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PIPLA NEWS

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"DELIBERATE INDIFFERENCE" TO A PATENT WOULD BE SUFFICIENT TO SUPPORT AN INDUCEMENT FINDING

Ying Cao – Jones Day

In *SEB (T-Fal) v. Montgomery Ward & Co.* (Fed. Cir. 2010), the Federal Circuit held that "deliberate indifference" to the existence of a patent would be sufficient to support an inducement finding.

Defendant Pentalpha is a Hong Kong corporation and a subsidiary of defendant Global-Tech, a British Virgin Islands corporation, which was formerly known as Wing Shing International, Ltd. In developing its deep fryer, Pentalpha purchased a SEB deep fryer in Hong Kong and copied its "cool touch" features.

Pentalpha began selling its accused deep fryers to non-party Sunbeam Products, Inc. in 1997. Shortly after agreeing to supply Sunbeam, Pentalpha obtained a "right-to-use study" from an attorney in Binghamton, New York. The attorney analyzed 26 patents and concluded that none of the claims in those patents read on Pentalpha's deep fryer. Pentalpha, however, did not tell the attorney that it had copied an SEB deep fryer. Pentalpha also sold the same deep fryer to non-party Fingerhut Corp. and defendant Montgomery Ward. Pentalpha's three customers resold the Pentalpha deep fryers in the United States under their own trademarks.

SEB sued Montgomery Ward, Pentalpha and others for infringement of its patent covering the deep-fryer, Patent No. 4,995,312. SEB won a jury verdict of willful infringement and was awarded $4.6 million in damages, but the district court reduced the damage award to $2 million and refused to award enhanced damages for willfulness citing *Seagate*.

Part of the SEB decision revolved around the question of induced infringement. Under 35 U.S.C. 271(b), "[w]hoever actively induces infringement of a patent shall be liable as an infringer." The defendant argued that it could not have induced infringement because it had no actual knowledge of the patent, relying on *DSU Medical v. JMS* (Fed. Cir. 2006) (holding that 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").

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The Federal Circuit suggested that the quoted *DSU Medical* statement was dicta and held that "deliberate indifference" to potential patent rights is sufficient to satisfy the knowledge requirement of inducement charges. Thus, "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."

The court noted that "deliberate indifference" is not necessarily a "should have known" standard. The latter implies a solely objective test, whereas the former may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed. The standard of deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge.

The Federal Circuit agreed with the district court that there was adequate evidence to support a conclusion that the defendant deliberately disregarded a known risk that SEB had a protective patent. In particular, the Federal Circuit noted (1) that the defendant had copied SEB's product; and (2) that the defendant hired a patent attorney to conduct a right-to-use study but did not tell the patent attorney that it had copied the SEB product; and (3) that the defendant's president was well versed in US patent law. The court stated that a failure to inform one's counsel of copying would be highly suggestive of deliberate indifference in most circumstances.

Thus, the Federal Circuit affirmed the district court's finding of inducement and the jury verdict.

President Obama's $2.322 Billion Fiscal Year 2011 Budget Request for the USPTO

Kathryn M. Cooper – BECK & THOMAS, P.C.

On February 1, 2010, David Kappos announced President Obama's $2.322 billion fiscal year 2011 budget request for the USPTO. The President's budget request will support a five-year plan designed to meet specific goals including: significantly reducing the patent pendency periods and the existing patent inventory backlog, improving patent quality, and enhancing intellectual property protection and enforcement.

To achieve these goals, the USPTO will:

(1) achieve 3% annual efficiency gains in patents processing through the re-engineering of management and workflow processes; and

(2) initiate a targeted hiring surge and hire 1,000 patent examiners annually during FY 2011 and FY 2012, targeting former patent examiners and IP professionals who will require minimal training and can be productive virtually from the start of their employment.

"The USPTO's 2011 budget represents a significant investment in American innovation," Commerce Secretary Gary Locke said. "We must reduce the unacceptably long time it takes to patent a new idea or technology and improve our enforcement of intellectual property. Doing so will help create jobs and enhance the long-term competitiveness of the U.S. economy."

The FY 2011 budget request projects fee collections of $2.098 billion. The administration is proposing an interim fee increase on certain patent fees which is estimated to generate $224 million.

More details on the USPTO's five-year strategic plan will be released in the second quarter of 2010.

Federal Circuit Reins in Damages Award

Ying Cao – Jones Day

In *ResQNet.com, Inc. v. Lansa, Inc.* (Fed. Cir. 2010), the Federal Circuit vacated a damages award of about $500k and held that the lower court had "relied on speculative and unreliable evidence divorced from proof of economic harm linked to the claimed invention." This decision, together with the Federal Circuit's previous decision to vacate a $357 million verdict in *Lucent v. Gateway* (Fed. Cir. 2009), signals to litigants and district court judges that "speculation" and "superficial testimony" are insufficient to support damages awards.

The statutory minimum damages for patent infringement is a "reasonable royalty." The calculation of a "reasonable royalty" typically involves a "hypothetical negotiation" to calculate the rate at which the patentee would have licensed the patent to the infringer prior to the infringement. The Federal Circuit stated: "a reasonable royalty analysis requires a court to hypothesize, not to speculate." In particular, the appellate court held that the only relevant evidence is evidence related to "compensation for the economic harm caused by infringement of the claimed invention."

