

REPORT

U.S. SUPREME COURT HOLDS THAT INDUCEMENT UNDER §271(b) REQUIRES KNOWLEDGE THAT INDUCED ACTS CONSTITUTE PATENT INFRINGEMENT, AND ADOPTS "WILLFUL BLINDNESS" STANDARD FOR ESTABLISHING SUCH KNOWLEDGE

June 6, 2011

On May 31, the U.S. Supreme Court issued a decision in *Global-Tech Appliances, Inc. v. SEB S. A.*, holding that inducing infringement of a patent under 35 U.S.C. §271(b) requires knowledge by the accused inducer that the induced acts constitute patent infringement. The decision holds that:

- Inducement under §271(b) requires intent. The accused inducer must have knowledge that the induced acts constitute patent infringement, and thus must have knowledge of the existence of the patent that is infringed.
- The doctrine of willful blindness can be used to infer that the accused inducer had knowledge of the infringed patent, and hence also had knowledge of the infringing nature of the induced acts. Willful blindness requires (1) a subjective belief that there is a high probability that a fact exists and (2) deliberate actions to avoid learning of that fact.

Although the Federal Circuit applied an incorrect "deliberate indifference" standard, the

Supreme Court affirmed the judgment of the Federal Circuit, holding that the accused inducer had knowledge of the patent, and the infringing nature of the induced acts, under a "willful blindness" standard. The record showed that the accused infringer subjectively believed there was a high probability that the infringing product was patented and took deliberate steps to avoid knowing that fact.

Justice Kennedy wrote a dissenting opinion in which he agrees with the majority that §271(b) requires knowledge that the induced acts constitute patent infringement, but he argues that it is improper to apply a willful blindness standard as a substitute for actual knowledge.

I. Background

SEB S.A. sued Global-Tech Appliances, Inc. and its subsidiary Pentalpha Enterprises, Ltd. (collectively "Pentalpha") in the U.S. District Court for the Southern District of New York, alleging that Pentalpha infringed SEB's patent on a deep fryer product. Pentalpha, a Hong Kong corporation, purchased an SEB deep fryer in Hong Kong and copied the functional aspects of the fryer. Pentalpha supplied this copied deep fryer to Sunbeam Products, Inc. and other

June 6, 2011

companies for subsequent sale to consumers in the United States. The copied SEB deep fryer that Pentalpha purchased in Hong Kong did not contain U.S. patent markings. Pentalpha requested a freedom to practice search and opinion from its U.S. attorney for the copied deep fryer, but did not inform its attorney that it had copied SEB's product. The attorney's search failed to uncover SEB's patent.

A jury found that Pentalpha had induced others to infringe SEB's patent and awarded SEB damages. Pentalpha moved for judgment as a matter of law on SEB's claim of inducement, asserting that SEB failed to present any evidence showing that Pentalpha knew of SEB's patent. Pentalpha's motion was denied.

On appeal, the Federal Circuit affirmed the jury verdict. The Federal Circuit restated the rule of *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc) that a patentee must show that the accused inducer "knew or should have known" that his actions would induce actual infringement, which necessarily includes the requirement that the accused inducer knows of the patent. However, in *DSU Medical*, the accused inducer had actual knowledge of the asserted patent, whereas no evidence was presented that Pentalpha had actual knowledge of SEB's patent. The Federal Circuit applied a "deliberate indifference" standard and held that Pentalpha could be charged with knowledge of the patent because it "deliberately disregarded a known risk that SEB had a protective patent."

II. The Supreme Court's Decision

The Supreme Court affirmed the Federal Circuit's decision that Pentalpha induced infringement of SEB's patent. The Court confirmed that §271(b) requires knowledge that

the induced acts constitute patent infringement, but held that the "deliberate indifference" standard applied by the Federal Circuit is inappropriate. Instead, the Supreme Court held that a "willful blindness" standard should be used, and held that there was sufficient evidence for a jury to find that Pentalpha willfully blinded itself to the existence of a patent covering, and the infringing nature of Sunbeam's sales of, the copied SEB deep fryer.

A. Knowledge Of The Patent Is Required For Inducement

The Supreme Court agreed with the Federal Circuit that knowledge of the patent is required for liability under §271(b). The text of §271(b) ("Whoever actively induces infringement of a patent shall be liable as an infringer") does not contain an express requirement that the accused inducer had knowledge of the patent, but the Supreme Court held that the statute should be interpreted to include such a requirement based on its prior decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) ("*Aro II*"), which interprets contributory infringement under §271(c). The Supreme Court noted that inducing infringement was not considered to be a separate theory of liability from contributory infringement until the enactment of the Patent Act of 1952, which separated inducement and contributory infringement into two categories codified in §271(b) and §271(c), respectively.

