

Supreme Court Simplifies Induced Infringement Litigation

Law360, New York (May 27, 2015, 4:08 PM ET) --

On Tuesday, March 26, 2015, the U.S. Supreme Court handed down its landmark decision regarding induced infringement in *Commil USA LLC v. Cisco Systems Inc.*, 575 U.S. __ (2015). The Supreme Court considered an issue of first impression of “whether knowledge of, or belief in, a patent’s validity is required for inducement under § 271(b).” In a 6-2 opinion,[1] the court held that a defendant’s belief regarding patent validity is not a defense to a claim of induced infringement.

This case began in 2007 when Commil sued Cisco for infringement of U.S. Patent No. 6,430,395 (“the ‘395 patent”) in the Eastern District of Texas. The ‘395 patent is directed to methods of implementing short-range wireless networks. At the district court, Commil sued Cisco for direct and indirect infringement. Regarding indirect infringement, Commil alleged that Cisco induced its customers to infringe the patent by selling them Cisco’s infringing product.

Two trials were held at the district court. In the first trial, the jury found Cisco liable for direct infringement, awarding \$3.7 million in damages, but not liable for induced infringement. The district court granted Commil’s motion for a new trial on induced infringement and damages because Cisco’s counsel made inappropriate comments during the first trial.

A month before the second trial, Cisco filed a re-examination of the ‘395 patent at the United States Patent and Trademark Office. The USPTO affirmed the ‘395 patent’s validity.

In the second trial, the Cisco argued as a defense to the inducement claim that it had a good-faith belief that the ‘395 patent was invalid. The district court held that Cisco’s proffered evidence of its good-faith belief of invalidity was inadmissible under the presumed reasoning that a defendant’s belief of invalidity



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is not a defense to a claim of inducement. The jury returned a verdict of inducement and awarded \$63.7 million in damages.

Cisco appealed to the U.S. Court of Appeals for the Federal Circuit. Cisco argued that the district court erred in excluding Cisco's evidence that it had a good-faith belief that the '395 patent was invalid. The Federal Circuit agreed, reasoning that an invalid patent cannot be infringed, and therefore evidence of a defendant's good-faith belief of invalidity may negate the intent needed for an inducement claim.

Justice Anthony Kennedy, writing for the majority, disagreed with the Federal Circuit. First, the Supreme Court reaffirmed its holding in *Global-Tech Appliances Inc. v. SEB SA*, 563 U.S. ___ (2011), "that liability for induced infringement can only attach if the defendant knew of the patent and knew as well that 'the induced acts constitute patent infringement.'" [2] In doing so, the Supreme Court rejected Commil's and the U.S. government's argument that a defendant need only to know of the patent to have the requisite intent for inducement. Otherwise, the Supreme Court reasoned, a defendant might be held liable if he knew his acts might infringe a patent even where he had a reasonable reading of the claims to form a good-faith belief that he does not infringe.

The Supreme Court's reasoning for its holding that a defendant's belief regarding patent validity is not a defense to an inducement claim focused on its distinction between patent infringement and patent validity as two separate issues. "The scienter element for induced infringement concerns infringement; that is a different issue than validity." [3] Therefore, "[b]ecause infringement and validity are separate issues under the [Patent] Act, belief regarding validity cannot negate the scienter required under § 271(b)." [4]

The majority laid out its support that validity and infringement are separate issues under the law. First, it cited its own precedent that distinguished the two issues, noting that seeking a declaratory judgment of invalidity presents a claim that is separate from a patentee's infringement claim, that noninfringement and invalidity are considered "alternative grounds" to dismiss a suit, and that an accused infringer may defeat liability by proving either noninfringement or invalidity. Next, it pointed out that infringement and validity appear in separate parts of the Patent Act; Parts III and II, respectively. Finally, it noted that noninfringement and invalidity are listed as two separate defenses, and defendants may raise either or both. Therefore, to hold that a belief of invalidity was a defense to inducement would "conflate the issues of infringement and invalidity." [5]

It was also reasoned that allowing a defendant's belief of invalidity as a defense to inducement would undermine a patent's presumption of validity. It could also cause procedural and sequential issues. "[T]he allocation of the burden to persuade on these questions, and the timing for the presentations of the relevant arguments, are concerns of central relevance to the orderly administration of the patent system." [6]

Also cited were practical reasons for not creating a defense based on a defendant's good-faith belief of invalidity. First, it noted the many ways in which a party can challenge a patent's validity, including filing a declaratory judgment action, filing an *inter partes* review, filing an *ex parte* reexamination, and its ability to raise invalidity as an affirmative defense. It further noted that creating such a defense can render patent litigation more burdensome, as every defendant would have an incentive to put forward a theory of invalidity, and accused infringers would likely have an easier time proving its believed invalidity compared to its noninfringement. Moreover, creating an additional defense would increase discovery costs and force the jury to resolve additional issues.

The Supreme Court drew analogies to other areas of law that support its holding. For example, belief of invalidity of a contract is not a defense to tortious interference with a contract, though proving invalidity of a contract is a defense. Similarly, a person can be found to have trespassed even when she has a mistaken belief that she has a legal right to enter the property. Finally, a person cannot avoid criminal prosecution through his ignorance or mistake of the law.

Finally, though the parties did not raise the issue, the majority addressed the idea that not allowing a good-faith belief of invalidity as a defense to inducement will make it easier for patent holders to bring frivolous lawsuits. It reasoned that district courts have the "authority and responsibility" to dissuade parties from bringing frivolous suits, such as through sanctions or the award of attorneys' fees.

In his dissent, Justice Antonin Scalia argued that a party's belief in a patent's invalidity should be a defense to inducement, finding the majority's reasoning that noninfringement and invalidity are separate issues to be irrelevant. "Because only valid patents can be infringed, anyone with a good-faith belief in a patent's *invalidity* necessarily believes the patent *cannot* be infringed. And it is impossible for anyone who believes that a patent cannot be infringed to induce actions that he *knows* will infringe it. A good-faith belief that a patent is invalid is therefore a defense to induced infringement of that patent." [7]

Moving forward, the *Commil* decision will simplify litigation where induced infringement is an issue. If Justice Scalia's view prevailed, litigating over whether a potential infringer had a good-faith belief in the invalidity of a patent would be very ambiguous. How would one prove he has a good-faith belief that a patent is invalid? This defense would presumably have created a *de facto* lower threshold for invalidity as a defense to inducement, effectively going from making an accused infringer prove invalidity to merely showing a reasonable basis for it. Along with making it easier on the accused infringer, as Justice Kennedy explained, this defense would lead to increased discovery, increased litigation costs and increased jury confusion. The *Commil* decision clarifies that no such ambiguous dual standard exists, which will help to focus the issues for litigants and finders of fact.

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[1] Justice Kennedy delivered the opinion of the Court and was joined by Justices Ginsburg, Alito, Sotomayor and Kagan, JJ., and by Justice Thomas as to parts II-B and III. Justice Scalia filed a dissenting opinion and was joined by Chief Justice Roberts. Justice Breyer took no part in the consideration or decision of the case.

[2] *Commil*, slip op. at 6 (quoting *Global Tech*, slip op. at 10).

[3] *Id.* at 9.

[4] *Id.*

[5] *Id.* at 10.

[6] *Id.* at 11.

[7] *Commil*, dissent at 1-2 (emphasis in original).

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