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Justices Poised to Clarify Standards of Proof in Intellectual Property Cases

Stephen A. Miller

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The Supreme Court's docket in recent years reflects the explosion in intellectual property litigation throughout the country. In the past five years, the court has decided more than double the number of IP cases that it decided in the previous five years.

In the coming year, the Supreme Court is poised to overhaul the standards of proof in important areas of IP litigation. This may both hearten and frustrate longtime IP practitioners. At a very basic level, the attention is nice. Then again, it's worth remembering that IP is a sufficiently complicated field as to warrant its own, dedicated appellate court (the Federal Circuit). When the nine justices consider an IP issue, they do so as novices in that specialized domain, which can sometimes have the effect of making difficult problems worse.

Microsoft Corp. v. i4i Limited Partnership

In *Microsoft Corp. v. i4i Limited Partnership*, the Federal Circuit affirmed a jury verdict awarding \$200 million to i4i based on a finding that Microsoft's Word software infringed a patent owned by i4i. At trial, Microsoft alleged that i4i's patent was invalid under 35 U.S.C. § 102(b) because the disclosed invention was sold in the United States at least one year prior to the patent application. Rejecting Microsoft's argument that the "preponderance" standard should apply, the trial court instead required Microsoft to prove that the i4i patent was invalid by "clear and convincing evidence" — an onerous burden that Microsoft claimed could not be met because, among other reasons, i4i destroyed evidence of the prior sale. The jury rejected Microsoft's claim of invalidity, held Microsoft liable for infringement, and the Federal Circuit affirmed that the "clear and convincing evidence" standard was properly applied.

Supporters of the Federal Circuit's decision warn of the dire consequences that would follow any erosion of the presumption of validity accorded to patents. Chief among those ills are reduced incentives for investors to commit resources to innovation and to disclose their inventions. The preponderance standard would encourage litigation — itself a drag on a patent holder's business — and reduce the margin for error for a "runaway jury" (of non-experts) to scuttle years of work and millions of dollars of investment with one invalidity verdict.

Despite those legitimate concerns, the Federal Circuit's ruling appears vulnerable on legal and logical grounds. While the courts correctly accord a presumption of validity to decisions of the Patent & Trademark Office, there seems to be no good reason to apply that presumption of validity to information that was not disclosed to the PTO. Indeed, doing so would only seem to encourage fraud on the PTO instead of full and complete disclosures. Why should material omissions be protected (and thereby encouraged)? A preponderance standard — at least for information not disclosed to the PTO — seems to strike the right balance between protecting patent holders, promoting investment in innovation, and encouraging accurate disclosures to the PTO.

Because the Patent Act is silent about the applicable standard for proving invalidity, the Supreme Court will have some latitude to fashion a pleading standard that takes account of these competing policy interests. One way or the other, the court's ruling will exert a profound effect on the amount and character of IP litigation.

Global-Tech Appliances Inc. v. SEB S.A.

The Patent Act prohibits not only direct infringement but also inducing infringement by a third party. In *Global-Tech Appliances Inc. v. SEB S.A.*, the Supreme Court will consider whether induced infringement can be proven by evidence of negligence or "deliberate indifference," or instead requires proof of purposeful conduct or expression.

The case grew out of a dispute over a deep fryer. Prior to selling a deep fryer in the United States, a company called Pentalpha engaged a New York patent attorney to perform a search and issue an opinion as to whether its deep fryer would infringe any U.S. patent. The attorney's opinion stated that Pentalpha's deep fryer infringed no U.S. patent, and Pentalpha commenced sales to American retailers through a third party. Shortly thereafter, SEB filed a lawsuit against Pentalpha and the third-party seller alleging that Pentalpha's deep fryer infringed SEB's patent for a similar appliance. There was no dispute in the litigation that Pentalpha lacked actual knowledge of the SEB patent before that lawsuit.

There was plenty of dispute, however, about the appropriate instruction to the trial jury on the standard for proving that Pentalpha induced the third-party seller's infringement. The trial court elected to instruct the jury that Pentalpha should be found liable for induced infringement if the evidence proved that Pentalpha "knew or should have known" — the classic negligence formulation — that its actions would induce infringement by a third party. The jury returned a verdict in favor of SEB.

The Federal Circuit strained to preserve the jury's verdict. Just five years earlier, the Supreme Court in *MGM Studios Inc. v. Grokster Ltd.* had emphasized that induced infringement required a showing of "affirmative intent that the product be used to infringe." Additional Supreme Court and Federal Circuit precedent drove home the same point. In light of that authority, the Federal Circuit concluded that the jury instructions were not erroneous

because they permitted a finding that Pentalpha was "deliberately indifferent" to the risk of infringement by a third party, and "deliberate indifference" required proof of conduct more purposeful than mere negligence.

Except the instructions did not say that. The jury was not instructed on a theory of "deliberate indifference." Rather, the instructions articulated a paradigmatic negligence standard, which was antithetical to clear Supreme Court precedent. Characterizing the instructions as permitting a finding of "deliberate indifference" seemed to be the Federal Circuit's attempt to bend the instructions into closer compliance with Supreme Court precedent.

It is likely that the court will reverse the Federal Circuit here and emphasize (again) that induced infringement requires purposeful conduct or expression. If the court says anything about the "deliberate indifference" standard, that might plant the seeds for an expansion of induced-infringement claims, but the court need not opine on that question to decide the case. The court granted certiorari in the case absent any split of authority in the lower courts (though, it must be acknowledged, circuit splits take on less importance in the IP realm because of the outsized role played by the Federal Circuit). That could be a sign that at least four justices consider the lower court's opinion badly flawed or contrary to Supreme Court precedent. It might also reflect a recognition that a less rigorous pleading standard for induced infringement in this context would discourage foreign manufacturers from selling goods in the United States or would greatly increase the cost of such business (which would get passed along to consumers in the form of higher prices).

Therasense v. Becton Dickinson & Co.

Another important case addressing standards of proof in IP litigation could be percolating to the court later this year. In November 2010, the en banc Federal Circuit heard oral argument in *Therasense v. Becton Dickinson & Co.*, a case in which the circuit is expected to announce the appropriate standards governing the "inequitable conduct" defense in IP litigation. As its name suggests, the defense turns the table on the party alleging infringement by claiming that the disputed patent was procured through material omissions and/or misstatements (thereby invalidating the patent and any concomitant claim of infringement).

The Federal Circuit is presently considering in *Therasense*, among other things, what level of proof is required to establish the requisite materiality of a patent holder's omissions or misstatements to the PTO. The Federal Circuit presently entertains some version of five different tests of materiality. It seems likely that the court will choose either a demanding "but for" test (i.e., the PTO would not have issued the patent but for the misstatement or omission) or a more lenient "relevance" standard that tracks the materiality inquiry in federal fraud jurisprudence (i.e., the PTO would have considered the missing information relevant and important to its determination). If the Federal Circuit's en banc decision splinters badly and no single test is endorsed, IP lawyers can expect the Supreme Court to enter the fray to clarify the rule.

Efforts to Clarify Standards

With two cases this term, and at least one more lurking next term, the Supreme Court will continue its efforts to clarify standards of proof in IP litigation. However, while clarity is an important benefit in and of itself, it remains to be seen whether news of the Supreme Court's rising interest in IP litigation will be welcomed by the specialized practitioners in this field. •

Stephen A. Miller *practices in the commercial litigation group at Cozen O'Connor's Philadelphia office. Prior to joining Cozen O'Connor, he clerked for Justice Antonin Scalia on the Supreme Court and served as a federal prosecutor for nine years in the Southern District of New York and the Eastern District of Pennsylvania.*