Although §271(c) explicitly requires knowledge ("knowing the same to be especially made or especially adapted for use in an infringement"), it is also subject to ambiguity as to whether an accused infringer must know that a component is especially adapted for use in a product that *happens* to infringe a patent, or that

June 6, 2011

an accused infringer must know of the patent and know that the product is adapted for use to infringe the patent. In *Aro II*, the Supreme Court interpreted §271(c) to require that the accused infringer must have knowledge of the existence of the patent to find contributory infringement liability. Based on *Aro II*, the Supreme Court held that knowledge of a patent should also be required for liability under §271(b), because the two provisions have a common origin and are subject to the same interpretative choice.

B. Willful Blindness

The Supreme Court held that the "deliberate indifference" standard applied by the Federal Circuit is insufficient to meet the knowledge requirement of §271(b), because such a standard permits a finding of knowledge when there is merely a "known risk" that the induced acts are infringing, which amounts only to recklessness or negligence. The Supreme Court instead adopted a standard of "willful blindness" based on the federal judiciary's long use of that doctrine in the context of criminal cases to hold a defendant liable under criminal statutes that require proof that the defendant acted knowingly or willingly.

Willful blindness requires both (1) a subjective belief by the accused inducer that there is a high likelihood that a fact exists, and (2) deliberate acts by the accused inducer to avoid learning that fact. Applying this standard to Pentalpha's conduct, the Supreme Court noted that Pentalpha (a) subjectively believed that SEB's deep fryer embodied advanced technology, (b) copied all but cosmetic features of SEB's deep fryer, (c) copied an overseas model of SEB's deep fryer, which could be expected not to have U.S. patent markings, and (d) failed to inform its U.S. attorney that it copied SEB's product when seeking a freedom to practice search and opinion.

The majority took particular issue with Pentalpha's failure to inform its attorney that the deep fryer was a knockoff of SEB's, stating "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 majority also noted that no testimony or alternative reason was given to doubt this inference. Taken together, the Supreme Court held that this evidence was sufficient for a jury to find that Pentalpha willfully blinded itself to the existence of SEB's patent and thus also to the fact that Sunbeam's sales of the deep fryer product would constitute patent infringement.

C. Justice Kennedy's Dissent

Justice Kennedy wrote the only dissent in this case. Justice Kennedy agreed with the majority that §271(b) should be read in tandem with §271(c) to require knowledge that the induced acts constitute patent infringement, but disagreed with the Court's use of the willful blindness standard as a substitute for actual knowledge. Justice Kennedy argued that the Court has never before held that willful blindness can substitute for a statutory requirement of knowledge. In Justice Kennedy's view, there was no need to invoke willful blindness for the first time in this case because a jury could have inferred actual knowledge of the patent based on the facts of the case. Justice Kennedy would have remanded the case to the Federal Circuit to determine whether the record supports a finding that Pentalpha knew that its deep fryers infringed SEB's patent.

June 6, 2011

III. Analysis

The Supreme Court's holding in *Global-Tech Appliances* confirms that §271(b) requires intent to induce infringement and knowledge of the asserted patent. The decision focuses on the sufficiency of evidence required to establish knowledge of the patent, and does not address what facts would be sufficient to prove intent to induce infringement where knowledge of the patent is undisputed. The decision leaves open the question of whether inducement can be found if an accused inducer knows of the patent and induced acts but believes that there is no infringement, *e.g.*, based on a noninfringement opinion that takes into account all pertinent facts.¹

Under the "willful blindness" standard, it will be more difficult for a patentee to demonstrate intent to induce infringement where there is no evidence that the accused inducer knew of the asserted patent. A patentee will need to establish that the accused inducer had a subjective belief that there is a high likelihood that the patent exists and took deliberate steps to avoid learning of the patent. This is a higher standard of proof than the "deliberate indifference" standard applied by the Federal Circuit, which only required a showing that the accused infringer should have known of the asserted patent.

¹ To render a competent noninfringement opinion, counsel should be provided with and consider all material information concerning infringement issues. *See, e.g., nCube Corp. v. SeaChange International, Inc.*, 436 F.3d 1317, 1324 (Fed. Cir. 2006) (noninfringement opinion from counsel was flawed because the accused infringer withheld at least one important technical document from its attorney).

Of course, even under the heightened "willful blindness" standard, there remains a need to be forthright, conscientious and thorough when conducting freedom to practice analyses for new products. Inducement may be found where a party "turns a blind eye" to unfavorable facts by taking deliberate steps to avoid knowledge of them.

