

Morgan Lewis

seminar

Active Inducement: Global Tech v. SEB SA

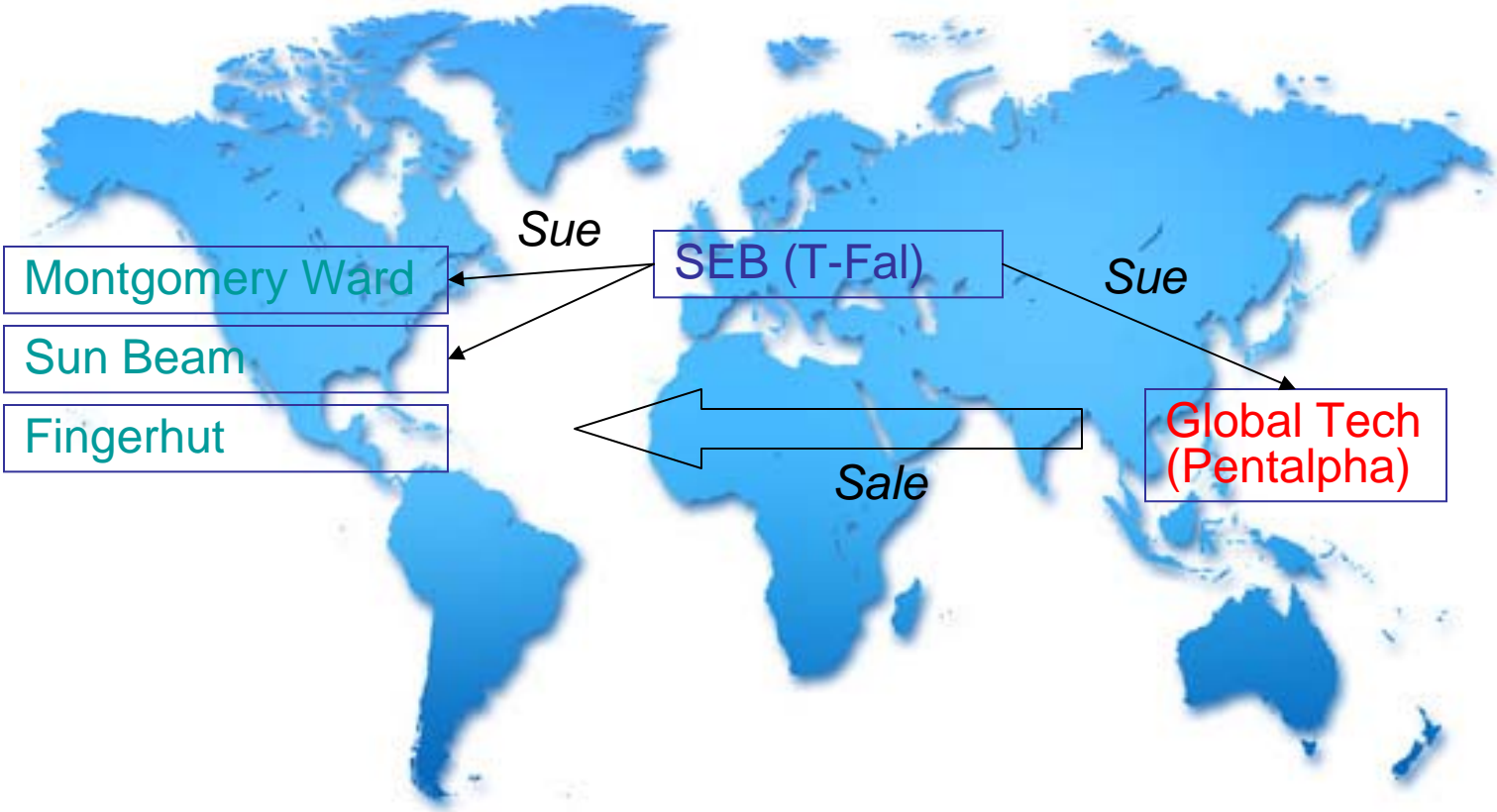
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Infringement Theories

- **Direct Infringement § 271 (a):** “...whoever without authority **makes, uses, offers to sell, or sells** any patented invention, within US or imports into U.S. any patented invention during the term of the patent therefor, infringes the patent.”
- **Active Inducement § 271 (b):** “[w]hoever **actively induces** infringement of a patent shall be liable as an infringer.”
- **Contributory Infringement § 271 (c):**
 - “[1] Whoever offers to sell or sells within the United States or imports into the United States **a component** of a patented machine, manufacture, combination or composition, or **a material or apparatus** for use in practicing a patented process,
 - [2] constituting a **material** part of the invention,
 - [3] knowing the same to be **especially made or especially adapted for use** in an infringement of such patent,
 - [4] and **not a staple article or commodity** of commerce suitable for substantial **noninfringing** use.”

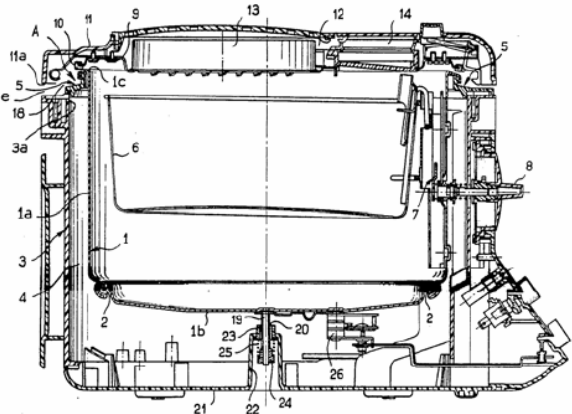
Global Tech v. SEB: parties



Global Tech v. SEB: products & patent



USP 4,995,312



Global Tech v. SEB: facts

- Pentalpha had no actual knowledge of the patent (³¹²).
- P... REVERSE-ENGINEERED several deep fryers, including SEB's deep fryer. (P... improved the deep fryer design.)
- Shortly after agreeing to supply Sunbeam, P... obtained a "right-to-use study" from a patent attorney.
- No patent marking on SEB's fryers
- P... COPIED SEB's fryer design and sold its fryers to retailers like Sun Beam.
 - The former head of P... admitted that they actually bought a T-Fal unit and *changed the cosmetic design and just copied the features of the unit.*
- P... did NOT tell the patent attorney that it had COPIED a SEB's fryer.
- SEB "consistently marked substantially all of its deep fryers" with its patent numbers

