

CLIENT ALERT

The Federal Circuit's New Factor For Induced Infringement Escapes Rehearing *En Banc* and Creates Significant Uncertainty In Certain Patent Cases

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The Federal Circuit's recent denial of a rehearing *en banc* of the panel's split decision in *Commil USA LLC v. Cisco Sys. Inc.*, 720 F.3d 1361 (Fed. Cir. June 25, 2013) has introduced a new factor in induced infringement cases—whether the accused inducer has a good-faith belief that the asserted patent is invalid—giving certain defendants an additional affirmative defense in patent litigation in which inducement of infringement is alleged.

In 2011, the Eastern District of Texas conducted two jury trials in the underlying litigation for infringement of U.S. Patent No. 6,430,395 ('395 Patent), which relates to a communication protocol for mobile devices. The first jury awarded Commil \$3.7 million in damages for direct infringement, but found no liability for inducement of infringement. A second trial was held to retry Cisco's alleged induced infringement. Prior to the second trial, and in defense to the charge of induced infringement and the requisite knowledge needed to induce acts of patent infringement, Cisco offered evidence of its good-faith belief that the '395 Patent was invalid. In response, Commil filed a motion *in limine* to exclude this "good-faith" evidence. The motion to exclude the evidence was granted, and the jury in the second trial found Cisco liable for \$63.7 million in damages for induced infringement.

On appeal to the Federal Circuit, Cisco argued that the "district court [had] erroneously precluded Cisco from presenting evidence of its good-faith belief of invalidity to show that it lacked the requisite intent to induce infringement of the asserted claims." 720 F.3d at 1365. On this point, panel Judges Prost and O'Malley agreed; Judge Newman dissented.

Acknowledging that this was an issue of first impression, the Federal Circuit, in an opinion written by Judge Prost, held that a good-faith belief of *invalidity* may play a role in determining the intent needed for induced infringement. *Id.* at 1367. The panel stated that there was "no principled distinction" between this finding and the good-faith belief of *noninfringement* in determining a defendant's specific intent to induce infringement of a patent. *Id.* at 1368. In so doing, the panel created a new factor based upon an accused inducer's subjective good-faith belief of patent invalidity, stating: "We now hold that evidence of an accused inducer's good-faith belief of invalidity may negate the requisite intent for induced infringement." *Id.* at 1367.

Judge Newman's dissent from the panel decision cited the potentially far-reaching consequences of the decision for "investors, competitors, and trial courts." *Commil USA LLC v. Cisco Sys. Inc.*, 720 F.3d 1361 (Fed. Cir. June 25, 2013), *reh'g en banc denied at 2* (Reyna, J., dissenting from denial of rehearing *en banc*). Judge Reyna, joined by Judge Newman and others, dissented from denial of a rehearing on the issue for the same reasons. The panel dissent argued that this "change of law" was an inappropriate conflation of the defenses of noninfringement and invalidity, improperly infusing a belief of patent invalidity, an issue of law, as a factor in a defense to the fact of infringement. 720 F.3d at 1373-74. The dissent to the denial for rehearing further argued that such a change in law, without a rehearing *en banc*, is a "destabilization [that is] a disservice not only to patentees but also to the public that benefits from technological advance." *Commil USA LLC v. Cisco Sys. Inc.*, 720 F.3d 1361 (Fed. Cir. June 25, 2013), *reh'g en banc denied at 2* (Reyna, J., dissenting from denial of rehearing *en banc*).

The Federal Circuit's decision and its denial of a rehearing may very likely alter the practices and strategies of in-house and outside counsel alike. In-house counsel potentially accused of inducing infringement may, prior to taking steps toward commercialization, seek to obtain a thorough and independent opinion of the validity of potentially relevant patents, on which it may reasonably rely in support of a good-faith belief of invalidity. Similarly, an accused infringer's outside counsel may seek to compile all available evidence of its client's good-faith bases of invalidity, and include early in the case appropriate defenses both in its pleadings and noninfringement contentions. Conversely, a patent holder's outside counsel may seek to obtain early discovery of the accused infringer's beliefs, including any opinion relied upon by the accused infringer, as well as any other countervailing evidence that would negate a good-faith belief of invalidity. As evidence of a good-faith belief of invalidity is not an absolute defense but rather one which "may" negate the requisite intent for inducement, all other evidence of the accused infringer's intent is still very much at issue.

A word of caution, however, is in order. Because the vote to deny rehearing *en banc* was short of a true majority by only one vote, it is likely that this issue will be revisited again. In the meanwhile, it will be important to watch how the lower courts and perhaps future panels address the *Commil* decision and its possibly far-reaching implications for patent litigation.

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