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Contributory Infringement and Inducement of Infringement

- Analysis and Application -

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LaserDynamics Wins $52m Damages in Quanta Patent Suit

Friday, July 10 06:43 am

COMPUTER BUSINESS reviewONLINE *ComputerWire Staff*

Japan-based LaserDynamics has won $52m in damages from Taiwan's Quanta Computer after winning a patent infringement suit filed in the US District Court of Texas regarding a patent covering computer technology to recognize a CD or DVD.

The jury ruled that Quanta contributed to or induced infringement of LaserDynamics' patent. Quanta said it will appeal against the ruling.

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LaserDynamics v. Quanta cont'd.

- Eastern District of Texas
- Only one **method** claim at issue:

3. An optical disk reading method comprising the steps of:

processing an optical signal reflected from encoded pits on an optical disk until total number of data layers and pit configuration standard of the optical disk is identified;

collating the processed optical signal with an optical disk standard data which is stored in a memory; and

settling modulation of servomechanism means dependent upon the optical disk standard data which corresponds with the processed optical signal;

(c) the servomechanism means including:

a focusing lens servo to modulate position of a focusing lens; and

a tracking servo to modulate movement of a pickup.

  - No direct infringement

- Finding of inducement and contributory infringement
- **$52M plus willful damages (potentially $150M+)**

A patent can be infringed in three ways.

(1) Direct infringement

(2) **Inducement of infringement**, and

(3) **Contributory infringement.**

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35 U.S.C. 271(b) – Inducement to Infringe.

- "Aiding and abetting" -

- (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
- Bank heist analogy
- The patentee must establish:
  - Direct infringement, and
  - Alleged infringer **knowingly** induced infringement and possessed **specific intent** to encourage another's infringement

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35 U.S.C. 271(b) – Inducement to Infringe.

- “Aiding and abetting” -

- The act of:
  - **Instructing**, **Directing**, or **Advising** a third party how to infringe a patent.
- Supplying a kit of components, with instructions and the intent that the end users use it for assembling an infringing product.
- Activity induced must be a **direct infringement**.
- Inducers must have **more than knowledge** of planned infringement, they must actively intend that result.

Inducement - Example.

Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660 (Fed. Cir. 1988)

- **Aqua-Chem.** owns patents related to bactericidal resins used as disinfectants for purifying water.
- **Water Tech.** purchased licenses (from Aqua-Chem.) and developed a drinking cup for campers using these resins.
- **Calco** manufactured and sold water purifying drinking straws also containing bactericidal resins which Water Tech. claimed infringed.
- **Gartner** was the president of a chemical laboratory and worked as a consultant for Calco.

Inducement – cont'd.

Water Technologies Corp. v. Calco, Ltd.

- Gartner contacted Aqua-Chem and indicated he was interested in taking a license for the resin patents.
  - Aqua-Chem gave Gartner its preferred formula on the basis that Gartner would assist it in licensing its products.
- Gartner then turned around and gave the patented Aqua-Chem resin formula to Calco
  - In connection with supposedly licensing **his own** invention to Calco.
- Calco started making the purifying drinking straws using Aqua-Chem.'s patented resin.
- Water Tech., as the Aqua-Chem. licensee, sued Calco and Gartner for patent infringement.

Inducement – cont'd.

Water Technologies Corp. v. Calco, Ltd.

- Calco liable for direct infringement.
  - Purifying straws Calco sold infringed the Aqua-Chem. patents
- Gartner liable for inducement.
  - Intent may be **inferred** from **all** circumstances.
  - Knowingly induced infringement.
  - Possessed specific intent to encourage another's infringement.

Inducement – cont'd.

Water Technologies Corp. v. Calco, Ltd.

- The court relied on the following actions of Gartner (circumstantial evidence):
  - Provided all of the resin formulas to Calco.
  - Helped Calco make the infringing resins.
  - Prepared consumer use instructions.
  - Exerted control over Calco's manufacture of the infringing resins (trademark license).
    - Such control is also evidence that Gartner induced infringement.
    - Design of infringing product may constitute active inducement.

Inducement – cont'd.

Water Technologies Corp. v. Calco, Ltd.

