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**KNOCK IT OFF!
COURT RAISES BAR FOR INDUCING INFRINGEMENT**

Say you buy a patented product in a foreign country, copy it in detail, hire a lawyer to conduct a “right-to-use” study but “forget” to mention the product is a knockoff, sell the knockoff to domestic companies for infringing resale, then argue you didn’t know about the patent. You have just perpetrated one supremely effective scheme to “induce infringement.”

Reviewing a case with this long litany of “no-nos,” the U.S. Supreme Court recently clarified the law on inducing infringement by saying (1) induced infringement requires knowledge that the induced acts constitute patent infringement, and (2) “willful blindness” supports a finding of knowledge.¹

Our review of the 13-year history of *Global-Tech Appliances, Inc. v. SEB S.A.*, offers valuable insights into how a seemingly simple statute took years to interpret and provides guidance about new rules relating to inducing infringement claims.

“Inducing Infringement” Statute

Under 35 U.S.C. § 271(b), “Whoever actively induces infringement of a patent shall be liable as an infringer.” Pre-*SEB*, Federal Circuit case law provided that, to prevail on an inducing infringement claim, the patentee must establish that (1) there was a direct infringement by a third party, and (2) the alleged infringer had the specific intent to encourage that infringement.²

Who Knows What--Latent Ambiguity

The simple statutory language is ambiguous. Does the statute merely require that the inducer lead another to engage in conduct that *happens to* infringe? Or does the statute require the inducer to persuade another to engage in conduct that the inducer *knows* is infringing?³ Before *Global-Tech Appliances, Inc. v. SEB S.A.*, various Federal Circuit opinions had addressed and resolved most of the intent issue, but the U.S. Supreme Court had not.

“No-Nos” –Facts Underlying SEB

Plaintiff SEB S.A. owns a patent on a consumer deep fryer with an inexpensive “cool-touch” outer shell.⁴ In the mid-1990s, sales of SEB’s fryer in the United States under the T-Fal brand were a commercial success.⁵ In 1997, Sunbeam Products, Inc. approached defendant Pentalpha Enterprises Ltd., a Hong Kong maker of home appliances and subsidiary of Global-Tech Appliances, Inc., and asked it to supply deep fryers meeting certain specifications.⁶ To develop its fryer, Pentalpha

Prepared by:



PETER STRAND
Washington, D.C.
(202) 783-8400
pstrand@shb.com

Peter is a partner in the Firm’s Intellectual Property & Technology Litigation Practice. He holds an LLM in intellectual property law from the University of Houston School of Law.

1 *Global-Tech Appliances, Inc. v. SEB S.A.*, ___ U.S. ___, 131 S. Ct. 2060, 2068 (2011).
 2 *See, e.g., Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 697 (Fed. Cir. 2008).
 3 *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2065.
 4 *Id.* at 2063; *SEB S.A. v. Montgomery Ward & Co*, 594 F.3d 1360, 1365 (Fed. Cir. 2010), *aff’d on other grounds, Global-Tech Appliances, Inc.*, 131 S. Ct. 2060 (2011).
 5 *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2064.
 6 *Id.*; *SEB S.A.*, 594 F.3d at 1366.

Pentalpha fought the claim of inducing infringement at the close of SEB's evidence and post-trial. Pentalpha argued that it did not actually know of SEB's patent while it was selling fryers to Sunbeam and, therefore, lacked the requisite intent to induce infringement.

The district court rejected Pentalpha's argument, adopting a standard which required proof that defendant knew or *should have known* that its actions would cause actual infringement. Pentalpha appealed.

bought an SEB fryer in Hong Kong and copied its "cool touch" features.⁷ Because the SEB fryer was purchased in Hong Kong, it had no patent markings.⁸

Pentalpha hired a U.S. attorney in Binghamton, New York, to complete a right-to-use study, but did not share that its design copied SEB's fryer.⁹ The ill-informed attorney then analyzed 26 patents and advised Pentalpha that none read on Pentalpha's fryer.¹⁰

When Sunbeam sold the Pentalpha fryers in the United States, SEB sued for infringement.¹¹ Sunbeam advised Pentalpha of the suit, but the undaunted Pentalpha continued selling fryers to other customers for resale in the United States.¹² SEB settled the lawsuit with Sunbeam, then sued Pentalpha in August 1999 for direct infringement under 35 U.S.C. § 271(a) and for induced infringement under 35 U.S.C. § 271(b).¹³

Seven years later, the case went to trial. The jury returned a verdict for SEB, finding Pentalpha liable for direct infringement and inducing infringement, and damages were awarded.¹⁴

Pentalpha fought the claim of inducing infringement at the close of SEB's evidence and post-trial. Pentalpha argued that it did not actually know of SEB's patent while it was selling fryers to Sunbeam and, therefore, lacked the requisite intent to induce infringement.¹⁵ In fact, there was no direct evidence of record showing that Pentalpha had actual knowledge of the SEB patent.¹⁶ The district court rejected Pentalpha's argument, adopting a standard which required proof that defendant knew or *should have known* that its actions would cause actual infringement.¹⁷ Pentalpha appealed.

