

## The Supreme Court Review of the Federal Circuit: Recent Decisions with Varying Impact

Within the past few months, the U.S. Supreme Court has issued decisions on an unusually high number of cases pertaining to patent law. The impact of these cases— *Global-Tech Appliances, Inc. v. SEB S. A.*,<sup>1</sup> *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*,<sup>2</sup> and *Microsoft Corp. v. i4i Limited Partnership*<sup>3</sup>—on patent practice in the U.S. varies widely. In sharp contrast to the last decade of Supreme Court review of Federal Circuit patent law decisions, however, the Court here has largely affirmed the Federal Circuit, albeit with an occasional twist.

### ***Global-Tech Appliances, Inc. v. SEB S. A.*: What is required to be found liable for inducing infringement under 35 U.S.C. § 271(b)?**

In *Global-Tech*, the Supreme Court addressed the standard to be applied in assessing whether an infringer has sufficient intent to have actively induced infringement under § 271(b).

*The Facts:* Hong Kong-based Pentalpha Enterprises, Ltd., a wholly-owned subsidiary of Global-Tech Appliances, was asked by Sunbeam Products, Inc. to supply a deep fryer meeting certain specifications. In response, Pentalpha purchased a deep fryer manufactured by SEB and proceeded to copy all non-cosmetic aspects of the SEB fryer.<sup>4</sup> The SEB fryer purchased by Pentalpha was being sold in a foreign market, which (as Pentalpha's president was aware) meant that the SEB fryer did not include any U.S. patent markings.

Before selling its fryers to Sunbeam, Pentalpha hired an attorney to perform a right-to-use evaluation of the Pentalpha fryer, but, notably, failed to inform the attorney that Pentalpha had copied the SEB fryer. The attorney did not locate SEB's U.S. patent to the SEB fryer and, as such, issued an opinion that gave the Pentalpha fryer a clean bill of health from a patent perspective. Pentalpha then sold its fryers to Sunbeam and a number of other companies for sale in the U.S. market.<sup>5</sup>

SEB sued Sunbeam for patent infringement and, later, also sued Pentalpha, claiming that Pentalpha violated 35 U.S.C. § 271(b) by actively inducing Sunbeam and the other purchasers of the Pentalpha fryers to sell or offer to sell the fryers in violation of SEB's patent rights.<sup>6</sup> In defense, Pentalpha argued that "there was insufficient evidence to support the jury's finding of induced infringement under § 271(b) because Pentalpha did not actually know of SEB's patent until it received the notice of the Sunbeam lawsuit in April 1998."<sup>7</sup>

*The Court's Analysis:* 35 U.S.C. § 271(b) codifies active inducement as infringement: Whoever actively induces infringement of a patent shall be liable as an infringer. As the Court noted, this text has two possible interpretations: (1) it "may require merely that the inducer lead another to engage in conduct that *happens to amount to infringement*," or (2) it may require that the inducer "persuade another to engage in conduct that *the inducer knows is infringement*."<sup>8</sup> Which interpretation ought to be applied?

Noting the correlation between inducement and contributory infringement, the Court held that active inducement under 35 U.S.C. § 271(b) does indeed require knowledge that the induced acts constitute infringement, thereby clarifying an issue that has been repeatedly raised in cases at the Federal Circuit. But this clarification begged a new question: what is required to *know* that the induced acts constitute infringement?

In 2006, the Federal Circuit held in *DSU Medical Corp.* that the “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.”<sup>10</sup> In the *Global-Tech* case below, however, the Federal Circuit eased back on this requirement, holding 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.”<sup>11</sup> The Federal Circuit further noted that “deliberate indifference” to a known risk of infringement “is not different from actual knowledge, but is a form of actual knowledge.”<sup>12</sup> Given these two cases, it was not clear whether knowledge of the patent, deliberate indifference, or another standard was to be applied for liability under 35 U.S.C. § 271(b).