- The Lesson
  - Court can rely on circumstantial evidence to prove inducement.
    - Rarely will a defendant admit that it encouraged another to infringe a patent.
  - Individuals and companies alike who do not own or sell the accused products can still be held as infringers
  - Look at all types of evidence
    - Emails between employees
    - Internal Memos
    - Advertising material encouraging end users to use their devices to infringe methods
    - Communications to direct infringers
    - Everything is fair game to show "aiding and abetting"

Inducement – cont'd.
- Specific Intent -

DSU Medical Corp. v. JMS Co. Ltd., 471 F.3d 1293 (Fed. Cir. 2006)

- This is the **LEADING** case on Inducement
- Patent directed to a device for enclosing a needle that was only infringed when the device was situated in a "closed" configuration
  - Defendant ITL claimed that it did not infringe because it shipped open and got an opinion letter
- Federal Circuit made en banc finding
  - En banc means that all of the Judges heard the appeal – only occurs with very important issues
- That the **intent** required for inducement is to **cause another to infringe the patent**
  - Not merely the intent to cause the acts that happen to constitute infringement:
  - More than just intent to cause the acts that produce direct infringement.
  - Must have an **affirmative** intent to cause direct infringement.
- Inducement requires evidence of **culpable conduct**
- **Difficult** to prove that accused inducer has the required mental state.

Inducement – cont'd.
- Specific Intent -

***DSU Medical Corp. v. JMS Co. Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006)**

- The Lesson
  - Must be **specific** intent to infringe the patent.
    - Not merely to make the device or perform the method
    - Avoids abuse of doctrine
    - Reduces potential defendants
  - Knowledge of the patent and encourage others active infringing of it.

Inducement – cont'd.

- Challenges – Mental State –

Kinetic Concepts, Inc. v. Blue Sky Medical Group, Inc., 554 F.3d 1010 (Fed. Cir. 2009)

- Patents at issue related to treating difficult-to-heal wounds by applying suction.
  - The treatment of open wounds that are too large to spontaneously close.
  - Some wounds are sufficiently large or infected that they are unable to heal spontaneously.
- Blue Sky thought it did not infringe the KCI patents
  - Because it believed its Versatile products performed the well known prior art Chariker-Jeter method of healing wounds
- Blue Sky's belief was **incorrect**
- However, the court held that because of its belief, KCI **did not** have the required intent for inducement.

Inducement – cont'd.

- Challenges – Mental State –

***Kinetic Concepts, Inc. v. Blue Sky Medical Group, Inc.*, 554 F.3d 1010 (Fed. Cir. 2009)**

- The Lesson
  - Reasonable belief of non-infringement can prevent inducement.
    - This can include belief that prior art invalidates patent.
  - Testimony of key personnel can be very important to evidence the mental state of the corporation.

Inducement – cont'd.

- Challenges – Mental State –

Ecolab, Inc. v. FMC Corp., --- F.3d ----, 2009 WL 1605334 (Fed. Cir. 2009)

- Ecolab and FMC sell chemical products used by beef and poultry processors to reduce pathogens, such as E. coli and salmonella, on uncooked beef and poultry.
  - Both have patents directed to this technology.
- Ecolab filed an action against FMC for patent infringement and FMC counterclaimed that Ecolab infringed its patent.
- The question of inducement related to Ecolab's Inspexx-branded products for treating beef and poultry.

Inducement – cont'd.

- Challenges – Mental State –

Ecolab, Inc. v. FMC Corp.

- The Court found that Ecolab personnel **reasonably believed** that FMC's patent claims did not cover the use of Inspexx.
  - Ecolab's witness, Dr. Cords testified re: antimicrobial agents and prior art and why Ecolab did not believe it infringed
  - Even though Ecolab's product was ultimately found to infringe, Ecolab did not induce infringement because it lacked the required intent.
- Ecolab personnel reasonably believed that the use of Inspexx would not infringe FMC's patent claims
  - "**Reasonable belief**" of Ecolab's personnel that its customer's product would not infringe prevented a finding that Ecolab induced infringement.

Inducement – cont'd.

- Challenges – Mental State –

Ecolab, Inc. v. FMC Corp.

