

Knowledge Is Power: Requiring ‘Knowledge Of The Patent’

Law360, New York (September 22, 2011, 1:11 PM ET) -- The patent law, through sections 35 U.S.C. §§ 271(b) and 271(c), provides a vehicle for patentees to hold indirect patent infringers liable. Section 271(b), the focus of this article, addresses induced infringement in very simple terms: “Whoever actively induces infringement of a patent shall be liable as an infringer.” Section 271(c), the contributory infringement counterpart to section 271(b), is more lengthy and includes a knowledge element by its plain terms.[1]

In interpreting section 271(c), the U.S. Supreme Court held long ago that a contributory infringer must know not only that a component it sold be especially adapted for acts underlying the infringement, but also that the resulting combination for which the component was made was patented.[2] That is, to be liable, a contributory infringer must, in the first place, know of the patent whose infringement she contributes to.

In contrast to section 271(c), section 271(b) does not include express language requiring a knowledge or intent component. Not until its recent decision in *Global-Tech Appliances Inc. v. SEB SA*[3] had the Supreme Court weighed in on section 271(b); but the Federal Circuit and other lower courts have routinely held that section 271(b) requires some form of intent on the part of the accused inducer to be liable. Yet the boundaries of that intent requirement and how it will be applied in practice have remained unclear until recently.

Prior Federal Circuit case law seems to reach somewhat conflicting conclusions about the intent requirement; two cases decided in 1990 prescribed different tests — one much easier to meet than the other. In *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, the Federal Circuit held that induced infringement only requires intent on the part of the accused inducer to cause the acts that constitute infringement,[4] whereas in *Manville Sales Corp. v. Paramount Systems Inc.*, a different panel of the Federal Circuit held that inducer must have “specific intent to encourage another’s infringement and not merely that the defendant had knowledge of the acts alleged to constitute infringement” and included the requirement that the inducer “knew or should have known that his actions would induce actual infringements.”[5]

In 2006, an en banc Federal Circuit attempted to resolve the seeming conflict present in its jurisprudence in *DSU Medical Corp. v. JMS Co.*,[6] and held that liability for inducement of infringement requires that “the alleged infringer knowingly induce[] infringement and possess[] specific intent to encourage another’s infringement.”[7] Furthermore, the Court held that intent to induce “necessarily includes the requirement that [the accused inducer] knew of the patent.”[8]

But, as then-Chief Judge Paul Michel recognized in his concurring opinion, DSU Medical did not provide an answer to “what satisfies the ‘knowledge of the patent’ requirement in cases brought under 35 U.S.C. § 271(b).”[9]

Actual Knowledge or Deliberate Indifference?

It was not until 2010 that the Federal Circuit had occasion to address this question, i.e., what satisfies the knowledge requirement, in *SEB SA v. Montgomery Ward & Co. Inc.*[10] The facts in *SEB* are somewhat unique. The accused inducer, Pentalpha Enterprises Ltd. (a Hong Kong-based company) purchased an *SEB* deep fryer, copied its patented features into its own competing deep fryer, and began selling the competing fryer to a nonparty, Sunbeam Products Inc., who in turn sold the product in the United States.

Shortly after entering into a sales agreement with Sunbeam, in 1997, Pentalpha engaged a U.S. patent attorney to provide a “right-to-use” opinion of counsel. Crucially though, Pentalpha failed to disclose to its attorney that it had copied *SEB*’s fryer when designing its own product. Lacking this information, the attorney conducted a prior art search and found 29 patents in the relevant field and provided a right-to-use opinion in connection with the 29 patents. Importantly however, Pentalpha’s attorney did not find the relevant *SEB* patent.

SEB initially sued Sunbeam for direct infringement based on its sale of the fryer in the United States, in March 1998. Sunbeam informed Pentalpha of the lawsuit in April 1998, the first actual notice Pentalpha received of *SEB*’s patent. After Sunbeam settled with *SEB* in 2002, *SEB* targeted Pentalpha in a separate lawsuit for violation of section 271(b).

