

MAY 2013 IP ROUNDTABLE

Addressing Willful Patent Infringement in a Post-C.R. Bard World

Jeffrey Fisher (jfisher@fbm.com) and
Cathleen Garrigan (cgarrigan@fbm.com),
Farella Braun + Martel LLP

I. Introduction

A finding of willful infringement permits a court to enhance damages under 35 U.S.C. § 284. With the rising number of threatened patent infringement lawsuits, what actions can a potential infringer take prior to litigation to avoid a finding of willful infringement should litigation later commence? What actions can a company take after litigation commences such that its post-complaint conduct does not constitute willful infringement? The Federal Circuit's recent decision in *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.* would seem to have increased the chances of summary resolution of a willful infringement claim, but offers little with respect to the practicalities of avoiding willful infringement in a world where companies are bombarded with threatened patent litigation.

II. Background on Willful Infringement Case Law: The Duty of Due Care

- A. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983).
- B. In *Underwater Devices*, the Federal Circuit set out an affirmative duty for to seek and obtain competent legal advice before engaging in any potentially infringing activity. "Where . . . a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing." 717 F.2d at 1389-90.
- C. The duty of due care standard was set out roughly a year after the Federal Circuit was established "at a time when widespread disregard of patent rights was undermining the national innovation incentive." *In re Seagate Technology*, 497 F.3d 1360, 1369 (Fed. Cir. 2007) (citing *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004).
- D. Problems Arising from Duty of Due Care Standard: Following *Underwater Devices*, defendants increasingly relied on an advice of counsel defense to an allegation of willful infringement. Under this defense, a defendant would seek out an opinion of counsel and then attempt to establish that its continued accused activities were done in good faith because the defendant had reasonably relied on advice from counsel. The advice of counsel defense raised attorney-client privilege and work-product concerns because an accused infringer was forced to choose between the assertion of attorney-client privilege and the avoidance of willful infringement. A further outgrowth of this problem was the widespread

uncertainty of how far the privilege waiver would extend—both with respect to subject matter and type of counsel.

III. *In Re Seagate*: The Federal Circuit Overrules *Underwater Devices* and Establishes A Two-Prong Inquiry to Determine Willful Infringement

- A. *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007).
- B. Seagate Technology petitioned for a writ of mandamus directing the District Court to vacate orders compelling disclosure of materials and testimony that Seagate claimed were covered by the attorney-client privilege and work product protection. In granting Seagate’s petition, the Federal Circuit overruled *Underwater Devices* and established a new standard for determining willful infringement. 497 F.3d at 1371.
- C. “[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *Id.* Thus, the Court established a two-prong inquiry. As a threshold matter, there must be an “objectively defined risk,” which the Court stated must be determined by the record developed in the infringement proceeding. *Id.* Only after the objective inquiry was satisfied was the accused infringer’s state of mind considered. *Id.* The subjective prong of *Seagate* required a showing that the “objectively defined risk” was either known or so obvious that it should have been known to the accused infringer. *Id.*
- D. Federal Circuit Introduces the Idea of a “Reasonable Defenses” Analysis for Objective Prong: In *Seagate*, the Federal Circuit noted that a willfulness claim asserted in the original complaint must necessarily be grounded in pre-filing conduct. With respect to post-filing reckless conduct, however, the Federal Circuit suggested that a patentee’s remedy was to seek a preliminary injunction. The Federal Circuit reasoned that if the accused infringer raised a substantial question regarding invalidity or infringement it would not only defeat the preliminary injunction but it would likely show that the infringement did not arise to the level of recklessness. “A substantial question about invalidity or infringement is likely sufficient not only to avoid a preliminary injunction, but also a charge of willfulness based on post-filing conduct.” *Id.* at 1374.
 1. Following *Seagate*, the Federal circuit established the rule that, generally, the objective prong tends not to be met where an accused infringer relies on a reasonable defense to a charge of patent infringement. *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010).
- E. Discussion Points:
 1. How should willful infringement issues, that are mixed questions of law and fact, be allocated between the Court and jury?

2. Under *Seagate*, could the jury hear all of a defendant's defenses, including those that were purely legal or were no longer part of the case?

