

Parental Guide then made a demand on Thomson for a contingent payment based upon the royalty rate contained in the Rule 68 offer and incorporated into the court's final judgment. Thomson argued that no contingent payment was owed under the release and license agreement and refused to make such a payment, which resulted in the present *Parental Guide of Texas, Inc. v. Thomson, Inc.* case.

### The Result and the Court's Reasoning

The Court of Appeals for the Federal Circuit affirmed the district court's ruling that no litigation royalty had been "expressly determined . . . in accordance with the law applicable to 35 U.S.C. § 284" in the patent infringement lawsuit, and that Thomson did not, therefore, owe Parental Guide a contingent payment under the release and license agreement.

In reaching its decision, the Court of Appeals noted that the specific statutory provision referenced by the parties in their definition of litigation royalty—35 U.S.C.A. § 284—requires that "[u]pon finding for the claimant *the court* shall award the claimant damages adequate to compensate for the infringement," that "[w]hen the damages are not found by a jury, *the court* shall assess them," and that "[*t*]he court may receive expert testimony as an aid to the determination of damages or what royalty would be reasonable under the circumstances." The court therefore reasoned that by specifically referencing 35 U.S.C.A. § 284 in the definition of litigation royalty, the release and license agreement unambiguously contemplated that a litigation royalty would be a reasonable royalty that was determined *by a judge or a jury* through the express application, *by the judge or the jury*, of a list of factors long since established in the case law (*i.e.*, the *Georgia-Pacific* factors). However, under Rule 68 of the Federal Rules of Civil Procedure, the terms of the judgment were agreed upon by Mitsubishi and Parental Guide; the court had no input into any of the terms, nor any discretion to alter or modify the terms. More specifically, neither the judge nor jury made an express determination of a reasonable royalty, nor did the judge or jury undertake an evaluation of the *Georgia-Pacific* factors. By merely entering the Rule 68 judgment, the court had simply entered a judgment in which Mitsubishi and Parental Guide had already agreed to certain damages. Thus, Thomson did not owe Parental Guide any contingent payment under the release and license agreement.

### Lessons Learned

There is a fairly good chance that Parental Guide, in negotiating and drafting the release and license agreement with Thomson, did not envision or intend for the outcome reached by the court. However, if Parental Guide had desired coverage broader than what could be reasonably inferred from a reference to Section 284 of the Patent Statute, it could have and should have taken the time and care to negotiate and draft specific language that would have achieved its desired outcome, rather than simply relying upon language that referred to a seemingly applicable statutory provision. As noted by the court *Parental Guide*:

"[i]f the parties had wished that any royalty rate determined in the lawsuit, such as the agreed-upon royalty rate of the Rule 68 judgment, could be used to compute a contingent payment, it would have been a matter of the utmost simplicity to write language in the Agreement that provided for a royalty rate not burdened by the requirements of section 284."

Accordingly, when you and/or your attorneys are negotiating and drafting an agreement, you should try to avoid relying upon a specific statutory provision to govern an outcome where it is not necessary to do so, and where it is just as easy, although perhaps a little bit more time consuming, to set forth in detail exactly what you wish the outcome to be. Moreover, when someone involved in the negotiation initially insists upon referring to a specific statutory provision to govern an outcome, insist on sitting down with him or her to play out what that outcome may actually be. If it is not what you intend, if it is not clear, or if more than one outcome—one or more of which may be less desirable than the others—could result, take the time and care to set forth in detail in the agreement exactly what you wish the outcome to be.

It is during the negotiation and drafting of an agreement that you have the best control over what the outcome of the agreement will be. Once an agreement is executed and a dispute that cannot be resolved by the parties arises, it is no longer you, but a judge or jury, that will dictate the outcome. As the *Parental Guide* case illustrates, a reference in your agreement to a specific statutory provision could be interpreted more narrowly than you originally envisioned, and could lead to an unintended and undesirable outcome.

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## ***DSU Medical Corp. v. JMS Co.: Clarifying the Standard to Prove Inducement of Patent Infringement under 35 U.S.C.A. § 271(b)\****

*Jason S. Shull and Michael L. Krashin*

*Jason S. Shull is a shareholder with Banner & Witcoff, Ltd. Jason's practice comprises all areas of intellectual property law, with a focus on patent, trademark, and copyright litigation. Jason has experience in representing plaintiffs and defendants in all phases of litigation, from pre-trial investigation through jury trials and appeals. Michael L. Krashin is an associate with Banner & Witcoff, Ltd., and his practice focuses on patent and trademark litigation.*

In 1990, the United States Court of Appeals for the Federal Circuit issued its opinions in *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*<sup>1</sup> and *Manville Sales Corp. v. Paramount Systems, Inc.*,<sup>2</sup> the two decisions that form the backbone of the court's modern jurisprudence on inducement of patent infringement under 35 U.S.C.A. § 271(b).

Documented by practitioners, commentators, and more recently by the Federal Circuit itself, these two decisions appear to set forth differing standards for intent to establish inducement of patent infringement under § 271(b).

