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Is Actual Knowledge of a Patent Necessary to Actively Induce Its Infringement?

CASE AT A GLANCE

In this case, the Supreme Court will consider the state of mind necessary to establish liability for actively inducing the patent infringement of another under Section 271(b) of the Patent Act. Global-Tech contends that a party that induces infringement must have actual knowledge of the disputed patent while SEB maintains that the party must only show deliberate indifference or willful blindness to the existence of a known patent to demonstrate that a party has actively induced others to infringe a patent.

Global-Tech Appliances, Inc. v. SEB S.A.
Docket No. 10-6

Argument Date: February 23, 2011
From: The Federal Circuit

by Kali Murray
Marquette University Law School, Milwaukee, WI

ISSUE

Under Section 271(b) of the Patent Act of 1952, does an accused patent infringer need to know of the existence of the patent to actively induce its infringement?

FACTS

SEB S.A., (SEB) the respondent, and the plaintiff below, owns U.S. Patent No. 4,995,312 (the ‘312 patent), titled “Cooking Appliance with Electric Heating.” The ‘312 patent differed from other deep fryers on the market because its plastic covering (the “skirt”) prevented contact with the metal frying pan that contained the cooking oil. This allowed users to handle the appliance without burning themselves. The product that embodied the claims of the ‘312 patent, as well as its other competitors, was popularly referred to as the “cool-touch” deep fryer.

Sunbeam Products, Inc., a competitor of SEB, asked Pentalpha Enterprises Co. (Pentalpha), a subsidiary of the Petitioners Global-Tech Appliances, Inc., to produce a competing deep fryer. As Pentalpha had not previously manufactured such a deep fryer, Pentalpha “reverse-engineered” a number of the items produced by Sunbeam’s competitors, included the SEB’s cool-touch deep fryer. Pentalpha substantially relied on the SEB’s cool-touch deep fryer as its model, only making minimal structural and cosmetic improvements. Pentalpha’s chief executive, John C. K. Sham, claims that the examined copy of the “cool-touch” deep fryer did not contain any indications that it was an embodiment of the ‘312 patent.

After completion of its modified deep fryer, Pentalpha hired a patent attorney in New York to conduct research into whether Pentalpha’s deep fryer would infringe any existing patents protected in the United States. In doing so, Pentalpha did not inform its attorney that it had used the SEB fryer as a close model. After a patentability search, the

patent attorney provisionally assured Pentalpha that its deep fryer did not infringe any existing patents in the United States; however, the patent attorney’s search did not include an examination of the ‘312 patent. After this search, Pentalpha began selling its deep fryers to Sunbeam, Fingerhut Corporation, and Montgomery Ward, to be sold in the United States under their respective trademarks.

Upon receiving information about these events, SEB sued Pentalpha, as well as the suppliers who had bought the fryers for patent infringement under the Patent Act of 1952. Among its claims, SEB alleges that Pentalpha actively induced Sunbeam, Fingerhut, and Montgomery Ward to infringe SEB’s patent under § 271(b) of the Patent Act. Section 271(b) states that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.”

The case proceeded to a jury trial after SEB obtained a preliminary injunction against Pentalpha preventing sale of its deep fryers. Upon the close of testimony, Pentalpha moved to dismiss the case as a judgment as a matter of law (JMOL) as to the claim of active inducement since SEB had not produced any direct evidence that any Pentalpha employee had actual knowledge of the ‘312 patent.

The district court denied Pentalpha’s motion. Furthermore, the district court instructed the jury that active inducement of infringement under § 271(a) occurs only if the “[d]efendants actively and knowingly aided and abetted” the other companies to infringe. The court further charged the jury that “[p]laintiff must show that the Defendants actually intended to cause the acts that constitute direct infringement and that the Defendants knew or should have known that their actions would induce actual infringement.” Among a variety of other claims, the jury also found that Pentalpha actively induced infringement under § 271(b) of the Patent Act.

Pentalpha appealed to the U.S. Court of Appeals for the Federal Circuit on a number of grounds, amongst them, the district court's denial of the JMOL at the close of testimony, as well as its subsequent jury instructions.

In its analysis, the Federal Circuit reaffirmed its holding from *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006), that the basic standard for active inducement is "that the alleged infringer knew or should have known that his actions would induce actual infringements." The Federal Circuit then clarified that this test for "active inducement" could be satisfied if it is shown that there was a deliberate indifference to a known risk that a product could infringe upon a disputed patent. Applying this test, the Federal Circuit held that Pentalpha's failure to disclose its disassembly and copying of SEB's deep fryer to its patent attorney was "highly suggestive" of deliberate indifference. Accordingly, the Federal Circuit affirmed the determination below.

Upon appeal, the Supreme Court granted Pentalpha's petition for a writ of certiorari.

CASE ANALYSIS

In this case, the Supreme Court will consider whether the state of mind necessary to prove active inducement of infringement under § 271(b) includes a deliberate indifference to risk that an action may induce infringement by others. In doing so, the Supreme Court will likely examine whether its earlier holding, in *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), that a claim of common law copyright infringement must be proven by a "clear expression or other affirmative steps," applies with equal validity within the patent context.

