

# **INDUCEMENT AND CONTRIBUTORY INFRINGEMENT THEORIES TO REGULATE PRE- PATENT ISSUANCE ACTIVITY**

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## **Introduction**

{1} Inventors and their companies frequently ask what they can do to stop a competitor from "infringing" on their patentable technology while they are prosecuting their patent application. That question takes on more importance to them when the application process is taking what seems to be an inordinate amount of time. On the other side of the coin, competitors often ask what is the effect of someone else's "patent pending" notice and whether they can be sued for infringement. That question too takes on more importance when the competitor must decide whether to wait until the patent issues and then invent around the patent, but lose potential market share while waiting.

{2} Those questions are of great importance to inventors and companies because they spend thousands and sometimes millions of dollars to develop patentable technology. They need assurance that they will receive patent protection for a particular duration. Likewise, those who spend thousands or millions of dollars to make improvements to, or invent around, patented technology need assurance that, if something is not patented, they are free to use that which is unpatented or in the public domain.

{3}Over the past century, in attempting to balance the competing interests of the would be patent holder and would be infringer, courts' answers to the above questions appear to have come full circle. Early on, it appeared that the simple answer was that there could be no infringement unless a patent had issued. Later, it appeared that the answer was that there could be liability for pre-issuance activity. In other words, if the equities appeared to favor the anticipated patent holder, pre-issuance liability might be found under contributory and inducing infringement theories. And, now, the answer again appears to be that from which the courts started - no infringement exists if no patent exists.

{4}For the time being, the Federal Circuit has balanced itself towards restricting infringement liability to the statutory term of one's patent. This is seen in *National Presto Industries Inc. v. The West Bend Co.*

### **Restricting Infringement to the Patent Term**

{5}Going back to 1850, in *Gayler v. Wilder*, the United States Supreme Court stated that "no suit can be maintained by the inventor against anyone . . . before the patent is issued." Further, in 1888, the United States Supreme Court stated in *Marsh v. Nichols* that "[u]ntil the patent is issued there is no property right in it, that is, no such right as the inventor can enforce."

{6} Through the 1990's, the lower courts and the Federal Circuit have followed the above axioms stated in *Gayler and Marsh*. They have stated that courts cannot regulate activity based upon an assumption that the claims which may eventually issue will cover the activity to be regulated. Indeed, regulating pre-issuance "infringement" activity erroneously assumes, at least in some instances, that an application for patent will actually be made.

{7} In the Federal Circuit, as late as 1991, the propriety of being able to assume that any particular claims will eventually issue was addressed. In *Spectronics Corp. v. H.&B. Fuller Co., Inc.*, the context was a declaratory judgment action for a potential reissue patent. Therein, the original patent had already been submitted to the PTO for reissue. And defendant also covenanted not to sue plaintiff for infringement of the original patent. The Federal Circuit stated:

{8} There is, however, no guarantee that the reissue patent will eventually issue. . . . Furthermore, even if Spectronics had an objectively reasonable apprehension about a future suit based upon the reissue patent, . . . Spectronics cannot demonstrate that its present activity is potentially infringing any patent claims, since it is immune to suit under the claims of the [original] patent, and no reissue patent claims yet exist by which infringement *vel non* can be measured. . . .

{9} Before a patent issues, and during the pendency of a patent application in the PTO, the courts have no claims by which to gauge an alleged infringer's conduct. . . .

{10} Before issuance, what the scope of claims will be "is something totally unforeseeable."

### **The Jones Trilogy - Early Contributory and Inducing Infringement Theories Covering Pre-Issuance Activity**

{11} Notwithstanding the above axioms by the U.S. Supreme Court, lower courts have recognized the asserted inequities that might arise prior to issuance of a patent and which justify regulation. Those asserted inequities have been addressed in the context of contributory and inducing infringement theories under 35 U.S.C. Section 271 which have had a long historical development.

