that the duty of care standard, which it was overruling in *Seagate*, was "more akin to negligence." *Id.* at 1371.

Then came the *Broadcom v. Qualcomm* panel decision in late 2008 which clearly stated that the following jury instruction is "entirely consistent with our guidance in *DSU*":

"In order to establish active inducement of infringement, it is not sufficient that the company that is allegedly induced to infringe itself directly infringes the claim. Nor is it sufficient that Qualcomm was aware of the act(s) that allegedly constitute the direct infringement. Rather you must find that Qualcomm specifically intended to cause direct infringement of the ... patents, in order to find inducement of infringement. That is, you must find Qualcomm is aware of the patent, knows or should have known that the encouraged acts constitute infringement of the patent, and has an intent to cause the encouraged acts." *Broadcom v. Qualcomm*, 543 F. 3d 683, 698 (Fed. Cir. 2008) [Broadcom].

The panel stated very clearly that "[Qualcomm] is incorrect in arguing that *Seagate* altered the state of mind requirement for inducement. Our en banc holding in *DSU* remains the relevant authority on that point." *Id.* at 699.

Then this past February, a panel deciding *SEB v. Montgomery Ward et al.* [SEB] cited *DSU* and commented that the *DSU* decision "did not, however, set out the metes and bounds of the knowledge-of-the-patent requirement." *SEB*, 594 F.3d 1360, 1376 (Fed. Cir. 2010). It should be noted that Chief Judge Michel and Judge Mayer, in a concurring opinion in *DSU*, noted that the "knowledge of the patent" issue was not before the *DSU* court and the *DSU*

decision did not set forth a new standard as to what satisfied the “knowledge of the patent” requirement. DSU, 471 F.3D at 1311.

### **What’s Happening to our State of Mind?**

Moving then to the development of the issue, the SEB panel decision noted that inducement requires a showing of specific intent to encourage another’s infringement, and framed the question in terms of what is meant by “specific intent.” SEB, 594 F.3d at 1376. Key in the SEB decision is the assertion by the panel that “specific intent” is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists. Recognizing that its decision would likely be viewed as a departure from DSU, the court reconciled its decision by noting that “‘deliberate avoidance’ is not a standard less than knowledge; it is simply another way that knowledge may be proved.” Id. at 1377.

The panel continued by asserting that “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. In the case of SEB, the panel noted that the record contained adequate evidence to support a conclusion that the accused “deliberately disregarded a known risk that SEB had a protective patent.” The panel also drew support for its conclusion based on the fact that the accused failed to inform its counsel that it copied the product, noting that this “would be highly suggestive of deliberate indifference.” Id.

Thus, in its attempt to define DSU’s specific intent requirement, the panel in SEB started with a recognition of DSU’s clear statement that, with regard to inducement, an alleged infringer must know of the patent. It then moved to a discussion of “knowledge” of the patent, and equated knowledge with “deliberate disregard of a known risk.” If “deliberate disregard of a known risk” constitutes knowledge, it is constructive knowledge at best. This means that one can induce infringement of a patent without knowing about the patent. And with repeated phrases in the panel decision like “deliberate avoidance,” “deliberate disregard of a known risk,” “deliberate indifference,” and “deliberately ignore,” it is at least arguable that the court’s conclusion lowers the state of mind requirement for inducement.

It is particularly interesting to note that the SEB panel agreed with the district court’s decision that although a jury could have found that the Seagate standard of objective recklessness was satisfied, the evidence regarding Pentalpha’s willfulness was not so one-sided or overwhelming so as to allow the court to conclude that a jury was required to find willful infringement. Thus, in SEB, the panel held that the evidence was sufficient to find that Pentalpha induced the infringement of the patent, but that such infringement was not willful. Given the fact that the state of mind requirement for inducement is supposed to be higher than that of willfulness (specific intent vs. recklessness), this is a conclusion properly termed irreconcilable.

This contradiction raises several questions. For example, how can the same evidence be sufficient to support a conclusion that Pentalpha had knowledge of SEB’s patent under a specific intent standard, but insufficient to support a conclusion that Pentalpha either knew or should have known of a risk of infringing SEB’s patent? If Pentalpha had knowledge (albeit constructive knowledge) of SEB’s patent under a specific intent standard, should not Pentalpha have known that there was a risk of infringing that patent?

It is counterintuitive to treat the state of mind requirements of inducement and willfulness differently. From a jurisprudential perspective, one might argue that the SEB decision diluted DSU’s “knowledge of the patent” requirement to a “known or should have known” standard, and, thus, the state of mind requirement for inducement and willfulness are both “known or should have known.” From a logical perspective, if an alleged infringer has knowledge of a patent and employs that knowledge to induce infringement of that patent, it follows that the alleged infringer must also have known that there was a risk of infringing that patent. Thus, the state of mind in knowing that a patent exists for the purpose of inducing infringement of that patent should, necessarily, be the same as the state of mind in knowing that there was a risk of infringing that patent.

## **So How Does the SEB Decision Affect Risk Assessment?**

The question of the need for opinions of counsel is also revived. In *Broadcom*, the panel was clear that an exonerating opinion of counsel could serve as a defense to a charge of inducement if it provides a belief that the conduct induced did not infringe the patent or that the patent was invalid (because there is a true specific intent standard). *Broadcom*, 543 F. 3d at 699. If the mental state requirement for inducement is now being moved back toward a recklessness standard, and thus in line with *Seagate*, does not the opinion of counsel issue change? Moreover, how can one obtain an opinion of counsel for a patent about which he has no actual knowledge?

The reality at this point is that the waters remain muddied and the best counsel will advise clients to wade carefully through its clearance studies. Perhaps most notable is the fact that, after SEB, there is a heightened need to search for patents. Before, a party might have been satisfied with knowing what patents cover its product. Now, a client should look for patents which might cover uses of that product and other downstream activities of a client's customers. Remember, the Federal Circuit has held that inducement can be established if the accused acts with deliberate disregard of a known risk.

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