

## Intellectual Property Client Service

To: Our Clients and Friends

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### Recent Supreme Court Decisions Clarify Important Patent Issues

In separate decisions over the past week, the Court has clarified three important aspects of patent law. On May 31, the Court held in [\*Global-Tech Appliances, Inc. v. SEB SA\*](#) that inducement of patent infringement requires knowledge that (1) a patent exists and (2) the induced acts constitute infringement of that patent. On June 6, the Court held in [\*Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems Inc. \("Stanford v. Roche"\)\*](#), that the federal Bayh-Dole Act does not change ownership of inventions that result from federal funding. On June 9, the Court held in [\*Microsoft Corp. v. i4i Ltd. Partnership\*](#) that a factual challenge to a patent's validity requires a showing of clear and convincing evidence, even where the U.S. Patent Office had not considered the evidence at issue in granting the patent.

#### Induced Infringement Requires Actual Knowledge

Under 35 U.S.C. § 271(b), "[w]hoever actively induces infringement of a patent shall be liable as an infringer." The issue in [\*Global-Tech Appliances, Inc. v. SEB S.A.\*](#) was whether the party who "actively induces infringement of a patent" must know that the induced acts constitute patent infringement.

In [\*Global-Tech\*](#), SEB patented a commercially successful cool-touch deep fryer. Pentalpha Enterprises, Ltd., a foreign supplier, purchased one of SEB's deep fryers in Hong Kong, reverse engineered its functional components, and began importing a competing product into the United States. Before importing its product, Pentalpha hired a patent attorney to undertake a patent infringement search without telling him about the reverse engineering. SEB later asserted its patent against Pentalpha's U.S. customer Sunbeam for distributing the deep fryers throughout the United States. At about this time, Pentalpha began providing the deep fryers to additional U.S. customers. SEB eventually sued Pentalpha for induced infringement under 35 U.S.C. § 271(b). A jury found for SEB, and Pentalpha appealed, arguing that it had no knowledge of the patents until the Sunbeam suit.

The Court interpreted 35 U.S.C. § 271(b) to require actual knowledge that the induced acts constitute patent infringement. That is, the allegedly infringing party must have knowledge of the patent's existence and of the subsequent infringement. The Court further held, however, that knowledge could be found through the doctrine of willful blindness, which in criminal law prevents defendants from

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shielding themselves from clear evidence that their acts are wrongful. According to the Court, willful blindness exists when two requirements are met: (1) the defendant subjectively believes there is a high probability that a fact exists and (2) takes deliberate actions to avoid learning of that fact. Applying this standard, the Court looked to Pentalpha's decision to copy all but the cosmetic features of SEB's fryer, its decision to copy an overseas model of SEB's fryer, and its decision not to inform its attorney that the product "was simply a knockoff of SEB's fryer." The Court then concluded that Pentalpha willfully ignored facts that would have provided an actual knowledge of SEB's patents and thus induced patent infringement.

## **The Bayh-Dole Act Does Not Elevate Ownership Rights of Federal Contractors**

In response to the vast amount of federally funded research, Congress passed the Bayh-Dole Act in 1980. The act recognized that the federal government could take an ownership interest in patents but acceded that the recipients of the federal funding may be in a better position to make use of the patented inventions. Accordingly, the act provides that, under certain conditions, a federal contractor, such as Stanford University, may own patents in any invention resulting from federal funding. The issue in [Stanford v. Roche](#) was whether the Bayh-Dole Act's allowing the contractor "to retain title to any subject invention" altered the traditional U.S. approach that the inventor-employee of a federal contractor would own the patent in his invention.

In [Stanford v. Roche](#), a Stanford researcher agreed to assign any future patents to Stanford, his employer. To enhance his scientific background, Stanford assigned him to Cetus Corporation, and while there, the researcher signed a visitor's confidentiality agreement saying that "I will assign and do hereby assign" to Cetus inventions arising from his time there. During his nine months at Cetus, the researcher devised a technique for calculating the amount of HIV in a patient's blood. After he returned to Stanford, the researcher and other Stanford employees tested the technique as part of a federally funded project, and Stanford filed several patent applications related to the procedure. Stanford later sued Cetus's successor, Roche Molecular Systems, Inc., for patent infringement. Roche argued that it had rights in the patent based on the researcher's assignment, but Stanford argued that the Bayh-Dole Act meant that Stanford's rights in the patents as a federal contractor were superior to whatever the researcher may have been able to assign.

By a 7-2 decision, the Court rejected the argument that the Bayh-Dole Act gave federal contractors superior rights to their employee-inventors. The act merely set forth a procedure by which the federal contractor could own patent rights in an invention to which the federal government had contributed funding. The "general rule," according to the majority, remained that "rights in an invention belong to the inventor," even if created on an employer's watch. Therefore, the researcher owned rights in his invention, and the researcher's prior agreement with Stanford did not prevent him from assigning those rights to Roche. As such, the researcher's assignment to Roche's predecessor defeated Stanford's standing to sue Roche for patent infringement.

## **Clear and Convincing Evidence Needed to Invalidate Patents**

Section 282 of the Patent Act provides that "[a] patent shall be presumed valid" and "[t]he burden of establishing invalidity . . . shall rest on the party asserting" this contention. In 1984, the U.S. Court of Appeals for the Federal Circuit interpreted this language as imposing a clear and convincing evidentiary standard on parties seeking to invalidate patents. The court justified this deference in the

presumption that the U.S. Patent and Trademark Office (“PTO”) has properly done its job. The issue in [Microsoft v. i4i](#) was whether the clear and convincing evidence standard is too great of a burden of proof, particularly in those instances in which the PTO has not considered the evidence that allegedly invalidates the patent such that a court would have no reason to defer to the PTO’s judgment.

In [Microsoft v. i4i](#), Microsoft’s Word editing software utilized an XML format that i4i asserted violated its patents. Among its defenses, Microsoft alleged that i4i sold a product with the patented functionality more than a year before i4i sought patent protection, in violation of the patent laws, thereby invalidating the claims of i4i’s patent. Proving this earlier sale, however, was a challenge. The events occurred long ago and the district court instructed the jury that the patents could only be invalidated if Microsoft presented clear and convincing evidence of invalidity. The jury ultimately found in favor of i4i, with damages reaching \$290 million. Microsoft appealed, arguing that a mere preponderance of the evidence should be sufficient to establish a patent’s invalidity, particularly when the PTO had not previously considered this evidence and there was no reason to defer to its judgment.

The Court rejected Microsoft’s appeal, ruling that a clear and convincing evidentiary standard applied even if the PTO had not considered the evidence at issue. The majority acknowledged that “the rationale underlying the presumption—that the PTO, in its expertise, has approved the claim—seems much diminished,” when the PTO does not even consider the prior art at issue. But, the Court nonetheless held that Congress had not provided for multiple standards in enacting Section 282 and left the responsibility to Congress to amend the statute if it believes the clear and convincing evidence standard is too high a threshold. The Court further allowed that a fact-finder can take into account whether the PTO had previously considered the evidence of invalidity, without contravening the clear and convincing threshold.

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