Initially, Pentalpha proposes that actively inducing infringement under § 271(b) should be interpreted to require "purposeful, culpable expression and conduct" that encourages others' infringement. Thus, according to Pentalpha, active inducement under § 271(b) cannot occur unless direct evidence shows that a company had actual knowledge of the disputed patent to be infringed.

Pentalpha contends its proposed test is supported by *Grokster* as well as the structure and legislative history of the Patent Act. First, Pentalpha suggests that the Supreme Court's recent holding in *Grokster* suggested that it should be applied within the copyright and patent context and moreover that infringers must act with a deliberate purpose within the contributory infringement context. Second, as to the structure of the Patent Act, Pentalpha suggests that any standard less than this state-of-mind requirement would render § 271(c), which provides for contributory infringement when a manufacturer provides a component for another item that infringes upon a patent, meaningless because a patent owner could sue component part manufacturers for active inducement without having to prove the additional elements of a § 271(c) claim.

Finally, in regards to the legislative history, Pentalpha highlights a Senate Report that describes active inducement as "an expression both of law and morals." Pentalpha employs this language to claim that such a high standard is suggested by the text of § 271(b), itself, which applies to parties that "actively induce" infringement, rather than simply aiding and abetting of infringement.

Pentalpha also raises at least two policy claims to support its interpretation of § 271(b). First, Pentalpha claims that broadly defining active inducement liability would allow patent owners to enforce an issued patent granted in the United States against parties in other countries. This is contrary to the general presumption against the extraterritorial application of the law of the United States in other countries. Second, Pentalpha contends that the Federal Circuit's deliberate indifference standard would create unpredictability since almost any defendant could be held liable for active inducement despite the absence of a culpable state of mind.

In its reply, SEB challenges Pentalpha's legal and policy claims. Initially, SEB attempts to distinguish *Grokster* as a case that involved contributory infringement, rather than the specific statutory scheme at stake in § 271. In the alternative, SEB suggested that even if *Grokster* did create a rule governing active inducement of patent infringement, the behavior of Pentalpha met the standard outlined by the Supreme Court. SEB contends that *Grokster* found liability against defendants that did not know of any specific copyrights, but whom still advertised a file-sharing service that promoted its ability to permit infringing behavior on the part of its customers. SEB notes that here, while Pentalpha may have lacked "actual" knowledge of the patents, its conduct was no less culpable given its reverse-engineering of SEB's patented product, its failure to disclose to its patent attorney that it copied SEB's fryer, and sale of its fryers even after learning of SEB's patent.

Furthermore, SEB counters Pentalpha's assessment of the statutory structure and legislative history of § 271(b) and claims they were insufficient. SEB bases this claim on its reading of the text of § 271(b) and the overall structure of the Patent Act. SEB draws three key inferences from its reading. First, SEB contends the text of § 271(b) indicates that no express scienter, or knowledge, requirement is necessary to prove active inducement. According to SEB, this indicates that the text of § 271(b) is closer to that of § 271(a), whose text also lacks such an express requirement. Second, SEB claimed that even if § 271(b) contains an express scienter requirement, it is a lower one than the requirement outlined in § 271(c). Finally, in the alternative, SEB states that § 271(b) must require a lower level of intent than "willfulness," which is the intent required for an award of enhanced damages and attorney's fees under § 284, otherwise, every violation of § 271(b) would trigger enhanced damages and attorney's fees. SEB argues its textual analysis of § 271(b) was also consistent with the legislative history of the Patent Act. In particular, SEB maintains that Congress in 1952 intentionally determined to find a lesser scienter requirement of "active" rather than what it claims to be the higher standard of "willful."

Finally, SEB responds to Pentalpha's policy concerns. SEB first argues that requiring direct evidence of actual knowledge would effectively make patent owners prove that the potential infringer had actual knowledge of the disputed patents. This is often a particularly heavy evidentiary burden, particularly when circumstantial evidence is the only method a patent owner has to pursue an active inducement claim. Moreover, SEB cautions the Supreme Court, without the threat of infringement liability, that a ruling in Pentalpha's favor would give foreign manufacturers a "roadmap" to infringe American patents with impunity. This would disrupt the role that § 271(b) was intended to play within the overall intellectual property regime.

SIGNIFICANCE

The Federal Circuit has struggled to define when a party actively induces the patent infringement of others under § 271(b) of the Patent Act. Two options exist, either the potential infringer must have actual awareness of the existence of the disputed patent, or the potential infringer knew or should have known of the existence of the disputed patent.

The lack of clarity, in many respects, starts with the textual framework of the Patent Act itself. Section 271(b) simply states that a person can be liable for “actively inducing infringement” without providing any definition to judge that particular use. This lack of clarity is amplified in two additional ways. First, the Federal Circuit itself has not completely settled on a definition of the knowledge requirement for active inducement. Second, the Supreme Court in *Grokster* offered a definition of contributory infringement within copyright context that may conflict with the more detailed infringement framework of § 271 of the Patent Act.

Thus, *Global-Tech* offers the Supreme Court a useful way to clarify this particular area of patent law.

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PREVIEW of United States Supreme Court Cases, pages 207–209.
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