



SEB v. Montgomery Ward: Extending the Reach of U.S. Patent Laws to Foreign Defendants—Developments in the Law of Direct Infringement and Inducement

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Introduction

The Federal Circuit's recent decision in *SEB S.A. v. Montgomery Ward & Co., Inc.*, Nos. 2009-1099, -1108, -1119, 2010 U.S. App. LEXIS 2454 (Fed. Cir. Feb. 5, 2010) ("SEB") addresses a defendant's liability for inducement as well as for direct infringement. It is significant in that it may expand the scope of infringement liability, particularly for foreign defendants, in multiple respects.

Consideration of potential infringement liability under 35 U.S.C. § 271(b)¹ for "active inducement" can be particularly important for foreign entities, because the other types of infringement may, depending on the factual circumstances, be difficult to establish. Direct infringement under 35 U.S.C. § 271(a) requires that infringers commit one of the enumerated acts—making, using, offering to sell, selling, or importing—"within the United States." Thus, where all such activities take place outside of the U.S., a foreign entity cannot be liable for direct infringement. If a claim of direct infringement is not viable, the two types of indirect infringement—contributory infringement and inducement—must next be considered. Liability for contributory infringement may be precluded in circumstances where the product or component at issue² is capable of "substantial non-infringing uses." 35 U.S.C. § 271(c). In such circumstances, this leaves inducement as the sole possible path to infringement liability.

Since 2006, *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc) ("*DSU*"), has significantly improved defendants' chances of defeating a charge of inducement. In *DSU*, the en banc Federal Circuit held that the "specific intent" requirement necessary to establish inducement requires that the plaintiff prove that the defendant either knew or should have known that his acts would induce actual infringement, and that this necessarily required the defendant to have knowledge of the patent at issue. Merely establishing that the defendant intended to induce the acts that happened to constitute infringement is not sufficient. *DSU*, 471 F.3d at 1304. Thus, under *DSU*, if the alleged infringer had no knowledge of the patent-at-issue, he could not be found to have the necessary intent to induce infringement, and therefore could not be found to be an inducer.

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¹ 35 U.S.C. § 271 (b) states that "Whoever actively induces infringement of a patent shall be liable as an infringer."

² Bundling non-infringing features together with an infringing feature in a given product is not sufficient to provide protection from a claim of contributory infringement. However, if the feature at issue is capable of substantial non-infringing uses, this would preclude a claim of contributory infringement. See *Lucent Techs. Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1320-21 (Fed. Cir. 2009) (holding that the question of "substantial non-infringing use" is to be addressed at the feature level); *Ricoh Co. v. Quanta Computer Inc.*, 550 F.3d 1325 (Fed. Cir. 2008).

SEB Provides That a Party Can Be Liable for Inducement Even Where It Had No Prior Knowledge of the Patent-in-Suit

The *SEB* decision limits *DSU* and broadens the standard for inducement of infringement under 35 U.S.C. § 271(b) by directly addressing the level of knowledge that an alleged inducer must have of the patent-at-issue. Whereas the standard for inducement previously announced in *DSU* included “the requirement that [the alleged infringer] knew of the patent,” 471 F.3d at 1304, the Federal Circuit in *SEB* found liability for inducement under circumstances where there was no evidence that the defendant actually knew of the patent-in-suit, 2010 U.S. App. LEXIS 2454, at *37-38, *7-8. In concluding that inducement does not require proof of actual knowledge of the patent-in-suit, the Court distinguished *DSU* and articulated a broader standard for inducement liability. *Id.* at *31-38. Specifically, under *SEB*, inducement may be established by showing that the defendant deliberately disregarded the risk that a patent existed. *Id.* at *37-38.

It is noteworthy, however, that the facts of *SEB* were somewhat extreme. First, this was an unusual patent case that involved direct copying. Specifically, in order to develop its deep fryer product, Defendant Pentalpha (a Hong Kong corporation) purchased one of Plaintiff SEB’s deep fryers in Hong Kong and copied every aspect of it, changing only the cosmetics. *Id.* at *4-5. Second, although Pentalpha hired a U.S. attorney to conduct a right-to-use study, it did not inform him that it had based its product on the SEB product. *Id.* at *5. Thus, while the attorney analyzed the claims of twenty-six patents and concluded that the deep fryer did not infringe any of the claims, he did not uncover the SEB patent-at-issue. *Id.* Finally, SEB had previously sued Sunbeam, Pentalpha’s customer and re-seller of its deep fryers, for patent infringement and Pentalpha knew of the suit and subsequent settlement. *Id.* But even after learning of the SEB-Sunbeam lawsuit in April of 1998, Pentalpha continued to sell the same deep fryers to other customer-resellers, including Fingerhut and Montgomery Ward. *Id.* at *5-6.

