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Supreme Court/Patents

High Court Says Willful Blindness Is Evidence Of Knowledge in Induced Patent Infringement

The U.S. Supreme Court held May 31 that induced infringement under 35 U.S.C. § 271(b) requires knowledge that the induced acts constitute patent infringement, and that the doctrine of willful blindness can support a finding of knowledge (*Global-Tech Appliances Inc. v. SEB S.A.*, U.S., No. 10-6, 5/31/11).

The 8-1 decision affirmed the ruling by the U.S. Court of Appeals for the Federal Circuit that the defendant induced infringement, but the high court rejected the appeals court's view that "deliberate indifference to a known risk that a patent exists" is the appropriate standard under Section 271(b).

The dissent faulted the majority for expanding the willful blindness doctrine not only in civil cases, but apparently "for all federal criminal cases involving knowledge."

Patent stakeholders generally applauded the high court for bringing clarity to the issue of induced infringement liability. However, one commenter wished the dissent's higher requirement of actual knowledge had been the rule. "The opinion gives no clear guidance as to what conduct safely avoids [the willful blindness] standard," according to Seth D. Greenstein of Constantine Cannon, Washington, D.C.

"This decision raises the bar for inducement infringement—by a lot," Edward R. Reines of Weil, Gotshal & Manges, Redwood Shores, Calif., told BNA. Another stakeholder—American Intellectual Property Law Association—was disappointed that the bar was raised too high.

Patent, Litigation on Deep Fryers. France-based SEB S.A. sells home cooking products in the United States through an indirect subsidiary, T-Fal Corp. SEB owns a patent (4,995,312) titled "Cooking Appliance with Elec-

tric Heating," which claims a deep fryer with an inexpensive plastic outer shell.

Hong Kong-based Pentalpha Enterprises Ltd., a subsidiary of Global-Tech Appliances Inc., a British Virgin Islands corporation, developed a competing product at the request of Sunbeam Products Inc., after purchasing an SEB deep fryer and copying its "cool touch" features. Though Pentalpha solicited and received a "right-to-use study" from a U.S. attorney citing no infringement of any patent, the company failed to notify the attorney of the copying.

SEB sued Sunbeam and the companies settled. Though Pentalpha was aware of that litigation, it continued to sell the same deep fryers through retailers Fingerhut Corp. and Montgomery Ward & Co.

In 1999, SEB sued Montgomery Ward, Global-Tech, and Pentalpha for patent infringement in the U.S. District Court for the Southern District of New York. In 2006, a jury found willful infringement and inducement after hearing instructions that a finding that Pentalpha actively and knowingly aided and abetted direct infringement would suffice, and that the jury was to assess whether Pentalpha knew or should have known that its actions would induce infringement.

On appeal, Pentalpha argued that the district court erred in the instructions and in the final judgment, because the company had no actual knowledge of the patent until the Sunbeam litigation in 1998.

Federal Circuit Sees 'Deliberate Indifference.' The Federal Circuit affirmed the lower court's decision. *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 93 USPQ2d 1617 (Fed. Cir. 2010) (79 PTCJ 426, 2/12/10).

The court quoted the rule on the intent required for induced patent infringement per *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293, 1304, 81 USPQ2d 1238 (Fed. Cir. 2006) (en banc) (73 PTCJ 206, 12/22/06): "Under that rule, the plaintiff must show that the alleged infringer knew or should have known that his actions would induce actual infringements," which, the court

added with emphasis, “necessarily includes the requirement that he or she knew of the patent.”

But the metes and bounds of “knowledge of the patent” was not at issue in *DSU Medical*, the appeals court said. It noted further that the court required a showing of “specific intent to encourage another’s infringement” in *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699, 88 USPQ2d 1641 (Fed. Cir. 2008) (76 PTCJ 811, 10/10/08). That specific intent, according to the court, encompasses “deliberate indifference,” which “may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed.”

Cert Granted, But Egregious Facts Noted. The Supreme Court granted certiorari Oct. 12 (80 PTCJ 775, 10/15/10) to address the following question: “Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is ‘deliberate indifference of a known risk’ that an infringement may occur, or ‘purposeful, culpable expression and conduct’ to encourage an infringement.”

It seemed clear from the start in Feb. 23 oral arguments that the justices did not believe that Pentalpha’s failure to inform the attorney of the copied fryer was innocent (81 PTCJ 511, 2/25/11), but the justices showed no clear preference for which knowledge standard to apply.

Knowledge of Patent and Infringement Required. Justice Samuel A. Alito wrote the majority opinion. The opinion relied heavily on the court’s prior holding in a Section 271(c) contributory infringement case, *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 14 USPQ 681 (1964).

“In *Aro II*, a majority held that a violator of § 271(c) must know ‘that the combination for which his component was especially designed was both patented and infringing,’ 377 U.S., at 488, and . . . that conclusion compels this same knowledge for liability under § 271(b),” the court said.

The court found a similar ambiguity in both provisions, which were combined prior to the 1952 Patent Act. In each provision, the court said, the “knowing” element could be read to mean that the defendant knew of the actions of the direct infringer that turned out to be infringement, or that the defendant knew that those actions, if taken, would in fact be infringement.

