

June 15, 2011

## U.S. Supreme Court Issues a Trio of Patent Opinions

The Supreme Court has handed down three opinions that relate to patent issues. In *Global-Tech v. SEB*, \_\_\_ U.S. \_\_\_ (2011), the Court issued a new standard for establishing inducement of infringement; in *Stanford v. Roche*, \_\_\_ U.S. \_\_\_ (2011), the Court addressed ownership issues surrounding federally funded patents; and in *Microsoft v. i4i*, \_\_\_ U.S. \_\_\_ (2011), the Court considered a challenge to the burden of proof needed for rebutting the statutory presumption of validity.

### *Global-Tech v. SEB*

Writing for an 8-1 majority, Justice Alito delivered the Court's opinion, which held that "willful blindness" is sufficient to establish the knowledge requirement when asserting that a party "actively induces infringement of a patent" under 35 U.S.C. § 271(b). In adopting the "willful blindness test," the Court departed somewhat from the previous standard of "deliberate indifference."

The patent at issue relates to an innovative deep fryer manufactured by SEB. Pentalpha Enterprises (a wholly owned subsidiary of Global-Tech) purchased the SEB fryer in a foreign market, copied the fryer, and solicited an attorney to conduct a freedom-to-operate study relating to the sale of its fryer in the United States. There were no U.S. patent markings on the SEB fryer purchased by Pentalpha, nor did the company alert the attorney conducting the freedom-to-operate study to the SEB fryer. The attorney did not uncover the SEB patent in his search, and thus issued an opinion to Pentalpha stating that selling its fryer in the United States would not infringe any patents found in his search. Acting on this advice, Pentalpha then sold its fryers to a third party, which distributed them in the United States at a lower price than SEB. SEB sued Pentalpha under § 271(b) alleging that they induced infringement of SEB's patent.

As a preliminary matter, the Court held that establishing inducement to infringe under § 271(b) requires knowledge that the induced acts constitute patent infringement. Slip op. at 10. The Court rejected the Federal Circuit's previous standard of "deliberate indifference," choosing to apply the doctrine of "willful blindness" instead. The Court adopted the willful blindness test, citing its widely accepted use in the criminal courts. *Id.* at 12. Under the willful blindness test, the Court requires 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." *Id.* at 13.

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Turning to the facts, the Court found that Pentalpha (i) was aware that SEB's fryer was a superior product in the market; (ii) decided to copy an overseas model of SEB's fryer knowing that overseas products usually do not bear U.S. patent markings; and (iii) decided not to inform the attorney conducting the freedom-to-operate study that it had copied an SEB product.

In finding inducement of infringement, the Court held that there was sufficient evidence "for a jury to find that Pentalpha subjectively believed there was a high probability that SEB's fryer was patented, that Pentalpha took deliberate steps to avoid knowing that fact, and that it therefore willfully blinded itself to the infringing nature of [the third party's] sales." Slip op. at 16.

### *Stanford v. Roche*

Chief Justice Roberts penned the 7-2 majority opinion for the Court, which held that the University and Small Business Patent Procedures Act of 1980 ("the Bayh-Dole act") does not automatically vest title to federal contractors for inventions conceived, or first reduced to practice with the support of federal funds.

The Bayh-Dole Act serves as an important vehicle for universities to secure patent rights in inventions derived from projects supported through federal grant money obtained by the universities. In this case, a research scientist, Dr. Holodniy, joined Stanford University as a research fellow in 1988. As part of his employment agreement, Dr. Holodniy "agree[d] to assign" to Stanford his "right, title and interest in" any inventions resulting from his employment at Stanford. During his tenure at Stanford, Dr. Holodniy also conducted research at Cetus, a collaborator of Stanford's that was later acquired by Roche Molecular Systems. As part of his research at Cetus, Dr. Holodniy was required to sign an agreement stating that he "will assign and do[es] hereby assign" to Cetus his "right, title and interest in . . . the ideas, inventions, and improvements" made "as a consequence of his access" to Cetus. Upon returning to Stanford, Dr. Holodniy conducted additional research which ultimately resulted in Stanford filing for and securing three patents to an HIV measurement process, listing Dr. Holodniy as an inventor. The research conducted by Dr. Holodniy while at Stanford was funded by grants received by the National Institutes of Health (NIH).

In 2005, Stanford sued Roche for infringement of the Holodniy patents. Roche responded by claiming it was a co-owner in the invention, by way of the assignment that Dr. Holodniy executed with Cetus. Slip op. at 4. Roche further argued that Stanford lacked standing to bring an infringement claim, because Holodniy had only promised to assign his invention to Stanford, and the employee agreement did not transfer ownership to the university. Citing the Bayh-Dole act, Stanford asserted that because Dr. Holodniy's research was federally funded, the university's rights to the invention automatically vested in view of the employee agreement. Slip op. at 4-5.