{12} A trilogy of cases was decided between the 1950's and 1970's. They were Jones v. Radio Corporation of America, Weyerhaeuser TimberCo. v. Bostitch, Inc., and Hauni Werke Koerber & Co., K.G. v. Molins Ltd. Those three decisions, which are referred to herein as the Jones trilogy, became the basis for many other decisions which found a need for regulating pre-issuance activity under the theories of contributory or inducing infringement.

{13} In *Jones*, the court explained that "even though [defendant's] acts were all performed prior to the issuance of the patent, if they were performed with intent to infringe the patent when issued or with intent that the infringing conduct continue after the patent was issued, they constitute infringement." Four years later, the *Weyerhaeuser* court used the theory of inducing infringement to find pre-issue infringement based upon acts of licensing drawings and patterns to manufacture the infringing products. This was so, even though there were no post-issuance infringing sales.

{14} In 1974 came *Hauni* which completed the trilogy. The circumstances involved extraterritorial acts of importation and distribution between an overseas parent company and its U.S. subsidiary. The court explained that the "position of one who commits extraterritorial acts of inducement, the effects of which are contemplated to be felt in this country, is not unlike that of one who commits acts of inducement prior to the issuance of a patent for which application is pending, the effects of which are contemplated to be felt after the issuance of the patent." In a footnote, the *Hauni* court also indicated that Section 271(a) is limited to "during the term of the patent therefor," while Section 271(b) does not have the same limitation. The *Hauni* court, however, did not mention that such an interpretation might at least raise the issue extending the patent term.

## Concurrent Decisions Contradicting the Jones Trilogy

{15} In 1962, three years after *Weyerhaeuser*, the court in *Bissell Inc. v. E.R. Wagner Manufacturing Co.* held that the "manufacture and sale of a copied device during the pendency of another's application for a patent therefor does not constitute contributory infringement even though the life expectancy of said product may extend into the term of the patent. . . . Further, [ *Jones* ] and other decisions cited by plaintiff are not authority for the contention that damages for contributory infringement would be allowable for a period prior to infringement after issuance of a patent."

{16} Following *Bissell* came *Thomson Machinery Co. v. LaRose*. The Thomson court explained that a patent pending notice had "no binding legal effect" and had "no legal effect to create an addition to the term of the apparatus patent to begin with the date of their [patent pending notice] rather than the grant date of the patent, and certainly did not arm Patent Holders with a self-created injunctive process which prohibited Thomson from making, using or selling its accused device during the pendency of the patent application." Furthermore, the Thomson court seemed to dispel entirely the risk of liability for pre-issue activity which the Jones trilogy created: "[i]t is clearly erroneous to hold legal assumption of risk in making, using, or selling any product not covered by a patent 'existing' at the time, but later found ex post facto to be covered by [a] subsequently issued patent."

{17}In 1971, the Fifth Circuit repeated in *Inject-O-Meter Manufacturing Co. v. North Plains Fertilizer and Chemical, Inc.* the axiom that there can be no infringement before the patent issues. And while *Hauni* was being decided in 1974, the Second Circuit was also continuing that axiom in *Foster v. American Machine & Foundry Co.*

### **The Procter & Gamble Trilogy - The Refinement of Contributory and Inducement Theories to Reach Pre-Issuance Activity**

#### 1. Developing Rationale for Reaching Pre-Issuance Activity

{18}In 1980, the United States Supreme Court decided *Dawson Chemical Co. v. Rohm and Haas Co.* Although *Dawson* did not specifically address the issues raised in the *Jones* trilogy, it was important because it further focused the rationale for having a contributory infringement theory. It was also important for addressing the sometimes conflicting doctrines of issue of patent misuse and contributory infringement. Perhaps most importantly, *Dawson* appears to give a possible explanation of why the Federal Circuit reached the decision it did in *National Presto* - a line had to be drawn to slow the increasing use of contributory infringement which, in effect, extended the patent term.