- The Lesson
  - Like Kinetics, reasonable belief of non-infringement can prevent inducement.
    - This can include belief that prior art invalidates patent.

Inducement – cont'd.

- Challenges – Mental State -

- Opinion Letters -

- Opinion Letter
  - Letter from Attorney to Client stating that Client's products or processes do not infringe the alleged patents.
  - Usually for the purpose of avoiding "willful infringement"
  - Another way for a defendant to show that it did not possess the **specific intent** to induce infringement.

Inducement – cont'd.
- Challenges – Mental State -
- Opinion Letters -

- Opinion Letter
  - Letter from Attorney to Client stating that Client's products or processes do not infringe the alleged patents.
  - Usually for the purpose of avoiding "willful infringement"
    - Can waive attorney-client privilege and all related communications
  - In re Seagate
    - Deemphasized opinion letters
    - Changed test to "objective recklessness"
  - Another way for a defendant to show that it did not possess the **specific intent** to induce infringement.
    - Distinguish from willfulness

Inducement – cont'd.

- Challenges – Mental State -

- Opinion Letters –

Broadcom Corp. v. Qualcomm, Inc., 543 F.3d 683 (Fed. Cir. 2008).

- Qualcomm produced chipsets and sold the chipsets to its customers who incorporated those chipsets into cell phones
  - For wireless voice and data communications.
- Qualcomm **provided instructions** to its customers
  - How to use the chip set
  - Caused its customers to infringe directly.
- Broadcom alleged Qualcomm **induced** its customers' infringement of Broadcom's patents.
- For Broadcom to prove that Qualcomm induced its customers to infringe, the court held that Broadcom had to show that:
  - Qualcomm's **customer directly infringed** the patent.
  - Qualcomm **knowingly induced** its customer's infringement and **actively encouraged** its customer to infringe.

Inducement – cont'd.

- Challenges – Mental State -

- Opinion Letters –

Broadcom Corp. v. Qualcomm, Inc.

- Broadcom's position
  - Jury should make a "negative inference."
    - Because Qualcomm had not obtained an opinion from its attorney that its customers would not infringe.
    - Mental state.
- Qualcomm's position
  - No requirement to obtain opinion letter
    - Because opinion letters were no longer required to defend against a claim of **willful infringement** (In re Seagate Technologies).
    - The same should apply with respect to inducement.

Inducement – cont'd.

- Challenges – Mental State -

- Opinion Letters –

Broadcom Corp. v. Qualcomm, Inc.

- The Federal Circuit sided with patentee Broadcom
  - Holding that the "intent" standards for willful infringement and inducement were **different**.
  - The jury could draw a **negative inference** from the fact that Qualcomm did not submit an opinion letter.
    - This was devastating to Qualcomm.
  - Such a letter would include an opinion as to whether the accused infringer's conduct would cause its customer to directly infringe, i.e., whether the customer's product infringed.

Inducement – cont'd.

- Challenges – Mental State -

- Opinion Letters –

Broadcom Corp. v. Qualcomm, Inc.

- Consequences
  - Inducement is a common cause of action
  - Opinion may require accused infringers to, once again, obtain opinion letters
    - This time, to protect against claims of inducement of infringement.
    - Will revive the expensive and complicated disputes over attorney-client privilege waiver that were somewhat resolved by the Seagate case.

Inducement – Summary & Practice Tips

- Tips for the Plaintiff
  - Write several different types of claims – method, apparatus, means plus function claims
    - Aim for all potential different layers of defendants (not just manufacturers)
  - discover evidence from opinions of counsel – keep the pressure on – local rules may not provide “out” for defendant – a subtle move for sophisticated plaintiff
  - Exploit internal emails and correspondence relating to patent.
  - Find advertising material that may show uses of device.
  - Find all communications with direct infringers
  - FIND THAT HEIGHTENED LEVEL OF SPECIFIC INTENT

Inducement – Summary & Practice Tips

- Tips for the Defendant
  - Get legitimate and quality opinion letters right away to negate specific intent; these letters should specifically address the issue of direct infringement by your customer as well as your own potential infringement
  - Be careful about internal communications and references to patent
    - Even if your company does not make device – it can still induce infringement.
  - Your patent engineers have to evaluate not only apparatus claims, but methods also. Claims that your customer can infringe – Inducement can be sneaky and a trap for the unwary

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35 U.S.C. 271(c) – Contributory Infringement.