A jury found Pentalpha to have actively induced infringement. Despite the lack of direct evidence of Pentalpha’s knowledge of the patent prior to April 1998, the district court upheld that verdict.[11] The Federal Circuit affirmed, holding that “deliberate indifference of a known risk” — i.e, Pentalpha’s deliberate indifference to the risk of *SEB* having patent protection — “is not different from actual knowledge, but is a form of actual knowledge.”[12]

On appeal, the Supreme Court affirmed the ultimate finding of inducement, but articulated a different standard to support the judgment. Relying heavily on its prior precedent in *Aro* in the context of section 271(c), the Supreme Court held that to be liable under section 271(b), an accused inducer must have actual knowledge of the patent.[13]

Thus, the Federal Circuit’s “deliberate indifference” standard was rejected. However the Supreme Court, reaching into principles of criminal law, held that actual knowledge can be established under the doctrine of willful blindness. Under that doctrine, knowledge of a fact can be established if (1) the defendant subjectively believes that there is a high probability that a fact exists and (2) takes deliberate actions to avoid learning of that fact.[14]

As applied here, the evidence was sufficient for the jury to conclude that Pentalpha willfully blinded itself to the existence of *SEB*’s patent pre-April 1998. In contrasting its holding to that of the Federal Circuit, the Supreme Court said that the deliberate indifference standard improperly permitted an inference of knowledge where there was merely a “known risk” of infringement in the absence of “active efforts by the inducer to avoid knowing about the infringing nature of the activities.”[15] In other words, passive indifference is insufficient to meet the willful blindness test for knowledge — rather, the inducer must have taken some active measures to sidestep learning of the patent.[16]

In sum, actual knowledge of the patent, and not deliberate indifference to a known risk, is a prerequisite to a claim for inducement of infringement. But willful blindness by the inducer — as characterized by taking active steps to maintain ignorance of a patent — may satisfy the actual knowledge test.

What This Means

While willful blindness is a higher standard than deliberate indifference, whether or not willful blindness is an easier test to satisfy than actual knowledge itself remains to be seen. As Justice Anthony Kennedy noted in dissent, the mental state of the inducer is something that is typically inferred from circumstantial evidence — direct evidence is usually absent and unnecessary — and in Pentalpha’s case, the circumstantial evidence may have been sufficient to find actual knowledge even without resort to willful blindness.[17]

In the past, federal courts have allowed juries to find knowledge of the patent based on strong circumstantial evidence. Notice letters that identify the patents at issue are a typical way of providing pre-suit knowledge.[18] But less direct and more circumstantial evidence has also been held sufficient to infer pre-suit knowledge.

For example, in *Paltalk Holdings Inc. v. Microsoft Corp.*,[19] the court found genuine issues of material fact regarding Microsoft’s pre-suit knowledge of the patent based on the following circumstantial evidence: Microsoft (1) had at one point considered buying out the plaintiff’s predecessor-in-interest, MPath Interactive Inc., and had conducted due diligence of that company’s technology in connection with that possible buyout; (2) allegedly “may have” looked into licensing MPath’s patents; and (3) had allegedly approached Mpath at a later point in time with the possibility of merging the two companies’ online services.[20] Based on these facts, held the Paltalk court, a reasonable jury could find that “Microsoft had actual knowledge of the patents-in-suit.”[21]

On the other hand, in the absence of strong circumstantial evidence of actual pre-suit knowledge of the patent, courts have been willing to grant summary judgment to the accused inducer as to pre-suit liability.[22] The Supreme Court’s decision to cast aside the Federal Circuit’s deliberate indifference standard will likely drive more such decisions. *Trading Techs. Intern. Inc. v. BCG Partners Inc.*[23] makes this point. In that case and prior to the Supreme Court’s decision in *SEB*, the court refused to dismiss indirect infringement claims that only pled facts suggesting constructive — but not actual — knowledge of the patent-in-suit based on the Federal Circuit’s decision in *SEB*. But the court noted the patentee bore the risk of reversal on appeal if actual knowledge turned out to be the proper standard.[24]

