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Supreme Court to Decide Intent Standard for Inducing Patent Infringement

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Today, the U.S. Supreme Court heard oral arguments in a patent case to determine the standard of intent necessary to establish liability for inducing patent infringement under 35 U.S.C. § 271(b).¹

WHY TO WATCH THIS CASE

The Supreme Court's ruling in *Global-Tech Appliances, Inc. v. SEB S.A.* will provide guidance to manufacturers importing goods into the United States and to domestic sellers of component parts of finished products. The petitioners, Global-Tech Appliances, Inc., and Pentalpha Enterprises, Ltd. (collectively, "Global-Tech"), and amici curiae have asked the Supreme Court to determine the extent to which commercial sellers must educate themselves about patents potentially relevant to their products in order to avoid liability for inducement of infringement. Global-Tech argues that if the Federal Circuit's decision is allowed to stand, a party could be held liable for inducing infringement merely by failing to conduct a patent search and/or securing a non-infringement opinion.

Respondent, SEB S.A. ("SEB"), on the other hand, argues that the standard for inducing infringement must be capable of covering cases where a party either "buried its head in the sand" regarding a risk of infringement, or took some "affirmative steps" to "foster infringement" — such as copying a product or failing to make full disclosure to counsel when soliciting a non-infringement opinion.

CASE BACKGROUND

Global-Tech Appliances, Inc. v. SEB S.A. is on appeal from the Federal Circuit.² Pentalpha, a subsidiary of Global-Tech Appliances, designed an infringing deep fryer by purchasing one of SEB's products in Hong Kong and copying some of its features. In preparing to launch its deep fryer in the U.S. market, Pentalpha secured an opinion from a U.S. patent attorney that the product did not infringe any U.S. patent. However, Pentalpha did not inform its attorney that it had designed its product by copying the features of another product on the market — a disclosure that might have enabled the attorney to locate SEB's patent. The parties agree that Pentalpha did not learn of SEB's U.S. Patent No. 4,995,312 until SEB sued to enforce the patent.³

This case was filed in the U.S. District Court for the Southern District of New York. There, a jury found Global-Tech liable for both direct infringement and inducement of infringement. Only the inducement claim is before the Supreme Court. The inducement claim was based on Global-Tech's sales of its product to retailers such as Sunbeam, Montgomery Ward, and Fingerhut, which then infringed the patent by importing and selling products in the United States. The district court dealt with the inducement issue very briefly in its decision on the defendant's post-trial motion for judgment as a matter of

¹ "Whoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b) (2011).

² *Global-Tech Appliances, Inc. v. SEB S.A.*, No. 10-6. The Federal Circuit opinion appears at 594 F.3d 1360 (2010).

³ Brief for Petitioners, 7, *Global-Tech*, No. 10-6 (Nov. 29, 2010).

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law. Purporting to follow the Federal Circuit's en banc opinion in *DSU Med. v. JMS*,⁴ the district court found that a successful plaintiff must demonstrate both "that the alleged infringer knowingly induced infringement of a patent and possessed specific intent to encourage another's infringement," and that the inducer had "actual or constructive knowledge of the patent."⁵ However, even though Global-Tech did not know of the '312 patent until after SEB sued to enforce it, the court affirmed the jury's finding of infringement (including inducement of infringement), stating that the "evidence was sufficient to establish specific intent and action to induce infringement."⁶

THE FEDERAL CIRCUIT APPEAL

The parties then appealed the case to the Federal Circuit where, in the words of an amicus brief in support of certiorari filed by Stanford University Professor Mark Lemley and 25 other academics, the Federal Circuit "once again muddled the waters" regarding "the culpable state of mind necessary to show induced infringement under section 271(b)."⁷ Despite the sparse record from the district court regarding inducement of infringement, the Federal Circuit discussed the topic at length.