As with Pentalpha's conduct, failing to provide pertinent facts to a U.S. attorney preparing a freedom to practice search or opinion may support a finding of inducement. The *Global-Tech Appliances* decision found that Pentalpha willfully blinded itself to the existence of SEB's patent based, in part, on Pentalpha's failure to inform its U.S. attorney that it copied SEB's product. It is possible that Pentalpha would have had a better chance of avoiding a finding of inducement if it had not sought a product clearance search from its attorney or had provided its attorney with all relevant information, instead of requesting a clearance search and at the same time withholding pertinent information. However, the court cited several other "deliberate steps" taken by Pentalpha to avoid learning of SEB's patent, including Pentalpha's decision to copy an overseas model of the deep fryer, without U.S. patent markings, to design a product for the U.S. market (*slip op.* at p. 15). Accordingly, on balance, the outcome of the Court's decision may have remained the same regardless of Pentalpha's decision to seek a clearance search and opinion.

The *Global-Tech Appliances* decision adopts the "willful blindness" standard to establish that the accused inducer had knowledge that the induced acts constituted patent infringement, but did not need to address whether the "willful blindness" standard can be used to establish that an accused inducer had knowledge of the induced

June 6, 2011

acts, *e.g.*, whether an accused inducer had knowledge that its products were being sold or used in the United States (*slip op.* at p. 12). However, because the doctrine of willful blindness is used to establish that a party had knowledge of a particular fact, future court decisions may very well apply the "willful blindness" standard to hold that one cannot avoid inducement by turning a blind eye to the fact that the induced acts are occurring.

IV. Recommendations

1. Even under the heightened "willful blindness" standard adopted by the Supreme Court, it remains best practice to conduct product clearance searches and opinions, based on all known facts, before proceeding to market a product, especially if copying features of another's commercial product. Clearance searches and opinions may not only prevent a finding of infringement, but can avoid a finding of inducement and willful infringement, because inducement and willfulness both require proof of culpability.² Clearance searches may also help clients avoid threats of infringement damages and the possibility of an injunction by identifying relevant patents that could be designed around before the product is brought to market.

2. When requesting clearance searches or opinions from an attorney, all pertinent facts should be provided to the attorney, including the identity of any relevant patents or published patent applications, known competitors, and products having similar features (including identifying if any of those features are copied). If

one is aware of similar or copied products, the source of the product should be identified, including the identity of the manufacturer if known and any other entity that may control the manufacture or otherwise have patent protection covering the product.

3. If one is marketing a product and has knowledge of another's U.S. patent, it is helpful to have a noninfringement opinion (or at least contemporaneous documents of noninfringing belief following adequate study) to defend against allegations of inducement and possibly willfulness. If a patentee is asserting inducement during litigation, we recommend testing whether any opinion of counsel relied upon by the infringer is not thorough, *e.g.*, not based on all pertinent facts. If possible, when trying to overcome an "opinion-of-counsel defense" to inducement allegations, show that pertinent facts were withheld from the attorney who authored the opinion.

4. As discussed above, future court decisions may apply the "willful blindness" standard to hold that accused inducers cannot avoid a finding of inducement by being willfully blind to the induced acts (*e.g.*, sales occurring in the United States). Accordingly, if one intends that a product not be sold in the U.S. market for patent reasons, we recommend not only imposing such conditions on overseas sales, but also monitoring to ensure that the products are not sold in the United States. A supplier should cease sales to a customer that violates this condition by selling the products in the United States (or selling other products that incorporate the products that are subject to such a restriction).

5. If a patentee asserts inducement in litigation, all relevant facts required to establish inducement should be marshaled during

² A finding of inducement can lead to a finding of willfulness and enhanced damages. *See, e.g., Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1369-70 (Fed. Cir. 2006).

June 6, 2011

discovery. This includes knowledge of the asserted patent and the induced acts. It is obviously better to uncover direct evidence of such knowledge rather than relying on the "willful blindness" standard, which requires a showing that the accused inducer took deliberate steps to avoid knowledge of specific facts.

* * * * *

Oliff & Berridge, PLC is a full-service Intellectual Property law firm based in historic Alexandria, Virginia. The firm specializes in patent, copyright, trademark, and antitrust law and litigation, and represents a large and diverse group of domestic and international clients, including businesses ranging from large multinational corporations to small privately owned companies, major universities, and individual entrepreneurs.

This Special Report is intended to provide information about legal issues of current interest. It is not intended as legal advice and does not constitute an opinion of Oliff & Berridge, PLC. Readers should seek the advice of professional counsel before acting upon any of the information contained herein.

For further information, please contact us by telephone at (703) 836-6400, facsimile at (703) 836-2787, email at email@oliff.com or mail at 277 South Washington Street, Suite 500, Alexandria, Virginia 22314. Information about our firm can also be found on our web site, www.oliff.com.

スペシャル・レポートの日本語版は、英語版の発行後、二週間以内にウェブ・サイトでご覧いただけます。