SEB initiated litigation against Pentalpha by moving for a preliminary injunction. *Id.* at *6. The U.S. District Court for the Southern District of New York granted the preliminary injunction after a claim construction hearing and a determination that SEB was likely to succeed in establishing infringement at trial. *Id.* The District Court’s preliminary injunction order subsequently was affirmed by the Federal Circuit. *Id.* After Pentalpha redesigned the accused product, SEB sought to supplement the preliminary injunction to include the redesigned product. *Id.* at *6-7. The district court granted this motion as well, again concluding that SEB was likely to succeed in establishing that the redesigned product infringed, this time under the doctrine of equivalents. *Id.* at *7.

The case then moved on to a full trial on the merits. Significantly, as to the inducement claim, there was no evidence presented at trial that Pentalpha was aware of the SEB patent prior to April of 1998. *Id.* at *8. Accordingly, at the close of evidence, Pentalpha moved for Judgment as a Matter of Law on SEB’s inducement claim, arguing that a charge of inducement cannot be sustained as a matter of law where there was no evidence that anyone at Pentalpha “had any knowledge whatsoever with respect to the existence of the patent.” *Id.* at *7 (quoting J.A. 2209). The district court denied the motion, finding that “you could infer the specific intent to . . . encourage the infringement by the fact that [Pentalpha’s president] doesn’t disclose that [Pentalpha copied the SEB product] to the people doing the [patent] search.” *Id.* at *8 (quoting the trial court’s Rule 50(a) motion proceedings). Accordingly, the district court allowed SEB’s inducement claim to reach the jury. *Id.* at *8-9. The jury found that Pentalpha directly infringed and also induced others to infringe both versions of the deep fryer products. *Id.* at *9.

On appeal, Pentalpha challenged the jury’s inducement finding, arguing that since there was no evidence that it knew of the SEB patent, it could not, as a matter of law, be liable for actively inducing infringement under the standards of *DSU*.

The Federal Circuit flatly disagreed. The court explained that there is no requirement that a defendant have knowledge of the actual patent at issue in order to be an inducer. *Id.* at *36. Rather, it is sufficient if the defendant is

“deliberately indifferent” to the risk that a patent exists, i.e., the defendant subjectively knew of and disregarded the overt risk that a patent existed.³ *Id.* at *33-35. The court reasoned that “the standard of deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge,” *Id.* at *34, noting that a party’s knowledge of a particular fact may be proved through evidence that he “consciously avoided knowledge of what would otherwise have been obvious [to] him.” *Id.* at *34-35 (quoting *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005)).

As for *DSU*, the Federal Circuit explained that “[t]he facts of *DSU Medical* did not require this court to address the scope of the knowledge requirement for intent. Instead, the court resolved conflicting case law setting forth both a requirement to knowingly induce infringement and to merely knowingly induce the acts that constitute direct infringement.” *Id.* at *32. Because the defendant in *DSU* had actual knowledge of the patent, the “knowledge of the patent” issue was not before the court in *DSU*. *Id.*

The court concluded 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. This case shows such an instance. The record contains adequate evidence to support a conclusion that Pentalpha deliberately disregarded a known risk that SEB had a protective patent.” *Id.* at *36. This included evidence that: (i) Pentalpha purchased an SEB deep fryer in Hong Kong and copied all but the cosmetics; (ii) Pentalpha hired an attorney to conduct a right-to-use study, but did not tell him that it had copied SEB’s product; (iii) Pentalpha’s president was well versed in U.S. patent law and knew of other SEB patents; and (iv) Pentalpha did not produce any exculpatory evidence tending to establish that Pentalpha actually subjectively believed that an SEB patent did not exist. *Id.* at *36-37.

The Federal Circuit specifically indicated that “[t]his opinion does not purport to establish the outer limits of the type of knowledge needed for inducement.” *Id.* at *38. As one additional example, the court noted that inducement may also be proven without actual notice, where there is constructive notice of the patentee’s patent rights based on evidence of patent marking and the clear disregard of such patent markings by the accused infringer. *Id.*

***SEB* Reinforces That Foreign Defendants Who Sell Allegedly Infringing Products on an F.O.B. Basis Outside of the United States Can Still Be Liable for Direct Infringement for Selling Within United States**

The *SEB* decision also addressed the issue of whether foreign defendants who sell the allegedly infringing products on an f.o.b. basis outside of the United States, thus legally transferring title to the products outside the U.S., can still be liable for direct infringement under 35 U.S.C. § 271(a). In this regard, *SEB* followed the recent Federal Circuit precedent in *Litecubes, LLC v. Northern Light Products, Inc.*, 523 F.3d 1353 (Fed. Cir. 2008), in holding that a foreign defendant who sells the allegedly infringing products f.o.b. outside of the United States may still be liable as a direct infringer based on the act of “sell[ing] ... within the United States” under 35 U.S.C. § 271(a). *SEB*, 2010 U.S. App. LEXIS 2454, at *30.