The court began by acknowledging its en banc decision in *DSU Medical*, under which "the plaintiff must show that the alleged infringer knew or should have known that his actions would induce actual infringements," a showing which "necessarily includes the requirement that he or she knew of the patent."⁸ However, focusing on the knowledge element, the Federal Circuit held that "a claim for inducement is viable even where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit," if the defendant "deliberately disregarded a known risk that [the plaintiff] had a protective patent." The court held that this standard was met because Global-Tech failed to disclose to its attorney that it designed its product through copying.⁹

THE ARGUMENTS BEFORE THE SUPREME COURT

Global-Tech's Arguments

In its merits brief to the Supreme Court, Global-Tech argues that the proper state of mind for inducement of patent infringement under 35 U.S.C. § 271(b) requires "'purposeful, culpable expression and conduct' to encourage an infringement."¹⁰ For this proposition, Global-Tech relies on the Supreme Court's holding in *MGM Studios v. Grokster*. In that case, which involved secondary liability for copyright infringement, the Supreme Court applied to copyright law the patent law rule for inducing infringement. In doing so, the Supreme Court ruled that establishing liability for inducement requires "an affirmative intent that the product be used to infringe."¹¹ As for intent, the Court stated that "the inducement rule . . . premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or to discourage innovation having a lawful promise."¹²

Global-Tech further supports its argument through statutory construction and reliance on the legislative history and public policy of 35 U.S.C. § 271. Global-Tech argues that requiring any state of mind less than "purposeful, culpable expression and conduct" to encourage infringement would make § 271(b) so broad as to render § 271(c) insignificant. Global-Tech

⁴ *DSU Med. Corp. v. JMS Co. Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc).

⁵ *SEB S.A. v. Montgomery Ward & Co.*, No. 99 Civ. 9284, 2007 U.S. Dist. LEXIS 80394, at *9 (S.D.N.Y. Oct. 9, 2007) (internal quotation omitted).

⁶ *Id.*

⁷ Brief Amici Curiae of 26 Law, Economics, and Business Professors in Support of Petitioners, 2, *Global-Tech*, No. 10-6 (Jul. 29, 2010).

⁸ *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360, 1376 (Fed. Cir. 2010) (quoting *DSU Med.*, 471 F.3d at 1304).

⁹ *Id.* at 1377.

¹⁰ Brief for Petitioners, 18, *Global-Tech*, No. 10-6 (Nov. 29, 2010) (quoting *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005)).

¹¹ *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936 (2005).

¹² *Id.* at 937.

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also invokes the legislative history of § 271(b) to argue that liability for anything less than “purposeful, culpable expression and conduct” would be inconsistent with the Congressional intent to impose liability only for morally culpable conduct.¹³ In Global-Tech’s view, permitting inducement liability where intent falls below the *Grokster* standard would violate the presumption that statutes are not meant to regulate foreign conduct beyond what is necessary to further important U.S. interests.

Global-Tech also argues that the Federal Circuit’s “deliberate indifference” standard — which would make it possible to satisfy the requirement of knowledge of the patent without a showing of actual knowledge — is incorrect. According to Global-Tech, the Supreme Court has held that inducement liability cannot be premised on mere knowledge that a product may infringe; so, too, Global-Tech argues, the uncertainty of patent litigation (including the vagaries of claim construction) precludes application of a “deliberate indifference” standard.¹⁴ In discussing the practical implications of the Federal Circuit’s standard, Global-Tech also asserts that because juries may find “deliberate indifference” in virtually any situation where the accused inducer lacked actual knowledge of the patent, this standard would create uncertainty.

SEB’s Arguments

SEB counters that there is no basis for requiring evidence that an accused inducer possesses actual knowledge of the infringed patent. Disputing Global-Tech’s statutory construction, SEB points out that because 35 U.S.C. § 271(c) requires a “knowing” state of mind, any intent read into § 271(b) must be less than “knowing” in order to give effect to Congress’s omission of that term in § 271(b).¹⁵ Further, because 35 U.S.C. §§ 284 and 285 provide for enhanced damages and attorney’s fees for willful infringement, the statutory scheme only makes sense if § 271(b) is held to require something less than “willfulness.”¹⁶ SEB also argues that because Congress declined to replace the “actively induces” language of § 271(b) with “willfully induces,” the Court should not impose such a standard.¹⁷

In the alternative, SEB argues that Global-Tech is liable for inducing infringement even under a standard derived from *Grokster*. SEB points out that actual knowledge of the specific patent infringed is not required by *Grokster*, since the *Grokster* Court found all of the defendants liable for inducing infringement even though none of them had actual knowledge of the specific copyrights that were infringed.¹⁸ Global-Tech’s reverse engineering and copying of SEB’s product, and its failure to inform its lawyer of this copying, are some of the actions that, according to SEB, constitute *Grokster*’s “other affirmative steps taken to foster infringement.”