Alito acknowledged the 5-4 split in *Aro II* and credited both the majority and dissent in that case for compelling arguments, but ultimately concluded that the court was bound by *stare decisis*. Therefore, he said, “§ 271(c) requires knowledge of the existence of the patent that is infringed,” and consequently, “it follows that the same knowledge is needed for induced infringement under § 271(b).”

Willful Blindness Supports ‘Knowing’ Finding. The court next looked at the use of the willful blindness doctrine in criminal cases, including the court’s endorsement of a similar concept in a 1899 case and the doctrine’s adoption in the Model Penal Code. “Given the long history of willful blindness and its wide acceptance in the Federal Judiciary, we can see no reason why the doctrine should not apply in civil lawsuits for induced patent infringement under 35 U.S.C. § 271(b).”

The court distinguished its most recent decision on an inducement issue in the copyright context, *Metro-*

Goldwyn-Mayer Studios Inc. v. Grokster Ltd., 545 U.S. 913, 75 USPQ2d 1001 (2005) (70 PTCJ 258, 7/1/05). Alito explained, “the Court had no need to consider the doctrine of willful blindness in that case because the Court found ample evidence that Grokster and Stream-Cast were fully aware—in the ordinary sense of the term—that their file-sharing software was routinely used in carrying out the acts that constituted infringement (the unauthorized sharing of copyrighted works) and that these acts violated the rights of copyright holders.”

But ‘Deliberate Indifference’ Does Not Fit. With the exception of the U.S. Court of Appeals for the District of Columbia Circuit, Alito said, other appellate courts have agreed on two basic requirements for willful blindness: “(1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact.” These requirements provide for a standard higher than recklessness or negligence, he added.

He thus faulted the Federal Circuit’s test on two grounds. “First, it permits a finding of knowledge when there is merely a ‘known risk’ that the induced acts are infringing,” he said. “Second, in demanding only ‘deliberate indifference’ to that risk, the Federal Circuit’s test does not require active efforts by an inducer to avoid knowing about the infringing nature of the activities.”

But Pentalpha Was Willfully Blind in Any Case. Nevertheless, the facts of the instant case are such that the jury could have easily found willful blindness in Pentalpha’s conduct, the court said.

The court listed four separate decisions by the company as evidence of willful blindness, and it especially noted the decision not to notify the U.S. patent search attorney of Pentalpha’s copying of SEB’s fryer. “On the facts of this case, we cannot fathom what motive [Pentalpha’s CEO] could have had for withholding this information other than to manufacture a claim of plausible deniability in the event that his company was later accused of patent infringement,” the court said.

“Taken together, this evidence was more than sufficient for a jury to find that Pentalpha subjectively believed there was a high probability that SEB’s fryer was patented, that Pentalpha took deliberate steps to avoid knowing that fact, and that it therefore willfully blinded itself to the infringing nature of Sunbeam’s sales,” the court concluded.

The court thus affirmed the judgment of induced infringement.

Chief Justice John G. Roberts Jr. and Justices Antonin Scalia, Clarence Thomas, Ruth Bader Ginsburg, Stephen G. Breyer, Sonia M. Sotomayor, and Elena Kagan joined the opinion.

Dissent Sees Willful Blindness Doctrine Expansion. In dissent, Justice Anthony M. Kennedy would have stopped shy of allowing willful blindness to constitute knowledge. “Willful blindness is not knowledge,” he said, “and judges should not broaden a legislative prescription by analogy.”

First, he faulted the majority for “citing the ‘traditional rationale’ that willfully blind defendants ‘are just as culpable as those who have actual knowledge.’ . . . This is a question of morality and of policy best left to the political branches.” Further, he said, even if the doctrine applies in a criminal case, it should have no

force in patent law, whose purpose is “utilitarian” under Art. I, §8, cl. 8 of the Constitution.

In the majority opinion, Alito countered: “The dissent does not explain—nor can we see—why promoting ‘the Progress of Science and useful Arts,’ . . . requires protecting parties who actively encourage others to violate patent rights and who take deliberate steps to remain ignorant of those rights despite a high probability that the rights exist and are being infringed.”

Kennedy’s second complaint was about the majority’s characterization of the high court’s precedents. The 1899 case, *Spurr v. United States*, 174 U. S. 728 (1899), he said, in fact, “did not suggest that blindness can substitute for knowledge.” Further, the dissent contended, “although most Courts of Appeals have embraced willful blindness, counting courts in a circuit split is not this Court’s usual method for deciding important questions of law.”

His concern extended beyond the scope of the case. “The Court appears to endorse the willful blindness doctrine here for all federal criminal cases involving knowledge,” Kennedy said. “It does so in a civil case where it has received no briefing or argument from the criminal defense bar, which might have provided important counsel on this difficult issue.”

Kennedy would allow that a jury could infer knowledge from circumstantial facts like those in the instant case. After reviewing the same Pentalpha decisions as the majority, he assumed that a jury could find that the company indeed knew that its fryers were infringing.