In this case, the sales from Pentalpha to Sunbeam were f.o.b. Hong Kong or mainland China. *Id.* F.o.b. means “free on board,” and is a method of shipment whereby goods are delivered to a stated location, at which legal title then passes from the seller to the buyer. *Litecubes*, 523 F.3d at 1358 n.1. Thus, technically speaking, *SEB*’s sales transaction was outside of the U.S., and its customers were responsible for the product after that point.

³The court also noted that an accused infringer may defeat a showing of subjective deliberate indifference to the existence of a patent if it shows that it was genuinely “unaware even of an obvious risk.” *Id.* at *34 (quoting *Farmer v. Brennan*, 511 U.S. 825, 844 (1994)). Thus, the standard of deliberate indifference is not the same as a “should have known standard.” The latter is an objective standard, while the former “may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed.” *Id.* at *33-34.

However, the record in *SEB* contained evidence that Pentalpha intended the ultimate destination of the products to be the United States: the deep fryers were manufactured with North American electrical fittings; Pentalpha had affixed the American trademarks of Sunbeam, Fingerhut, and Montgomery Ward on the products; and the sales invoices all specified delivery to U.S. destinations. 2010 U.S. App. LEXIS 2454, at *30-31.

As noted above, based on the above facts, the jury also concluded that Pentalpha directly infringed the SEB patent. On appeal, Pentalpha also challenged the jury's direct infringement finding. Specifically, Pentalpha argued that the district court erred by instructing the jury that it could consider "where the products were shipped from and where the products were shipped to" in determining if a sale occurred within the United States for purposes of direct infringement. *Id.* at *28 (quoting jury instructions).

The Federal Circuit concluded that the direct infringement finding was not in error. The court noted that "the only evidence on which Pentalpha relies to argue that its sales occurred overseas was that it delivered its products to Sunbeam, Motgomery Ward, and Fingerhut f.o.b. Hong Kong or mainland China." *Id.* at *30. Quoting *Litecubes*, 523 F.3d at 1370, the Federal Circuit again emphasized that it had "rejected the notion that because goods were shipped f.o.b., the location of the 'sale' for purposes of § 271 must be the location from which the goods were shipped." *Id.* The f.o.b. terms are not dispositive. Thus, the court's instruction that the jury could consider "where the products were shipped from and where the products were shipped to" in determining if a sale occurred in the United States was not error. *Id.* Indeed, the court concluded that other evidence of record was sufficient to establish that Pentalpha intended to sell its deep fryers directly into the United States. *Id.* at *30-31.

Conclusions: Lessons Learned from SEB

SEB marks a shift away from the understanding that actual knowledge of the patent-in-suit is required in order to be potentially liable as an active inducer. Specific intent to induce infringement (and not merely an intent to induce the acts that lead to infringement) must still be established. However, this does not mean that actual knowledge of the patent is required. If there is evidence that the defendant "deliberately disregarded the risk that a patent existed," a defendant may still be liable for inducing infringement, even where there is no evidence regarding any actual knowledge of the patent.

On the direct infringement front, *SEB* is another in the line of recent Federal Circuit cases that emphasize that even where the sale transaction technically takes place outside the U.S., the seller can still be liable as a direct infringer 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:

- Foreign firms with manufacturing and sales activities outside of the U.S. must remain aware of direct infringement risks. Both *Litecubes* and *SEB* make clear that even where title to goods is technically transferred outside of the U.S., this is not enough to avoid potential liability as a direct infringer if 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.⁴

- 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.⁵

⁴ Under the patent marking statute, 35 U.S.C. § 287(a), a patentee need not mark a product with the patent number of method claims; only patents with apparatus claims are subject to patent marking. Furthermore, non-U.S. products will likely not be marked in accordance with the U.S. marking statute. See *SEB*, 2010 U.S. App. LEXIS 2454, at *38.

⁵ Recent case law in the area of inducement suggests that opinions of counsel remain relevant and useful as evidence that can be used to rebut a charge of inducement. Importantly, the failure to obtain an opinion may also be used in support of a charge of inducement. See *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2008) (finding that opinion-of-counsel evidence remains relevant in the inducement context in determining the intent of an alleged infringer). Generally speaking, under the post-Seagate standards for willfulness and waiver of privilege in connection with opinions of counsel, the overriding purpose of obtaining opinions is less for use as evidence to rebut a claim of willful infringement, and more to obtain frank risk-management advice. However the opinion is ultimately used, it behooves parties obtaining opinions to arm opinion counsel with the full background facts.