

ClientAlert

Intellectual Property

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Federal Circuit Opens Door to New Defense to Inducing Infringement

On June 25, 2013, the Federal Circuit issued a significant decision expanding the scope of evidence that alleged infringers may present to rebut allegations of inducement. *Commil USA, LLC v. Cisco Sys., Inc.*, No. 2012-1042 (Fed. Cir. Jun. 25, 2013). A majority of the panel ruled that evidence of an infringer's good-faith belief that the asserted patent is invalid is relevant to inducement. Overturning a finding of inducement and setting aside a US\$74 million jury verdict, Judge Prost concluded that while "...we appear to have not previously determined whether a good-faith belief of invalidity may negate the requisite intent for induced infringement. We now hold that it may." Slip op. at 9.

Background

Commil USA, LLC ("Commil") initially filed suit in the US District Court for the Eastern District of Texas alleging that Cisco Systems, Inc. ("Cisco") directly and indirectly infringed US Patent No. 6,430,395 (the "'395 patent"). The '395 patent discloses a method for managing wireless networks by dividing the communication protocol to improve the speed and reliability of handoffs between mobile base stations. The '395 patent's method enables mobile device users to maintain wireless connectivity when moving between mobile base stations within a network.

After an initial trial, the jury found the '395 patent valid and only held Cisco liable for direct infringement. The district court, however, granted Commil's request for a retrial, but only as to the issues of inducement and damages. Prior to the second trial, the district court granted Commil's motion in limine to exclude Cisco from introducing evidence of its good-faith belief that the '395 patent was invalid to rebut Commil's inducement allegations. The district court also instructed the jury that Commil must show that "Cisco actually intended to cause the acts that constitute direct infringement and that *Cisco knew or should have known that its actions would induce actual infringement.*" *Id.* at 6 (emphasis added). Thereafter, the jury found Cisco liable for inducement and awarded Commil US\$63.7 million in actual damages (US\$74 million with prejudgment interest and costs).

Rebutting Inducement With a Good-Faith Belief of Invalidity

Judge Prost, joined by Judge O'Malley, held that the district court erred in precluding Cisco from presenting evidence of its good-faith belief that the asserted patent was invalid in order to rebut Commil's inducement allegations.

The majority relied heavily on precedent that evidence of a good-faith belief of noninfringement is relevant to whether the accused infringer lacked the requisite intent to induce infringement. Considering whether the same was true for a good-faith belief



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of invalidity, the majority concluded that it “see[s] no principled distinction between a good-faith belief of invalidity and a good-faith belief of noninfringement for the purpose of whether a defendant possessed the specific intent to induce infringement of a patent.” *Id.* at 10. Thus, where an alleged infringer knows of a patent but believes the patent is invalid, and induces others to infringe the patent, “it can hardly be said that the alleged inducer intended to induce infringement[.]” *Id.* (emphasis added).

Judge Newman disagreed with the majority’s conclusion, arguing that a “‘good-faith belief’ in invalidity does not void liability for infringement when the patent is valid. No rule eliminates infringement of a valid patent, whether the infringement is direct or indirect.” Newman op. at 2 (concurring-in-part and dissenting-in-part). Judge Newman relied on tort law to demonstrate the flaw in the majority’s reasoning. In tort law, a mistake of law does not absolve a tortfeasor from liability. Similarly, according to Judge Newman, an infringer’s mistaken belief that a patent is invalid does not absolve it from liability for inducing infringement.¹ Moreover, Judge Newman concluded that the majority opinion was “devoid of law and precedent” and misconstrued the *Global-Tech* decision and the inducement standard by “including a belief in patent validity as a criterion of infringement.” *Id.* at 4. (discussing *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011)).

Faulty Jury Instruction

In addition, the Federal Circuit unanimously held that the district court’s jury instruction that “Cisco knew or should have known its actions would induce actual infringement” was improper and had a prejudicial effect. By so instructing, the jury could have found inducement where the infringer was negligent. Such an outcome would directly contradict the inducement standard set forth in *Global-Tech*, which requires actual knowledge or willful blindness, not mere negligence. *Global-Tech*, 131 S. Ct. at 2070-71. Accordingly, the Federal Circuit vacated the jury’s findings of inducement and damages award and remanded the case for a new trial on both issues.²

Implications

Commil USA, LLC v. Cisco Sys., Inc. is the Federal Circuit’s latest decision discussing the inducement standard set forth in *Global-Tech*. Following *Commil*, proving inducement may be more difficult as alleged indirect infringers try to rebut claims of inducement by offering evidence of their good-faith belief that the asserted patents are invalid. Lastly, en banc reconsideration of this issue is likely as *Commil* has stated publicly that it intends to pursue reconsideration.

The full text of the opinion can be found [here](#).

¹ As noted by several commentators, this statement would also apply to an infringer’s mistaken belief regarding noninfringement.

² The Federal Circuit also addressed four of Cisco’s additional challenges. First, the Court rejected Cisco’s contention that the claims were improperly construed. Second, the Court held that Cisco’s arguments that the ‘395 patent was invalid were without merit. Third, the federal circuit held that the district court did not abuse its discretion by granting a new trial. Fourth, a majority of the panel concluded that granting a retrial on only some issues did not violate the Seventh Amendment (J. Prost and J. Newman). Judge O’Malley, dissenting-in-part, disagreed with the majority’s fourth conclusion, commenting that “the partial retrial order deprived Cisco of its right to a jury trial as guaranteed by the Seventh Amendment”. O’Malley op. at 3 (concurring-in-part and dissenting-in-part).

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