

Patents/Supreme Court

High Court Decision in *Commil v. Cisco* May Upset Presumption of Patent Validity Burdens

Cisco Systems' argument that a good-faith belief of patent invalidity is a viable defense to induced infringement did not sit well with most stakeholders following the Supreme Court's March 31 oral argument in *Commil v. Cisco*.

While some sympathized with the company's complaint that it is inundated with patent infringement charges by patent trolls—many of whom will be asserting dubious patents—most practitioners were far more wary of what such a defense does to the presumption of patent validity in district court.

"This decision could be a game changer in industries where method patents may only realistically be enforced against indirect infringers, since it is impractical to bring suit against the entity practicing the claimed method," Baldassare Vinti of Proskauer Rose LLP, New York, told Bloomberg BNA.

The comments here were all made in e-mail exchanges with Vinti and other stakeholders April 1.

Another Arrow in Defense Quiver. *Commil USA LLC* won a \$63.8 million award for Cisco Systems Inc.'s inducement of infringement of a patent, under 35 U.S.C. § 271(b), on Bluetooth network technology. But the Federal Circuit overturned the judgment because the jury did not consider Cisco's belief of patent invalidity.

The oral argument confirmed that the Supreme Court, in *Global-Tech Appliances Inc. v. SEB S.A.* (2011), held that a good-faith belief of noninfringement was an adequate defense, leaving the question of whether there is enough of a difference between noninfringement and invalidity to preclude an invalidity defense.

"If the Supreme Court sides with Cisco in this case, it will provide another arrow in the quiver of those accused of inducing infringement," Marla R. Butler of Robins Kaplan LLP, New York, told Bloomberg BNA. "Defendants will, as a matter of course going forward, argue that they cannot be found liable for inducement because they believed all along that the patent is invalid."

"If Cisco's position is adopted, a large number of patent holders would be left without effective recourse," according to Tom Rein and Bryan Mulder of Sidley Austin LLP, Chicago, providing a response jointly. "Concerns have been expressed, for example, that this could cripple Hatch-Waxman litigation in cases involving a method of treatment."

Who Blinks First? This issue arises under the following scenario: The patent owner (*Commil*) notifies another party (*Cisco*) of its liability for inducement to infringe a specific patent, but the alleged infringer believes the patent is invalid. The question the case will answer is whether the alleged infringer can rely on that belief as a defense in the circumstance when the case does go to court and the court finds the patent invalid.

That is clearly not an option for direct infringers, because Section 271(a) invokes strict liability, whereas inducement has a scienter component.

Nevertheless, "Cisco's predicament is no different from that of a direct infringement defendant," said

James D. Crowne, deputy executive director of legal affairs for the American Intellectual Property Law Association.

"When a direct infringement defendant receives a demand letter, it has to make the same decisions," he said. "The real question is whether an indirect infringement defendant who receives a demand letter should be treated differently than a direct infringement defendant who receives the same. The underlying assumption for the policy questions about 'options' is that a 271(b) defendant requires more accommodation than a 271(a) defendant beyond the differences in the elements to be proved."

Different members of the Supreme Court presented the options that were available to each party before the case goes to court—a declaratory judgment or challenge at the Patent Trial and Appeal Board for the alleged infringer; a direct infringement lawsuit against one of the inducer's customers for the patent owner. So, is it just a question of who blinks first?

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"The alternatives are somewhat different from what [the justices] posed," Rein and Mulder said.

"The direct infringers could be unknown to the patentee and too numerous to practically sue (e.g., patients taking a patented medication) or the direct infringer could be unreachable (e.g., outside the U.S. or a medical practitioner exempt under 35 U.S.C. 287(c)), they said. "Alternatively, business reasons may make it impractical to sue the end user (e.g., the patentee's own customer)."

"As for the accused inducer's options, it has at least as many options as an alleged direct infringer," Rein and Mulder continued. "In addition to filing a declaratory judgment action or an inter partes review, the accused inducer can try to avoid litigation by explaining to the patentee why it is not infringing or why the patent is invalid."

Two Sides of Same Coin? The question as to the difference between infringement and validity appears to be a two-part issue.

First, Justice Elena Kagan said that a narrow claim construction would lead the alleged infringer to defend via a noninfringement argument, while a broad claim construction would force an invalidity challenge. Thus, she said, a priori there is no difference in that party's specific intent.

"I think Justice Kagan is correct that there are times when alternative claim constructions would give noninfringement on the one hand and invalidity on the other," David Tellekson of Fenwick & West LLP, Seattle, said. "But, there are many instances when a reasonable reading of the claims leaves only an invalidity defense."

“Prior to the time that the claims are construed by the district court, a defendant will have a belief as to what the correct construction of the claims should be and whether there is infringement under such constructions,” Rein and Mulder said in rough agreement.

Nevertheless, they added, “if the focus is purely on whether the defendant acted ‘wrongfully,’ it is difficult to distinguish between a defendant who truly believed the patent is not infringed and a defendant who truly believed the patent is invalid.”

Presumption of Validity. However, they and most other stakeholders were more concerned about the second part of the issue—the presumption of patent validity in litigation, under 35 U.S.C. § 282. And in particular, they rejected the justices questions, citing statistics of federal court determinations of invalid patents, that put the presumption into doubt.

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“The questions seemed to suggest that the explicitly recited presumption in Section 282 of the Act can be un-

dermined by statistics showing that many patents are found invalid,” Crowne said. “That seems to be an unwarranted reach into Congress’s domain. But the Court has already recognized the import of the presumption in *Microsoft Corp. v. i4i Limited Partnership*, a unanimous decision that the presumption both allocates the burden of proof and applies a heightened standard of proof.”

Tellekson agreed. “Whether patents are found invalid 10 percent or 90 percent of the time, the presumption is still there, and the burden is still on the party seeking to invalidate a patent,” he said.

But Cisco argued that the presumption of validity does not affect the availability of the defense, only the proof.

That still means there is a fundamental difference between how the court is to view validity compared to infringement, Vinti and Tellekson said.

“Allowing a belief of invalidity to be considered as a defense to invalidity would shift the ordinary burdens of proof,” Rein and Mulder added. “Because a patentee is required to prove inducement of infringement by the preponderance of the evidence, it would be required to show that a defendant’s purported belief in invalidity is unreasonable, effectively requiring the patentee to prove that the patent is valid.”

The court is not likely to rule on the case until June.

BY TONY DUTRA

A copy of the transcript is at <http://pub.bna.com/ptcj/13896transcript.pdf>.

Crowne is a member of this journal’s advisory board.