

JUL 29 2010

IN THE
Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., *et al.*,
Petitioners,

v.

SEB S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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RULE 29.6 DISCLOSURE STATEMENT

Respondent, SEB S.A., a publicly-held French corporation, has no parent company. No publicly owned company owns 10% or more of the stock of SEB S.A.

TABLE OF CONTENTS

	<i>Page</i>
RULE 29.6 DISCLOSURE STATEMENT	i
TABLE OF CONTENTS	ii
TABLE OF CITED AUTHORITIES	iv
INTRODUCTION	1
REASONS FOR DENYING THE PETITION	2
I. There Is No Justiciable Controversy For This Court To Resolve.	2
II. The Federal Circuit’s “Deliberate Indifference” Sub-Test Is A Practical And Workable Test That Provides Courts With Flexibility In Assessing An Infringer’s Knowledge Of A Patent.	3
A. The “Deliberate Indifference” Sub- Test Is Well-Grounded In Precedent.	3
B. The “Deliberate Indifference” Sub- Test Gives Courts Flexibility When Addressing A Particular Class Of Infringers Who Assume Known Risks.	5

Contents

	<i>Page</i>
III. The “Deliberate Indifference” Standard Is In Harmony With Grokster.	10
CONCLUSION	11

TABLE OF CITED AUTHORITIES

Page

Cases:

<i>Bilski v. Kappos</i> , __ U.S. __, 130 S. Ct. 3218 (2010)	2, 9
<i>DSU Medical Corporation v. JMS Co., Ltd.</i> , 471 F.3d 1293 (Fed. Cir. 2006)	3, 4, 10
<i>Farmer v Brennan</i> , 511 U.S. 825, 114 S. Ct. 1970 (1994)	5, 9
<i>Herb v. Pitcairn</i> , 324 U.S. 117, 65 S. Ct. 459 (1945)	1
<i>Insituform Technologies, Inc.</i> <i>v. Cat Contracting, Inc.</i> , 161 F.3d 688 (Fed. Cir. 1998), <i>cert. denied</i> , 526 U.S. 1018 (1999)	3
<i>KSR Int'l Co. v. Teleflex, Inc.</i> , 550 U.S. 398, 127 S. Ct. 1727 (2007)	2, 9
<i>Metro-Goldwyn-Mayer Studios Inc.</i> <i>v. Grokster, Ltd.</i> , 545 U.S. 913, 125 S. Ct. 2764 (2005)	1, 10
<i>SEB S.A. v. Montgomery Ward & Co., Inc.</i> , 594 F.3d 1360 (Fed. Cir. 2010)	<i>passim</i>

INTRODUCTION

SEB S.A. (“SEB”) respectfully submits that the Petition of Global-Tech and Pentalpha (“Pentalpha”) should be denied because the decision of the Court of Appeals for the Federal Circuit in *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010), does not warrant review by this Court.

There is no justiciable controversy requiring review by this Court because a decision will not affect the outcome of this case. Pentalpha was found liable for both direct infringement and inducing infringement, and its Petition addresses only inducing infringement. At most, a reversal of the Federal Circuit’s decision would require a retrial on damages. *See, Herb v. Pitcairn*, 324 U.S. 117, 125, 65 S. Ct. 459, 463 (1945) (the Court will not review a judgment resting on independent grounds).

Even if there were a justiciable controversy worthy of review (which there is not), the Federal Circuit’s decision in *SEB* should be affirmed because it advances the Patent Law by establishing a flexible standard to determine whether a defendant had knowledge of a patent sufficient to induce infringement of that patent. By adopting a flexible standard, the Federal Circuit closed a loophole which may have allowed manufacturers to avoid liability for inducement by deliberately ignoring known legal risks. The “deliberate indifference” subtest used by the Federal Circuit is well grounded in authority and consistent with existing authority, including this Court’s decision in *Grokster*.¹

1. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 922-23, 125 S. Ct. 2764, 2772 (2005).