The claimed invention involved a method of communicating data between a host computer and a remote terminal. The district court awarded $506,305 in reasonable royalty damages after infringement was found, based on a hypothetical royalty rate of 12.5%. The plaintiff's damages expert had looked at royalty rates of two types of licenses: (1) a group of "re-bundling licenses," as part of which the plaintiff/patentee had provided "finished software products and source code, as well as services such as training, maintenance, marketing, and upgrades"; and (2) a single license

limited to the patented technology. A group of re-bundling licenses have royalty rates of 25% to 40%, while a single-patent license has a much lower royalty rate (in the range of 5%). The plaintiff's expert chose the hypothetical 12.5% royalty rate as a number "somewhere in the middle."

The Federal Circuit rejected this approach for two reasons. First, the plaintiff's expert "offer[ed] little or no evidence of a link between the re-bundling licenses and the claimed invention." Although the plaintiff's expert suggested in his testimony that the re-bundling licenses were somehow related to the asserted patent, the appellate court found insufficient evidence to establish that any of the products or services provided to the licensees actually embodied the claimed invention. Thus, the court held that "[t]he re-bundling licenses simply have no place in this case."

Second, the Federal Circuit criticized the plaintiff's expert for relying on licenses that covered more than what was in the patent, e.g., training, marketing, and customer support services. The appellate court stated that the royalty analysis "must consider licenses that are commensurate with what the defendant has appropriated. If not, a prevailing plaintiff would be free to inflate the reasonable royalty analysis with conveniently selected licenses without an economic or other link to the technology in question."

The Federal Circuit held that the defendant's failure to offer any expert testimony on damages to counter the plaintiff's expert does not remove the patentee's burden to properly prove its damages.

Thus, the Federal Circuit found that the district court had not fulfilled its obligation to "carefully tie proof of damages to the claimed invention's footprint in the marketplace" and vacated the damages award.

Judge Newman wrote a dissent in which she criticized the panel for "creat[ing] a new rule whereby no licenses involving the patented technology can be considered, in determining the value of the infringement, if the patents themselves are not directly licensed or if the licenses include subject matter in addition to that which was infringed by the defendant here."

USPTO Launches Targeted Effort to Recruit Patent Examiners

The USPTO has launched a targeted patent examiner hiring initiative to help reduce the patent application backlog. Director of the USPTO David Kappos has sent a letter to many patent attorneys and patent agents asking them to consider joining the USPTO examiner corps.

THE CUTTING EDGE

In The Cutting Edge, we break down the best of the best pending patent applications and recent patent grants to give you a preview of the next great invention that is coming soon to your neighborhood. For example…

BATTER BITER

(U.S. Patent No. 5,976,037)

It is absolutely vital that a baseball batter focuses his eyes on the ball from the time the ball is thrown by the pitcher to the time the batter swings to hit the coming ball. If a batter is easily distracted, he could be tempted to take a quick look around, just as the ball is headed his way. Then most likely he'll hear the umpire utters :"Strike!"

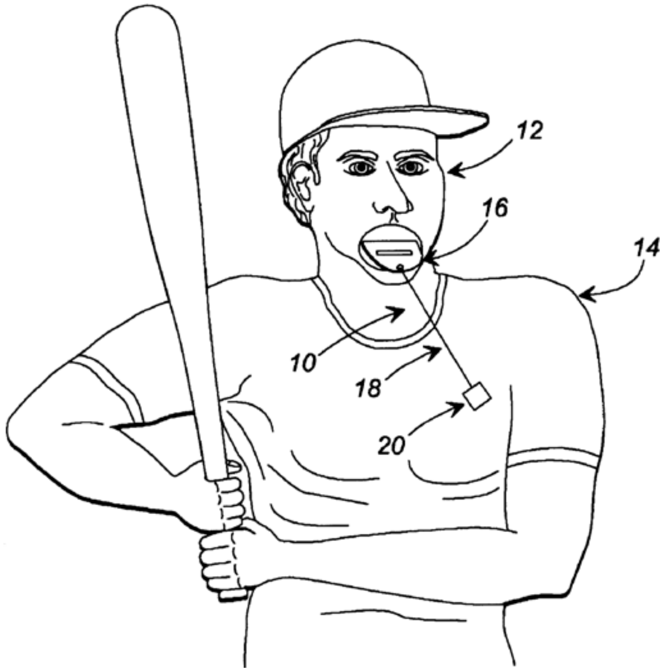
So what's a short attention span baseball batter to do? It's time to get him a Batter Biter! This device will help a batter stay focus and prevent any undesirable head movement.

As shown in the figure, the device comprises a mouth piece 16 for controlling a batter's head movement, when attached through a cord 18 to a particular position of the batter's clothing 14. Through a clamp or a pin 20, the cord 18 is secured at the batter's clothing.

To use this device, a batter needs to clamp his teeth onto the mouthpiece. Next, the batter attaches the clamp or pin at his jersey far enough away from the mouth piece to ensure the cord is substantially extended. The tension produced by the cord helps to impede any motion of the batter's head away from the clamp or pin.

Accordingly, the batter performs the swing in a more desirable form which allows the batter to maintain visual contact with the ball being struck.

TIP: a batter's attempt of awkward head movement with the device on may make the pitcher laugh so hard that the batter will probably get a walk to first base.



FROM THE NEWSLETTER COMMITTEE

We hope you've enjoyed this issue of the 2009/2010 PIPLA News, an informative and hopefully entertaining look at the goings on in IP law. We invite our entire readership to contribute to this endeavor with articles, announcements, and job postings of your own. If you have something you would like included in PIPLA News or have questions about how you can contribute, please contact Matt Johnson at 412-394-9524 or at mwjohnson@jonesday.com.

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