{19}The United States Supreme Court explained that the contributory infringement doctrine "exists to protect patent rights from subversion by those who, without directly infringing the patent themselves, engage in acts designed to facilitate

infringement by others. This protection is of particular importance in situations . . . where enforcement against direct infringers would be difficult, and where the technicalities of patent law make it relatively easy to profit from another's invention without risking a charge of direct infringement. The Supreme Court's characterization of the contributory infringement history was that the "difficulty . . . the doctrine has encountered stems not so much from rejection of its core concept as from a desire to delimit its outer contours. . . . The judicial history of contributory infringement thus may be said to be marked by a period of ascendancy, in which the doctrine was expanded to the point where it became subject to abuse, followed by a somewhat longer period of decline, in which the concept of patent misuse was developed as an increasingly stringent antidote to the perceived excesses of the earlier period. And the Supreme Court recognized that the "concepts of contributory infringement and patent misuse 'rest on antithetical underpinnings.' . . . If both the patent misuse and contributory infringement doctrines are to coexist, then, each must have some separate sphere of operation with which the other does not interfere. . . ."

## 2. Required Knowledge for Pre-Issuance Regulation

{20}One year after Dawson, the Northern District of Georgia in *Goodwall Construction Co., Inc. v. Beers Construction Co.* considered the requisite knowledge for inducing infringement under a motion for summary judgment. The involved patent was for a method of finishing concrete surfaces of buildings. Direct infringement was

assumed. Plaintiffs claimed that Southern Bell, after learning of the patent claims, urged and encouraged Beers, a general contractor, to continue construction of Southern Bell's building. This was after Beers had prepared various test panels over two years to develop a surface finish acceptable to Southern Bell. Before the patent issued, plaintiffs advised Beers of the pending application who, in turn, advised Southern Bell. The patent issued four months after the texturing of the outside surface of the Southern Bell building.

{21} Notwithstanding the above, the Goodwall court said that there was no evidence that Southern Bell knew of the pending application. It further found that even though the construction contract between Beers and Southern Bell required the latter to reimburse the former for the cost of tools, it could not be said the Southern Bell encouraged the use or selection of tools. Additionally, the court found that Southern Bell's inspection of the texturing results was not evidence of inducement

{22} The Goodwall court's explanation for finding no inducement was essentially that Southern Bell was carrying out a construction contract entered into long before the patent issued and was free to enforce the provisions of its contract. While not articulated in the opinion, perhaps the specific facts of the case made it easier for the Goodwall court to turn back the tide of prior court decisions and find against inducement. Among other things, and unlike prior decisions, the court was evidently only facing a single infringing product, not fungible goods that could flood a

market. . Therefore, notwithstanding the alleged knowledge of the infringer, it was easier for the court to "delimit" the "outer contours" of the contributory infringement doctrine, as characterized in Dawson.

{23}Following Goodwall, and in an ironic fashion, another trilogy of cases set the stage for the Federal Circuit later taking its position in National Presto on the issue of contributory infringement regulating pre-issuance activity. The three cases were Procter & Gamble Co. v. Nabisco Brands, Inc., then Mixing Equipment Co., Inc. v. Innova-Tech Inc. and finally The Upjohn Co. v. Syntro Corp. The Procter & Gamble trilogy picked up where the Jones trilogy left off - what is the necessary intent in the pre-issuance context for contributory and/or inducing infringement liability. In essence, this trilogy represented a further delimiting of the "outer contours" of such liability theories.

{24}In Procter & Gamble, the court held that "mere knowledge" of a pending application was insufficient to satisfy the required knowledge for inducement. According to the court's reasoning, a contrary "conclusion would be tantamount to extending the period of monopoly based on speculation because there would be no definite knowledge that a patent will issue and what the claims parameters of the patent will be." Finally, the court held that plaintiff must prove that defendants "knew that a patent would issue" and that defendants knew that the patent "claims would cover defendants' products."

{25} Notwithstanding its broad statements, the Procter & Gamble court did make it clear that even though it was controlling pre-issuance activities, damages would be based only on direct infringement during the patent term. Doing so, according to the court's perspective, would not have the effect of extending the patent monopoly. Rather, it would protect the patent holder from infringing acts during the patent term and for which the holder would otherwise have no practical remedy.