IV. Questions of Fact are for the Jury and Questions of Law are for the Court, but is the Reasonableness of a Defendant's Reliance on a Defense a Question of Law or Fact?

A. *Powell v. Home Depot USA*, 663 F.3d 1221 (Fed. Cir. 2012).

1. Facts: The jury determined that Powell had proven willful infringement by clear and convincing evidence. Home Depot moved for judgment as a matter of law that did not willfully infringe Powell's patents because its actions did not satisfy the objective prong. Specifically, Home Depot pointed to the district court's denial of a preliminary injunction and the closeness of Home Depot's inequitable conduct defense. In response, Powell argued that the objective prong of the willful infringement inquiry is a question of fact for the jury and that Home Depot never tried to present evidence to the jury regarding the denial of the preliminary injunction or the closeness of the inequitable conduct defense.
2. Question Before the Court: Whether the jury is the sole decider of the objective prong of the willful infringement inquiry and the type of evidence that may be presented to the jury regarding willful infringement.
3. Legal Defenses: The Federal Circuit held that the district court should first address whether a defendant's reliance on legal defenses was objectively reasonable. "[W]hether an accused infringer's reliance on a particular issue or defense is reasonable is a question for the court when the resolution of that particular issue or defense *is a matter of law*." 663 F.3d at 1236 (emphasis added). "The objective and subjective willfulness questions should be sent to the jury only when the patentee proves by clear and convincing evidence that the objective prong of *Seagate* is met as to the legal issues that have been decided by the Court." 663 F.3d 1237 n.1. Thus, if the Court determines that reliance on the legal defense was reasonable, then no willfulness matters need to be sent to the jury because the threshold objective inquiry was not met.
4. Factual Defenses: If the defendant is not relying on legal defenses or the district court has determined that the defendant's reliance on its legal defenses was not reasonable, then the jury should decide whether the defendant's reliance on factual defenses was reasonable. "When the resolution of a particular issue or defense is a *factual matter*, however, whether reliance on that issue or defense was reasonable under the objective prong is properly considered by the jury." 663 F.3d at 1236-37 (emphasis added). If the jury finds that the objective prong has been satisfied, it then proceeds to decide the subjective prong

5. Mixed Law and Fact: “In circumstances, then, where separate issues of fact and law are presented by an alleged infringer as defenses to willful infringement, the objective recklessness inquiry may require analysis by both the court and the jury. For instance, in this case, certain components of the case were before the jury, while others were not. The court decided issues of claim construction and inequitable conduct, neither of which was before the jury. Thus, while the jury was in a position to consider how the infringement case weighed in the objective prong analysis, on other components—such as claim construction—the objective prong question was properly considered by the Court.”

6. Discussion Points:

a. One of the most apparent problems with the *Powell* decision is that neither the judge nor the jury are considering both the legal and factual defenses of the accused infringer. Accordingly, no single decision-maker was considering the reasonableness of the accused infringer’s defenses as a whole when deciding whether there was an objectively high likelihood that the accused infringer’s conduct infringed a valid claim.

b. Does a jury need to consider all of a defendant’s defenses as a whole to determine whether the defendant’s reliance on those defenses was reasonable?

c. Consider whether, under *Powell*, a jury would even be considering all of a defendant’s factual defenses.

(i) Would a jury be permitted to consider a factual defense that were excluded for procedural reasons?

(ii) Would a jury be permitted to consider a factual defense that had been eliminated from the case during claim construction or summary judgment?

B. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003 (Fed. Cir. 2012).

1. Facts: Bard sued Gore for infringement and Gore counterclaimed alleging inequitable conduct and invalidity. Following a jury trial, the district court entered a judgment based on finding that the patent was willfully infringed and not invalid. The Federal Circuit affirmed the district court. Following that affirmance, Gore filed a petition for a re-hearing en banc challenging the court’s willfulness analysis. The petition was granted, but the matter was returned to the panel for reconsideration of the standard of review with respect to willfulness.