In an 8-1 decision, the Supreme Court affirmed the decision that Pentalpha was indeed liable for induced infringement on the facts of the case.<sup>13</sup> However, the Court did so not on the basis of “deliberate indifference,” but rather on an entirely new concept in the patent arena taken from (of all things) criminal law: “willful blindness.”

In criminal law (and now in patent law as well), willful blindness has two basic requirements:

- (1) the defendant must subjectively believe that there is a high probability that a fact exists, and
- (2) the defendant must take deliberate action to avoid learning of that fact.<sup>14</sup> The Court noted that “these requirements give willful blindness an appropriately limited scope that surpasses recklessness and negligence,” as “a reckless defendant is one who merely knows of a substantial and unjustified risk of such wrongdoing” and “a negligent defendant is one who should have known of a similar risk but, in fact, did not.”<sup>15</sup>

*The Impact:* The willful blindness standard is a subjective standard dependent on the facts of the case. Proving that a defendant subjectively believes that there is a high probability that a risk of infringement exists is not a particularly easy task. This may increase the burden on patentees to inform competitors of their patents and patent rights.

Further, the willful blindness standard comes close to the standard currently in place to assess willful infringement. This raises a number of questions—Does this effectively collapse the determination of induced infringement and willful infringement into a single step? Is it possible to find induced infringement without also finding willful infringement? Does this mean that an evaluation of willful infringement should no longer be deferred to the damages phase?—that have yet to be answered.

Finally, given that the Supreme Court borrowed its intent requirement from the contributory infringement provision, 35 U.S.C. § 271(c), another question remains unanswered: What impact will this decision have on future contributory infringement cases?

***Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.: What is the order of priority of rights to an invention made using federal funds?***

In *Stanford v. Roche*, the Supreme Court addressed the impact of the Bayh-Dole Act vs. researcher patent assignments.

*The Facts:* In 1988, Stanford University's Department of Infectious Diseases began to collaborate with a research company called Cetus, the company responsible for developing the Nobel Prize winning process known as PCR, on methods for quantifying blood-borne levels of human immunodeficiency virus ("HIV").<sup>16</sup> Cetus' PCR-related assets were later acquired by Roche Molecular Systems, the named party.

Around the time the Cetus-Stanford relationship commenced, Dr. Mark Holodniy joined Stanford as a research fellow in the Department of Infectious Diseases. Upon joining, Holodniy signed an agreement stating that he "agree[d] to assign"<sup>17</sup> to Stanford his "right, title and interest in" inventions resulting from his employment at Stanford.

While at Stanford, Holodniy was permitted by Cetus to use Cetus' labs and equipment to conduct PCR-related research. In return, Holodniy signed an agreement with Cetus stating that he "will assign and do[es] hereby assign" to Cetus his "right, title and interest in . . . the ideas, inventions, and improvements" made "as a consequence of [his] access"<sup>18</sup> to Cetus.

Holodniy's research was partially funded by the National Institute of Health ("NIH") and, as a result, was subject to the University and Small Business Patent Procedures Act of 1980, better known as the Bayh-Dole Act. A provision in the Bayh-Dole Act permits the contractor (here, Stanford) to retain title to any subject invention.<sup>19</sup>

While working with Stanford and Cetus using funding from the NIH, Holodniy developed a PCR-based method for which Stanford secured three patents. After the Cetus acquisition, Roche began to commercialize the procedure in the form of HIV test kits.<sup>20</sup>

Stanford then sued Roche, claiming that the HIV test kits infringed Stanford's patents. In response, Roche argued that Holodniy's agreement with Cetus gave Roche coownership of the invention. Stanford replied that "Holodniy had no rights to assign" to Cetus because Stanford had "superior rights in the invention under the Bayh-Dole Act."<sup>21</sup>