Finally, SEB argues that the Federal Circuit’s “deliberate indifference” standard is correct and should be interpreted to mean “willful blindness.”¹⁹ SEB urges the Court not to allow manufacturers to violate U.S. intellectual property rights with impunity by willful ignorance of infringed patents.²⁰

MENTAL STATES ARGUED BY AMICI

Numerous amici have presented to the Supreme Court their arguments regarding the required mental state for inducing infringement.

¹³ Brief for Petitioners, 22, *Global-Tech*, No. 10-6 (Nov. 29, 2010).

¹⁴ *Id.* at 28.

¹⁵ Brief for Respondent, 22, *Global-Tech*, No. 10-6 (Dec. 30, 2010).

¹⁶ *Id.* at 23.

¹⁷ *Id.* at 26.

¹⁸ *Id.* at 30.

¹⁹ *Id.* at 38.

²⁰ *Id.* at 43.

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Stanford University Professor Mark Lemley has submitted a brief joined by 40 other academics, urging the Court to require that an inducer must “be aware of a patent and encourage an act that it knows or should know would infringe that patent.”²¹ Cisco Systems, Dell, and Intel argue that awareness of the patent must be through actual and not constructive knowledge, to “absolve[] the equivocal conduct of selling an item with substantial lawful and unlawful uses, and limit[] liability to instances of *more acute fault* than the mere understanding that some of one’s products will be misused.”²² Comcast and other media and technology companies similarly urge reversal, arguing that historically, “defendants could be held liable for contributing to infringement only if they knew that the acts to which they contributed were, in fact, infringing.”²³ In contrast, Professor Ted Sichelman of the University of San Diego and other law professors argue that inducement should require only the specific intent to cause acts constituting direct infringement, and should not include a mental state with respect to whether the acts infringe a patent.²⁴

SUPREME COURT ORAL ARGUMENT

Today’s Supreme Court oral argument featured lively questioning by most of the Justices. In their questioning of Global-Tech’s counsel, the Justices focused on the fact that Global-Tech’s proposed “purposeful, culpable expression and conduct” standard would require actual knowledge of the patent. Several Justices expressed concern that this limitation would provide an incentive for potential inducers to avoid learning about potential patent rights, with Justice Ginsburg stating that under Global-Tech’s standard “you can keep yourself ignorant” and Justice Sotomayor noting that “nobody would ever get a patent search.”

But in their questioning of SEB’s counsel, the Justices also seemed skeptical of the Federal Circuit’s “deliberate disregard of a known risk” standard. Justice Breyer expressed concern that this “standard would create a great deal of uncertainty,” and suggested that “the more traditional accompaniment to knowledge is willful blindness.” Several other Justices seemed intrigued by a “willful blindness” standard, and Justices Alito, Sotomayor, and Kagan all inquired as to the outcome of this case under such a standard. On the other hand, Justice Kennedy noted that the “willful blindness” issue was not raised prior to the Supreme Court and that the question before the Court was whether the standard should be limited to knowledge or should also permit a “should have known” standard.

Overall, the Justices seemed concerned about finding a standard that would neither encourage potential inducers to purposefully keep themselves in the dark nor unduly burden businesses.

WHAT TO EXPECT

The Court is expected to decide this case before its July 2011 summer recess.

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²¹ Brief *Amici Curiae* of 41 Law, Economics, and Business Professors in Support of Petitioner, 17, *Global-Tech*, No. 10-6 (Dec. 6, 2010).

²² Brief *Amici Curiae* for Cisco Sys., et al. in Support of Reversal, 9, *Global-Tech*, No. 10-6 (Dec. 6, 2010) (quoting *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 932-933 (2005)) (emphasis added in brief).

²³ Brief *Amici Curiae* of Comcast Corp., et al. in Support of Petitioner, 7-8, *Global-Tech*, No. 10-6 (Dec. 6, 2010).

²⁴ Brief of Law Professors as *Amici Curiae* in Support of Respondent, 3, *Global-Tech*, No. 10-6 (Jan. 6, 2011).

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