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Patents

Sup. Ct.: Cisco's Belief Wi-Fi Patent No Good Isn't Shield to Claim it Induced Infringement

A belief that a patent is invalid isn't a defense to a charge of induced infringement, the Supreme Court ruled 6-2 on May 26 (*Commil USA, LLC v. Cisco Systems, Inc.*, 2015 BL 164427, U.S., No. 13-896, 5/26/15).

Reversing the Federal Circuit, the court—in a decision written by Justice Anthony M. Kennedy—held that Cisco Systems Inc. couldn't overturn a \$63.8 million jury award based on its argument that it believed Commil USA LLC's Wi-Fi related patent claims were invalid as indefinite, not enabled and lacking adequate written description support.

"This is the Supreme Court telling Congress to put the brakes on patent reform, as district courts and the Federal Circuit have tools to combat abuses," Brian H. Pandya of Wiley Rein, Washington, said in an e-mail.

"Justice Kennedy was the first justice to call attention to non-practicing entities and asymmetries in the patent system with his commentary about overbroad business method patents in the Court's *eBay* decision in 2006," he said. "It is interesting that, nine years later, he weighs in again."

Cisco's policy argument in the case was that such a ruling would require it to shut down its production line and tell all its customers every time it received a letter claiming infringement, including from a "patent troll" with a weak case.

The court rejected that concern, saying that alleged infringers have "other, proper ways to obtain a ruling" of invalidity, including administrative procedures, and that district courts will be able to sanction patent owners' attorneys for bringing frivolous cases.

Third Trial Likely. The court, however, confirmed that the belief that the allegedly induced party doesn't infringe a patent can be a defense, something both Commil and the government contested.

Justice Clarence Thomas joined all but that part of the decision. Justice Antonin Scalia wrote a dissent, joined by Chief Justice John G. Roberts Jr., which, conversely, agreed only with that holding.

"It follows, as night follows day, that only valid patents can be infringed," Scalia's dissent said. "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."

Justice Stephen G. Breyer did not participate in the decision.

The case returns to the Federal Circuit with only one part of its decision reversed. The appeals court had also held that the district court's jury instruction improperly allowed a finding of inducement "based on mere negligence where knowledge is required."

That decision remains intact. Thus, it is likely Commil's complaint is heading back to district court for what would be a third trial.

Court's Comments on Trolls Surprise Some. "The *Commil* decision is certainly a win for patentees since it eliminates a formidable defense to inducement," according to Baldassare Vinti of Proskauer Rose LLP in New York. "However, the euphoria that may otherwise be felt by patentees is tempered by the Court's confirmation that inducement requires proof that the accused infringer knew its acts were an infringement of the asserted patent claims."

"The *Commil* decision goes against the Supreme Court's recent trend of decisions ruling against patent owners, and Justice Scalia picked up on that in his dissent when he lamented that the decision likely increased 'the *in terrorem* power of patent trolls,'" Gregory A. Castanias of Jones Day, Washington, said.

"Section III of the majority opinion seems like a direct response to Justice Scalia's concern, cautioning that there are other tools available for dealing with frivolous suits by so-called patent trolls."

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—GREGORY A. CASTANIAS, JONES DAY

"Here, the Court recognizes that the first line of defense against improper litigation is the District Court through Rule 11 and fee shifting remedies," Jeremy A. Cubert of VLP Law Group LLP, Gaithersburg, Md., said.

"However, I do not think the Court is advancing these comments in support of their holding," he said. "Rather, the Court is recognizing the issue and responding by encouraging the District Courts to act as gatekeepers against frivolous lawsuits."

But R. David Donoghue of Holland & Knight, Chicago, noted that the patent troll "demand letter" issue referenced by the court is often a threat never intended to result in litigation, such that these "tools" are often irrelevant.

Rather, he said, the court's opinion will now force the alleged infringer "to at least seriously consider filing a declaratory judgment suit or file a Patent Office invalidity proceeding. As a result, cases that previously might have been resolved on their own are now much more likely to be headed to litigation on the district courts or at the Patent Office."

"This case could increase the already high volume of IPR and CBM petitions filed at the Patent Trial and Appeal Board (PTAB), because this case removes an avenue of defense to inducing infringement in U.S. district court litigation," Margaret M. Duncan of McDermott Will & Emery, Chicago, said in agreement.

Stakeholders Cite Impact on Litigation. Other stakeholders told Bloomberg BNA via e-mail how litigation may change following this decision, though few explicitly faulted the court for its reasoning here.

"The decision will put an end to the practice of seeking an opinion of outside counsel on invalidity to support an inducement defense, although companies remain free to pursue opinions of counsel to support an alleged good faith belief of non-infringement (if such an opinion can be obtained)," Thomas D. Rein of Sidley Austin LLP, Chicago, said.

"There are some patents that are so overbroad and/or so ambiguous that it may be difficult to provide a reasonable opinion of non-infringement, whereas a reasonable (maybe even a clear and convincing) opinion of invalidity would be simple to write," Jordan A. Sigale of Dunlop Coddling P.C., Chicago, said, disappointed in the court's decision. "Yet, this opinion would now be insufficient to avoid inducement liability under *Commil*."

"One consequence of today's decision may be that targets of 'patent trolls' will be much more likely to file for sanctions or attorney's fees on cases they deem frivolous and district court judges may be more willing to grant such requests," said Benjamin C. Hsing of Kaye Scholer LLP, New York.

He further found it "interesting" that the majority said, "invalidity is not a defense to infringement, it is a defense to liability."

"In patent litigations, defendants often deny infringement by saying that the patent is invalid," he said. "It seems that with this pronouncement from the Supreme Court, accused infringers should no longer be able to do that, and if they want to assert noninfringement, they must have real noninfringement arguments separate and apart from invalidity."