Stanford's reply rested on a belief that the language of the Bayh-Dole Act reordered the normal order of priority rights for a federally funded invention.<sup>22</sup> Stanford cited the Bayh-Dole Act's definition

of a “subject invention” as “any invention of the contractor,” arguing that “‘invention of the contractor’ means all inventions that a contractor’s employees make with the aid of federal funds.”<sup>23</sup> That is, Stanford argued that the order of priority rights for a federally funded invention was first the contractor, then the government, and only third, the inventor.<sup>24</sup>

*The Court’s Analysis:* The Supreme Court rejected Stanford’s argument, noting that “[n]owhere in the Act is title expressly vested in contractors or anyone else” and “nowhere in the Act are inventors expressly deprived of their interest in federally funded inventions.”<sup>25</sup> Accordingly, the Court concluded that “although others may acquire an interest in an invention, any such interest—as a general rule—must trace back to the inventor.”<sup>26</sup> Thus, the rights to the patented invention belonged first to Holodniy.

Furthermore, as the dissent noted, the priority of Holodniy’s “agree to assign” language in the Stanford agreement vs. his “do hereby assign” language in the Cetus/Roche agreement was decided against Stanford: “[t]he Federal Circuit held that the earlier Stanford agreement’s use of the words ‘agree to assign,’ when compared with the later Cetus agreement’s use of the words ‘do hereby assign,’ made all the difference.” As the Federal Circuit stated, “once the invention came into existence, the latter words meant that the Cetus agreement trumped the earlier Stanford agreement.”<sup>27</sup> Thus, the rights to the invention went first to Holodniy, and then to Cetus, never reaching Stanford at all.<sup>28</sup>

*The Impact:* In short, the language of Stanford’s employee agreements was the real problem. Had Stanford’s agreement with Holodniy contained an actual assignment (e.g., “I hereby assign”), Stanford would not have had to resort to its Bayh-Dole Act arguments and would have ended up with the rights to Holodniy’s work. As such, this decision may have limited impact. But for universities and other entities engaging in technology transfer, this decision is, if nothing else, a strong motivation to pay careful attention to the language in agreements between inventors, the university, and any other parties involved.<sup>29</sup>

### ***Microsoft Corp. v. i4i Limited Partnership: Is clear and convincing evidence the correct standard for proving invalidity of a patent?***

In *i4i*, the Supreme Court addressed whether “clear and convincing” is the appropriate burden for proving invalidity, particularly where the challenger is relying on prior art that was not before the Patent and Trademark Office (“PTO”) examiner during prosecution of the patent.

*The Facts:* In 2007, i4i sued Microsoft for its use of “custom XML,” a proprietary extension within Microsoft Word’s native OOXML document format. Microsoft counterclaimed that i4i’s patent protecting custom XML was invalid under 35 U.S.C. § 102(b), on the basis of the on-sale bar.<sup>30</sup>

i4i and Microsoft agreed that more than a year prior to the filing of i4i’s patent, i4i had sold a software program known as S4. Microsoft alleged that S4 embodied the invention described in i4i’s patent,

thus rendering the patent invalid. i4i disagreed.<sup>31</sup>

In the district court, i4i proposed a jury instruction that required the invalidity of i4i's patent to be proved by "clear and convincing evidence," based on the presumption of validity under 35 U.S.C. § 282. Microsoft objected, citing the undisputed fact that the S4 software sold by i4i had never been presented to the PTO during examination of the i4i patent. Based on this, Microsoft asserted that the invalidity of i4i's patent need not be proved by clear and convincing evidence, but rather only by a preponderance of the evidence.<sup>32</sup> More generally, Microsoft made the argument that the burden of clear and convincing evidence did not apply where the prior art in question had not been considered by the PTO. In particular, Microsoft contended that the presumption of validity did not mandate a clear and convincing burden of proof. Microsoft's argument ultimately garnered significant support from the electronics industry as well as academia; over 20 of the 25 amicus briefs filed with the Supreme Court were in support of Microsoft's assertion, including many filed by Microsoft competitors, such as Apple, Intel, and Google.<sup>33</sup>

Unconvinced, the district court gave the jury the instruction proposed by i4i, and the jury found that Microsoft had willfully infringed<sup>34</sup> the i4i patent and had failed to prove the invalidity of the i4i patent. The Federal Circuit affirmed.

