

Message from Our Boston Office

This year we started the *Boston Update* newsletter with the idea of giving our clients and friends insights into a wide variety of legal issues that may affect their businesses. Our final issue of the year certainly fits that bill.

Pepper partner Bill Belanger and associate Aaron Levangie strip down a recent federal circuit court appeal, which clarified that it takes more than mere intent to prove induced infringement. The court ruled that it requires specific intent to encourage a third party's infringement.

While the Middle East remains the hot bed of fossil fuel transactions, Pepper partner Jim Rosener gives a glimpse in to the new "green" technology fronts emerging in the land of oil and sand. Not surprisingly, solar energy is leading the charge, capitalizing on the most well known energy element not buried beneath the desert earth.

Happy Holidays!

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Federal Circuit Clarifies Level of Intent Required to Prove Induced Infringement

In a decision that has important implications regarding how patents are enforced, the U.S. Court of Appeals for the Federal Circuit recently resolved conflicting precedent regarding the level of intent required to establish induced infringement.

In an *en banc* portion of the opinion in *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006), the court held that a plaintiff alleging inducement must establish proof of the inducer's intent to encourage another's infringement, as opposed to merely requiring proof of intent to cause acts that are found to result in infringement. This decision likely will make it more difficult to enforce patents against parties who do not directly infringe. It also will increase the value of opinions of counsel, since such opinions may shield parties accused of patent infringement from liability.

DSU Medical Corp. and Medisystems Corp. (collectively, DSU) sued JMS Company, Ltd. and JMS North America (collectively, JMS) for direct infringement and ITL Corporation Pty, Limited (ITL) for induced infringement of certain patents directed to a guarded, winged needle assembly designed to prevent accidental needle sticks. ITL manufactured and sold the needle guard in Malaysia and Singapore under the name Platypus™. JMS bought Platypus™ units from ITL, and then configured them in an infringing manner before distributing them to customers in the United States. The trial court entered a directed verdict finding that ITL did not induce JMS's infringement. DSU appealed the inducement verdict after the trial court denied its motion for a new trial.

On appeal, the Federal Circuit addressed the level of intent required to establish inducement in an effort to resolve conflicting precedent on the issue. The court clarified that the intent element requires more than a *mere* intent to cause the acts of the third party that constitute direct

infringement – rather, it requires that the inducer possessed a *specific* intent to encourage another’s infringement, which mandates that the patentee establish culpable conduct on the part of the inducer “directed to encouraging another’s infringement, not merely that the inducer has knowledge of the direct infringer’s activities.”

Applying that standard, the Federal Circuit agreed with the conclusion that ITL did not induce JMS to infringe. The court highlighted evidence that ITL believed that the Platypus™ did not infringe – due in part to an opinion of counsel – and found that ITL had no intent to infringe.

Subsequent cases have emphasized the requirement that a patentee alleging inducement must prove that the inducer acted with a specific intent to encourage another’s infringement. In *epicRealm Licensing, LP v. AutoFlex Leasing, Inc.*, the defendant allegedly was inducing infringement of patents for a method and system for serving dynamic Web pages by knowingly encouraging a third party to host a Web site using the allegedly infringing technology. The court granted the defendant’s motion for summary judgment of non-infringement, reasoning that the defendant’s knowledge that a third-party operated the accused technology on its behalf, without more, was insufficient as a matter of law to establish induced infringement. Similarly, the court in *Iridex Corp. v. Synergetics USA, Inc.*, granted summary judgment of no induced infringement. The *Iridex* decision also focuses on the intent element of the inducement test where the court

found that the plaintiff failed to present *any* evidence that the defendant intended to induce infringement.

DSU Medical has many implications. First, it emphasizes the need to draft patent claims that will be directly infringed by a single party. Second, it highlights the need to join as parties to the litigation those entities directly infringing the patent in addition to or in place of parties who are indirect infringers. Finally, the case underscores the importance of opinions of counsel in future infringement suits, for plaintiffs and defendants. The decision suggests that a non-infringement or invalidity opinion may prevent a patentee from establishing the intent needed to prove inducement. For defendants, the opinion may provide a valuable shield against infringement allegations. In fact, one post-*DSU Medical* case, *Wing Shing Products (BVI), Ltd. v. Simatelex Manufactory Co., Ltd.*, inferred a defendant’s specific intent to induce infringement based, in part, on the lack of a “plausible non-infringement opinion from patent counsel.”

