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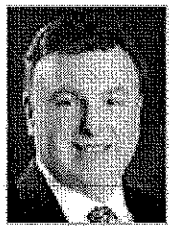
Avoid Inducement Liability With Early Opinion Of Counsel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Law360, New York (March 21, 2014, 11:55 AM ET) -- In both technology and life science fields, patentees may allege inducement to infringement against defendants with no clear direct infringement liability. Usually this arises in the case of complex method patents where the claimed steps are performed by different parties or method of treatment patents where a manufacturer of a pharmaceutical is only potentially liable for inducement. But obtaining an opinion of counsel will assist in establishing a "good faith" belief in noninfringement or invalidity, which may avoid inducement liability.

Title 35, U.S.C. § 271(b) states: "Whoever actively induces infringement of a patent shall be liable as an infringer." Under existing precedent, a mere intent to commit the acts constituting infringement does not suffice. Rather, a "super intent," i.e., a "specific intent to infringe," is required before liability attaches. A "good faith" belief in noninfringement or invalidity of the patent-in-suit, however, may negate the intent requirement.

What constitutes good faith is not clear, but a timely opinion of counsel can be particularly helpful. Since a good-faith defense will most likely require the alleged infringer to waive attorney-client privilege, any strategy to develop this defense should begin as early as possible.

Specific Intent To Infringe Is Required

The different inducement standards of Manville Sales Corp. v. Paramount Systems Inc., 917 F.2d 544 (Fed. Cir. 1990) and Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464 (Fed. Cir. 1990) were resolved in DSU Medical Corp. v. JMS Co. Ltd., 471 F.3d 1293 (Fed. Cir. 2006) (en banc in relevant part) (no intent to infringe — opinion of counsel). There, the court held that plaintiff must show that the alleged infringer's actions induced infringement and that defendant knew or should have known its actions would induce actual infringement. Thus, Section 271(b) requires actively and knowingly aiding and abetting another's direct infringement; mere knowledge of the alleged infringing acts is insufficient.

Opinions Of Counsel May Be Significant

The importance of obtaining an opinion of counsel in inducement situations was highlighted in VNUS Medical Technologies Inc. v. Diomed Holdings Inc. (N.D. Cal. 2007). VNUS sought summary judgment that defendants induced infringement of two patents. Each defendant had obtained an opinion of counsel that the accused products did not infringe and/or the patents-in-suit were invalid. Defendants also offered evidence that it relied on the opinions in continuing the alleged infringing conduct. Relying on DSU, the court found that the evidence presented a triable issue on whether the defendants induced infringement. Id. at *1.

In Kinetic Concepts Inc. v. Blue Sky Medical Group Inc., 554 F.3d 1010 (Fed. Cir. 2009), the district court, as relevant here, found that defendants did not induce infringement and denied Kinetic's motion for JMOL on this issue. On appeal, the federal court affirmed. The court held that substantial evidence from Blue Sky's founders supported the finding that Blue Sky lacked the necessary intent to induce infringement.

In Ecola, Inc. v. FMC Corp., 569 F.3d 1335 (Fed. Cir. 2009) even though the finding of direct infringement was affirmed, the Federal Circuit held that substantial evidence supported the jury's verdict that defendant lacked the required intent to induce infringement. This evidence, which included technical reasons for the good-faith belief, showed that defendant's personnel reasonably thought that the accused products did not infringe.

Accordingly, even if a defendant is wrong, and there is direct infringement, a good-faith belief in noninfringement (and now, invalidity) can still negate the intent requirement for inducement. Especially where a potential defendant can only be liable under Section 271(b), an opinion of counsel should be obtained.

In presenting this evidence, the infringer must show that appropriate personnel possessed the good-faith belief and relied on it in conducting the company's affairs. See Meyer Intellectual Properties Limited v. Bodum Inc., 597 F. Supp. 2d 790 (N.D. Ill. 2009) (no evidence that witness had first-hand knowledge of necessary facts)(summary judgment of infringement granted), rev'd on other grounds, 690 F.3d 354 (Fed. Cir. 2012).

The importance of obtaining an opinion was again highlighted by the court's ruling in Goss International Americas Inc. v. Graphic Management Associates Inc., 739 F. Supp. 2d 1089 (N.D. Ill. 2010). The court denied summary judgment regarding direct infringement, but it held that the four foreign defendants had not induced infringement. The evidence showed that before selling the accused product the defendants had obtained a draft opinion from their U.S. patent attorney that concluded no infringement existed.