*The Court's Analysis:* The Supreme Court affirmed, rejecting both of Microsoft's contentions: (1) that a preponderance of the evidence standard should apply in challenging validity under § 282 and (2) that a preponderance standard must at least apply where the validity challenge is based on new evidence that was not before the PTO during examination.<sup>35</sup> As noted by the Court, "pre-Act"<sup>[36]</sup> cases never adopted or endorsed Microsoft's fluctuating standard of proof" and "they do not indicate, even in dicta, that anything less than a clear-and-convincing standard would ever apply to an invalidity defense"<sup>37</sup> raised in an infringement action.

Thus, the Court confirmed that the invalidity of a patent must be proved by clear and convincing evidence, regardless of whether the prior art in question was ever considered by the PTO. At best, the Court conceded, "if the PTO did not have all material facts before it, its considered judgment may lose significant force," and, accordingly, allowed that a "jury may be instructed to evaluate whether the evidence before it is materially new, and if so, to consider that fact when determining whether an invalidity defense has been proved by clear and convincing evidence."<sup>38</sup> The Court's holding is consistent with Federal Circuit case law noting that the burden of proof by clear and convincing evidence "may be more easily met" when the art was not before the PTO.

In a concurrence, Justice Breyer emphasized that "the evidentiary standard of proof applies to questions of fact and not to questions of law," noting that "[w]here the ultimate question of patent validity turns on the correct answer to legal questions—what these subsidiary legal standards mean or how they apply to the facts as given—today's strict standard of proof has no application."<sup>39</sup>

Accordingly, Justice Breyer suggested “separating factual and legal aspects of an invalidity claim, say, by using instructions based on case-specific circumstances that help the jury make the distinction or by using interrogatories and special verdicts to make clear which specific factual findings underlie the jury’s conclusions.”<sup>40</sup>

*The Impact:* In general, the *i4i* case upholds the status quo. Justice Breyer’s concurrence, however, raises a very different approach to an obviousness determination. Obviousness is ultimately a question of law, albeit with manifold underlying issues of fact. Justice Breyer’s proposal—that courts require more detailed jury verdict forms and special interrogatories directed to the issues of fact, leaving the ultimate obviousness determination to the judge—would be a substantial change in patent litigation and significantly alter its dynamics.

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## Endnotes

1. *Global-Tech Appliances, Inc. v. SEB S. A.*, 563 U.S. \_\_\_\_, 131 S. Ct. 2060 (2011).
2. *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, 563 U.S. \_\_\_\_, 131 S. Ct. 2188 (2011).
3. *Microsoft Corp. v. i4i Limited Partnership*, 564 U.S. \_\_\_\_, 131 S. Ct. 2238 (2011).
4. *Global-Tech*, 563 U.S. at \_\_\_\_, 131 S. Ct. at 2064.
5. *Id.*
6. *Id.*
7. *Id.*
8. *Id.* at \_\_\_\_, 131 S. Ct. at 2065 (emphasis added).
9. *Compare, e.g., Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553-554 (Fed. Cir. 1990) and *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).
10. *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (*en banc*).
11. *SEB S. A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1377 (Fed. Cir. 2010).
12. *Id.*
13. In particular, the Court noted that Pentalpha’s president “was well aware that products made for the overseas markets”—including the SEB deep fryer purchased by Pentalpha—“usually do not bear U.S. patent markings.” Further, “Pentalpha’s belief that SEB’s fryer embodied advanced technology is evidenced by its decision to copy all but the cosmetic features of SEB’s fryer.” And, still further, Pentalpha chose not to inform the attorney of the SEB fryer from which the Pentalpha fryer was copied. Any exculpatory evidence that the defendants had any actual belief that the SEB fryer was not protected by a patent was notably absent. *Global-Tech*, 563 U.S. at \_\_\_\_, 131 S. Ct. at 2071.
14. *Id.* at \_\_\_\_, 131 S. Ct. at 2070.
15. *Id.* at \_\_\_\_, 131 S. Ct. at 2070-2071.
16. *Stanford*, 563 U.S. at \_\_\_\_, 131 S. Ct. at 2192.
17. *Id.*
18. 18 *Id.*
19. *Id.* at \_\_\_\_, 131 S. Ct. at 2193, where “subject invention” is defined as “any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement.”
20. *Id.* at \_\_\_\_, 131 S. Ct. at 2192.
21. *Id.* at \_\_\_\_, 131 S. Ct. at 2193.
22. Notably, the United States filed an amicus brief in support of Stanford and this belief.

