

Client Alert

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Supreme Court Holds That Good-Faith Belief In Invalidity Is Not A Defense To Induced Infringement

The United States Supreme Court issued its decision in *Commil USA, LLC v. Cisco Systems, Inc.*, No. 13-896 yesterday, holding that a good-faith belief that a patent is invalid is not a defense to inducement liability under Section 271(b). This ruling strikes a balance between the scienter requirement for inducement liability and the presumption of validity. Although a defendant in an inducement case may be able to escape liability based on a good-faith belief in non-infringement, a good-faith belief in invalidity will not avoid liability.

Proceedings Below

Commil USA, LLC (“Commil”) filed suit against Cisco Systems, Inc. (“Cisco”) in the Eastern District of Texas, alleging that Cisco directly and indirectly infringed certain claims of US Patent No. 6,430,395 Patent (the ‘395 Patent).

The case was tried to a jury in May 2010. The jury rejected Cisco’s invalidity defense, found Cisco liable for direct infringement, and awarded Commil \$3.7 million in damages. However, the jury held Cisco not liable for induced infringement. Commil moved for, and the trial court granted, a new trial on the issue of induced infringement. A second trial was conducted in April 2011, with the jury finding Cisco liable for induced infringement and awarding Commil \$63.7 million in damages on this claim.

Cisco appealed to the Federal Circuit on various grounds, including that the district court erroneously prevented it from presenting evidence that it had a good-faith belief that the patent was invalid to rebut the intent element of Commil’s induced infringement claim. The Federal Circuit agreed with Cisco, holding that the trial court erred by excluding this evidence because “evidence of an accused inducer’s good-faith belief of invalidity may negate the requisite intent for induced infringement.” *Commil USA v. Cisco Systems, Inc.*, 720 F.3d 1361, 1368-69 (Fed. Cir. 2013). The Federal Circuit also held that the trial court gave an erroneous jury instruction on the standard for induced infringement, which served as an independent basis to reverse the trial court and remand for a new trial.

Commil sought Supreme Court review of the Federal Circuit’s decision that a “good-faith belief of invalidity” can serve as defense to induced infringement. The Supreme Court granted *certiorari* and, in an opinion released yesterday, reversed the Federal Circuit.

Induced Infringement

Section 271(b) of Title 35 states: “Whoever actively induces infringement of a patent shall be liable as an infringer.” This provision has been interpreted to include an element of intent. In *Global-Tech Appliances, Inc. v. SEB, S.A.*, 131 S.Ct. 2060 (2011), the Supreme Court held that “induced infringement under §271(b) requires *knowledge that the induced acts constitute patent infringement.*” *Id.* at 2068 (emphasis added).

The *Commil* case elaborates on the intent requirement set forth in *Global-Tech*. Under the Court’s ruling, the scienter requirement means that the defendant must know of the patent and must know that the

induced acts practice the claims of the patent. Thus, a good-faith belief in non-infringement is a defense. But, a good-faith belief in invalidity is not.

Arguments of Petitioner

Commil argued on appeal for a narrow reading of *Global-Tech*. According to Commil, “knowledge that the induced acts constitute patent infringement” simply means that the “defendant knew of the patent, knew of the patent’s potential applicability to its conduct (e.g., through a notice letter), and intended that their customers engage in the activity at issue.” (Brief of Petitioner at 14). Under this analysis, the “inducer’s subjective beliefs regarding potential defenses are irrelevant.” (Brief of Petitioner at 16). Commil argued that this includes not just a good-faith belief in invalidity, but also any “good-faith belief defenses,” including a good-faith belief in non-infringement. (Brief of Petitioner at 21). Commil argued that this position was supported by both *Global-Tech* and the landmark decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), on which *Global-Tech* relied. (Brief of Petitioner at 19, 23-24).

Commil advanced policy arguments in favor of its position. Commil argued that indirect infringement is an important component of the law because it “provide[s] patent holders with a remedy against the party responsible for causing the infringements where the direct infringers themselves are undesirable parties to litigation.” (Brief of Petitioner at 28). It also avoids the need for multiple lawsuits against customers all over the country who are mere purchasers with no real understanding of how the product works. (Brief of Petitioner at 33). Commil argued that allowing a good-faith belief in invalidity to serve as a defense to indirect infringement would severely weaken a patent’s owner’s ability to pursue its statutory rights under Section 271(b). (Brief of Petitioner at 36).

