

Seeking Clarity With 'Willful Blindness'

Law360

July 15, 2011

On May 31, 2011, the U.S. Supreme Court issued its decision in *Global-Tech Appliances Inc. v. SEB SA*, Case No. 10-6, 563 U.S. ____ (2011). In an 8-1 decision authored by Justice Samuel Alito, the court held "that induced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement." Slip Op. at 10.

Although the court affirmed the underlying finding of induced infringement on the basis that "the evidence in this case was plainly sufficient" to establish knowledge that the induced acts constituted patent infringement, it rejected the "deliberate indifference to a known risk" standard articulated by the Federal Circuit in favor of a more stringent "willful blindness" standard. *Id.*

This decision seeks to bring clarity to Section 271(b), but the newly articulated willful blindness standard leaves plenty of questions for the district courts and Federal Circuit to wrestle with, including the following three issues:

- First, when a defendant subjectively believes it is not infringing a patent, under what circumstances can it be found to be inducing infringement?
- Second, how will the doctrine of willful blindness creep into other areas of patent law, such as willful infringement?
- Third, in light of recent cases finding no direct infringement when steps of a patent are performed by multiple parties, when can patentees now assert that a single mastermind is inducing such distributed infringement?

Practice Areas

Intellectual Property
Litigation

Perhaps it was for those reasons that Justice Anthony Kennedy, the sole dissenter, called for the rejection of the willful blindness standard, even though he agreed with the majority "that to induce infringement a defendant must know the induced acts constitute patent infringement." Dissent at 1.

Overview of Induced Infringement

The Supreme Court's decision in *Global-Tech* comes on the heels of two recent economic and technological developments that have given greater prominence to the doctrine of induced infringement.

First, although the patent laws provide that making, using, selling or importing a product that infringes a patented invention is an act of patent infringement, an increasing number of products are made overseas and imported into the U.S. through complex distribution channels. Often, the only direct acts of patent infringement are by the retailers that sell an infringing product and by the end-users of a product.

Second, in recent years a number of patents covering methods of performing tasks have been issued – particularly in the software, consumer electronics and financial fields. Unlike patents covering devices, where making or selling the patented device provides a basis to hold the manufacturer or seller of that device liable for patent infringement, a method patent is only infringed when the patented method is performed. Often, the only person performing that method is the end-user of a product. Alternatively, the steps of patented methods are often performed by multiple parties, creating a joint or distributed infringement problem.

In both instances, instead of suing each retailer or end user of the product, patent holders have turned to two provisions in the U.S. Patent Act to hold manufacturers liable. These two provisions may also allow a patentee to allege that a single entity is causing a patent to be infringed even when the infringing steps are performed by multiple entities.

One such provision is 35 U.S.C. § 271(b), which provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." The other provision is 35 U.S.C. § 271(c), which provides that the manufacture or sale of a device "knowing the [device is] especially made or especially adapted for use in an infringement of [a] patent" and is "not a staple article or commodity of commerce suitable for substantial non-infringing use" constitutes contributory patent infringement. See 35 U.S.C. § 271(c).

Because contributory infringement requires demonstrating that a product has no substantial noninfringing use, some patentees prefer to allege inducement, which carries no analogous requirement. But the requirement that the manufacturer or seller of a product "actively" induce infringement carries its own set of issues

Before 2006, the law of inducement was split. Some cases found that inducing the actions resulting in infringement of a patent constitute inducement of infringement. Other cases required a specific intent to induce infringement of a patent. In the *en banc* decision *DSU Medical Corp. v. JMS Co. Ltd.*, the Federal Circuit adopted the latter standard, stating that "inducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities." 471 F.3d 1293, 1306 (Fed. Cir. 2006).

The Federal Circuit observed in *DSU Medical* that "[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent." *Id.* at 1304.

However, the party inducing infringement in *DSU Medical* had actual notice of alleged infringement, so *DSU Medical* did not address what is the required level of knowledge of the infringed patent. *DSU Medical* left open the question of whether specific intent to induce patent infringement can be inferred without actual knowledge of the patent, setting the stage for *Global-Tech*.

Background Facts on the *Global-Tech* Case

SEB is a French company that sells kitchen appliances under the T-Fal brand name, including a deep fryer with a heat-resistant plastic shell covered by U.S. Patent No. 4,995,312 ("the '312 patent"). Global-Tech (a Chinese company) and its subsidiary Pentalpha Enterprises Ltd. made a competing deep fryer sold by Sunbeam Products Inc., Montgomery Ward and others. In 1999, SEB filed suit against Global-Tech, Pentalpha and Montgomery Ward alleging infringement of the '312 patent (SEB settled an earlier suit against Sunbeam involving the '312 patent).

In the underlying district court case (Case No. 99-cv-9284, S.D.N.Y.), Global-Tech was found to have purchased an SEB deep fryer in Hong Kong and then copied the design of that deep fryer to make its own deep fryer. After copying the SEB deep fryer, Global-Tech instructed its patent attorney to conduct a freedom to operate study. Global-Tech's attorney studied 26 patents relating to deep fryers but did not locate the '312 patent.

