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INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Intent in Infringement Explored In Patent and Trademark Cases

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An unusual 6-5 split on a petition seeking rehearing en banc highlighted a debate among Federal Circuit judges on difficult issues concerning induced patent infringement.

Under §271(b) of the Patent Act, anyone who "actively induces infringement of a patent" is liable as an infringer. The U.S. Court of Appeals for the Federal Circuit held en banc in *DSU Medical v. JMS*, 471 F.3d 1293 (Fed. Cir. 2006) that inducement requires that the alleged infringer knowingly induced infringement, and not merely knowingly induced the acts that constitute direct infringement. The Federal Circuit relied on *Metro-Goldwyn-Mayer Studios v. Grokster*, 545 U.S. 913 (2005), which held that liability for inducing copyright infringement is premised on "purposeful, culpable expression and conduct."

In *Global-Tech Appliances v. SEB*, 131 S.Ct. 2060 (2011) the Supreme Court confirmed that liability for induced patent infringement must be based on knowledge that the induced acts constitute patent infringement, and further that the knowledge requirement can be satisfied by showing actual knowledge or willful blindness as opposed to recklessness or negligence. The Supreme Court explained that a "willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts." This is different from: (1) a reckless defendant, who merely knows of a "substantial and unjustified risk of such wrongdoing," or (2) a negligent defendant, who "should have known of a similar risk but, in fact, did not."

These principles were applied in *Commil USA v. Cisco Systems*, 720 F.3d 1361 (Fed. Cir. 2013), a patent case involving induced infringement claims. The jury awarded $63.7 million to Commil after it was instructed that it could find inducement if "Cisco actually intended to cause the acts that constitute direct infringement and that Cisco knew or should have known that its actions would induce actual infringement." The Federal Circuit determined that this instruction was faulty because it allowed liability based on a negligence standard.

A split panel also held that the district court erred in preventing Cisco from presenting evidence of its good-faith belief of invalidity to rebut knowledge of induced infringement. The panel majority reasoned that because "one cannot infringe an invalid patent," "evidence of an accused inducer's good-faith belief of invalidity may negate the requisite intent for infringement."

Judge Pauline Newman dissented, writing that a good-faith belief of patent invalidity "is not a defense to the fact of infringement." She reasoned that the inducement statute does not import a validity criterion or a good-faith belief about validity into proof of infringement, and doing so is contrary to the principle that a "mistake of law, even if made in good faith, does not absolve a tort-feasor." She concluded that the "fact of infringement does not depend on whether the inducer's view of patent validity is held in good faith or bad faith" as "[v]alidity and infringement are distinct issues, bearing different burdens, different presumptions, and different evidence."

On Oct. 25, 2013, a divided Federal Circuit denied Cisco's petition for rehearing en banc by a 6-5 margin. The five dissenters wrote that the panel majority erred in establishing a "substantive, precedential change in patent law" in holding that a good-faith belief in the invalidity of a patent may negate the requisite intent

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for induced infringement. The dissent pointed out that the inducement statute uses the term "infringement" throughout and imposes liability for meeting all the limitations of a patent claims. It argued that infringement and invalidity are considered separate issues and that the Patent Act mandates a presumption of validity. Separately, four judges dissented from the denial of rehearing en banc on the additional basis that a change in the law should be considered by the full court and not just a panel.

The panel majority's view reflects the view that a defendant who has a good-faith belief in invalidity believes that it is not infringing that patent because "one cannot infringe an invalid patent." On the other hand, the dissenters urged a strict definition of the meaning of infringement that is not tied to invalidity. Just as a direct infringer of patent rights cannot escape liability based on a belief that the patent is invalid, neither should the inducer of infringement—who is just as, if not more, culpable of patent infringement. The competing views expressed in *Commil* are also indicative of the occasional divisions of the Federal Circuit, where six of the 12 active judges began serving on the court in the past five years.