A case illustrating what facts are insufficient to establish actual knowledge is *Eon Corp. IP Holdings LLC v. Flo TV Inc. et al.* [25] The court in *Eon*, citing *SEB*, dismissed an induced infringement claim because the alleged facts were too tenuous to infer actual knowledge. The patentee alleged the following facts in an effort to infer knowledge of the patent: (1) that some of the defendants had entered into licensing agreements with a third party and (2) the patent-in-suit was one of many prior art patents cited on the face of the patents that were the subject of the licensing agreement. The court, however, held that these facts were too tenuous to establish actual knowledge.[26]

Thus, the Supreme Court’s “actual knowledge of the patent” requirement imposes a higher standard for patentees to meet in terms of the mental state of the accused inducer. While patentees may establish actual knowledge with circumstantial evidence (including evidence suggesting willful blindness), barring active measures of an egregious nature to avoid learning of the patent, facts tending to suggest negligent or even reckless indifference to a patent will be insufficient to impute the required intent to induce under section 271(b).

From a practitioner's perspective, SEB offers defendants accused of inducing infringement the ability to foreclose pre-suit infringement liability at an early stage in the litigation. If the evidence establishing knowledge of the patent is flimsy or unsubstantiated, the accused inducer should consider moving to dismiss the induced infringement claim under Rule 12(b)(6) or seek summary judgment on this point. Patentees, on the other hand, must seek discovery directed at evidence that suggests pre-suit knowledge of the patent, either through documents or depositions, including third-party discovery (to establish, for example, that the patent-in-suit or the related technology was widely known in the industry).

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[1] 35 U.S.C. 271 (c) states, "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, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."

[2] See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964).

[3] 131 S.Ct. 2060, ___ U.S. ___ (2011).

[4] See *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1458, 1469 (Fed. Cir. 1990).

[5] See *Manville Sales Corp. v. Paramount Systems Inc.*, 917 F.2d 544, 554 (Fed. Cir. 1990).

[6] 471 F.3d 1293 (Fed. Cir. 2006) (en banc).

[7] *Id.* at 1306.

[8] *Id.* at 1304.

[9] *Id.* at 1311 (Michel C.J., concurring) (noting that there was no dispute about the accused infringer's actual knowledge of the patent in that case).

[10] 594 F.3d 1360 (Fed. Cir. 2010).

[11] See *id.* at 1366-68.

[12] *Id.* at 1377.

[13] *Global-Tech Appliances Inc. v. SEB SA*, 131 S.Ct. 2060, 2068.

[14] *SEB*, 131 S.Ct. at 2068-70.

[15] Id. at 2070.

[16] The decision by Pentalpha not to inform its patent attorney about its copying of SEB's fryer was especially telling to the court. See SEB, 131 S.Ct. at 2071.

[17] See SEB, 131 S.Ct. at 2073.

[18] See, e.g., Fujitsu Ltd. v. Netgear Inc., 620 F.3d 1321, 1330 (Fed. Cir. 2010).

[19] 2:06cv367, Doc. # 173 (E.D. Tex. Feb. 2, 2009).

[20] See id. Slip Op. at 3-4.

[21] Id. at 4.

[22] See Zamora Radio LLC v. Last.FM, Ltd., *13 (S.D. Fla. Nov. 5, 2010) (granting summary judgment of no induced infringement for pre-lawsuit activities because there was no evidence of pre-suit knowledge of the patent on the part of the accused inducer); Semiconductor Energy Lab. Co. Ltd. v. Chi Emi Optoelectronics Corp., 531 F. Supp. 2d 1084, 1114 (N.D. Cal. 2007) (granting accused inducer summary judgment to limit damages for alleged acts of inducing infringement to time after accused infringer was given notice of the patent.).

[23] 2011, *3 (N.D. Ill. May 5, 2011) (noting that the Federal Circuit suggested in SEB that "constructive knowledge 'with persuasive evidence of disregard' for patent markings 'may perhaps' be enough to demonstrate knowledge for the purpose of inducement of infringement.").

[24] See Trading Techs., *3.

[25] See Eon Corp. IP Holdings LLC v. Flo TV Inc. et al., 2011 WL 2708945, *4 (D. Del. July 12, 2011).

[26] See id.