23. *Stanford*, 563 U.S. at \_\_\_\_, 131 S. Ct. at 2196.
24. In the view of *Stanford* and the United States, “the Act moves inventors from the front of the line to the back by vesting title to federally funded inventions in the inventor’s employer – the federal contractor.” *Id.* at \_\_\_\_, 131 S. Ct. at 2195.
25. *Id.* at \_\_\_\_, 131 S. Ct. at 2196.
26. *Id.* at \_\_\_\_, 131 S. Ct. at 2195.
27. *Id.* at \_\_\_\_, 131 S. Ct. at 2202.
28. In the dissent, Justice Breyer noted that “[g]iven what seem only slight linguistic differences in the contractual language, this reasoning seems to make too much of too little.” Justice Breyer explained that under the law at the time the agreements to *Stanford* and *Cetus* were drafted, “both the initial *Stanford* and later *Cetus* agreements would have given rise only to equitable interests in Dr. Holodniy’s invention,” as a distinction between the language of the *Stanford* and *Cetus* agreements was not made until the 1991 Federal Circuit case, *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572 (1991). Given this, Justice Breyer concluded that “the facts that *Stanford*’s contract came first and that *Stanford* subsequently obtained a postinvention assignment as well should have meant that *Stanford*, not *Cetus* would receive the rights its contract conveyed.” *Stanford*, 563 U.S. at \_\_\_\_, 131 S. Ct. at 2203 (Breyer, J., dissenting).
29. For further discussion of this case, see *Stanford v. Roche, the Bayh-Dole Act, and the Possibility of Unintended Consequences* and *Stanford v. Roche: Part II: The Supreme Court Has Spoken*, snippets, Vol. 9, Issue 2, available at <http://mbhb.com/resources/documents/Snippets%20Final%20Vol%209%20Issue%202.pdf>.
30. *Microsoft*, 564 U.S. at \_\_\_\_, 131 S. Ct. at 2243.
31. *Id.* at \_\_\_\_, 131 S. Ct. at 2244.
32. *Id.*
33. See, e.g., Brief for Google Inc. et al. as Amici Curiae in Support of Petitioner and Brief for Apple Inc. and Intel Corporation as Amici Curiae Supporting Reversal, *Microsoft*, 564 U.S. \_\_\_\_, 131 S. Ct. 2238 (2011).
34. *Microsoft*, 564 U.S. at \_\_\_\_, 131 S. Ct. at 2244.
35. *Id.*
36. 35 U.S.C. § 282 is a section of the Patent Act of 1952. Accordingly, the Court refers to “pre-Act” cases to indicate cases prior to the Patent Act of 1952 and, accordingly, prior to the codifying of the common-law presumption of patent validity and the applicable standard of proof.
37. *Microsoft*, 564 U.S. at \_\_\_\_, 131 S. Ct. at 2250.
38. *Id.* at \_\_\_\_, 131 S. Ct. at 2251.
39. *Id.* at \_\_\_\_, 131 S. Ct. at 2253.
40. *Id.*