But that requires a careful review of an extensive record, he said. “I would leave that task to the Court of Appeals in the first instance on remand.”

General Support for Clear Standards. “I think the important part of the opinion is that it steered a middle ground between the two competing Federal Circuit standards, neither requiring knowledge of the patent in all cases nor adopting the Federal Circuit’s ‘deliberate indifference’ test,” Mark A. Lemley of the Stanford Law School, Stanford, Calif., told BNA.

Lemley had submitted an amicus brief in the case on behalf of 41 law, economics, and business professors and questioned at that time whether “the unusual facts of this case justify the creation of a general rule that will interfere with innovation.”

However, he said that after the decision was published, “The ‘willful blindness’ rule the court crafts is truly narrow, limited to cases like this one with particularly bad facts showing that the defendant almost certainly knew they were infringing on the plaintiff’s patent. The Court has wisely avoided imposing a duty to engage in a patent search among defendants who don’t have that willful blindness.”

Jeremy P. Oczek of Proskauer Rose, Boston, agreed with Lemley, praising the court for sticking to the facts of the instant case. “The decision went a long way to try to define a standard that would cover this conduct but wouldn’t leave a slippery slope to cover a broad range of conduct,” he said.

Megan S. Woodworth of Dickstein Shapiro, Washington, D.C., was particularly pleased that the court rejected the Federal Circuit’s approach. “It’s a positive ruling in that it will eliminate a lot of the ambiguity in the Federal Circuit’s ‘deliberate indifference’ standard,” she told BNA. “There are millions of existing patents, and there is always some level of risk you may be in-

fringing one of them when you introduce a new product, but the ‘deliberate indifference’ standard made it difficult to determine where courts would draw the line. This opinion gives the community clear guidance.”

Reines, who authored an amicus brief on behalf of a diverse group of companies led by Yahoo! Inc., agreed, “This is a common sense decision that requires knowledge of patent infringement before those that sell general purpose products with legitimate uses are deemed secondarily liable for the infringement of others.”

Some Disappointment on Both Sides. In its amicus brief in the case, the AIPLA had said, “At a foundational level, AIPLA questions the provenance and wisdom of a law of inducement liability that requires proof that the inducer—in addition to actively encouraging the underlying acts of infringement—know that those acts will infringe a valid patent.”

After the opinion issued, AIPLA’s Executive Director Q. Todd Dickinson expressed some disappointment. “This decision seems to suggest that proving induced infringement will be more demanding than proving willful direct infringement,” he told BNA. “While the Court had little trouble finding willful blindness in this case, it remains to be seen how these standards will be applied in cases where the facts may be less clear cut.”

On the opposite side, Greenstein of Constantine Cannon would have preferred the court stop at the requirement for actual knowledge and not allow the willful blindness substitute. “As my amicus brief on behalf of Google Inc. demonstrated, and as Justice Kennedy’s dissent makes clear, an actual knowledge standard is most consistent with the statutory history and prior case law, and gives the business community certainty that their conduct cannot be branded as infringement.”

He was not at all as optimistic as those who supported the decision that the court has clarified the issue going forward. “The practical problem for legitimate businesses remains, much as with *Grokster* in the copyright context, that without bright lines like ‘actual knowledge,’ a company may forgo investing in new products and services out of concern that its conduct could be misconstrued by a judge or jury.”

‘Knowledge of Exactly What?’ Ambiguity Remains. One question that the high court did not answer, however, was whether “knowledge of the patent” meant knowledge of a specific patent or knowledge of the high likelihood that a patent exists. During oral arguments, Chief Justice John G. Roberts Jr. had invoked the broader context of inducement in the semiconductor industry, as one area where “you always know you’re infringing something” even if you don’t know the specific patent.

Though this might be true of many multi-featured or multi-component products in the high technology industry, Woodworth—co-author of the Intellectual Property Owners Association’s amicus brief—said, the due diligence required to uncover that patent would be onerous. She believed that such a survey might well have been required under the “deliberate indifference” standard, but did not think willful blindness extended so broadly.

Oczek excused the high court for holding to its usual practice of being silent on issues it was not confronted with in the instant case. “The court didn’t answer the question” as it might apply to high tech products, he

told BNA, adding that “it will depend on the facts and circumstances of each case.”

Reines spoke of the same problem from a different angle, given the flexibility inherent in many high tech products. “Product sellers these days are encouraging buyers to use the products in any conceivable way that’s legitimate,” he said, pointing out that the sellers cannot know ahead of time how the products will be used.

“By requiring knowledge of the patent, the decision will encourage patent holders to inform those selling

general purpose products of their infringement claims early,” he said, “which will hopefully lead to intelligent analysis of whether infringement is actually being encouraged.”

William Dunnegan of the Dunnegan law firm, New York, represented Global-Tech. R. Ted Cruz of Morgan, Lewis & Bockius, Houston, represented SEB.

BY TONY DUTRA

Opinion at <http://pub.bna.com/ptcj/100006May31.pdf>