The opinion, however, was not finalized because defendants believed no infringement existed. For this reason, Goss attacked the opinion and introduced its own opinion from a patent attorney that defendant's opinion was flawed. It was held that the opinion "bears the earmarks of reliability for an opinion regarding infringement of a U.S. patent." Since Goss' only proof on intent was its attack on defendants' opinion, the court found a lack of a genuine issue of material fact and granted summary judgment to the foreign defendants. The "earmarks of reliability" appeared to reflect a typical, well-written opinion — nothing special.

While an opinion of counsel is certainly useful, its timing is also significant. In Dataquill Limited v. High Tech Computer Corp., 887 F. Supp. 2d 999 (S.D. Cal. 2011), the plaintiff notified the defendant of a patent and plaintiff's belief that it was being infringed. From this, "a reasonable jury could find that [defendant] not only knew of the acts that it was allegedly inducing, but that it also knew that these acts constituted infringement." Id. at 1013. The defendant, however, did not seek an opinion, but relied on the argument that the claims of the patents-in-suit, at one time, had been rejected in a nonfinal office action in re-examinations shortly after the action was filed.

The defendant moved for summary judgment arguing that it did not have an intent to induce infringement. The court denied the motion noting that defendant had not presented any evidence that it obtained a competent opinion "prior to the filing of the lawsuit." Defendant's post-filing opinions and arguments of its trial counsel were of "no real probative value" or of "little, if any, relevance." Id. at 1013. The decision illustrates the particular significance of a notice letter in inducement situations. Any effort to develop a good-faith defense should commence with receipt of the letter. Certainly, any presuit opinion would have been relevant and admissible regarding intent. Bettcher Industries Inc. v. Bunzi U.S.A. Inc., 661 F.3d 629 (Fed. Cir. 2011).

The failure to obtain an opinion was of particular note in Broadcom Corp. v. Qualcomm Corp., 543 F.3d 683 (Fed. Cir. 2008). There, Qualcomm was held liable for inducing infringement. On appeal, it argued that the district court erred in allowing the inducement verdicts to stand in light of the district court's instruction that it could consider Qualcomm's failure to obtain an opinion of counsel in determining whether Qualcomm intended to induce infringement.

Qualcomm argued that in light of the Federal Circuit's decision in In re Seagate Technology LLC, 497 F.3d 1360 (Fed. Cir. 2007)(en banc), which "reemphasized that there is no affirmative duty to obtain an opinion of counsel," that opinion-of-counsel evidence is not relevant in determining intent under section 271(b). Id. at 699. The Federal Circuit disagreed and held that failure to obtain an opinion may be relevant to the intent issue. Surprisingly, Qualcomm had obtained an opinion, but it was not in evidence because it had refused to waive attorney-client privilege.

"Willful Blindness" Is No Excuse

In 2011, the U.S. Supreme Court entered the inducement arena in Global-Tech Appliances v. SEB SA, 131 S.Ct. 2060 (2011). There, Sunbeam requested a subsidiary of Global-Tech to supply it with fryers meeting certain specifications. Global-Tech purchased an SEB fryer, which did not have a patent marking, and essentially copied it. Then, Global-Tech officials asked their attorney to conduct a right-to-use study without informing him that their product copied SEB's design. Failing to locate SEB's patent, the attorney concluded that the fryer did not infringe. Global-Tech began selling the fryers to Sunbeam, who sold them in this country.

SEB sued Sunbeam for infringement. Sunbeam notified Global-Tech of the lawsuit and later settled.

Global-Tech, however, continued to supply the fryers to other companies who resold them in the U.S. SEB sued Global-Tech for inducement. Global-Tech argued that there was insufficient evidence to support the jury's finding of inducement because it did not know of SEB's patent until SEB sued Sunbeam. The district court rejected this argument, and the Federal Circuit affirmed. In its decision, the Federal Circuit held that even though there was no direct evidence that Global-Tech knew of the patent before suit, it had "deliberately disregarded a known risk that SEB had a protective patent." 594 F.3d at 1377.

The Supreme Court rejected the defendant's arguments and held that "induced infringement under §271(b) requires knowledge that the induced acts constitute patent infringement." 131 S.Ct. at 2068. The developer of the infringing product knew he was copying a fryer made for foreign markets and that those products do not usually bear U.S. patent markings. The decision not to inform the attorney that the product was "simply a knockoff of SEB's deep fryer" was "even more telling." Global-Tech was "willfully blind."