- (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.

Contributory Infringement – cont'd.

- Purpose
  - To protect patent rights from **subversion** by those who engage in acts designed to facilitate infringement by others
- The law requires three factors to make a case for contributory infringement;

  (1) a sale,

  (2) of a **material component** of a patented invention, and

  (3) **knowledge** that such component has been **especially made** for use in the infringement of a patented invention.

Contributory Infringement.

- Covers activity of the **defendant** that causes another to directly infringe a patent.
- Without a **direct infringement**, there can be no contributory infringement.
- It is **not necessary** to bring actions against **both** the direct and contributory infringers
  - only that the direct infringement must have occurred.

Contributory Infringement – Example.

***Aro Mfg. Co. v. Convertible Top Co.*, 377 *U.S.* 476 (1964)**

- The Supreme court case that has been the corner stone of this area of law.
- Combination patent covering a convertible top-structure for **particular** automobile convertibles.
  - Original equipment in GM and Ford convertibles.
- Aro produced fabric components designed as replacements for worn-out fabric **portions** of the convertible tops.
  - Aro's fabrics were **specially tailored** for installation in particular models of convertibles having the patented convertible top structure.
- CTR (as licensee) brought this action against Aro including claim of contributory infringement
  - Replacement fabrics made and sold by Aro.
  - **Not** the entire convertible top (Aro not a direct infringer).

Contributory Infringement – cont'd.

Aro Mfg. Co. v. Convertible Top Co.

- **Direct** infringement by the car owners was unquestionably established.
  - Prerequisite to contributory infringement.
- Here was a unique case in which the **component** was hardly **suitable** for any noninfringing use.
  - Fabric component for **particular** type of convertible top which was patented.
- **Knowledge** of infringement
  - Letter dated January 2, 1954 - AB (owner of technology that licensed to CTR) informed Aro that it held the patent.
    - Anyone selling ready-made replacement fabrics for these automobiles would be guilty of contributory infringement of said patent
  - Therefore, **knowledge** implied by January 2, 1954.

Contributory Infringement – cont'd.

Aro Mfg. Co. v. Convertible Top Co.

- The Lesson
  - Replacement convertible fabric was a material part of the invention.
    - The convertible tops needed material
  - The fabric was especially made to infringe AB's patent.
    - Specially cut and designed to exactly fit bows.
  - No substantial noninfringing use
    - The fabric could not be used on other types of cars or tops – it was specifically tailored
  - Converse to inducement, knowledge of infringement does not require similar mental state
    - Need to be aware of the patent
    - Knowledge of the "uniqueness" of the supplied component detracts from defenses.
    - No encouragement or culpability needed

Contributory Infringement – cont'd.

Ricoh Co. v. Quanta Computer, Inc., 550 F.3d 1325 (Fed. Cir. 2008)

- The patents in suit are directed to various aspects of optical disc drive technology.
  - Recordable optical discs and disc drives (e.g., CD-R, DVD-R) allowing a user to permanently record data, and rewritable optical discs and disc drives (e.g., CD-RW, DVD-RW) allow a user to record, erase, or overwrite data.
- Quanta sold optical disc drives to NU Technologies which, in turn, sold the drives to consumers.
  - When consumers use the drives to **save information**, the hardware and embedded software operate in a manner that allegedly infringes the patents

Contributory Infringement – cont'd.

Ricoh Co. v. Quanta Computer, Inc.

- The court held that Quanta **did not directly infringe** any of the patents.
- Quanta argued that it was not liable for contributory infringement.
  - Because its disk drives were **capable** of being operated in a non-infringing manner.
- The Federal Circuit held that Quanta was liable for contributory infringement.
  - Quanta had just added additional non-infringing features to an infringing product and then claimed that the larger product had "substantial non-infringing uses."
  - Even if a **small part of the device is adapted solely to perform** a patented process, the seller may be liable for contributory infringement.
  - Further, intent presumed because of non-infringing use.

Contributory Infringement – cont'd.

