

quinn emanuel trial lawyers

quinn emanuel urquhart & sullivan, llp

los angeles | new york | san francisco | silicon valley | chicago | tokyo | london | mannheim

September 2011: Patent Litigation Update

Knowledge Required For Induced Infringement, But It May Be Established Via Willful Blindness: In *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011), the Supreme Court held that knowledge is the applicable standard for imposing liability under Section 271(b) of the Patent Act, which concisely provides that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.” Of equal importance, it held that the willful blindness doctrine (developed in criminal cases) can be applied to establish knowledge in civil patent infringement cases.

Global-Tech reverse-engineered an SEB-patented deep fryer to make and market a competing deep fryer, but argued that it did not “actively” induce infringement because it was unaware of SEB’s patent and also had obtained a legal opinion that it had a right to use its product (albeit, without informing its attorney that Global-Tech had copied SEB’s commercially available fryer). SEB responded that Global-Tech’s re-engineering of the SEB fryer was sufficient to support a claim of active inducement.

The Supreme Court concluded unanimously that induced infringement under Section 271(b) requires knowledge that the induced acts constitute patent infringement. In doing so, the Court rejected the Federal Circuit’s holding that deliberate indifference to a known risk that a patent exists would constitute active inducement. It is now insufficient simply to show that the defendant knew there was a chance its activities could violate a patent, but paid no attention to the attendant risk.

Nevertheless, the Supreme Court affirmed the Federal Circuit’s judgment, holding that Global-Tech’s actions supported a finding of knowledge under the doctrine of willful blindness. Willful blindness requires a showing 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.” With implications that may reach far beyond the field of civil patent litigation, the Court’s opinion suggests that criminal statutes requiring proof of knowing or willful conduct are satisfied by proof of willful blindness under the Court’s articulated standard.

Patent Invalidity Defenses Must Always Be Proven By “Clear And Convincing Evidence”: In *Microsoft Corp. v. i4i Ltd. Partnership*, 131 S. Ct. 2238 (2011), the Supreme Court held that Section 282 of the Patent Act, which provides that “[a] patent shall be presumed valid,” requires that an invalidity defense be proven by clear and convincing evidence, even if the defense rests on evidence never considered by the PTO during the examination process.

Having failed at trial to prove patent invalidity under the contested clear and convincing standard, Microsoft argued that an infringement defendant need only prove invalidity by a preponderance of the evidence. In the alternative, Microsoft argued that a preponderance standard must at least apply if an invalidity defense is based on evidence that was not before the PTO, and questioned why deference should be given to the PTO with respect to evidence the PTO never considered.

The Supreme Court affirmed the Federal Circuit’s opinion, holding that clear and convincing evidence is the correct standard. The Court acknowledged that Section 282 does not expressly articulate a standard of proof, but concluded that because Judge Cardozo’s 1934 opinion in *RCA* adopted a clear and convincing standard, the Patent Act, enacted in 1952, implicitly incorporated that standard through the use of the phrase “presumed valid,” which had a settled common law meaning.

The Court also rejected Microsoft’s alternative argument, concluding that Congress would have made it expressly clear if Congress had intended that a lower standard be applied to evidence that was not before the PTO. The Court did, however, recognize that (i) a jury could consider that the PTO had no opportunity to evaluate specific evidence, (ii) such evidence could be weighed more heavily, and (iii) the party asserting invalidity might therefore more easily satisfy its burden under the clear and convincing evidence standard.

Federal Circuit Streamlines Rules for Contempt Proceedings for Designing Around an Injunction: In *TiVo Inc. v. EchoStar Corp.*, 646 F.3d 869 (Fed. Cir. 2011), the Federal Circuit outlined new rules for contempt proceedings against a new or modified product when the original product has been barred by permanent injunction. The new rules effectively lower the burden for initiating such proceedings, but arguably raise the threshold required to establish the contempt itself.

quinn emanuel trial lawyers

quinn emanuel urquhart & sullivan, llp

los angeles | new york | san francisco | silicon valley | chicago | tokyo | london | mannheim

After a jury found EchoStar infringed TiVo's DVR software patent, the district court entered a permanent injunction requiring in part that EchoStar disable certain infringing features for products placed with end users. TiVo later persuaded the district court to find EchoStar in contempt based on design-around activities it initiated as an alternative to the disabled features.

The Federal Circuit rejected EchoStar's argument that a finding of contempt is improper when a defendant has engaged in diligent and good faith efforts to avoid violating an injunction. In doing so, it overruled the two-part contempt inquiry established in *KSM*, which required that a district court first decide whether a contempt hearing is an "appropriate setting." Doing so required that the redesigned product first be compared with the original to determine whether there was "more than a colorable difference" between them such that "substantial open issues with respect to infringement" existed. After that, the court was required to determine whether the redesigned product was also infringing. The Federal Circuit's new test combines the two parts of the inquiry into one, leaving that appropriateness determination to the trial court's sound discretion.

The new test also arguably increased the threshold for an actual finding of contempt by clarifying that the colorable difference consideration is not determined by simply judging whether the redesigned product continues to infringe, but rather by focusing on differences between the infringing features of the original product and the modified features of the newly accused product.

Finally, the majority held that a vagueness defense to contempt may be waived if not raised by the defendant at the first opportunity, suggesting that it might be wise to challenge ambiguities in an injunctive order when it is granted rather than within the context of a contempt proceeding.

Federal Circuit to Revisit "Control or Direction" Standard for Joint Infringement: On April 20, 2011, the Federal Circuit granted an *en banc* rehearing petition for *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 629 F.3d 1311 (Fed. Cir. 2010), to address the following question: If separate entities each perform separate steps of a method claim, under what circumstances would that claim be directly infringed and to what extent would each of the parties be liable?

In *Akamai*, the defendant did not perform some steps of the plaintiff's patented method itself, instead instructing its customers to perform those steps if they wanted to take advantage of the defendant's services. Drawing on past Federal Circuit opinions in *BMC Resources* and *Muniauction*, which stated that joint infringement could be found only when one party was under the "control or direction" of the other party, the court held that "as a matter of Federal Circuit law ... there can only be joint infringement when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the step."

Judge Newman's dissent in *McKesson Technologies, Inc. v. Epic Systems Corp.*, 98 U.S.P.Q.2d 1281 (Fed. Cir. 2011), a similar case involving patient/physician interactive Websites requiring the actions of both patients and physicians to perform all the steps in the patented method, attacked the decision in *Akamai* and related cases and pushed for an *en banc* hearing to resolve the conflicting precedents addressing joint infringement. She highlighted the conflicts by contrasting recent Federal Circuit cases applying the "single-entity rule" with older cases that analyzed such joint or contributory infringement under traditional tort theories (which required only participation, collaboration, or combined actions to find liability). Judge Newman also argued that the rule would withhold patent protection from technologically advanced methods that increasingly involve interaction between multiple entities.

Oral argument for the *en banc* rehearing is scheduled for November 18, 2011.