Copyright

United States v. Liu, 2013 WL 5433753 (9th Cir. Oct. 1, 2013) vacated a conviction for criminal copyright infringement, stressing that criminal copyright infringement requires proof of a defendant's specific intent to infringe a copyright, and that general intent to copy is insufficient. In instructing the jury, the district court erred by defining "willfully infringed" without the crucial requirement that the defendant knew he was committing copyright infringement and omitting any instruction that evidence of reproduction or distribution of a copyrighted work is not by itself sufficient to establish willful infringement of a copyright. Because of those flaws, the jury could have convicted without finding that defendant knew his actions were unlawful. Further, the U.S. Court of Appeals for the Ninth Circuit held that the instructional errors were not harmless in light of evidence that the defendant did not know he was illegally copying copyrighted material.

> Two district courts reached different results concerning extraterritorial application of the Lanham Act.

In re AutoHop Litigation, 2013 WL 5477495 (S.D.N.Y. Oct. 1, 2013) denied American Broadcasting Companies' (ABC) motion for a preliminary injunction preventing Dish Network from offering its PrimeTime/AutoHop service that allows Dish subscribers to record prime time television shows and then view them with the commercials automatically fast forwarded. The Southern District of New York reasoned that ABC failed to demonstrate likelihood of success of direct copyright infringement because the customer—not Dish—must take the initial step of enabling the PrimeTime / AutoHop service. Therefore, the customer is the "creator of the recording" and "makes the copy."

ABC also failed to demonstrate that it was likely to succeed on its claim that Dish is liable for secondary copyright infringement because Dish has no control over whether its subscribers will enable the service or what they will choose to copy and because Dish offered evidence that any copying constitutes fair use of ABC's programming. While ABC argued that it would suffer irreparable harm from the loss of advertising revenues based on the service, ABC did not offer any evidence of actual imminent injury. The court noted that the service had been on the market for several months prior to ABC's motion and ABC submitted no evidence of an actual increase in relevant commercial-skipping due to the service.

Trademark

Two district courts reached different results concerning extraterritorial application of the Lanham Act. *Trader Joe's v. Hallatt*, 2013 WL 5492515 (W.D. Wash. Oct. 2, 2013) dismissed trade dress infringement claims for lack of subject matter jurisdiction over acts that occurred in Canada, even though the accused infringer was a permanent resident of the United States. Trader Joe's filed suit against Michael Hallatt, owner of a Canadian retail grocer, Pirate Joe's, for the unauthorized resale of Trader Joe's goods. Hallatt admitted to crossing the border from Canada to the United States to purchase Trader Joe's goods at full retail prices for resale in Canada. The Court found that Hallatt's permanent resident status and frequent trips to the United States to purchase Trader Joe's products were likely sufficient to support extraterritorial jurisdiction, but ultimately concluded that Trader Joe's had failed to establish cognizable injury under the Lanham Act.

The Western District of Washington noted that "[e]ven if Canadian consumers are confused and believe they are shopping at Trader Joe's or an approved affiliate when shopping at Pirate Joe's, there is no economic harm to Trader Joe's because the products were purchased at Trader Joe's at retail price." Although Trader Joe's argued that Pirate Joe's operations would reduce the number of Canadians crossing the border to shop at Trader Joe's, the court found no authority for applying the Lanham Act to acts that would cause foreign customers to buy infringing products in their home country instead of purchasing a legitimate product here in the United States.

By contrast, *RMS Titanic v. Exhibitions*, 2013 WL 5675523 (N.D. Ga. Oct. 17,

2013), ruled that subject matter jurisdiction under the Lanham Act was proper over extraterritorial acts committed by U.S. citizens. Plaintiffs run a business staging an exhibition designed "to take visitors on a chronological journey through the life of the RMS Titanic," from the building of the ship "to the ruins on the ocean floor." Plaintiffs sued Thomas Zaller, a U.S. citizen who allegedly infringed their protected trade dress by staging substantially the same exhibition in Macau.

> In 'Commil,' the panel majority's view reflects the view that a defendant who has a good-faith belief in invalidity believes that it is not infringing that patent because "one cannot infringe an invalid patent." On the other hand, the dissenters urged a strict definition of the meaning of infringement that is not tied to invalidity.