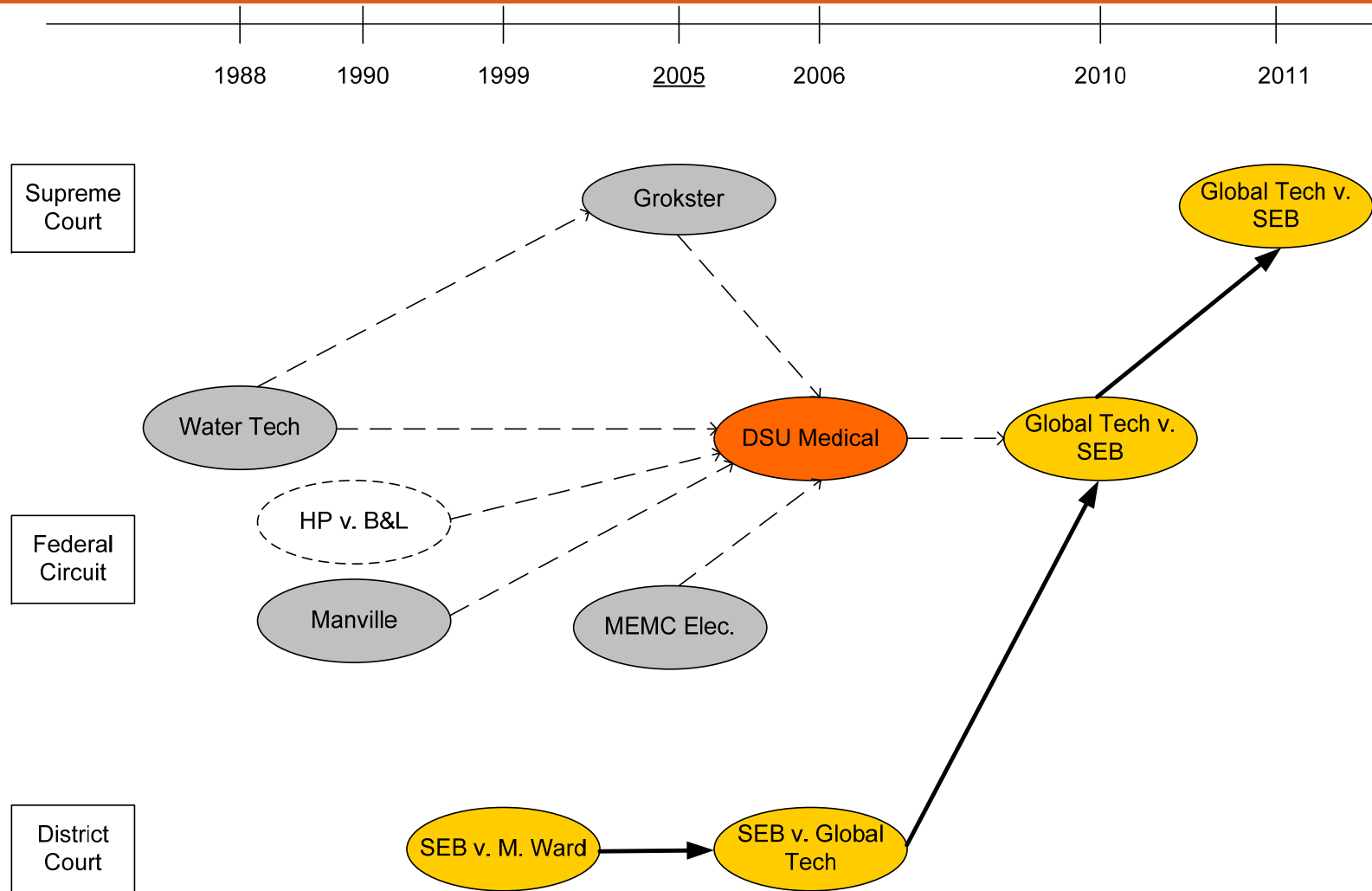
Global Tech v. SEB: the district court (1)

- Pentalpha: lack of evidence that P... “had any knowledge whatsoever with respect to the existence of the patent.”
- SEB: P... had induced infringement of the patent through those sales.

Q: What’s the standard of active inducement in 2006 (trial at the district court)?

A: see *DSU Medical* (en banc 全員合議) case by Federal Circuit (in 2006).

Note: prior cases



Active Inducement std (2006): *DSU Medical*

- Issue: the state of mind requirement for Active Inducement
 - The statute § 271 (b) itself is very simple.
 - “[w]hoever actively induces infringement of a patent shall be liable as an infringer.”
 - When courts have interpreted it, they required that the patent owners should prove an infringer’s state of mind in inducement.
 - **ACT** (inducement or encouragement) + **State of Mind** (intent implied in the verb, *induce*)
 - Question: What level of **the state of mind** the plaintiffs should prove?