By establishing a standard that provides courts with flexibility for addressing varied factual circumstances, the Federal Circuit's approach is consistent with the approach taken by this Court in its recent decisions in *Bilski* and *KSR*, both of which seek to create a balance between flexibility and certainty.² Therefore, this is not an appropriate case for this Court's review, and the Petition for a Writ of Certiorari should be denied.

REASONS FOR DENYING THE PETITION

I. There Is No Justiciable Controversy For This Court To Resolve.

The jury in this case found Pentalpha liable for both direct infringement and inducement to infringe. The verdict form, however, contains a single damage award. The Federal Circuit affirmed the verdict under both theories of liability. Therefore, there was no need to address the damage award. *SEB*, 594 F.3d at 1374.

In its Petition, Pentalpha seeks reversal of the portion of the verdict finding liability only under the theory of inducement. Even if that portion of the verdict is reversed (although it should not be reversed), Pentalpha will remain liable for direct infringement.³

2. *Bilski v. Kappos*, ___ U.S. ___, 130 S. Ct. 3218 (2010); *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 127 S. Ct. 1727 (2007).

3. Pentalpha suggests that the Federal Circuit improperly affirmed the verdict of direct infringement because Pentalpha's sale of deep fryers to American retailers with the term "FOB China" occurred outside the United States. The Federal Circuit dismissed that argument. *SEB*, 594 F.3d at 1375. This issue was not presented for review.

Therefore, any decision by this Court will not affect the ultimate issue of Pentalpha's liability. At most, the matter would be remanded to the district court for a retrial on damages. Since any decision by this Court would not change the substantive outcome of this case, the case is not properly before this Court and Pentalpha's Petition should be denied.

II. The Federal Circuit's "Deliberate Indifference" Sub-Test Is A Practical And Workable Test That Provides Courts With Flexibility In Assessing An Infringer's Knowledge Of A Patent.

A. The "Deliberate Indifference" Sub-Test Is Well-Grounded In Precedent.

Inducement to infringe a patent requires proof of specific intent, i.e., that an infringer "knew or should have known his actions would induce actual infringements." *DSU Medical Corporation v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006). That proof may be presented by direct or circumstantial evidence. *Insituform Technologies, Inc. v. Cat Contracting, Inc.*, 161 F.3d 688, 695 (Fed. Cir. 1998), *cert. denied*, 526 U.S. 1018 (1999).

In *DSU*, the Federal Circuit *en banc* reconciled a prior conflict in the law and held that a plaintiff can demonstrate inducement of patent infringement by showing that the infringer "knew or should have known his actions would induce actual infringements." *DSU*, 471 F.3d at 1304. The Federal Circuit held that knowledge of the patent is an included element of this test:

The requirement that the alleged infringer knew or should have known his actions would

induce actual infringement necessarily includes the requirement that he or she knew of the patent.

Id. at 1304.

However, the Federal Circuit declined at that time to articulate a standard for this lesser included “knowledge of the patent” element of proof. *Id.* at 1311 (“Moreover, we write to make clear that we do not set forth a new standard here as to what satisfies the ‘knowledge of the patent’ requirement in cases brought under 35 U.S.C. § 271(b).”) (Michel and Mayer, C.J., concurring).

SEB presented an opportunity for the Federal Circuit to consider a standard for the lesser included element of “knowledge of the patent.” The Federal Circuit clearly distinguished the test for knowledge of acts of inducement from the sub-test for the lesser included element of knowledge of the patent. The Court stated that the standard in *DSU* addresses “the target of the knowledge,” while the standard in *SEB* addresses “the nature of that knowledge.” *SEB*, 594 F.3d at 1376.