{26} At about the same time Procter & Gamble was being decided, the Western District of North Carolina was deciding *Donaldson Co., Inc. v. Pneumafil Corp.* The Donaldson court did not specifically address the possibility that defendant may have been subject to some type of pre-issuance liability. But the factual scenario seemed ripe for such an argument. The defendant was aware of plaintiffs' foreign patent before the United States patent issued. Thus, defendant was perhaps subject to the argument that it had knowledge of plaintiffs' foreign patent claims and, therefore, had an intent to infringe the United States patent since defendant proceeded forward with producing the infringing device in the face of such knowledge. On the other hand, the facts in Donaldson seemed to indicate that the equities sided with defendant, who was essentially trying to invent around plaintiffs' soon to be patented device.

{27} The Eastern District of Pennsylvania then decided *Mixing Equipment* in 1986. The *Mixing Equipment* court recognized the "elementary" rule that without

direct infringement there can be no contributory or inducing infringement. But the court nevertheless considered that the equities justified pre-issuance regulation:

{28} Unfortunately, such direct infringement liability can prove unwieldy. Under this procedure, a person having access to the inventor's forthcoming patent could rush the invention into production, manufacture scores of the product without the inventor's approval, and market them nationwide. By the time the patent is eventually issued, the wrongdoer would escape liability under the Supreme Court's ruling in *Gayler* because he could not be sued for infringing an as-yet- issued patent. Thus, the inventor (sic) would have actions only as against the purchasers of the wrongdoer's product which, assuming nationwide sales, would make a meaningful infringement recovery unpalatably expensive. . . .

{29} [I]f the *Gayler* restriction against pre-issuance liability is applicable to these causes of action [for contributory and inducing infringement], the inventor faces the same dilemma he encountered in a direct infringement action: his effective legal remedy is viscerated by an infringer's early access to his invention and he is left with the potentially enormous burden of proceeding against the numerous direct infringers who purchase the copied product.

{30} Finally, the Mixing Equipment court set forth the elements it believed necessary for finding liability for pre-issuance conduct: (1) the defendant acted "knowingly" to induce or contribute to infringement, (2) the defendant's acts "culminated" in direct infringement, and (3) the direct infringement occurred within the patent term. Because the court then found a dispute over whether the alleged infringer "acted knowingly in consummating the eight sales," summary judgment was denied.

{31} In 1990, the District of Delaware returned with its decision in *Upjohn*. Defendant argued that since it had no knowledge of the scope of the patent, it could not have knowingly induced infringement of the patent yet to issue or, alternatively, there can be no liability for pre-issuance activities. *Upjohn* countered that Syntro knew the "exact nature" of the patent because it had a copy of the patent application. Because of the factual dispute of knowledge, the court denied summary judgment. The *Upjohn* court pointed out that while its earlier decision in *Procter & Gamble* referred to a situation of rushing to the market, such decision was not so limited.

### **The Current Federal Circuit View**

{32} In 1993, the Western District of Wisconsin decided *National Presto Industries Inc. v. The West Bend Co.* The patent at issue was a vegetable cutting device. West Bend moved for summary judgment based on invalidity and noninfringement or, alternatively, for nonrecovery of damages for pre-issuance sales.

{33}The court noted that Presto filed its patent application in 1990. The court found that in 1991 plaintiff and defendant were marketing vegetable cutting devices. In June 1991, Presto learned that West Bend was considering the introduction of an electrical vegetable cutting appliance. Presto then contacted West Bend to arrange a meeting so a determination could be made as to whether West Bend's contemplated appliance would infringe the pending patent claims. West Bend declined.

{34}In July and November 1991, West Bend agreed to indemnify two of its customers from patent infringement relating to West Bend's product which was first sold in September 1991. On November 15, 1991, Presto advised West Bend that the former's patent application had been allowed. On November 25, West Bend agreed to meet with Presto about disclosing the patent application. On November 26, Presto sent West Bend a copy of the allowed claims.

{35}With the above facts, Presto argued that knowledge of the patent should be "imputed" to West Bend since the latter had the opportunity but refused to learn the contents of the pending application. Presto also argued, just as the defendants evidently did in *Weyerhaeuser*, that West Bend's intent to infringe was evidenced by its indemnification agreements with its customers. And it further argued that West Bend could have avoided infringing sales if it had accepted the offer to view the patent.