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Peppercast: Religious Discrimination in the Workplace

Few issues are as personal and potentially divisive as religion. In this podcast, **Robert Ludolph**, a partner in the Detroit office of Pepper Hamilton and chairman of the Detroit office’s Labor and Employment Practice Group, discusses religious discrimination in the workplace, including how employers can deal with claims from employees that an employer did not accommodate their religious practices or beliefs and claims asserting religious harassment.

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Green Gulf

This article first appeared in The Deal Newsweekly special report on Alternative Energy in the Middle East on September 17, 2007.

Private equity (PE) investment in the Middle East, particularly in the Cooperation Council for the Arab States of the Gulf, is a relatively new phenomenon.

Between 1994 and 2005, more than \$4 billion of PE funds were raised in the six Gulf Cooperation Council (GCC) markets: United Arab Emirates, Kuwait, Qatar, Bahrain, Oman and Saudi Arabia. Forty percent of that \$4 billion was raised in 2005 alone.

According to a recent report prepared by the Gulf Venture Capital Association in collaboration with KPMG, the region's PE industry will break the \$10 billion mark in fundraising by the end of 2007, due largely to the surge in oil prices. This has provided GCC countries with ample liquidity that has enabled them to embark on a large-scale remodeling of their respective economies. Historically, GCC countries have been almost entirely dependent on the oil sector.

The GCC governments are further capitalizing on their liquidity by enhancing their financial sectors, opening their markets to international competition, encouraging privatization and expanding massive infrastructure projects, all of which have enhanced opportunities for PE investment in alternative energy projects.

For instance, the United Arab Emirates has taken steps to develop "green" solutions to energy production. Abu Dhabi launched the Masdar Initiative, focusing on the development and commercialization of technologies for renewable energy, energy efficiency, carbon management and monetization, water usage and desalination. This multibillion-dollar initiative is designed to ensure that Abu Dhabi participates in the global energy market beyond just carbon-based fuels.

To power massive water desalination needs, the region has sought energy sources other than fossil fuels, which is generally reserved for export. The Masdar Initiative, a unique endeavor in the region, has created a \$250 million Clean Technology Fund. Masdar has begun construction

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of a special economic zone, a "city within a city," that will offer incentives to investors and developers of renewable energy technologies and products. These incentives will include transparent laws, 100 percent foreign ownership, a tax-free environment, intellectual property protection and proximity to nearby manufacturers, suppliers and markets. The zone will house one of the world's largest solar energy farms, using the region's natural conditions as a source for considerable solar energy production.

Until recently, it remained unclear whether PE firms in the Middle East would join the alternative energy and cleantech boom. The Dubai-based GCC Energy Fund has taken the initial step as the region's first buyout fund focused on the energy sector. Launched in 2005, the fund is sponsored by Gulf International Bank BSC and Standard Bank, along with the Emirates National Oil Co. Ltd. The firm has already announced traditional and alternative energy investments in Maritime Industrial Services Co. Ltd., the purchase of a stake in Stellar Energy Middle East, the acquisition of a controlling interest in Dhofar Power Co. and the purchase of an equity stake in the Gulmar Offshore Group. The success the fund has achieved in such a short period is attracting regional and international PE firms to the Middle East energy sector.

The regional investment in clean technologies, driven by policies seeking greenhouse gas emission reductions and diversification of energy supply, also has given rise to often-overlooked equity opportunities in the nascent carbon trading market.

As signatories to the Kyoto Protocol, certain GCC states can market carbon credits generated by projects that reduce

greenhouse gas emissions under the United Nations' Clean Development Mechanism. While qualifying for credits is a complex legal undertaking, those who pioneer in the current carbon market as a component of their at-large renewable energy investment strategy will have a considerable advantage over their competitors in the Middle East and other financial hubs.

The Middle East is fertile ground for PE firms seeking to expand their alternative energy and cleantech portfolios. As with all investment strategies, success is composed of calculated risk and risk protection. While the environment is right for energy sector investment in the Middle East, PE firms must partner with knowledgeable players in the marketplace who have an ability to protect an investor's interest at every stage of business.

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