Active Inducement std (2006): *DSU Medical*

- Two levels of the state of mind (discussed in DSU)



- Inducer need only intend to cause the acts of the third party that constitute direct infringement
- That is, the inducer had knowledge of the acts alleged to constitute infringement

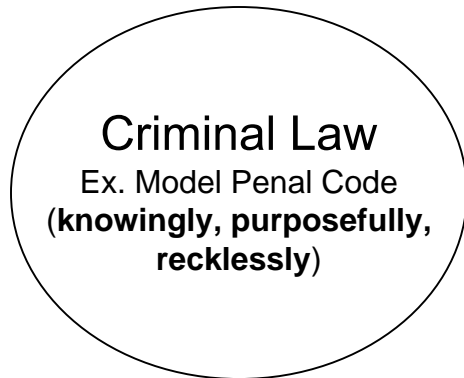
From *HP v. B&L*
(1990)



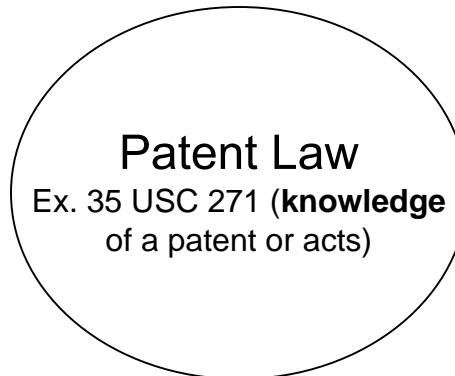
- Inducer had **specific intent** to encourage another's infringement
- “Once the defendants knew of the patent, they actively and knowingly aided and abetted another's direct infringement.”

From *Water Tech*
(1988)

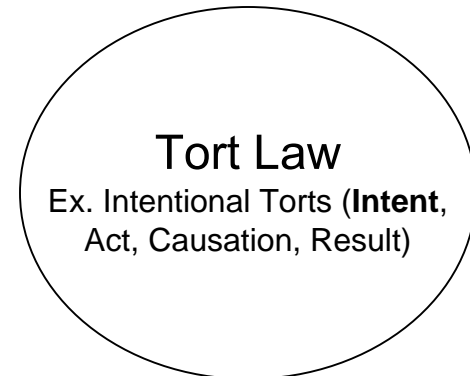
Note: State of Mind in other laws



Act (Actus Reus) +
State of Mind (Mens Rea)



Act + State of Mind



Act + State of Mind
(Intent)

Active Inducement standard (2006): *DSU Medical*

- Standard by *DSU Medical*
 - Rule (Act):
 - “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**.”
 - Basis
 - » Grokster (SC, 2005)
 - » MEMC Elec (Fed Cir, 2005)
 - » Water Tech (Fed Cir, 1988)
 - » Manville (Fed Cir, 1990)

Active Inducement standard (2006): *DSU Medical*

- Standard by *DSU Medical – State of Mind*
 - *Rule (State of Mind)*
 - “The plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts and that **he knew or should have known his actions** would induce actual infringements.”
 - 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.**

Active Inducement standard (2006): *DSU Medical*

- Standard by *DSU Medical* – *State of Mind*



“He knew or should have known
that his action induces ...”

“He knew of the patent”

Global Tech v. SEB: the district court (2)

- Held that DSU Medical controls this case. Thus, “the plaintiff [SEB] must show that the alleged infringer [Global Tech & Pentalpha] **knew or should have known** that **his actions** would induce actual infringement.”
 - Also, this rule necessarily includes the requirement that he **knew of the patent**.
- In DSU Medical, the alleged inducer **had actual knowledge** of the patent-in-suit.
- But, here, there was **no evidence** that the alleged inducer [Pentalpha] **knew of the patent-in-suit**.

→ How the district court solved this difference? (see next slide)

Global Tech v. SEB: the district court (3)

- **District court:** based on the facts, **a reasonable jury could infer** that Pentalpha had specific intent (state of mind) of inducement, even though it did not have actual knowledge of the patent.

Here is the argument. There are a zillion patent attorneys in New York City, [yet] [t]hey go to this guy in the middle of nowhere to do this patent search. . . . I don't know what happened. I'm not in [Pentalpha's President's] head. I don't know what he did. . . . I think it is . . . a reasonable argument, could a jury infer from those actions, if they chose to believe them in the way the plaintiffs want, that that was an indication that [he] understood that he was likely violating a patent, in fact violating a patent.

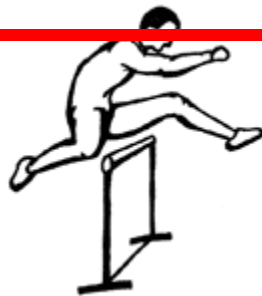
Global Tech v. SEB: the federal court (1)

- **Pentalpha:**
 - **No actual knowledge** of the patent-in-suit, because it hired a patent lawyer to conduct a right-to-use study and the lawyer did not find the patent-in-suit.
 - Plus, DSU Medical does not cover the standard of “should-have-known of the patent” at all, because its decision states “**knew of the patent.**”
- Thus, we appeal.

Global Tech v. SEB: the federal court (2)

- **Pentalpha's argument:**

• Mere knowledge of infringing acts by others only



• Knew or should have known that his actions would induce direct infringement



• Knowledge of the patent: (knew or should have known a patent or the patent)