The Federal Circuit recognized that direct evidence of knowledge of a patent rarely exists and confirmed that a claim for inducement is viable even without such direct evidence. *SEB*, 594 F.3d at 1377. Therefore, the Federal Circuit adopted a flexible “deliberate indifference” sub-test, based on authority from other circuits that “deliberate indifference to a known risk is not different from actual knowledge, but is a form of actual knowledge.” *SEB*, 594 F.3d at 1376-77 (citations

omitted). Relying on authority of this Court, the Federal Circuit confirmed that “deliberate indifference” is a subjective standard, as distinguished from an objective “should have known” standard. *SEB*, 594 F.3d at 1376, citing, *Farmer v Brennan*, 511 U.S. 825, 839-40, 114 S. Ct. 1970, 1980 (1994). Therefore, the “deliberate indifference” sub-test is consistent with *DSU* because it does not reduce *DSU* to a “should have known” standard. *Id.*

B. The “Deliberate Indifference” Sub-Test Gives Courts Flexibility When Addressing A Particular Class Of Infringers Who Assume Known Risks.

The “deliberate indifference” standard is directed to a particular class of infringers who adopt a “head in the sand” approach to infringement and assume a known risk that a patent may exist. In the present case, for example, Pentalpha purchased one of SEB’s deep fryers in Hong Kong, brought the deep fryer into its laboratory and copied the patented features. Pentalpha had the presence of mind to seek a clearance opinion from patent counsel. Despite this deliberate conduct, Pentalpha concealed from its patent attorney the fact that it had copied material features of SEB’s deep fryer. Under these circumstances, Pentalpha exercised deliberate indifference to the possibility that SEB had a patent on the features that Pentalpha copied, and Pentalpha engaged in affirmative conduct to avoid finding out. Allowing a competitor to avoid liability in this manner is a loophole that the Federal Circuit now has closed.

Pentalpha argues that the “deliberate indifference” sub-test creates uncertainty and is unworkable because it could result in liability “in virtually any situation.” Pentalpha’s argument is incorrect because Pentalpha has misconstrued the “deliberate indifference” sub-test. Pentalpha characterizes the test as follows:

[T]he SEB standard allows “mere knowledge of infringing potential” to serve as the basis for liability. (Petition p. 9, citation omitted).

The Federal Circuit therefore held that the mere presence of a risk that infringement could occur would constitute specific intent to infringe. (Petition p. 15).

That, however, is an overstatement of the sub-test. “Mere knowledge of infringing potential” and “risk that infringement could occur” is present in every case. The Federal Circuit’s test addresses the presence of a *known* risk, not any potential risk, and the distinction is critical.⁴

Attempting to illustrate its misplaced argument, Pentalpha contends that the application of the “deliberate indifference” test would attribute knowledge of a patent in the following circumstances (Petition p. 12):

- Where the infringer does not conduct a patent search;

4. Contrary to Pentalpha’s suggestion (Petition p. 7), *amici* briefs submitted in support of Pentalpha’s petition for rehearing by the Federal Circuit *en banc* did not support the particular grounds asserted by Pentalpha for its Petition. *Amici* took no position on how the Federal Circuit should have decided this case, or what the appropriate standard should be.

- Where the infringer conducts a patent search but does not obtain a noninfringement opinion; and
- Where the infringer conducts a patent search and obtains a noninfringement opinion, where the noninfringement opinion contains a statement by counsel that the opinion does not, and cannot, eliminate all risk, as “usually disclosed in opinions of counsel.”

To the contrary, the “deliberate indifference” sub-test would not cover a defendant who assumes general, potential risk in the ordinary course of business, or a defendant who acts negligently but without knowledge of a particular risk. If a defendant does not copy the material features of a competitor’s product, there may be no known risk. If a defendant fails to have counsel conduct a patent search, there may be no known risk. If a defendant conducts a patent search and obtains an opinion from patent counsel stating generally that the opinion does not, and cannot, eliminate all risk, there may be no known risk.⁵

The “deliberate indifference” sub-test for the “knowledge of the patent” element of inducement would be satisfied only when an infringer deliberately and purposefully assumes a *known* risk. Here, Pentalpha deliberately assumed a known risk because it copied

5. For the same reasons, Pentalpha’s argument that the “deliberate indifference” sub-test would impose on sellers of goods an affirmative duty to secure a noninfringement opinion for all new products (Petition pp. 17-19) is misplaced.

material features from SEB's deep fryer, it sought a clearance opinion from patent counsel and it failed to tell counsel that it had copied SEB's product.⁶ The "deliberate indifference" sub-test describes a specific and separate class of infringers, such as Pentalpha, who cannot reasonably allege that they did not know of the plaintiff's patent.

