Patent Law Update: Global-Tech Appliances v. SEB S.A.

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Supreme Court Hears Arguments on Standard for Inducing Patent Infringement

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On February 23, 2011, the U.S. Supreme Court heard oral arguments in *Global-Tech Appliances Inc. and Pentalpha Enterprises, Ltd. v. SEB S.A.* At issue in this case is whether liability for inducing patent infringement requires the defendant to have actual knowledge of the patent, or whether under some circumstances a defendant may be charged with constructive knowledge of the patent.

Case Background

In August 1999 the patent owner, SEB, brought an action against Pentalpha for direct infringement under 35 U.S.C. § 271(a) based on sales of "cool touch" deep fryers which Pentalpha had reversed-engineered from an SEB deep fryer Pentalpha acquired in Hong Kong. SEB also included a cause of action against Pentalpha for actively inducing infringement under 35 U.S.C. § 271(b) based on sales of the appliance by Sunbeam Products, Inc.

Pentalpha engaged a U.S. patent attorney to investigate whether sales of its deep fryer would infringe any U.S. patents, but did not inform the attorney that the design was copied from the SEB deep fryer. The attorney opined that Pentalpha would not infringe any U.S. patents; however, the search on which his opinion was based failed to identify the relevant SEB patent.

During trial, Pentalpha argued it could not be found liable for inducing infringement for the time period prior to Pentalpha having actual knowledge of the patent. The district court disagreed, and instructed the jury that it could find Pentalpha liable for inducing infringement if it "knew or should have known" that its actions could induce actual infringement. The jury returned a verdict against Pentalpha for patent infringement and found that the infringement was willful.

On appeal, the U.S. Court of Appeals for the Federal Circuit affirmed the jury's verdict, finding that Pentalpha's "deliberate indifference" to a known risk that a patent may exist satisfied both the knowledge of the patent requirement

and the state of mind necessary for active inducement.

The Supreme Court granted Global-Tech's petition for a writ of certiorari. The sole question presented is, "Whether lack of knowledge of a specific patent – where one company has deliberately copied the commercial product of another company and has remained willfully blind to whether the copied product is protected by a patent – is an absolute bar to liability for inducing infringement under 35 U.S.C. § 271(b)."

Oral Arguments

During oral arguments, counsel for petitioner Global-Tech argued the purpose of 35 U.S.C. § 271(b) is to punish third parties who know their actions will cause infringement, and that the third party must have the purpose of causing the underlying offense of infringement. Counsel urged that the Federal Circuit's test of "deliberate indifference" went too far. Not only does the Federal Circuit test not require actual knowledge of the patent, according to counsel, but it is even broader than the traditional standard for willful blindness – which would require that a party act in disregard of a high probability of the existence of a patent.

Counsel for SEB argued that the central objective of 35 U.S.C. § 271(b) is to separate bad actors from those engaging in innocent business activities. SEB argued that, although the Federal Circuit couched its decision in terms of "deliberate indifference," the argument presented to the jury was effectively one of willful blindness, and the jury was instructed to find liability if Global-Tech actively and knowingly aided and abetted infringement.

Several questions from the Justices inquired into whether the Court should adopt the same knowledge requirement for inducement under § 271(b) that is used in the context of contributory infringement under 35 U.S.C. § 271(c). Both sides appeared to agree that the sections have different objectives and different requirements for knowledge of the patent. Counsel for Global-Tech argued that inducement has an even higher standard than contributory infringement for knowledge and intent, while counsel for SEB urged that inducement should not require that the defendant have actual knowledge of the patent when there is other indicia establishing culpable conduct.

Justice Breyer expressed concern that a constructive knowledge standard not based on willful blindness could introduce uncertainty and have far-reaching consequences, as there is almost always some risk of patent infringement when a company brings a product to market. Justice Kennedy likewise appeared concerned that creating a "duty to inquire" could impose a heavy burden on businesses, especially those supplying staple goods or raw materials used in many different products.

While the case at hand involves deep fryers, the Court was not unmindful of the implications its decision will have in other industries – most notably electronics where tens and even hundreds of thousands of patents can come into play for a new product. Laughter erupted from the audience when Justice Alito informed counsel that the Court would not fashion a special rule for the deep fryer industry.

Counsel for SEB offered three possible approaches to the standard for inducing infringement that the Court could adopt. The first approach would be to implement the standard announced in *Metro-Goldwynn-Mayer Studios, Inc. v. Grokster, Ltd*., which dealt with inducement of copyright infringement. Under *Grokster*, inducement can be established by showing "clear expression or other affirmative steps taken to foster infringement," even in the absence of actual knowledge of specific copyrights. The second approach is one of willful blindness, which would require the defendant act in disregard of a high probability of the existence of a patent. The third approach offered by SEB would be to require a defendant who copies a commercial product to investigate whether that product is covered by a patent.

It is difficult to predict how the Court will rule, but several of the Justices appeared concerned that an actual knowledge requirement was too narrow, and would effectively encourage willful blindness. At the same time, the Court seemed sensitive to the need to tread carefully because its decision will have an even greater impact in other industries, particularly those which have dense patent landscapes.

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