However, the alternative would have been problematic, William Jackson of Boies, Schiller & Flexner LLP in Washington, said.

"In terms of litigation management, a contrary decision would have incited inducers to create documents, rationales and justifications as to their subjective belief of invalidity," he said. "It would have created the risk of confusing the jury and forced patent owners to prove both that the patent was valid and that the defendant believed the patent was valid—undermining the principle that patents are presumed to be valid and must be shown to be invalid by clear and convincing evidence."

Good-Faith Belief in Noninfringement? OK. *Commil*'s main argument, supported by the government's amicus brief centered around the question: Is it enough to show that an alleged inducer had knowledge of the patent and its "potential relevance" to the infringement, such

that even a belief of noninfringement would not suffice as a defense?

That view was "against the clear language of" *Global-Tech Appliances Inc. v. SEB S.A.*, 131 S. Ct. 2060, 98 U.S.P.Q.2d 1665 (2011) (105 PTD, 6/1/11), the court said.

"Qualifying or limiting its holding, as the Government and *Commil* seek to do, would lead to the conclusion, both in inducement and contributory infringement cases, that a person, or entity, could be liable even though he did not know the acts were infringing," the court said.

"*Global-Tech* requires more. It requires proof the defendant knew the acts were infringing," it said. "And the Court's opinion was clear in rejecting any lesser mental state as the standard."

Good-Faith Belief in Invalidity? Afraid Not. Now given that a good-faith belief in noninfringement is an adequate defense to inducement, the question became: Is there a difference between the belief of invalidity and the belief of noninfringement, such that the former is not an acceptable defense?

"[B]ecause infringement and validity are separate issues under the [Patent] Act, belief regarding validity cannot negate the scienter required under § 271(b)," the majority said. "Were this Court to interpret § 271(b) as permitting a defense of belief in invalidity, it would conflate the issues of infringement and validity."

But according to the dissent, "Saying that infringement cannot exist without a valid patent does not 'conflate the issues of infringement and validity,' any more than saying that water cannot exist without oxygen 'conflates' water and oxygen" (citation omitted).

The majority also looked at the presumption of validity under 35 U.S.C. § 282 and said that, "if belief in invalidity were a defense to induced infringement, the force of that presumption would be lessened to a drastic degree, for a defendant could prevail if he proved he reasonably believed the patent was invalid."

But the dissent countered that the alleged inducer's belief has no impact on the presumption of validity. It thus distinguished success in a defense based on good-faith belief in invalidity from an actual showing—clear and convincing evidence—of invalidity.

Finally, the court said, "invalidity is not a defense to infringement, it is a defense to liability. And because of that fact, a belief as to invalidity cannot negate the scienter required for induced infringement."

But, the dissent said, "to infringe a patent is to invade the patentee's right of exclusivity. An invalid patent confers no such right. How is it possible to interfere with rights that do not exist?"

Practical Reasons Against Contrary Rule. The court also presented "practical reasons not to create a defense on a good-faith belief in invalidity," listing four "proper ways to obtain a ruling to that effect": a declaratory judgment action, inter partes review at the Patent Trial and Appeal Board, ex parte reexamination and, after an infringement suit is brought, the affirmative defense of invalidity.

In fact, Cisco sought ex parte reexamination in this case, and the Patent and Trademark Office affirmed the validity of *Commil*'s patent. However, that challenge was based on obviousness in light of newly offered prior art—a similar restriction under inter partes

review—while Cisco’s arguments in district court centered on invalidity under Section 112.

In any case, the court was more concerned for the “negative consequences” should it rule the other way. The court projected more burdensome litigation, assuming that alleged inducers would always put up the belief-in-invalidity defense. And it was wary of presenting to the jury “the difficult task of separating the defendant’s belief regarding validity from the actual issue of validity.”

Holland & Knight’s Donoghue disagreed with the court’s comments on the added burden, at least.

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—DAVID DONOGHUE, HOLLAND & KNIGHT

“The majority opinion suggests that maintaining a reasonable belief of invalidity defense would increase litigation costs,” he said. “But tellingly the majority opinion provides no explanation of how or why the defense would increase costs. In fact, as Justice Scalia points out in dissent, the majority decision will increase patent litigation and the overall cost of patent litigation.”

And What About Troll Problem? “[I]f the desirability of the rule we adopt were a proper consideration, it is by no means clear that the Court’s holding, which in-

creases the *in terrorem* power of patent trolls, is preferable,” the dissent said. “The Court seemingly acknowledges that consequence in Part III of its opinion.”

In that section, the court specifically addressed the alleged abuse of patent trolls sending royalty “demand letters” based on frivolous claims of infringement. Though Commil was not charged with that behavior here, the court apparently believed that Cisco’s prediction of onerous consequences—the company is a major force behind legislation on the issue currently under consideration in Congress—needed to be addressed.

The court cited the availability of sanctions under Federal Rule of Civil Procedure 11 as well as district courts’ discretion to award attorneys’ fees under Section 285.

“These safeguards, combined with the avenues that accused inducers have to obtain rulings on the validity of patents, militate in favor of maintaining the separation expressed throughout the Patent Act between infringement and validity,” the court said. “This dichotomy means that belief in invalidity is no defense to a claim of induced infringement.”

Mark S. Werbner of Sayles Werbner P.C., Dallas, represented Commil. Seth P. Waxman of Wilmer Cutler Pickering Hale & Dorr, Washington, represented Cisco. Ginger D. Anders, assistant to the Solicitor General, Department of Justice, Washington, argued for the government.

BY TONY DUTRA

Full text at http://www.bloomberglaw.com/public/document/Commil_United_States_Llc_v_Cisco_Sys_No_13896_2015_BL_164427_US_M.