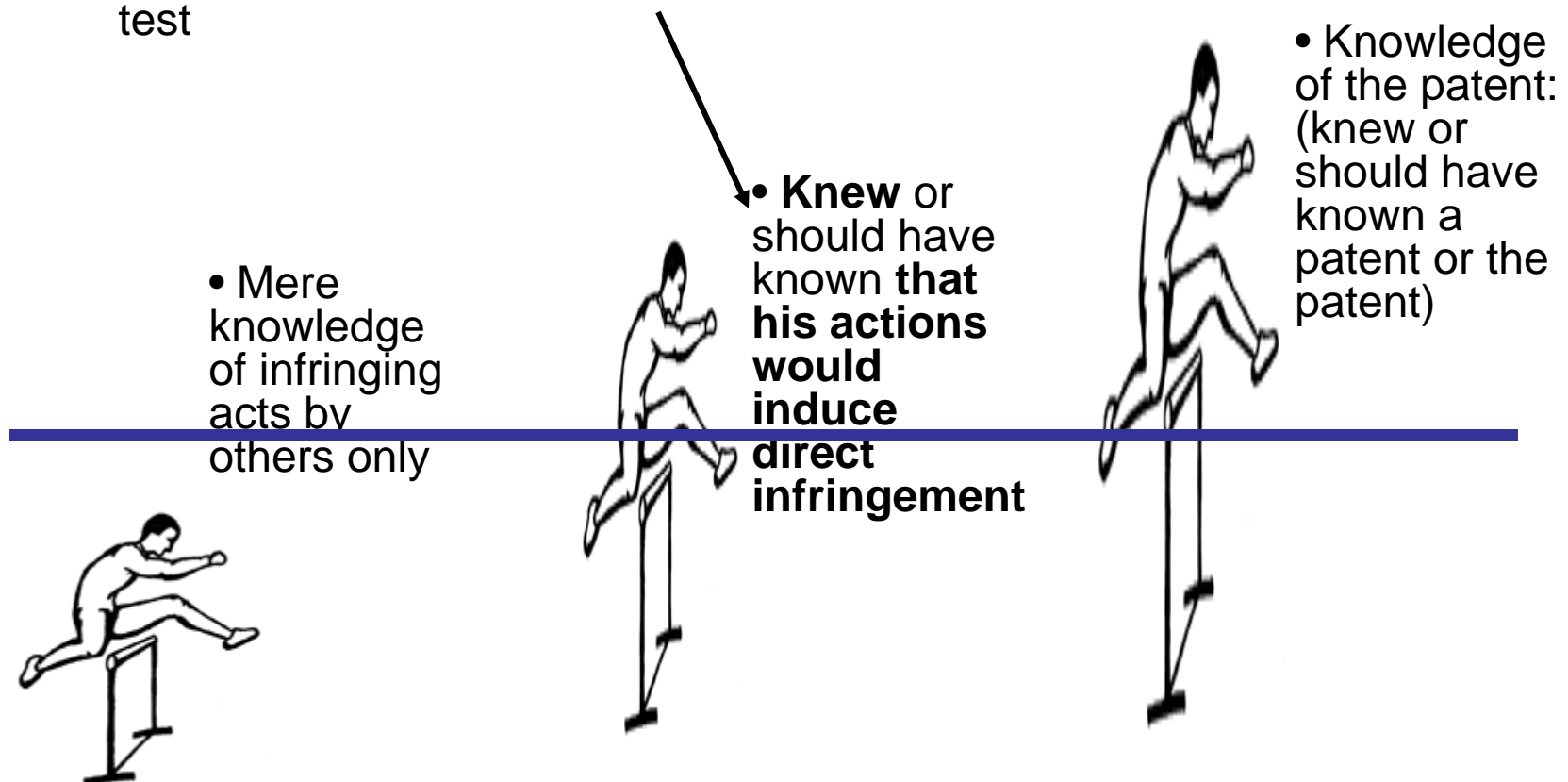


Global Tech v. SEB: the federal court (3)

- **New(?) standard: “Deliberate indifference of a known risk” test**
 - Because DSU Medical may NOT cover the standard of “should-have-known of the patent,” the federal circuit may need to find a *variation* of “actual knowledge.” (***)
 - Held that
 - “deliberate indifference” is NOT necessarily a “should have known” standard.
 - “deliberate indifference” of a known risk is not different from actual knowledge, but is **a form of actual knowledge**.
 - “deliberate indifference” is equal to “specific intent.”

Global Tech v. SEB: the federal court (4)

- **New(?) standard: “Deliberate indifference of a known risk”**
test



Global Tech v. SEB: the federal court (5)

- **Precedents on the “deliberate indifference of a known risk” test**
 - Supreme Court
 - Farmer v. Brennan (U.S. 1994)
 - Circuit courts
 - United States v. Carani (7th Cir. 2007)
 - Woodman v. WWOR-TV, Inc. (2nd Cir. 2005)
 - Crawford-El v. Britton (D.C. Cir, 1991)
 - Boim v. Holy Land Found (7th Cir, 2008)

Global Tech v. SEB: the federal court (6)

- **Under the “Deliberate indifference of a known risk” test, the Federal Circuit concluded**
 - Pentalpha *deliberately disregarded* a known risk that SEB had a protective patent,
 - Because it did not tell the patent lawyer that it had based its product on SEB’s product.

