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IP Update - Supreme Court Argument Preview

Global Tech Appliances v. SEB and *Stanford v. Roche*

February 16, 2011

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In the last weeks of February, the U.S. Supreme Court will hear arguments in the first two patent cases of the 2010-11 term. The first case, focuses on induced patent infringement, with implications for patent owners and accused infringers, as well as those looking to avoid liability. The second case, deals with the rights of public universities to federally funded innovations and the potential effects on companies, universities, and researchers involved in federally funded research.

***Global Tech Appliances v. SEB*: Oral argument scheduled February 23, 2011**

This case over patented deep fat fryers could change the level of knowledge of a patent necessary for proving induced infringement. Pentalpha, petitioner here along with Global Tech Appliances, did not sell infringing fryers in the United States, which would cause it to be liable for direct infringement, but instead developed and sold fryers in Hong Kong to Sunbeam, who then resold them in the United States. Pentalpha was sued for induced infringement for providing the fryers to Sunbeam.

Pentalpha argued below that it could not be liable for “actively induc[ing] infringement” under the Patent Act because they had no knowledge of SEB’s patent. In addition, Pentalpha had an opinion from counsel that the fryers they sold overseas were not infringing on any U.S. patents. The Court of Appeals for the Federal Circuit rejected this argument, stating that actively inducing infringement requires a specific intent to encourage infringement, which can be shown either through knowledge of the patent or “deliberate indifference” to the existence of a patent. The Federal Circuit noted that Pentalpha copied its fryers from competitors’ models but did not tell their counsel that the technology was reverse-engineered. The opinion counsel never discovered SEB’s patent during his search.

Pentalpha now argues to the Supreme Court that the Federal Circuit’s “deliberate indifference” standard is incorrect, and that instead some “purposeful, culpable expression and conduct” to encourage infringement is necessary. Pentalpha points to the Supreme Court’s decision in *MGM v. Grokster*, a copyright case that relied on patent case law for induced copyright infringement. In *Grokster*, the Court looked for a clear expression or other affirmative steps to encourage infringement as a requirement for induced infringement. Pentalpha argues that the Court intended the same rule to apply to both copyright and patent cases. From a policy perspective, Pentalpha argues that the deliberate indifference standard creates uncertainty in businesses who may not know if they are infringing until patent claims have been construed, and chills innovation and competition.

SEB’s response does not focus on the Federal Circuit’s standard, instead arguing that (1) the Patent Act does not require actual knowledge to be liable for induced infringement; and (2) Pentalpha’s proposed standard essentially raises the bar to requiring willful conduct. SEB argues that Congress did not intend to require willful conduct to induce infringement, given that willful infringement is used expressly in other places in the Patent Act, such as providing enhanced damages. Further, SEB argues that even if *Grokster* applies, Pentalpha is still liable, as they had taken other affirmative steps to encourage infringement, such as those cited by the Federal Circuit. SEB claims that adoption of Pentalpha’s standard would compromise protections for intellectual property by giving unscrupulous foreign manufacturers a roadmap to avoid liability for induced infringement and immunizing the party that should be held responsible if infringing products are made overseas and sold here.

Numerous amicus briefs filed with the Court illustrate the wide variety of interests that could be affected by this decision. Technology companies, such as Microsoft and

Facebook, argue that removing the knowledge requirement would allow induced infringement to slip closer to strict liability, and that the “deliberate indifference” standard is not enough to protect innocent infringers. The Software Freedom Law Center argues that a lower standard for induced infringement could expose free and open source software developers to liability from products they distribute. And Google warns that the Federal Circuit’s standard could impose a “duty to know” of patents that would burden businesses and frustrate innovation and commerce. On the other hand, the AIPLA argues that requiring proof of knowledge of patents would greatly limit the scope of induced infringement and focus the issue away from the blameworthiness of the accused infringer.

***Leland Stanford Junior University v. Roche Molecular Systems, Inc.*: Oral argument scheduled February 28, 2011**

A dispute between Stanford University and a private research center over patents directed to quantifying HIV in blood could limit an institution’s ability to control innovations developed through public funding. One of the inventors of the technology at issue, a Stanford researcher, had signed two separate contracts: one with Stanford that obligated him to assign any inventions to the university, and another with a private research facility that required him to assign any inventions made as a consequence of work done at the facility.

The Court of Appeals for the Federal Circuit focused largely on the dueling contracts, eventually deciding that the private facility’s contract language granted it an interest in the patent-in-suit. At the Supreme Court, it appears that the argument will instead focus on rights of public universities under the Bayh-Dole Act, enacted in 1980. Prior to this Act, the federal government took title to inventions developed with public funds, though these innovations often languished without efforts to commercialize them. To encourage the development of inventions from federally supported research, the Act gives contractor universities the ability to retain ownership of inventions if the government does not.

Stanford contends that the Act grants it a right of second refusal to patents after the government refrains from taking title of the inventions. Stanford argues that an individual inventor should not have the ability to unilaterally terminate his rights under the Act through side agreements, and that therefore the university’s rights to innovations should be maintained without regard to any assignments made by individual inventors. Stanford claims that the text and purpose of the Act grant federally funded research contractors such broad rights, and that the Federal Circuit’s decision renders its rights subordinate to that of the inventors.

Roche argues in response that the Act is designed to regulate the relationship between the government and contractors, and not the rights of inventors or third parties. According to Roche, the text of the Act does not automatically vest patent ownership in universities, and instead allows them to retain inventions they already own where the government has decided not to take title. From a policy standpoint, Roche argues that broader rights of research institutions under the Act would discourage private-public partnerships and inhibit commercialization of federally funded inventions.

No matter how the Supreme Court rules, its decision will likely affect all relationships between universities, private companies, and university researchers. The federal government and the Association of American Universities have argued in favor of Stanford’s broader rights interpretation. University researchers and research companies that often collaborate with universities have favored Roche’s interpretation. The AIPLA has also argued against Stanford’s interpretation, arguing that the Act does not grant universities any statutory right to inventions or modify the patent system’s general practice of initially vesting rights with inventors.

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