While noting that "[h]ow to apply the Lanham Act extraterritorially has evolved over time," the Northern District of Georgia concluded that this case fell within Congress' "broad power to regulate the conduct of its citizens in foreign countries." The court noted allegations that Zaller had marketed his infringing exhibit in the United States and created consumer confusion about the origination and operators of the competing exhibits. However, the court dismissed trade dress infringement claims against a foreign corporation owned by Zaller based on the corporation's involvement in staging the competing exhibit in Macau. In so doing, the court determined that there was no basis for piercing the corporate veil to treat the foreign corporation as a U.S. citizen.

In *Logan Developers v. Heritage Bldgs.*, 2013 WL 5460757 (E.D.N.C. Sept. 30, 2013), the Eastern District of North Carolina dismissed Logan's false designation of origin claims under Section 43(a) of the Lanham Act as being "virtually identical" to *Dastar v. Twentieth Century Fox Film*, 539 U.S. 23, 29 (2003). In *Dastar*, the Supreme Court considered whether Fox could maintain a Section 43(a) Lanham Act claim against Dastar for purchasing Betacam videotapes of a TV series originally created by Fox, copying and modifying the videotapes, and then selling the videotapes as Dastar's creation without any attribution to Fox. The Supreme Court held that the answer was no, explaining that "origin" under Section 43(a) only refers to the origin of physical goods and not origin of the intangible ideas contained therein.

Here, Heritage, a home design and construction business, had obtained from a prospective client Logan's architectural plans for various home designs. Heritage allegedly copied and modified the designs, then sold and advertised this design to its clients stamped with Heritage's company seal and copyright information without attribution to Logan. The district court found that, because Heritage obtained Logan's architectural plans from a prospective client and not from Logan itself, Logan was not the "origin" of the physical goods at issue. For that reason, *Dastar* foreclosed Logan's Section 43(a) claims. Of note, the court declined to limit the application of *Dastar* to copied goods that had already been dedicated to the public domain.

Patents

In two decisions, the Federal Circuit clarified the test for patent exhaustion established in *Quanta Computer v. LG Electronics*, 553 U.S. 617, (2008). *Keurig v. Sturm Foods*, 2013 WL 5645192 (Fed. Cir. Oct. 17, 2013) held that Keurig's patented method claims—directed to brewing a beverage contained in a disposable cartridge—were exhausted and thus not infringed by Sturm's manufacture and sale of cartridges for use in Keurig's coffee brewers. The Federal Circuit held that exhaustion was triggered by Keurig's initial authorized sale of patented brewers that completely practiced the claimed invention. The court rejected the argument that Keurig's method claims were saved from exhaustion because a consumer could potentially use non-Keurig cartridges in a Keurig brewer in a noninfringing way. To hold otherwise, the court reasoned, would effectively allow Keurig to preclude an individual who purchased one of its brewers from using a non-Keurig cartridge with that machine.

Exhaustion was also the issue in *LifeScan Scotland v. Shasta Technologies*, 2013 WL 5878598 (Fed. Cir. Nov. 4, 2013), which vacated a preliminary injunction prohibiting Shasta from making, using or selling its blood glucose test strips. The accused products were Shasta's blood glucose strips designed to work with patentee LifeScan's blood glucose meters. LifeScan manufactures and sells 40 percent of its meters at below cost and distributes the remaining 60 percent for free through health care providers with the expectation that customers who use the meters will buy LifeScan's test strips. LifeScan accused Shasta of indirectly infringing method claims directed at measuring the concentration of a substance (e.g., glucose) in a sample liquid (e.g., the user's blood sample) through a device that measures electric current.

The Federal Circuit held that transfer of LifeScan's meters to health care providers and users exhausts LifeScan's patent rights, given that the meters embody the essential features of the patent. Considering an issue of first impression, the court held that the fact that meters were distributed for free, rather than sold, did not affect the exhaustion analysis. The court cited copyright cases holding that the first sale doctrine draws no distinction between gifts and sales.