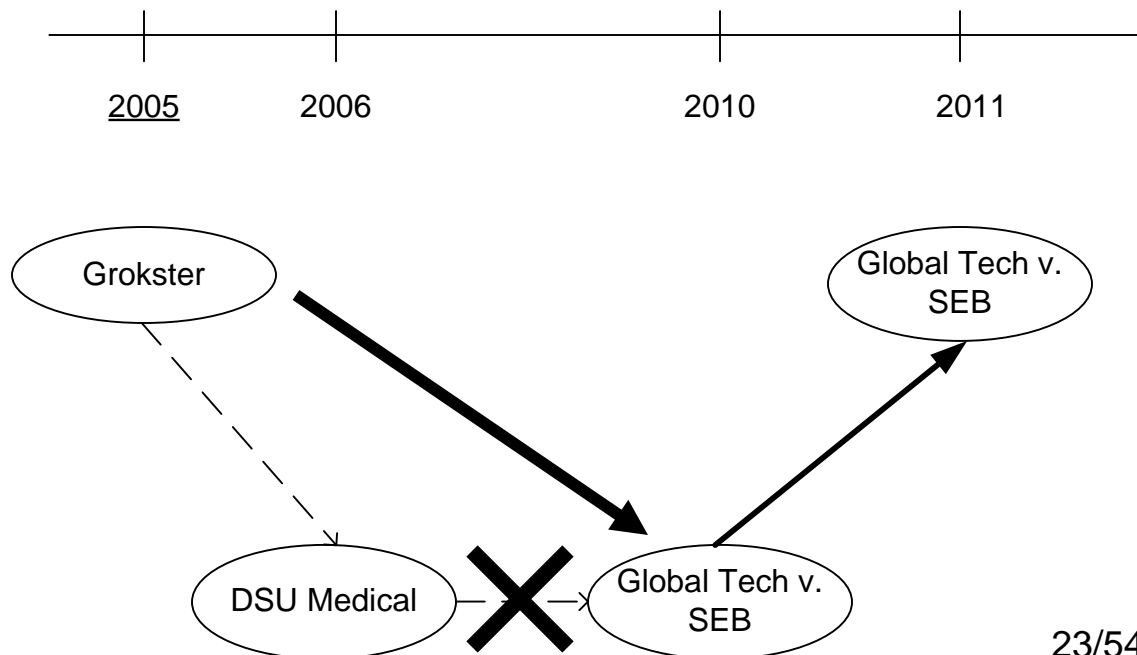


Criticism on the federal court's ruling

- **First, none of the cited cases is an IP case.**
 - Farmer v. Brennan (U.S. 1994): civil case between Inmate and Federal prison officers
 - United States v. Carani (7th Cir. 2007): criminal case on child pornography
 - Woodman v. WWOR-TV, Inc. (2nd Cir. 2005): civil case on age discrimination
 - Crawford-El v. Britton (D.C. Cir, 1991): civil case between Inmate and Federal prison officers
 - Boim v. Holy Land Found (7th Cir, 2008): civil case between murder victim and criminals

Criticism on the federal court's ruling

- **Second, is the test consistent and clear enough?**
 - Lemley, Holbrook, Epstein: “the Federal Circuit has been unable to clarify its own law on the state of mind requirement for inducement liability.”
- **Third, what about going back to Grokster?**



Global Tech v. SEB: Oral Hearing



Global Tech v. SEB: Oral Hearing



Mr. Dunnegan
for Global Tech



Mr. Ted Cruz
for SEB

Question presented

- **What standards** apply under U.S. law when a company is accused of inducing its customers to infringe a patent?
- = 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** instead "**purposeful, culpable expression and conduct**" to encourage an infringement.

Dunnegan: the argument theme

- Pentalpha did more than what law required.
 - It honestly relied upon a competent US patent lawyer's search results.
- The Federal Circuit's test ("deliberately indifferent of a known risk") is wrong. The willful blindness test is not enough.
 - Only the purposeful and culpable test (under Grokster) works.

Opening by *Global Tech*

- Dunnegan: “**the purposeful, culpable conduct**” test (from this Court’s Grokster) should be adopted.

William Dunnegan 



Mr. Chief Justice, and may it please the Court:

The standard for the state of mind element for a claim for inducing patent infringement should be: Did the accused inducer have a purpose to induce a third party to engage in acts that the accused inducer knew infringed the patent?

That's what I'll call the purposeful, culpable test.

The Federal Circuit applied a standard of whether Pentalpha was deliberately indifferent to a known risk that a patent may exist.

The Federal Circuit's deliberate indifference test was not a willful blindness test.

Willful blindness would have required both an awareness of a high probability that a patent would exist and a deliberate effort to avoid learning the truth.

Ginsburg: “You keep ignorant of it”

- **Ginsburg:** Global Tech would have to know that its device infringed a particular patent if it told the patent attorney that it copied the SEB fryer.
 - Global Tech “**keep [itself] ignorant of it.**”
- **Dunnegan:** “What it did was **better.**”
 - It hired a patent attorney to conduct a search to see if there was any patent which was infringed.

Ginsburg: “If being told, the patent attorney would have been found it.”

- **Ginsburg:** If the patent attorney had been told that Global Tech copied the SEB’s fryer, isn’t it sure that he would have found the patent?
- **Dunnegan:** “We don’t know why the patent search failed.”
- **Ginsburg:** If an attorney had been told, wouldn’t he find the SEB patent?
- **Dunnegan:** “Maybe.” “No evidence on that in the record.”



Dunnegan: “Gold standard was not met, but ...”

William Dunnegan

00 : 26



--No -- well, from an objective perspective, Your Honor, if you're giving the design to the -- to the attorney and you're saying do a complete search, it seems to me that that's the antithesis of being willful blind, because you're hiring a specialist to go out and look for the answer for you.

▶ Now, the gold standard was not met, but the gold standard would rarely be met in any of these cases.

Justice Samuel Alito



But your position is that even willful blindness is not enough.
You have to have actual knowledge that -- that the item is patented, right?

William Dunnegan



That is correct, Your Honor.

Dunnegan: “it was not willfully blind”

Justice Sonia Sotomayor

00 : 29



▶ No, but you're not presumed to copy other people's items, which is the difference.

Is there -- let me just ask you something.

Assuming we were to find the willful blindness test to actual knowledge, the facts of your case, the fact that they did not give the name of the product that they copied to their patent attorney, is that just, as a matter of law, willful blindness?

William Dunnegan



--No, Your Honor, I don't think that is willful blindness as a matter of law.

Willful blindness under the -- under the Santos standard has two distinct elements.

One would be that there's a high probability that there would have been a patent on that particular product.

Note – “Willful Blindness” test




- The Fed Circuit adopted “**deliberate indifference**” test, while Global Tech urged “**purposeful, culpable**” conduct test.
- Several amici urged the Court “to set forth the requirements for constructive knowledge consistent with the traditional formulation of **willful blindness**. (Fed Cir Bar Association)
 - “Actual knowledge can also be proven through the familiar doctrines of ‘willful blindness.’” (Cisco)
 - IP Owners Association, Yahoo.