By alleging that the "deliberate indifference" sub-test creates uncertainty, Pentalpha suggests that the courts should maintain a bright-line test where a plaintiff could prove "knowledge of the patent" only with direct evidence that the defendant actually knew of the patent. That, however, is not a workable test. As discussed above, evidence of actual knowledge is rarely available, and courts need a flexible test to assess inducement in those circumstances.

Indeed, if the courts were to adopt a bright-line test as Pentalpha suggests, infringers could easily avoid liability, and inducement would be virtually unprovable. A foreign manufacturer, such as Pentalpha, which copies a product for sale to U.S. retailers, and seeks a noninfringement opinion from patent counsel, could deliberately avoid learning of a patent covering that product (or deliberately avoid creating evidence of such knowledge). This is not a desired result. Courts need flexibility to close this loophole and find liability for inducement when a defendant adopts a "head in the sand" approach. The Federal Circuit's "deliberate indifference" sub-test accomplishes this purpose without

6. As another example, an infringer assumes a known risk when it obtains advice of counsel but fails to follow that advice.

posing undue risk of liability on defendants who act in good faith and do not disregard known risks. Indeed, this test is equally certain, if not more certain, than the tests set forth by this Court in *Bilski* and *KSR*,⁷ confirming that the Federal Circuit's decision does not require review.

Pentalpha argues that the Federal Circuit “conspicuously avoided articulating any standard concerning the severity of the risk of infringement necessary to find liability,” and that the “deliberate indifference” sub-test could encompass acts of simple negligence (Petition pp. 9-10). To the contrary, this Court has held that “deliberate indifference entails something more than mere negligence.” *Farmer v. Brennan*, 511 U.S. at 835.⁸

Indeed, the “deliberate indifference” standard accurately reflects patent law as it is practiced on a daily basis. When asked for a noninfringement opinion about a new product, patent attorneys typically ask their clients to identify any materials that were referenced in developing the new product. The “deliberate indifference” standard now creates liability for clients, such as Pentalpha, which do not make full disclosure to counsel, and particularly those who conceal the fact that they copied an existing product.

7. *Bilski v. Kappos*, __ U.S. __, 130 S. Ct. 3218 (2010); *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 127 S. Ct. 1727 (2007).

8. It is illogical to equate a “should have known” negligence test to a test that requires the disregard of a “known” risk.

III. The “Deliberate Indifference” Standard Is In Harmony With *Grokster*.

As discussed above, according to the Federal Circuit’s decision in *DSU*, inducement to infringe a patent occurs when the infringer “knew or should have known his actions would induce actual infringements,” where “knowledge of the patent” is a necessary included element of proof. *DSU*, 471 F.3d at 1304. In *SEB*, the Federal Circuit established the “deliberate indifference” standard for the lesser included “knowledge of the patent” element, distinguishing “the target of the knowledge” addressed in *DSU*, from “the nature of that knowledge” addressed in *SEB*. *SEB*, 594 F.3d at 1376.

As in *DSU*, the standard for inducement set forth by this Court in *Grokster* addresses the target of the knowledge, not the nature of the knowledge. *Grokster* did not involve a “knowledge of the copyright” requirement, since the defendants in that case essentially admitted having knowledge that the infringed works were subject to copyright. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 922-23, 125 S. Ct. 2764, 2772 (2005). Therefore, the Federal Circuit’s decision in *SEB* concerning the “knowledge of the patent” requirement does not conflict with *Grokster*, which has nothing to do with the “knowledge of the copyright.”

CONCLUSION

Pentalpha has failed to provide any valid reason for this Court to review the Federal Circuit's decision in this case. It is clear that Pentalpha has submitted this Petition to avoid or delay paying the final judgment, not to seek clarification of the law. Accordingly, the Petition should be denied.

Respectfully submitted,

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