The district court initially found for Stanford, holding that Dr. Holodniy had "no interest to assign," because the Bayh-Dole Act "provides that the individual inventor may obtain title" to a federally funded invention "only after the government and the contracting party have declined." Slip op. at 5, quoting 487 F. Supp.2d 1099, 1118 (ND Cal. 2007). On appeal, the Federal Circuit reversed, holding that the Bayh-Dole act "does not automatically void *ab initio* the inventors' rights in government-funded inventions" and that the "statutory scheme did not automatically void the patent rights that Cetus received from Holodniy." *Id.* at 5, quoting 583 F.3d 832, 844-845 (Fed. Cir. 2009).

In granting certiorari, the Supreme Court affirmed the Federal Circuit's decision, relying on the long-standing rule that the rights in an invention belong to the inventor. Slip op. at 7. The Court refused to interpret the language of the Bayh-Dole Act in a manner that would disturb this basic tenet of patent law. Rather, the Court focused on a phrase in the statute that provides that federal contractors, i.e., Stanford, may "elect to retain title to any subject invention." *Id.* at 8-9. The Court rejected Stanford's interpretation of the word "retain" to mean "acquire" and "receive," and held the term's meaning to be "to hold or continue to hold in possession or use." *Id.* at 11. The Court further stated that the Bayh-Dole Act "simply assures contractors that they may keep title to whatever it is they already have." *Id.*

Ultimately, Stanford's employment agreement with Dr. Holodniy was not sufficient to automatically vest ownership rights in the patent under the Bayh-Dole Act. The Court's decision underscores the importance of implementing "effective assignments" to secure university rights to inventions conceived with, or first reduced to practice under, the support of federal funds. Slip op. at 15.

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## *Microsoft v. i4i Limited Partnership*

In a unanimous decision, the Supreme Court upheld the application of a heightened standard for rebutting the “presumption of validity” created by 35 U.S.C. § 282 for issued patents. The Court maintained that invalidity of a patent at issue must be proven by “clear and convincing” evidence.

In 1998, i4i obtained a patent to an improved process for editing electronic documents. In 2007, i4i sued Microsoft for willful infringement of their patent. Microsoft defended the suit by claiming the patent was invalid. Courts have interpreted 35 U.S.C. § 282 to require that any party asserting the defense must prove by “clear and convincing evidence” that the patent at issue is invalid.

At trial, Microsoft attempted to invalidate the patent using an “on-sale” bar defense (as defined in 35 U.S.C. § 102(b)) by presenting evidence of a previous sale of the patented invention in the United States more than one year prior to the filing of the patent application. Slip op. at 4. The previous sale in question involved i4i’s sale of a software program known as S4. Microsoft contended that the S4 software was covered by the claims of the patented process, whereas i4i stated that the S4 software did not practice the claimed invention. However, it was undisputed that the S4 software was not presented to the Examiner during the prosecution of the patent at the United States Patent and Trademark Office (PTO). *Id.*

Microsoft requested a jury instruction that stated its “burden of proof with regard to its defense of invalidity based on prior art that the examiner did not review during the prosecution of the patent-in-suit is by preponderance of the evidence.” Slip op. at 5. The district court rejected the proposed instruction, choosing to instruct the jury using the “clear and convincing” standard. Using the heightened standard, the jury found that Microsoft did not prove that the patent was invalid and also found that Microsoft willfully infringed the i4i patent. *Id.* at 4.

On appeal, Microsoft argued that the proper burden of proof for establishing invalidity of a patent under § 282 is by a preponderance of the evidence. Slip op. at 5. Microsoft urged that the preponderance standard should at least apply when “an invalidity defense rests on evidence that was never considered by the PTO in the examination process.” Slip op. at 5-6.

In rejecting both arguments, the Supreme Court relied on common-law principles which established a heightened standard of proof for rebutting the presumption of validity established in § 282. Slip op. at 8. In the context of Microsoft’s alternative argument, the Court stopped short of lowering the burden of proof when evidence is presented at trial that was not previously considered by the PTO. However, referring to its decision in *KSR v. Teleflex*, the Court stated that “if the PTO did not have all material facts before it, its considered judgment may lose significant force . . . [a]nd, concomitantly, the challenger’s burden to persuade the jury of its invalidity defense by clear and convincing evidence may be easier to sustain.” Slip op. at 17. Applying this rationale, the Court concluded that “a jury instruction on the effect of new evidence can, and when requested, most often should be given.” *Id.*

Thus, while the Court in this case maintained the status quo for rebutting the presumption of validity under § 282, it opened the door for trial courts to give a jury instruction clarifying the nature of evidence not considered by the PTO during the prosecution of the patent at issue.

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