

Defending Against Inducement Claims Post-Commil

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Induced infringement typically arises in situations where a company sells a product for use by its customers with instructions on how to use the product or perform a method. In such situations, it may be more efficient to allege that the company induces infringement by its customers rather than alleging that the customers are direct infringers. Inducement liability also arises when the company makes extra-territorial sales of an accused product that is imported into the United States.

The latest development in the case law involving induced infringement comes from *Commil v. Cisco*.^[1] In *Commil*, the U.S. Supreme Court held that an alleged infringer's good-faith belief that a patent is invalid is not a defense to induced infringement. This article will: (1) examine how to defend against nonpracticing entities' inducement claims post-*Commil*; (2) offer insights on how companies can mitigate inducement risks post-*Commil*; (3) analyze the extended impact of *Commil* on defending against willful allegations; and (4) discuss how *Commil* will influence the ongoing patent reform efforts.



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NPEs often use inducement claims to extract settlement payments from companies, and demand greater amounts in cases involving a large customer base. These companies are frequently pressured into settling infringement claims rather than shouldering the expense of unpredictable litigation, damaging the credibility of established goodwill with existing and prospective customers, and diverting critical financial and human resources away from business operations.

Commil seemingly takes away a powerful defensive mechanism and a valuable negotiation means from companies wrongfully accused of induced infringement. Before *Commil*, defendants employed the defense of good-faith belief in invalidity as one way to fend off induced infringement claims, resting on the notion that one cannot infringe an invalid patent. After all, infringement necessarily presupposes a valid patent claim. If the claim is not valid, there is no infringement. But the majority in *Commil* disagreed, stating that invalidity is not a defense to infringement but a defense to liability. Post-*Commil*, it is no longer relevant in the inducement context whether the defendant had taken appropriate steps to form a good-faith belief that the patent is invalid. By taking away a good-faith belief of invalidity as a

defense, Commil took away one of defendants' get-out-of-jail-free cards while simultaneously encouraging NPEs to continue their questionable, and often abusive, business practices.

So how do companies and their counsel defend against NPEs' inducement claims post-Commil?

It should first be understood that not all is lost in Commil. Although the court eliminated the substantial defense of good-faith belief in invalidity, it also reaffirmed its holding in *Global-Tech*[2] that mere knowledge of the patent is insufficient to establish intent for induced infringement. Rather, induced infringement also requires the defendant's knowledge that the induced acts infringed the patent.

Thus, to properly state a claim for induced infringement, an NPE must show that with knowledge (or willful blindness to the existence) of the patent, the company engaged in certain affirmative acts to induce (e.g., by persuading, leading or influencing) a third party to perform acts that the company knew constituted infringement (or was willfully blind to that fact) with the specific intent for the third party to cause such infringement, and which resulted in the third party directly infringing the patent.[3]

The pleading requirements for induced infringement require plaintiffs to set forth specific facts that meet the *Twombly/Iqbal* standard at the pleading stage.[4][5] Since Commil, courts in at least four districts have granted an accused infringer's motion to dismiss induced infringement claims because they were not adequately pleaded.[6]

Commil underscores the import of filing timely pretrial motions. Companies and their counsel should therefore consider motion practice to dismiss the induced infringement claim early if the patent holders provide only vague, conclusory allegations that do not plausibly show that the companies specifically intended third parties to commit acts that the companies knew constituted infringement.

Mitigating Inducement Risks Post-Commil

A company can mitigate the risk of liability for induced infringement without interfering with the company's allegedly infringing business activities. One way is to obtain competent advice of counsel in the form of a noninfringement opinion. The courts have long recognized that a good-faith belief of noninfringement is relevant evidence that tends to show that an accused inducer lacked the culpable intent required to be held liable for induced infringement.[7] A company under the threat of an induced infringement claim should therefore consider engaging a competent patent counsel to obtain opinion regarding noninfringement. The noninfringement opinion should place extra emphasis on why the company lacked the specific intent for others to infringe and the knowledge that its induced acts were infringing.