The "willfully blind" standard appears quite demanding. But a potential infringer cannot intentionally avoid knowing the true facts and certainly should be fully candid with opinion counsel in developing any good-faith defense. Moreover, once a notice letter is received, a defendant cannot take deliberate steps to avoid knowing the true facts. In an inducement situation, good faith may require that steps be taken to obtain an opinion of counsel if a good-faith defense will be advanced at trial. See Broadcom Corp. v. Qualcomm Inc., 543 F.3d at 699.

The Good-Faith Defense Expands

Recently, in Commil USA LLC v. Cisco Systems Inc., 720 F.3d 1361 (Fed. Cir. 2013), the Federal Circuit explicitly broadened the scope of the good-faith defense to include a belief that the patent-in-suit was invalid.

In Commil, the district court entered judgment after a jury trial finding that Cisco had directly infringed and induced infringement of Commil's patent covering certain aspects of mobile phones. On appeal, as relevant here, Cisco argued that the jury instructions were erroneous as they allowed the jury to find inducement based on mere negligence. Cisco also argued that the court erred by precluding it from offering evidence of its good-faith belief of the patent's invalidity to show it lacked the requisite intent to induce infringement.

The Federal Circuit held that the jury instruction was erroneous and prejudicial because it allowed the jury to base its decision on mere negligence. Id. at 1366-67. The "knew or should have known" language in the instruction — approved in Manville and DSU — was legally erroneous in light of Global-Tech, which requires "actual knowledge or willful blindness." Since the existing standard was no longer good law, the inducement holding was vacated. Id. at 1366.

The court next addressed Cisco's argument that it should have been able to present evidence of its good-faith belief in invalidity to negate the intent requirement of inducement. The court held that there was "no principled distinction between a good-faith belief of invalidity and a good-faith belief of non-infringement for the purpose of whether a defendant possessed the specific intent to induce infringement of a patent." Id. at 1368.

In sum, the reported decisions suggest that a potential defendant facing a charge of inducement develop a good-faith defense where possible. While not necessarily the only way, a competent

opinion is a common way to evidence good faith. If obtained, the opinion must be relied upon before initiating or continuing the alleged infringing conduct.

Shortly after Commil, the importance of an opinion of counsel to show good faith and rebut an intent to infringe was at issue in Toshiba Corp. v. Imation Corp. (W.D. Wisc. 2013). The jury held, inter alia, that certain defendants induced infringement of the two patents-in-suit. Various motions for judgment as a matter of law were filed.

Defendants were aware of DVD standards that governed their products and Toshiba's extensive patent portfolio (360 patents in the portfolio). Indeed, two defendants had a portfolio license (100 patents in that portfolio) covering other devices. Both portfolios listed the two patents-in-suit. Yet, there was no evidence that Toshiba had specifically advised defendants of the two patents and that their products infringed.

Citing Global-Tech, Toshiba argued that defendants were willfully blind. However, "it was not enough that defendants could or even should have figured out, by reading the DVD standards and Toshiba's patents" that they would infringe. Id. at *23. The "should have known" test is not the controlling standard. The court noted that "a more tightly-targeted, informative warning letter that would have triggered a defendant's duty to investigate," could easily be envisioned. Id. at *23. The court concluded that the evidence was not sufficient to support the jury's verdict that defendants possessed the required intent to infringe prior to the complaint's filing.

Defendants also argued that its proofs at trial showed it had a good faith belief in invalidity and/or noninfringement. In response, the court reviewed numerous decisions discussing the good-faith defense and stated that they typically involved opinions of counsel.

In conclusion, the court held: "[A]lthough defendants are correct that [their] defenses are relevant, I am not persuaded that a post-hoc judicial assessment of the reasonableness of those defenses is appropriate in an inducement case." Id. at *26. While the court recognized that meritorious defenses could negate a finding of willful infringement, it was not prepared to extend that rationale to inducement.

Conclusion

A notice letter — which could subject the patentee to a declaratory judgment action — may trigger a duty to act on a defendant's part. The defendant should obtain an opinion of counsel if a good-faith defense will be asserted. Indeed, the lack of an opinion in these circumstances is significant. Of course, evidence that the opinion was relied upon and that appropriate individuals did not have a specific intent to infringe is also necessary. Lastly, in preparing the opinion, be mindful that privilege will be waived if it is used as evidence.

—By Brian D. Coggio, Fish & Richardson PC

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