{36}The Wisconsin district court relied on Procter & Gamble to initially note that direct infringement can only occur during the patent term, whereas inducing and contributory infringement liability can occur before the patent term. The court then recited the three elements identified in *Mixing Equipment* which were necessary for a finding of pre-issuance liability. The court then explained:

{37}For liability to attach, the accused must know that the product it markets prior to the issuance of the patent will "be the subject of infringing retail sales to the public after the patent issued." [citing *Procter & Gamble*] This burden is a difficult one to meet because the accused is unlikely to know the contents of a patent prior to its issuance absent exceptional circumstances. Mere knowledge that a patent is pending is not enough.

{38}The district court continued on by referring to the reasoning in *Mixing Equipment* and *Upjohn* for upholding pre-issuance regulation. But the court found Presto's arguments unpersuasive:

{39}West Bend was entitled to avoid acceding to Presto's terms, which included disclosing its competing product to Presto. Assuming that it is ever appropriate to impose constructive knowledge of a competitor's pending patent, I decline to do so on these facts.

{40} Because the record was "silent as to West Bend's conduct after receiving" a copy of the pending patent on November 25, and since there was no evidence of "predatory sales or other inequitable conduct," the court denied the motion for summary judgment.

{41} On appeal of the summary judgment and jury verdict to the Federal Circuit, Presto argued that West Bend flooded the market with its competing device just months before the patent issued. Presto claimed that West Bend "fully expected that its shipments to retailers in the weeks before patent issuance would be resold in part after patent issuance." According to Presto's argument, liability under Section 271(b) depends on whether West Bend's customer's infringement was "directly, foreseeably, and intentionally" caused by West Bend, irrespective of when West Bend acted. To support its claim that West Bend had "knowledge and culpable intent," Presto relied on West Bend's indemnification agreements with its customers for future infringement liability. Presto further argued that it should be entitled to damages for those devices "placed into commerce" during a "reasonable period" before the patent issued.

{42} In reply, West Bend argued that there is no direct infringement liability for a pending patent application, and the same limitation applies to inducement. According to West Bend, "much can happen to prevent or delay the patent grant, and there are many opportunities for abuse by patentees." Additionally, West Bend

claimed that a patent pending notice imposes no liability but is just a cautionary notice of something which might later occur.

{43}The Federal Circuit's analysis began by noting that it had previously observed that Section 271(b) liability seeks to prevent "actively and knowingly aiding and abetting another's direct infringement." In the Federal Circuit's analysis, the district court had held that West Bend could not be liable for its customer's infringement which was based upon West Bend's pre-issuance activity, even if West Bend had acted in "bad faith." The Federal Circuit viewed the issue before it as whether Section 271(b) provides a remedy against "persons who deliberately place later-infringing items into the chain of commerce before the patent issues."

{44}The Federal Circuit reviewed the decisions in Jones, Weyerhaeuser, Procter & Gamble, Mixing Equipment, and Upjohn. It nevertheless held that as a matter of law Section 271(b) "does not reach actions taken before issuance of the adverse patent." Furthermore, the Federal Circuit believed that liability could not be "imposed retroactively, to make illegal an act that was not illegal when it was done."

{45}The "particularly egregious actions" by West Bend, as referenced by the district court, was considered by the Federal Circuit. It stated that "improper actions," like those in Procter & Gamble for "illicit delay of patent issuance, and other misconduct of the nature of fraud and unfair competition," would still be actionable.

But the "general rule" was that inducement under Section 271(b) would not lie for acts before the patent issued.

### **Some Implications of National Presto**

{46}The Federal Circuit in National Presto did not express whether contributory infringement under Section 271(c) could hold someone liable for pre-issuance activity. Arguably, there should be no pre-issuance liability for contributory infringement under the Federal Circuit's reasoning. Both inducement and contributory infringement were borne out of the theory of aiding and abetting. If both were from the same source theory, reason suggests that both would be treated the same by the Federal Circuit. Such a view must be taken almost by default, since the Federal Circuit gave no explanation of why the Jones trilogy and/or Procter & Gamble trilogy were inapplicable or just wrong.