Note – “Willful Blindness” test



- Basis: US v. Santos 553 U.S. 507 (2008)
- Two prongs in Santos: willful blindness arises when a party,
 - 1) is aware of a high probability of a fact, and
 - 2) deliberately avoids learning the truth.
- Global Tech: Was not aware of it because of the result of the right-to-use patent search
- SEB: Global Tech was aware of it because of copying the SEB’s fryer.

Robert: worrying about effects of the willful blindness standard

- **Robert:** in case of some industries like semiconductor industry,
1) there are lots (over 420,000) of patents, thus you're going to infringe something anyway,
2) because there are many patents, you're NEVER certain that you're not going to infringe something.
→ He implied that, under the willful blindness test, industries may have a big burden of ascertaining that they are not infringing any patent among many patents in the same field, which may be very hard.

Kagan: Revisited Ginsburg's questions

- **Kagan:** "That's willful blindness."

Justice Elena Kagan



A reasonable jury couldn't have looked at the facts that Justice Ginsburg suggested -- you know, you do not tell the lawyer that you, in fact, have copied the product and say that's -- a reasonable jury -- that's willful blindness.

William Dunnegan



--I don't think so, Your Honor, because what we have done in that situation was, first, we have done more than the law required. We went out to get a patent. We gave the lawyer our actual patent drawings and tell him to do his work.

Justice Ruth Bader Ginsburg



But if you really wanted to know, wouldn't you have gone into Montgomery Ward and bought one of the fryers and turned it around to see if it had a patent number on it?

Justice Antonin Scalia



--Listen, the -- the reason you got the opinion from the lawyer was -- was not to make sure that there were no patents. It was to show that opinion to Montgomery Ward.

Dunnegan: “We really want to know...”

- **Dunnegan:** “We really want to know what patents are out there.”

William Dunnegan

00 : 25



--Your Honor, I take issue with you for the following reason: I don't think there was any
▶ intention on the part of our client to -- to infringe a patent at all, because if it knew about the patent, it could have designed around it if it knew what it was doing.
There's no benefit to our client of getting Montgomery Ward or Sunbeam or Fingerhut in trouble for patenting infringement.
We really want to know what patents are out there.

Alito: “It is willful blindness”

- **Alito:** It’s willful blindness.
- **Dunnegan:** Two prongs of willful blindness test are not met here.

Justice Samuel Alito



If this is not willful blindness, I don't know what willful blindness is.

Now, maybe you can explain what more would have been required to permit a reasonable jury to find willful blindness.

William Dunnegan

00



Okay.

I think you'd need two things, Your Honor.

The first that you would need is evidence that they were going to bump into a patent if they -- if they proceeded.

► Is there the high probability of finding a patent?

Now, if you -- if you just consciously avoid knowledge in the absence of a high probability, that's not willful blindness.


That's not even culpable.

Kagan: “Glokster does not apply here.”

- **Kagan:** In Glokster, the defendants conceded that they knew that the things were copyrighted. Why relevant?
- **Dunnegan:** Relevant because it discussed what is the state of mind element for inducing copyright infringement.



Sotomayor: “wasn’t it purposeful?”

- **Sotomayor:** If you know there’s a patent, how can you not be culpable for selling products after knowing it?
- **Dunnegan:** Purpose may be a key to get off the hook.
- **Sotomayor:** what’s purposeful conduct under your theory?
- **Dunnegan:** 
 - 1) Prior adjudication of direct infringement
 - 2) As in Grokster, says go infringe it, referencing patents
 - 3) As in Grokster, company’s internal document says there is a purpose to infringe.

Cruz: the argument theme



- Pentalpha was a “culpable bad actor”, i.e. cop
- Under whatever test this Court adopts, Pentalpha should not get off the hook, because it was
 - purposeful and culpable,
 - willfully blinded, or
 - deliberately indifferent of a known risk.



Kennedy: “should-have-known” standard is a serious burden

- **Kennedy:** if this Court adopts a “should-have-known” standard, every business retailer has the duty to inquire and to find out if there is a patent they may infringe.
 - Plus, every manufacturer will have a substantial burden when they sell and distribute products.
- **Cruz:** “We are certainly not advocating a general burden on all producers to do a patent search. That is not remotely the position we are presenting.”
- **Kennedy:** In order to avoid those consequences, we should talk about actual “knowing,” as opposed to “should have known.”



Breyer: three candidates of the standard or fourth?

- **Breyer:** agree to Kennedy's concern. He pointed out three candidates of the test that the Court may adopt;
 - 1) should-have-known
 - 2) consciously (deliberately) indifferent of a known risk
(as in the Model Penal Code.)
 - 3) Willful blindness
 - Is there a fourth?

Cruz: suggesting three possible standards

1



▶ We have suggested three possible standards to be the rule in this case.

The first, the Court could choose to adopt the standard that was adopted in *Grokster*, and we have argued at considerable length that under the standard this Court adopted in *Grokster*, the plaintiffs -- the defendants, rather, would be liable and it would uphold the judgment below.

That is the broadest standard the Court could adopt.

A more narrow standard the Court could adopt is that at a minimum, willful blindness of the patented issue suffices to allow inducement liability.

That is a more narrow standard.

It would cover a much narrower universe of conduct.

It would exclude much of the conduct both Justice Breyer and Justice Kennedy are suggesting. That is the second way this judgment could be affirmed and a more narrow rule.