Federal Circuit Resolves SEB Ambiguity

Relying primarily on *DSU Medical Corp. v. JMS Co., Ltd.*,¹⁸ the Federal Circuit affirmed the district court's opinion in *SEB*.¹⁹ Based on *DSU*, Federal Circuit law was relatively clear:

- Plaintiff must show that the alleged infringer "knew or should have known" his actions would induce actual infringement.²⁰ Thus, actual or constructive knowledge of the infringement, not just general knowledge of the acts, was required.
- This knowledge requirement necessarily includes the requirement that the known infringer had either actual or constructive knowledge of the patent.²¹
- But Federal Circuit case law did not clearly set out the details of the "knowledge-of-the-patent" requirement.²²

In *SEB*, the Federal Circuit pointed out that the "knowledge of the patent" issue was not presented in the *DSU* case.²³ Thus, Pentalpha's claim that its lack of actual knowledge of the patent precluded a finding of induced infringement presented a novel issue.

⁷ *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2064.

⁸ *Id.*

⁹ *Id.*; *SEB S.A.*, 594 F.3d at 1366.

¹⁰ *SEB S.A.*, 594 F.3d at 1366.

¹¹ *Id.*

¹² *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2064; *SEB S.A.*, 594 F.3d at 1366.

¹³ *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2064.

¹⁴ *Id.*; *SEB S.A.*, 594 F.3d at 1365.

¹⁵ *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2064; *SEB S.A.*, 594 F.3d at 1368-69, 1373.

¹⁶ *SEB S.A.*, 594 F.3d at 1373, 1377.

¹⁷ 594 F.3d at 1368-69; *SEB S.A. v. Montgomery Ward & Co.*, No. 99 Civ. 9284(SCR), 2007 WL 3165783, at *3-4 (S.D.N.Y. Oct. 9, 2007).

¹⁸ *DSU Med. Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc in relevant part).

¹⁹ *SEB S.A.*, 594 F.3d at 1364, 1365.

²⁰ *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1375-76 (Fed. Cir. 2010) (citing *DSU Med. Corp.*, 471 F.3d at 1304 (en banc in relevant part)).

²¹ *Id.*

²² *SEB S.A.*, 594 F.3d at 1376 (citing *Institutform Techs., Inc. v. Cat Contracting, Inc.*, 161 F.3d 688, 695 (Fed. Cir. 1998)).

²³ *Id.* at 1376.

... the Federal Circuit said, “specific intent in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists.” Then, turning to U.S. Supreme Court precedent in *Farmer v. Brennan*, the Federal Circuit adopted the “deliberate indifference” standard.

The U.S. Supreme Court adopted a different tack than the Federal Circuit. Rather than addressing the narrower “knowledge of the patent” issue on which the Federal Circuit focused, opinion author Justice Samuel Alito defined the issue more broadly as “whether a party who ‘actively induces infringement of a patent’ under 35 U.S.C. § 271(b) must know that the induced acts constitute patent infringement.”

As to this issue, the Federal Circuit said, “specific intent in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists.”²⁴ Then, turning to U.S. Supreme Court precedent in *Farmer v. Brennan*, the Federal Circuit adopted the “deliberate indifference” standard.²⁵

The *Farmer* case required the Court to define “deliberate indifference” in the context of an Eighth Amendment claim.²⁶ The Court ultimately used “subjective recklessness” as the familiar and workable test for “deliberate indifference.”²⁷ But the *Farmer* Court was guarded in its embrace of the new standard, saying that the decision was “not [based] merely on a parsing of the phrase ‘deliberate indifference,’” and that “on the crucial point . . . the term [deliberate indifference] does not speak with certainty.”²⁸

Notwithstanding the U.S. Supreme Court’s caution in *Farmer*, the Federal Circuit declared in *SEB* that “the standard of deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge.”²⁹

Applying the deliberate indifference standard and relying on the long list of Pentalpha’s questionable conduct, the Federal Circuit affirmed the district court even though there was no evidence in the record that Pentalpha actually knew of the patent.³⁰

The Federal Circuit also took pains to say that the opinion did not establish the outer limits of the type of knowledge needed for inducement.³¹ The U.S. Supreme Court granted *certiorari*.³²

U.S. Supreme Court Resolves Ambiguity

The U.S. Supreme Court adopted a different tack than the Federal Circuit. Rather than addressing the narrower “knowledge of the patent” issue on which the Federal Circuit focused, opinion author Justice Samuel Alito defined the issue more broadly as “whether a party who ‘actively induces infringement of a patent’ under 35 U.S.C. § 271(b) must know that the induced acts constitute patent infringement.”³³ Thus, the U.S. Supreme Court stepped back to examine the intent requirement afresh.