{47}If one accepts that neither inducement or contributory infringement can exist for pre-issuance acts, a next question is whether the would-be infringer can "knowingly" proceed in the face of a pending patent without liability, irrespective of the liability theory. The short answer seems to be "no." According to the Federal Circuit in National Presto, it explicitly left open potential liability for misuse and unfair competition. As such, the same actions that might have previously been alleged to constitute inducement or contributory infringement might now be alleged to constitute misuse or unfair competition.

{48} Further, in terms of "knowingly" proceeding with pre-issuance acts that might otherwise be considered inducement or contributory infringement, while those acts might not be misuse or unfair competition, they might set the stage for willful infringement. As an example, one might gain pre-issuance knowledge of another's pending patent claims. Those claims might have even been allowed, but just not issued. Under *National Presto*, a would-be infringer might claim that there is no liability for pre-issuance acts and proceed to manufacture the supposedly infringing device before the patent issues. After the patent issues, the would-be infringer might continue to sell the infringing device until receiving an opinion of counsel that persuades the infringer to stop sales.

{49} In the face of a lawsuit or threatened one, the would-be infringer, in the above scenario, might claim that he could not have knowingly infringed claims that had not yet issued, while relying on *State Industries, Inc. v. A.O. Smith Corp.* Therein, the Federal Circuit said that to "willfully infringe a patent, the patent must exist and one must have knowledge of it." But the Federal Circuit has subsequently indicated in *Gustafson Inc. v. Intersystems Industrial Products Inc.* that *State Industries* did not set forth a per se rule. According to *Gustafson*, one must consider the "totality of the circumstances" to determine willfulness. Moreover, the *Gustafson* court indicated that willfulness is a question of the actor's intent, which can be inferred from "all the circumstances." Therefore, the would-be infringer should not brazenly ignore the pre-

issuance knowledge it possesses, and proceed with the idea that it can escape liability for inducement or contributory infringement. Doing so might be exposing the would-be infringer to something far worse than pre-issuance liability, namely, increased damages for willfulness.

{50} Given the potential for increased damages based on willfulness, the practical effect of *National Presto* may not be as great as one might initially perceive. If the would-be infringer stops all activities once the patent issues, then the infringer would seem to be free from any liability, at least from patent theories. If the would-be infringer intends to continue his acts after the patent issues, then the knowing infringer may temper his pre-issuance actions in an effort to avoid potentially enhanced damages for post-issuance infringement.

{51} So when the patent holder now asks if something can be done to stop the infringer while the patent is pending, a response might be that the infringer should be placed in a position of knowledge of the pending claims. That will tend to increase the risk of damages to which the infringer might eventually become liable. And with increased risk, the would-be infringer might have more than a second thought about proceeding with his activity. On the other side of the coin, when the would-be infringer now asks if he can be sued while a patent is pending, the answer seems to be "no," as long as he stops the infringing activity when the patent issues.

## Conclusion

{52}National Presto may be but another attempt at what courts have attempted to accomplish over the past century - balance the competing interests of the would-be patent holder and the would-be infringer. The would-be patent holder needs to protect his investment. The would-be infringer needs to prohibit the extension of another's patent term beyond the statutory grant. Perhaps National Presto is part of the cycle described by the U.S. Supreme Court in Dawson Chemical, and the Federal Circuit is now at a point on the circle where the doctrine of patent misuse is being used to restrict what was perceived to be an overextension of the contributory infringement doctrine. If that is the case, one should anticipate the Federal Circuit providing more guidance to what it described to be only a "general rule" announced in National Presto.

{53}On a practical level, the consequence from the National Presto decision is that would be patent holders and would be infringers have a greater degree of certainty about when infringement can occur. On a philosophical level, the benefits of patentable developments might now be considered lessened since the ability to stop would be infringers has lessened. And it only seems logical that with less benefits to patentable developments comes greater investment risks and, thus, fewer investments in new technology.

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