Commil acknowledged that its argument against all good-faith belief defenses may be too broad, in light of the holding in *Global-Tech*. It made an alternative argument that, even if a good-faith belief in non-infringement is sufficient to avoid liability, a good-faith belief in invalidity is not. (Brief of Petitioner at 44). In support, Commil argued that infringement and validity are separate issues that appear in different sections of the statute, and they are treated separately under the case law. (Brief of Petitioner at 45-46). Commil further argued that allowing a good-faith but erroneous belief in invalidity to defeat a claim for inducement to infringe undermines the statutory presumption of validity. (Brief of Petitioner at 51). Moreover, Commil noted that in all other areas of the law the defendant’s belief that the prohibition on his conduct is invalid is not a defense. (Reply Brief at 2). This is true where a defendant violates a statute, court decree or contract, and should also be true where a defendant violates a patent. (Reply Brief at 5-8).

Arguments of Respondent

Cisco argued that the decision in *Global-Tech* is clear and unambiguous. Pursuant to that decision, induced infringement “requires knowledge that the induced acts constitute patent infringement.” *Global-Tech*, 131 S.Ct. at 2068 (quoted in Brief for Respondent at 10). The defendant cannot possess such knowledge if it has a good-faith belief that the patent is invalid. (Brief for Respondent at 11). Thus, Cisco argued that a good-faith belief in invalidity is a proper defense to inducement liability and the Federal Circuit committed no error.

Cisco argued that the “linchpin of liability for induced infringement is culpability — knowledge that the induced conduct violates the patentee’s rights.” (Brief for Respondent at 11). Cisco relied on traditional tort and criminal law regarding aiding and abetting liability for support. Cisco cited the Restatement of Torts and well-known treatises for the proposition that “aiding-and-abetting liability requires proof of knowledge of another’s wrongdoing and intent to assist the wrongdoing.” (Brief for Respondent at 25).

Cisco also cited 18 U.S.C. §2 as an example of criminal aiding-and-abetting liability requiring “specific intent.” (Brief for Respondent at 26).

Like Commil, Cisco advanced policy arguments in favor of its position. Cisco argued that the rule proposed by Commil would encourage patent trolls to make “bogus licensing demands and litigation threats.” (Brief for Respondent at 31). Under Commil’s proposed rule, a “vague demand letter that merely identifies a patent and makes generalized inducement allegations would satisfy the intent requirement for inducement liability even if the accused inducer undertakes a thorough investigation and concludes in good-faith that the patent is invalid.” (Brief for Respondent at 31).

Cisco also addressed Commil’s argument that patent infringement and patent invalidity are separate and distinct issues. Cisco argued that because inducement liability requires scienter, *i.e.*, knowledge of wrongdoing, a defendant’s good-faith belief in invalidity is necessarily relevant to the inquiry. (Brief for Respondent at 38-39). According to Cisco, “there can be no scienter if the accused inducer reasonably believes the patent [is] invalid.” (Brief of Petitioner at 39).

The Court’s Decision and Its Implications

In a six to two decision (with Justice Breyer taking no part), the Supreme Court held that a good-faith belief in a patent’s invalidity is not a defense to induced infringement. The Court, however, rejected Commil’s broader argument that inducement liability requires only knowledge of the patent. The Court held that the proper reading of *Global-Tech* is that liability for induced infringement requires not just that the defendant knew of the patent but that also it knew that “the induced acts constitute patent infringement.” Slip Opinion at 6.

The Court’s opinion is authored by Justice Kennedy, and explains that “[t]he scienter element for induced infringement concerns infringement; that is a different issue than validity.” Slip Opinion at 9. To be liable for induced infringement, the defendant must intend to bring about the desired result, which is infringement. *Id.* But, “belief regarding validity cannot negate the scienter required under §271(b).” *Id.* The opinion emphasizes that “invalidity is not a defense to infringement, it is a defense to liability.” *Id.* at 11. The opinion also reaffirms the presumption of validity. *Id.* at 10.

The Supreme Court’s decision seeks to strike a balance between the scienter requirement for inducement liability and the presumption of validity. Under the Court’s ruling, a good-faith belief in non-infringement may operate as a defense to inducement liability. But, a good-faith belief that the patent is invalid will not. Thus, patent holders do not have to worry that the inducer will escape liability by proffering an opinion letter that the patent is invalid. Invalidity remains a defense, but a good-faith belief in invalidity is not.

Justice Scalia and Chief Justice Roberts dissented.

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