Ricoh Co. v. Quanta Computer, Inc.

- Lesson
  - Adding non-infringing features to an infringing product will not absolve liability for "substantial non-infringing uses."
    - Focus on the component of the device alleged to infringe
  - Even if a small part of the device is adapted solely to perform a patented process, the seller may be liable for contributory infringement.
  - Intent - one who sells a product containing a component that has no substantial noninfringing use does so with the intent that the component will be used to infringe.

Contributory Infringement – cont'd.

Golden Blount v. Peterson, 438 F.3d 1354 (Fed. Cir 2006)

- Patent on a fireplace burner assembly.
  - Plaintiff alleged that the defendant, who sold burner "kits" contributed to his customer's infringement of the patent.
  - Plaintiff claimed Peterson was a contributory infringer.
    - Because the instructions to assemble the burner would only permit the user to assemble the unit so that it would operate in an infringing manner.
  - Defendant was not able to prove that any user had ever assembled the burner so that it would operate in a non-infringing manner
    - Held liable for contributory infringement.

Contributory Infringement – cont'd.

Golden Blount v. Peterson, 438 F.3d 1354 (Fed. Cir 2006)

- Lesson
  - Even if there are "non-infringing uses," the court will look to how the device was actually used
  - Instructions can be dispositive.
    - Telling someone how to infringe a patent can illustrate the primary use for the product.

Contributory Infringement – cont'd.

Cornell University v. Hewlett-Packard Co., 2009 WL 1117389 (N.D.N.Y. 2009)
(opinion by Judge Rader of the Federal Circuit)

- Patent on a computer processor architecture which greatly boosts computer speed.
  - Multiple and out of order computer process instructions in a single clock cycle – enhance throughput – prior devices one instruction at a time.
  - Cornell and CRF charged HP with infringement arising out of the sale of billions of dollars worth of "heavy lifting" servers embodying the accused microprocessors.
  - HP alleged to induce and contribute to **customers**' infringement.
- Court held:
  - Accused products satisfied each element of the asserted claims and infringement by Hewlett-Packard's customers.
  - No substantial noninfringing use for the accused products.
    - Accused components especially made to issue to infringe patent
    - HP was held liable for contributory infringement.

Contributory Infringement – Summary & Practice Tips

- Tips for plaintiff
  - Write patent claims to cover all companies and users in the supply chain
    - Method claims to cover consumers (direct infringers)
    - Apparatus claims directed to entire device to cover retailers and OEMS
    - Apparatus claims directed to critical components to cover particular defendants (who may have limited resources)
  - Use the threat of adding these defendants to the lawsuit to pressure your adversary into a settlement
  - Subpoena information from these companies to force them to produce confidential communications with defendant
  - Notice depositions of these companies to put more pressure on the defendant

Contributory Infringement – Summary & Practice Tips

- Tips for defendant
  - Redefine the allegedly infringing technology
    - Rather than a microprocessor, try the entire device (disk, drive, etc.) – this can show that there are non-infringing uses
  - Shift liability
    - Are there other defendants who could also be liable?
    - Is your component only a small percentage of the value of the product (minimize damages)
  - Carefully evaluate the patent and “work-arounds”
    - Look at the prosecution history and Festo issues .
    - Find out what the applicant has given up.
    - In the case of patent trolls, their patents may have vulnerability as the troll may not be familiar with the field of practice

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

LASERDYNAMICS, INC.,
Plaintiff,

vs.

QUANTA COMPUTER, INC.,
Defendants.

CASE NO. 2:06-CV-348

VERDICT FORM

QUESTION NO. 1:

Do you find by a preponderance of evidence that Quanta Computer, Inc. ("QCI") contributed to or induced infringement of claim 3 of the '981 patent?

Answer "Yes" or "No" to each listed product below:

SBW243: Yes

SBW242: Yes

SBW245: Yes

SDR083: Yes

SBW246: Yes

SDW085: Yes

SDR08B: Yes

SDW086: Yes

SDR08C: Yes

SDW087: Yes

SDR089: Yes

UBW241: Yes

SDW088: Yes

SDW041: Yes

SDW042: Yes

SDW082: Yes

Thank you.

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