However, the attorney was not informed that Global-Tech copied the design of an SEB product. Further, because the SEB deep fryer was purchased overseas, the particular model purchased by Global-Tech was not marked with the '312 patent. At trial, Global-Tech was found to have induced infringement of the '312 patent.

On appeal to the Federal Circuit, Global-Tech asserted that "the district court erred ... because [it] had no actual knowledge of the patent during part of the time" it was making its accused infringing sales. *SEB SA v. Montgomery Ward & Co.*, 594 F.3d 1360, 1373 (Fed. Cir. 2010). Specifically, Global-Tech argued "that the court in *DSU Medical* did not mean 'knew or should have known of the patent' because the decision states 'knew of the patent.'" *Id.* at 1376.

The Federal Circuit acknowledged "[t]he facts of *DSU Medical* did not require [it] to address the scope of the knowledge requirement for intent" in determining whether the party inducing infringement acted with specific intent to induce infringement, but found that because "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," actual knowledge of a patent was not required to induce infringement. *Id.*

Accordingly, the Federal Circuit rejected Global-Tech's appeal, stating 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." *Id.* at 1377. The Federal Circuit noted that "[t]he record contains adequate evidence to support a conclusion that [Global-Tech] deliberately disregarded a known risk that SEB had a protective patent" by

copying SEB's deep-fryer design and then failing to notify its patent attorney of the copying. *Id.* at 1377. Further, Global-Tech "did not produce any exculpatory evidence." *Id.*

At the Supreme Court, Global-Tech argued that the deliberate indifference standard articulated by the Federal Circuit was inconsistent with the seminal copyright case, *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, where the court stated that "[t]he inducement rule ... premises liability on purposeful, culpable, expression and conduct." 545 U.S. 913, 937 (2005).

Summary of the Supreme Court Decision

The Supreme Court's opinion began with a realization shared by many patent lawyers – "the text of § 271(b) ... is short, simple, and with respect to the question raised in this case, inconclusive." Slip Op. at 4. To illustrate the ambiguity of what it means to actively induce something, the court posed the hypothetical situation of a used car salesman inducing a customer to buy a damaged car: "[D]oes it mean merely that the salesman induced the customer to purchase a car that happened to be damaged" or "that the salesman knew that the car was damaged"? Slip Op. at 5. "The statement that the salesman induced the customer to buy a damaged car is ambiguous." *Id.* Further ambiguity may arise if the salesman knows that the car was damaged but believes (reasonably or not) that the damage was repaired.

Attempting to resolve this ambiguity, the court turned to its case law predating the 1952 adoption of Section 271(b). However, "the relevant pre-1952 cases [were] less clear than one might hope" because inducement was considered a subset of "the overarching concept of contributory infringement." *Id.* Nonetheless, because of this connection, the court reasoned that "the same knowledge is needed for inducement under § 271(b)" as contributory infringement under § 271(c). Slip Op. at 10.

After a very detailed review of conflicting patent cases dating back to the 1800s, the court concluded that its 1964 decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), resolved "that § 271(c) requires knowledge of the existence of the patent that is infringed" (Slip Op. at 9) and accordingly extended this standard to § 271(b).

The court next turned to the doctrine of willful blindness to address the required level of knowledge of the infringed patent. The court noted the long history in the criminal context of "hold[ing] that defendants cannot escape the reach of [criminal] statutes by deliberately shielding themselves from clear evidence of critical facts that are strongly suggested by the circumstances" (Slip Op. at 10) and therefore "[saw] no reason why the doctrine should not apply in civil lawsuits for induced patent infringement" (*Id.* at 12).

While conceding that the doctrine of willful blindness slightly varies by circuit, the court stated the "two basic requirements [that] (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 ... give willful blindness an appropriately limited scope that surpasses recklessness and negligence." *Id.* at 13. The Federal Circuit's "deliberate indifference to a known risk" standard was rejected because it could encompass reckless or negligent activity.

Justice Kennedy's Dissent

Justice Kennedy's dissent argued that "[w]illful blindness is not knowledge" and called for a remand to the Federal Circuit to consider "whether there is sufficient evidence of knowledge to support the jury's finding of inducement." Dissent at 1. The Kennedy dissent objected to using willfulness blindness as a proxy for knowledge for two reasons:

First, "the culpability of willful blindness depends on a person's reasons for remaining blind" (*Id.* at 2). Second, the court "has never before held that willful blindness can substitute for a statutory requirement of knowledge," thus doing so in this case with "no briefing or argument from the criminal defense bar" was imprudent given the implications of this case "for all federal criminal cases involving knowledge" (*Id.* at 3).

Justice Kennedy's dissent is also noteworthy for the reason that it raises the question of what role will he play in future patent cases. Similar to his dissent in this case, Justice Kennedy's concurrence in *eBay v. Mercexchange* and plurality opinion in *Bilski v. Kappos* argued for a narrow resolution of patent cases before the Supreme Court.