The differing standards set forth in *Hewlett-Packard* and *Manville Sales* have been a source of confusion for practitioners and district courts. This confusion, however, should now be at an end as the Federal Circuit recently clarified the standard in the *en banc* portion of its opinion in *DSU Medical Corp. v. JMS Co.*<sup>3</sup> In *DSU Medical*, the court made clear that the intent required for liability under § 271(b) “was stated in *Manville Sales Corp.*[:] “[t]he plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce infringements.”

Section 271(b) specifies that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.” Under the *Hewlett-Packard* standard, it appeared that the patentee only needed to prove that the inducing infringer had intent to cause the acts which constituted the infringement. In other words, the focus of the inquiry was whether the inducing infringer possessed the intent to cause a third-party to directly infringe the patent, irrespective of the inducing infringer’s subjective belief as to whether the third-party’s actions actually constituted direct infringement. In contrast, under the *Manville Sales* standard, the patentee had to prove that the inducing infringer’s actions caused direct infringement and that the inducing infringer knew or should have known his actions would induce direct infringement. Unlike the *Hewlett-Packard* standard, the *Manville Sales* standard required evidence of the inducing infringer’s specific intent to cause direct infringement.

The Federal Circuit first acknowledged the apparent split in its authority governing the requisite level of intent in *Insituform Technologies, Inc. v. CAT Contracting, Inc.*<sup>4</sup> The *Insituform* panel, consisting of Judges Mayer, Michel, and Schall, observed that “there is a lack of clarity concerning whether the required intent must be merely to induce the specific acts [of infringement] or additionally to cause an infringement.” While this panel acknowledged the split, a survey of Federal Circuit case law since *Insituform* demonstrates that the court—prior to its recent *DSU Medical* opinion—did little to reconcile the competing standards or clarify which standard was the appropriate standard. The Federal Circuit successfully avoided articulating exactly which standard applied by either: (1) finding sufficient evidence of intent to meet both standards; or (2) determining that no evidence of intent existed to meet even the lower *Hewlett-Packard* standard.

For example, the court in *Insituform* stated that it “need not resolve any ambiguity in the case law on this point because there [was] sufficient evidence to support the district court’s finding under either standard.” The court adopted the same approach in *Golden Blount, Inc. v. Robert H. Peterson Co.*,<sup>5</sup> where it acknowledged the lack of clarity concerning the law governing intent to cause inducement and chose not to address the issue on the basis that there

was sufficient evidence presented in the lower court to satisfy both standards.

In *MercExchange L.L.C. v. eBay, Inc.*,<sup>6</sup> and then five months later in *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*,<sup>7</sup> the court avoided the issue by finding that the plaintiffs failed to present evidence to find intent under either standard. Thus, while the Federal Circuit documented the split, it repeatedly failed to clarify which standard was the appropriate standard. Moreover, it remained unclear how the Federal Circuit would decide an appeal where the evidence of record fell somewhere between the two standards, *i.e.*, where sufficient evidence of intent existed to meet the lower *Hewlett-Packard* standard, but not the higher *Manville Sales* standard.

As to be expected, the differing standards caused confusion for practitioners and district courts alike. One area that highlights the confusion was how to instruct a jury on the inducement to infringe claim in view of the differing standards of intent. For example, the District of Delaware’s model jury instructions seem to incorporate the lower *Hewlett-Packard* standard.<sup>8</sup> The relevant jury instruction states that one induced infringement if “he actively and knowingly aided and abetted someone else to make, use or sell” the patented product. Significantly, the jury instruction goes on to instruct jurors that “[y]ou may find that defendant induced infringement even if there is an express warning against the infringement, if the material containing the warning nonetheless invites the infringing activities under the circumstances.” Thus, it appears that all that is required under the District of Delaware’s instruction to show intent is that the defendant possessed the intent to cause the acts which constitute the infringement, irrespective of the defendant’s subjective belief as to whether its actions constitute direct infringement.

In contrast, the Northern District of California’s model jury instructions clearly incorporate the more demanding *Manville Sales* standard.<sup>9</sup> The relevant jury instruction adopted by the Northern District of California states “[i]t is not enough that the [alleged infringer] knew only of the acts alleged to constitute infringement, [the alleged infringer] must have known that those acts actually constituted infringement.”

The Federal Circuit’s recent decision, *DSU Medical Corp. v. JMS Co.*, should end the confusion caused by the competing standards. In *DSU Medical*, the court set forth that inducement requires that the alleged inducer: (1) knowingly caused the acts that constituted direct infringement; and (2) possessed specific intent to encourage those acts of direct infringement. Judge Rader, writing the *en banc* portion of *DSU Medical*, made clear that the intent required for liability under § 271(b) was set forth in *Manville Sales*, which requires that the alleged inducer knew or should have known its actions would induce actual infringement.

In addition, while the Supreme Court’s decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*<sup>10</sup> was a copyright case, Judge Rader cited that decision approvingly for its guidance on inducing patent infringement. Judge Rader wrote that *Grokster* “clarified that the intent requirement for inducement requires more than just intent

to cause the acts that produce direct infringement.” Judge Rader also concluded that *Grokster* validated the state of mind requirement that the Federal Circuit previously set forth in *Manville Sales*. Finally, Judge Rader emphasized that the standard set forth in *Manville Sales* requires that the alleged inducer have knowledge of the patent.