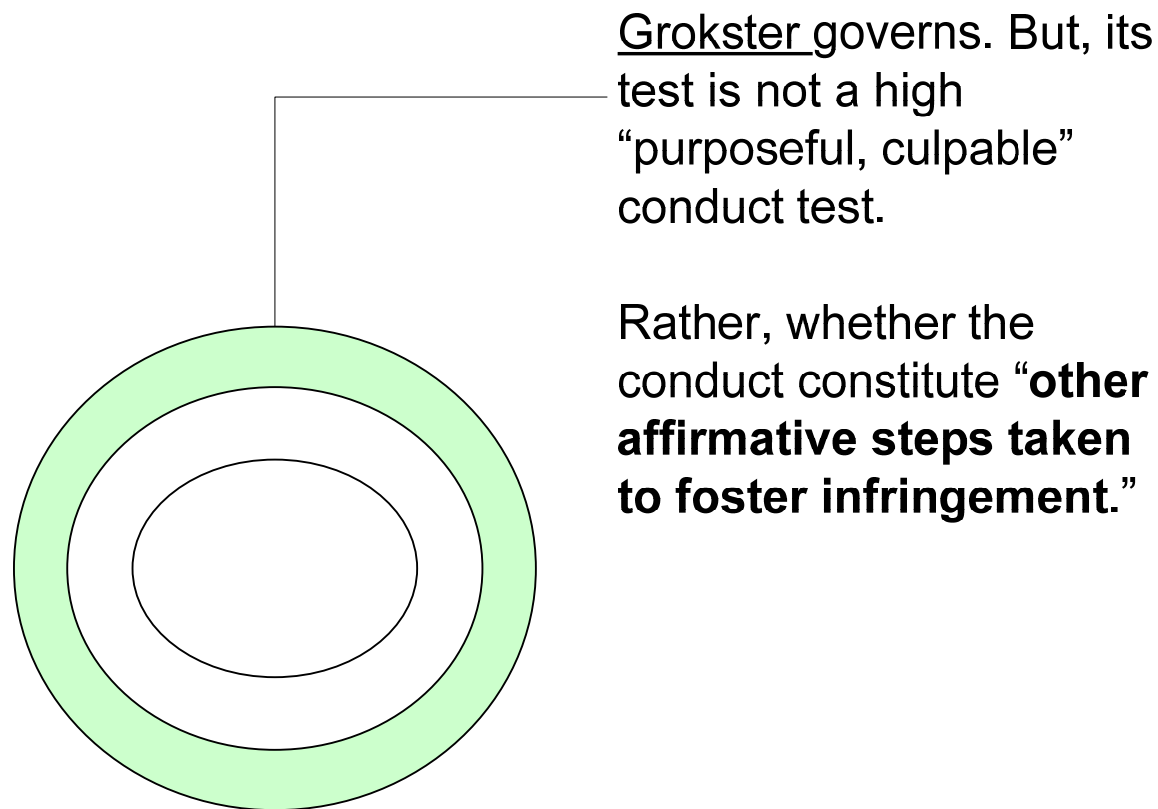
The most narrow rule we have suggested this Court could adopt is in the limited circumstances when a defendant deliberately copies another commercial product, at a minimum, that defendant has an obligation to ascertain if that specific product has protected U.S. intellectual property, that it is a very minor obligation that is triggered only when you take a commercial product on the marketplace, reverse-engineer it, and copy it, because it is a situation that is highly likely to be indicative of bad conduct, to be risking a very substantial infringement of someone else's IP, and in terms of a low-cost avoider, one of the things at footnote 20 of our brief--

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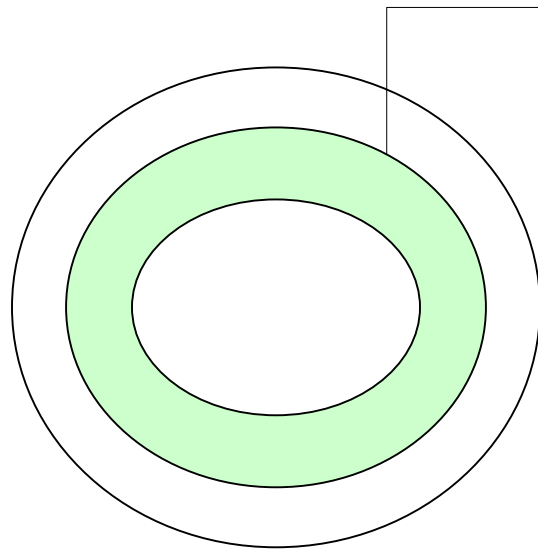
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Cruz: three possible standards (1)

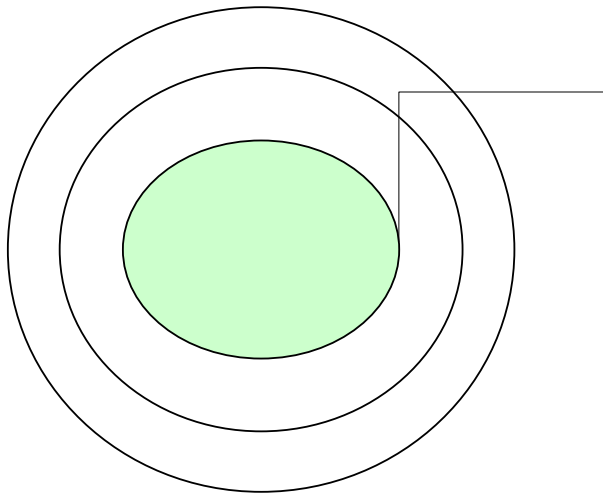


Cruz: three possible standards (2)



Willful Blind test: a defendant cannot be willfully blind to another's IP and remain immune from inducement liability.