Examples in which courts have granted a motion of summary judgment of noninfringement based on a lack of specific intent and knowledge to induce infringement include: product datasheets that do not contain instructions to customers on how to use the accused products in an infringing manner,[8] customer technical support where no support was provided on testing the accused products,[9] licensing of data to third parties where data have noninfringing use,[10] policy to avoid infringement that was not communicated to third parties,[11] product presentation to third parties where the presentation predates the issuance of the patent,[12] and service manuals that do not describe the algorithm used by the accused chipsets.[13]

In forming the noninfringement opinion, the asserted patent should be analyzed to reasonably understand the metes and bounds of the asserted claims. In dicta, Commil implicitly suggests that a defendant who reads the patent claims differently from the plaintiff should not be liable for induced

infringement if that reading is reasonable. Counsel should state how the asserted claims are construed in support of its reasonable interpretation of the asserted patent in assessing the noninfringement position. If the company did not believe that its induced acts constituted infringement based on a reasonable reading of the terms in the claims, it logically follows that the company did not know that its induced acts would be causing others to infringe.

The timing for obtaining a noninfringement opinion also plays a critical role in a company's defense of induced infringement. A presuit opinion can be used to counter allegation of presuit knowledge of the induced acts constituting infringement to thereby limit presuit damages. A post-suit opinion is ineffective in limiting presuit damages but may still serve to limit damages related to post-suit activities. A company can maximize the shielding effect of such an opinion and mitigate risk of liability for induced infringement by obtaining the opinion as soon as the company learns of the potential infringement and documenting good-faith reliance on the opinion to limit both presuit and post-suit damages.

There are circumstances under which obtaining a formal noninfringement opinion may be economically impracticable, such as when a company receives many demand letters. It is also infeasible to conduct a wholesale investigation into every infringement claim and obtain an opinion of counsel in every instance. At the same time, the courts are unlikely to give much weight to self-serving testimony as to the company's subjective, albeit good-faith, belief of noninfringement without evidence that the company was relying on something more probative than its own evaluation. If obtaining formal opinion of counsel before initiating possible infringing activity is not possible, there are alternative (albeit less desirable) steps that the company can take to minimize its exposure to a later charge of induced infringement.

For example, the company can obtain oral opinion and preserve the informal discussion in writing. The company can also implement internal company procedures to consistently document activities showing its good-faith belief of noninfringement. Such internal procedures can mandate the immediate reporting of any known patent relevant to the company's product line that may be the target of an inducement claim, while noting the investigative steps taken to confirm noninfringement. Investigative steps may include discussions with and analyses by the company's technical personnel that are reduced to writing, detailing the bases for noninfringement. The procedures should also include provisions for documenting how the company reasonably relied upon such bases in conducting its potentially infringing activities. While these suggested steps will not necessarily insulate the company from an inducement claim, they will at least minimize potential risks that arise in the absence of a noninfringement opinion.

Defending Against Willful Allegations Post-Commil

Companies and their counsel should also consider the extended impact of Commil on willful infringement. To establish willful infringement under the Seagate standard, a patent holder must show that the accused infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and that this objectively defined risk was either known or so obvious that it should have been known to the accused infringer.[14] The Federal Circuit has already held that a competent opinion of counsel concluding noninfringement could provide a sufficient basis for an accused infringer to proceed without engaging in objectively reckless behavior.[15]

While no adverse inference of willfulness could be drawn from the failure to obtain legal advice, once willfulness is found, whether the accused infringer relied on a competent opinion of counsel is often among the most important factors considered by the presiding judge in deciding whether and by what amount to enhance the damages award. It is thus critically important that an accused infringer

affirmatively demonstrates that it is a good corporate citizen and has a policy of acting in a socially responsible manner through timely obtaining and reasonably relying on the opinion of counsel before initiating potentially infringing activities.

Companies and their counsel should carefully evaluate their prelitigation strategies and consider obtaining a competent noninfringement opinion, particularly in cases where a company faces potential charges of both induced and willful infringement. An opinion on noninfringement serves to “kill two birds with one stone” by negating the intent required to be held liable in both contexts.