After identifying the statute’s latent ambiguity, the Court turned to case law pre-dating the enactment of § 271(b) in the Patent Act of 1952.³⁴ Initially, the Court said that before 1952, both inducing infringement and contributory infringement were considered part of “contributory infringement.”³⁵

After reviewing relevant precedent, however, the Court concluded that *Aro II*, a case decided under § 271(c), resolves the question in this case.³⁶ *Aro II* requires *specific* knowledge of the patent *and* the infringement.³⁷ The Supreme Court concluded, “Accordingly, we now hold that induced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement.”³⁸

U.S. Supreme Court Adopts “Willful Blindness” Standard

Having confirmed the knowledge standard, the Supreme Court returned to Pentalpha’s principal challenge—that it lacked knowledge of the patent.³⁹ Rejecting the Federal Circuit’s “deliberate

24 *Id.*

25 *Id.* (citing *Farmer v. Brennan*, 511 U.S. 825, 840 (1994)).

26 *Farmer*, 511 U.S. at 829, 834 (1994).

27 *Id.* at 839-40.

28 *Id.*

29 *SEB S.A. v. Montgomery Ward & Co*, 594 F.3d 1360, 1377 (Fed. Cir. 2010).

30 *Id.*

31 *Id.* at 1378.

32 *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 458 (2010).

33 *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2063 (2011).

34 *Id.* at 2065.

35 *Id.* at 2066.

36 *Id.* at 2067 (citing *Aro Mfg. Co. v. Convert. Top Replacement Co.*, 377 U.S. 476 (1964)).

37 *Id.*, (citing *Aro Mfg. Co.*, 377 U.S. at 488).

38 *Id.* at 2068.

39 *Id.*

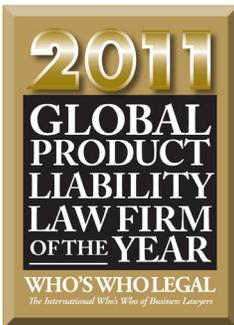
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ABOUT SHB

Shook, Hardy & Bacon offers expert, efficient and innovative representation to our clients. We know that the successful resolution of intellectual property issues requires a comprehensive strategy developed in partnership with our clients.



OFFICE LOCATIONS

Geneva, Switzerland
+41-22-787-2000

Houston, Texas
+1-713-227-8008

Irvine, California
+1-949-475-1500

Kansas City, Missouri
+1-816-474-6550

London, England
+44-207-332-4500

Miami, Florida
+1-305-358-5171

San Francisco, California
+1-415-544-1900

Tampa, Florida
+1-813-202-7100

Washington, D.C.
+1-202-783-8400

indifference" standard, the Court instead announced the "willful blindness" test for inducing infringement.⁴⁰

Willful blindness is well established in criminal law and provides that defendants cannot escape guilt by deliberately shielding themselves from clear evidence of critical facts that are strongly suggested by the circumstances.⁴¹ As defined by multiple courts of appeals cases, willful blindness has two basic requirements: (1) The defendant's subjective belief that there is a high probability that a fact (such as a patent and infringement of that patent) exists; and (2) the defendant takes deliberate actions to avoid learning of that fact.⁴²

Put another way, 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 actual knowledge of the critical facts.⁴³ Undoubtedly, willful blindness is more than mere recklessness or negligence.⁴⁴ Those who know enough to blind themselves to direct proof of a critical fact, in effect, have actual knowledge of those facts. And, more importantly, they are just as liable as those who have actual knowledge.⁴⁵

Against this backdrop, the Court could "see no reason why the doctrine should not apply in civil lawsuits for induced patent infringement under 35 U.S.C. § 271(b)."⁴⁶

Applying the willful blindness standard, the Court affirmed the Federal Circuit's opinion even though the wrong standard was applied.⁴⁷ So ruling, the Court observed that Pentalpha copied the patented product, knew that sales of SEB's product had been growing, knew that SEB's products sold in overseas markets were not marked, and intentionally did not tell the attorney that the product was "simply a knockoff."⁴⁸

Best Practices

Three lessons from *SEB*:

1. The test for inducing infringement is now more rigorous. Not every case will present the egregious facts of *SEB*. Proving defendant's subjective belief of a high probability that infringement exists may be difficult. This is good news for alleged inducers and potentially bad news for patent owners. Proof of the second prong may prove less troublesome once the first is established.
2. Ignorance may *not* be a defense. Evidence of facts known to the accused inducer may *infer* a subjective belief of a high probability that infringement exists. This may be especially true in markets where there are numerous patents, a limited number of market participants and clear market trends based on patented products. Accused inducers will be hard pressed, just as Pentalpha was, to sound credible when claiming not to know about the risk of infringement when their own market intelligence suggests a savvy assessment of the competition. Conversely, patent owners should take a close look at both at public information as well as that culled from defendant's files.
3. Don't be stupid. Clearly, courts at every level found Pentalpha's conduct reprehensible and were determined to fashion a preclusive rule. "Too cute by half" is never a good business or litigation strategy.

40 *Id.* at 2068, 2071 (saying that the Federal Circuit test improperly (1) permits a finding of knowledge where there is merely a known risk, and (2) demands only deliberate indifference to the risk, but does not require active efforts to avoid knowledge of the infringing nature of the activities).

41 *Id.* at 2068-69.

42 *Id.* at 2070.

43 *Id.* at 2070-71.

44 *Id.* at 2070, 2071.

45 *Id.* at 2069.

46 *Id.*

47 *Id.* at 2068.

48 *Id.* at 2071.