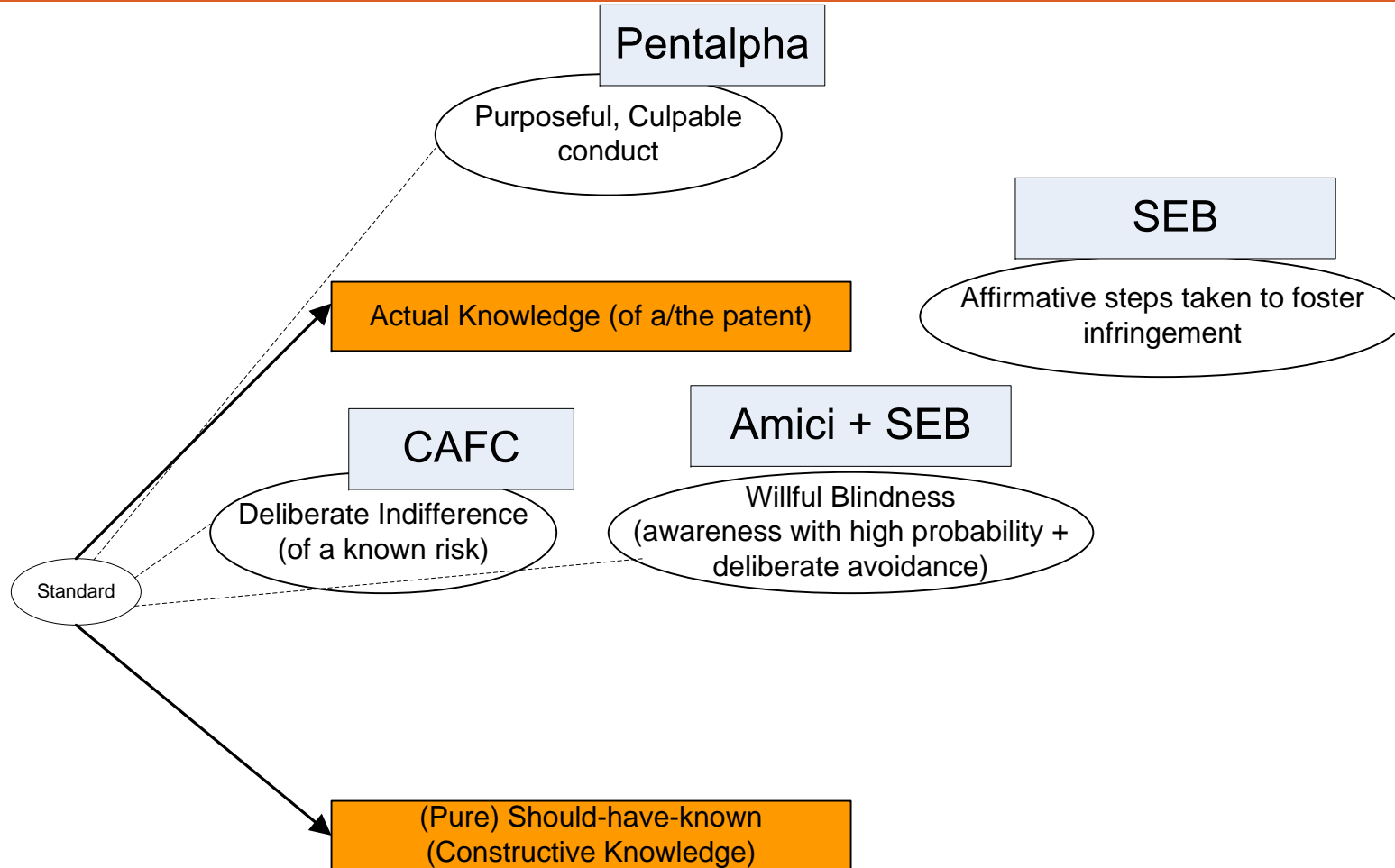
Cruz: three possible standards (3)



In the limited circumstances where a defendant reverse-engineers and copies a commercial product,

It should at least **make some effort to ascertain whether the copied product is protected by U.S. patents** before selling the copies on the U.S. market.

Summary: standards (tests)



Summary & Discussion

- If your company is a Pentalpha...
 - P...’s *two* bad acts: “copying” and “not-telling-it”.
 - Will hire a patent attorney for right-to-use study?
 - Knowledge of competitor’s patents?
 - Ex. engineer’s opinions, internal review of competitor’s patents ... 侵害 (Infringement)
- If your company is a SEB...
 - Patent marking ...
 - Cease-and-desist letter



Strategically Placed
World Wide:

Beijing Boston Brussels Chicago Dallas Frankfurt Harrisburg Houston
Irvine London Los Angeles Miami Minneapolis New York Palo Alto Paris
Philadelphia Pittsburgh Princeton San Francisco Tokyo Washington

One more thing ...

- 271 (b) v. 271 (c)
- Willful blindness under 271 (b) v. Willful infringement

271 (b) v. 271 (c)

Justice Stephen G. Breyer



The difference, they say, between (b) and (c) is that (c) applies to a person who makes some really special thing that looks like a Japanese kabuki theater costume, and it's actually made out of metal and it's really -- has a very bizarre thing, and it is only used -- good use is to do this infringing thing.

But (b) could apply to somebody who makes plastic shields.

(B) can apply that -- (b) could apply to anybody who makes anything; is that right?



- 271 (b) : Ex. “plastic shields”
- 271 (c) : Ex. “Japanese Kabuki theater costume”



271 (b) v. 271 (c)

- 271 (c) has express statutory requirement of knowledge:
 - In Aro II (377 U.S. at 488), the Court held that §271(c) requires a showing that the “contributory infringer **knew** that the combination for which his component was especially designed was both patented and infringing.” (emphasis added).
- One of the issues discussed in the oral hearing was that
 - Whether the state of mind requirement in 271(b) should be higher or lower than the same requirement in 271(c).
 - SEB argued that the 271(b) requirement should be lower, while Pentalpha asserted that it should be higher than the 271(c) requirement.

271 (b) v. Willful Infringement

- Willful infringement
 - § 284 allows for enhanced damages. § 285 for attorney's fees
 - Seagate case governs.
 - Willful infringement enhanced damages now requires “at least a showing of objective recklessness.”
 - Accordingly, to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.
 - This eliminates the “affirmative duty of due care” that has historically been created by notice of infringement.
 - SEB argued that willful blindness under § 271(b) should not be the same standard of willfulness for enhanced damages and attorney's fees.
 - If so, every violation of § 271(b) would AUTOMATICALLY qualify for enhanced damages and attorney's fees, which does not make sense.