Impact of Commil on Current Patent Reform

Commil comes at a time when both the House and the Senate are preparing to begin a full floor debate on their respective patent reform bills for the third time in five years. On the House floor is the Innovation Act (H.R. 9). This bill is essentially the same legislation that passed the House in 2013, but with additional bells and whistles that address certain abusive business and litigation practices. On the Senate floor is the PATENT Act (S. 1137), which is the Senate version of the Innovation Act. The PATENT Act generally offers provisions similar to the Innovation Act but differs in contentious areas such as fee-shifting and demand letters.

Both bills come at the heel of a line of Supreme Court cases decided in 2014 that created a growing trend toward tougher standards for NPEs, including one decision that affirmed the power of district courts to award attorneys’ fees to a prevailing party in “exceptional” cases. These cases serve as the early foundational groundwork for drafting legislative provisions on fee shifting and recovery, heightened pleading standards, and early disclosures requirements in demand letters. Congress and the Supreme Court thus appear to be on a purposeful and collaborative path of tightening standards and procedures for asserting patents and reducing frivolous lawsuits used to leverage settlements based on litigation costs rather than merits.

To date, neither the Innovation Act nor the PATENT Act addressed any of the induced infringement issues laid out in Commil. If history is any slight indication of Congress’ likely reaction to Supreme Court decisions related to patent law, it is likely that Congress will work across aisle to clarify the vaguely-worded inducement statute under 35 U.S.C. § 271(b) while continuing their bipartisan efforts to harmonize both bills before a final vote.

Conclusion

Commil marks the Supreme Court’s third foray into induced infringement within the past five years. But it marks only the first time in 226 years of court history that the term “patent trolls” is used in an opinion. And it surely won’t be the last.

If there’s a key takeaway, it is that a noninfringement opinion, if prepared properly, is the most cost-effective insurance against a finding of induced and willful infringement post-Commil. In the absence of an opinion of counsel, companies are encouraged to incorporate the procedural safeguards discussed herein into their corporate business practices to minimize their potential liabilities for induced and willful infringement.

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[1] Commil USA LLC v. Cisco Sys. Inc., 135 S. Ct 1920, 1932 (May 26, 2015).

[2] Global-Tech Appliances Inc. v. SEB SA, 131 S. Ct. 2060, 2065-2068 (2011).

[3] Commil, 135 S. Ct. at 1928; Global-Tech, 131 S. Ct. at 2065-2068.

[4] In re Bill of Lading Transmission and Processing System Patent Litigation, 681 F.3d 1323, 1336 (Fed. Cir. 2012).

[5] Bell Atl. Corp. v. Twombly, 550 U.S. 544, 545 (2007); Ashcroft v. Iqbal, 556 U.S. 662, 684-685 (2009).

[6] Bonutti Skeletal Innovations LLC. V. Globus Medical Inc., 14-cv-6650-WJB (E.D. Penn., June 15, 2015); Cap Co., LTD., v. McAfee, Inc., 14-cv-05068-JD (N.D. Cal., June 26, 2015); Core Wireless Licensing S.A.R.L. v. Apple Inc., 6:14-cv-751-JD (E.D. Tex., June 3, 2015); Twentieth Century Fox Home Entm't LLC v. Nissim Corp., 14-cv-81349-CIV-KAM (S.D. Fla., June 1, 2015).

[7] DSU Medical Corp. v. JMS Co. Ltd., 471 F.3d 1293, 1307 (Fed. Cir. 2006); Ecolab Inc. v. FMC Corp., 569 F.3d 1335, 1351, amended on reh'g in part, 366 Fed. Appx. 154 (Fed. Cir. 2009).

[8] Skyworks Solutions Inc. v. Kinetic Technologies Inc., 14-cv-00010-SI (N.D. Cal., Mar. 2, 2015).

[9] Id.

[10] Health Grades Inc. v. MDX Medical Inc., 11-cv-00520-RM-BNB (D. Col., Nov. 4, 2014).

[11] Id.

[12] Id.

[13] Olpus Techs. Ltd. v. Sears Holdings Corp. et al., 2:12-cv-05707-MRP, Dkt. 183 (C.D. Cal., Oct. 2, 2013).

[14] In re Seagate Technology LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).

[15] Finisar Corp. v. DirecTV Group Inc., 523 F.3d 1323, 1339 (Fed. Cir. 2008).