Notably, in a concurring opinion, Judges Michel and Mayer wrote that while they agree with the *en banc* panel’s conclusion, they did not think that there was an actual conflict between the standards set forth in *Hewlett-Packard* and *Manville Sales* such that the court needed to address the issue *en banc*. Judges Michel’s and Mayer’s statement that there is no actual conflict between *Hewlett-Packard* and *Manville Sales* is somewhat surprising in view of the fact that both Judges Michel and Mayer were on the *Insituform* panel, which was the first panel to acknowledge the lack of clarity stemming from the *Manville Sales* and *Hewlett-Packard* decisions. Moreover, Judge Michel was on the *MercExchange* and *Golden Blount* panels that also acknowledged, but failed to resolve, the competing standards of intent set forth in *Hewlett-Packard* and *Manville Sales*.

While it took the Federal Circuit a couple of years to go from acknowledging the split in its case law regarding the requisite intent to establish inducement of patent infringement to actually clarifying the standard, after sixteen years of apparently competing standards, there is now one

standard. In *DSU Medical Corp. v. JMS Co.*, the Federal Circuit clarified that inducement of patent infringement requires that the alleged inducer: (1) knowingly caused the acts that constituted direct infringement; and (2) possessed specific intent to encourage those acts of direct infringement. In the coming months, this one standard should end the confusion that has percolated for the last sixteen years, and lead to greater clarity in this area of patent law for the benefit of practitioners and district courts alike.

#### ENDNOTES

1. 909 F.2d 1464 (Fed. Cir. 1990).
  2. 917 F.2d 544 (Fed. Cir. 1990).
  3. —F.3d —, Nos. 04-1620, 05-1048, 04-1052, 2006 WL 3615056 (Fed. Cir. Dec. 13, 2006).
  4. 385 F.3d 1360 (Fed. Cir. 2004).
  5. 438 F.3d 1354 (Fed. Cir. 2006).
  6. 401 F.3d 1323 (Fed. Cir. 2005).
  7. 420 F.3d 1369 (Fed. Cir. 2005).
  8. District of Delaware Model Jury Instruction 3.6.
  9. Northern District of California Model Patent Jury Instruction 3.10.
  10. 545 U.S. 913 (2005).
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## A Patent Claim Is Only as Good as Its Specification — The Impact of *Phillips v. AWH Corp.* on Patent Claim Interpretation\*

By Michael R. Friscia and Mark E. Nikolsky

Michael R. Friscia is a partner with McCarter & English, LLP, in its Newark, New Jersey office, ([mfriscia@mccarter.com](mailto:mfriscia@mccarter.com)) (973.639.6987).

Mark E. Nikolsky is an associate with McCarter & English, LLP, in its Newark, New Jersey office, ([mnikolsky@mccarter.com](mailto:mnikolsky@mccarter.com)) (973.639.6987).

Patent claims define the scope of protection afforded by a patent. As such, patent claims determine whether a patent owner can stop an infringer from making, using, selling, or offering to sell the patented invention.

A patent owner can stop an infringer only when the infringing method or apparatus includes all the elements set forth in at least one claim of a patent, either literally or under the Doctrine of Equivalents. Prior to determining infringement, a court must first construe the elements recited in a patent claim; *i.e.*, a court must determine the meaning of words recited in the claim. Importantly, the results of claim construction can have a significant impact on the scope of the asserted claim and, ultimately, the patentee’s ability to prove infringement.

The role of dictionaries in defining patent claim terms has been the subject of some degree of tension in the U.S. Court of Appeals for the Federal Circuit. A recent decision, *Texas Digital Systems v. Telegenix, Inc.*,<sup>1</sup> held that dictionaries are the prime source for determining the “plain meaning” of claim language in an asserted patent. However, a mere

three years later, the Federal Circuit reversed direction and held in *Phillips v. AWH Corp.*<sup>2</sup> that dictionaries are sources of extrinsic evidence that should be resorted to only after consideration of the patent specification, the claims, and the prosecution history. Which of these seemingly opposite decisions was correct, and what will the resulting impact be for patent owners in the future?

### The Dictionary Predominates — *Texas Digital Systems v. Telegenix, Inc.*

In *Texas Digital Systems v. Telegenix, Inc.*, the Federal Circuit relied on a dictionary, in the first instance, to construe claim terminology. The technology at issue related to methods and devices for controlling the color of pixels in a light-emitting diode (LED) display. The patent owner filed a patent infringement lawsuit against the defendant, claiming that a number of patents were infringed by the defendant’s display system. The District Court held that a number of claims of Texas Digital’s patents were valid and infringed, and awarded over \$9 million in damages and prejudgment interest. Telegenix then appealed the decision to the Federal Circuit.

In reviewing the underlying construction of various claim terms by the District Court, including the words “activating” and “display area,” the Federal Circuit referred,