2. Question Before the Court: Should the objective prong of *Seagate* be considered a question of law subject to *de novo* review?
3. Willfulness is a Complex Question of Law and Fact: The Federal Circuit acknowledged that the ultimate question of willfulness has long been treated as a question of fact. 682 F.3d at 1006. However, following *Seagate*, Federal Circuit “opinions have begun to recognize that the issues are far more complex.” *Id.* “After reviewing the Supreme Court’s precedent in similar contexts, as well as our own, we conclude that simply stating that willfulness is a question of fact oversimplifies the issue. While the ultimate question of willfulness based on an assessment of the second prong of *Seagate* may be a question of fact, *Seagate* also requires a threshold determination of objective recklessness. That determination entails an objective assessment of potential defenses based on the risk presented by the patent. Those defenses may include questions of infringement but also can be expected in almost every case to entail question of validity that are not necessarily dependent on the factual circumstances of the particular party accused of infringement.” *Id.*
4. The Objective Prong is a Question of Law Decided by the Court: “We believe that the court is in the best position for making the determination of reasonableness. This court therefore holds that the objective determination of recklessness, even though predicated on underlying mixed questions of law and fact, is best decided by the judge as a question of law subject to *de novo* review.” *Id.* at 1006-07.
5. Some Fact Questions Still Go to the Jury: In considering the objective prong of *Seagate*, the judge may when the defense is a question of fact or a mixed question of law and fact allow a jury to determine the underlying facts relevant to the defense in the first instance, for example anticipation or obviousness. *Id.* at 1007.

C. Discussion Points: What are the potential benefits of the *Bard* decision?

1. Will the *de novo* standard result in more case law from the Federal Circuit on reasonable reliance and therefore more certainty and/or guidance?
2. Will *de novo* review of willfulness increase appeals and therefore the overall cost of litigation?
3. Will the *Bard* decision make it easier for defendants to obtain summary judgment of no willful infringement?
4. Will the *Bard* decision make it easier for defendants to succeed on Rule 50 motions?

D. Discussion Points: Post- *Bard* Issues

1. What is the precedential value of *Bard* since it was a panel decision and contravenes past Federal Circuit law?
 - a. *Highmark, Inc. v. Allcare health Mgt. Sys.*, 687 F.3d 1300, 1321 (Fed. Cir. 2012) (J. Mayer dissenting).
2. Post-*Bard*, should a defendant be careful about what defenses it raises in order to maintain credibility with the Court?
3. Post-*Bard*, should a reasonable claim construction position that results in a complete non-infringement argument (whether or not successful) result in no willful infringement?
4. What is the standard for determining whether there was an objectively high likelihood that the accused infringer's conduct infringed a valid claim? Prior to *Bard*, the first objective prong in the willfulness analysis, had to be established by clear and convincing evidence, which applies to questions of fact, not law.
5. What other areas of patent law may be influenced by the *Bard* decision?
 - a. The Federal Circuit has expanded the *Bard* decision into the § 285 arena. Under section 285, sanctions may be imposed against the patentee only if (1) the litigation is brought in subjective bad faith; and (2) the litigation is objectively baseless. 687 F.3d at 1308. In *Highmark, Inc.*, the Federal circuit determined that the “objectively baseless” determination must be made by the court as a matter of law. *Id.* at 1309.

V. *Global-Tech*: Is “Willful Blindness” Sufficient To Establish Willful Infringement

- A. Facts: Plaintiff SEB invented a design for a deep fryer, and obtained a U.S. patent for that design, selling practicing products in the U.S. Sunbeam Products, Inc., asked a wholly owned Hong Kong subsidiary of Global-Tech Appliances, Inc. to supply it with deep fryers to meet certain specifications. The Global-Tech subsidiary purchased an SEB fryer made for sale in a foreign market (lacking U.S. patent markings) and copied everything except its cosmetic features. Global-Tech then retained an attorney to conduct a right-to-use study without telling the attorney that it had copied SEB's design.
- B. Question Before the Court: What state of mind is required to find liability under 35 U.S.C § 271(b) (“Whoever actively induces infringement of a patent shall be liable as an infringer.”), and can induced infringement be “active” if the defendant does not know of the particular patent?
- C. Willful Blindness Standard:

1. In the absence of knowledge, a plaintiff must show “willful blindness” to prove induced infringement. Deliberate indifference is not sufficient.
2. The Supreme Court fleshed out the “willful blindness” standard with two requirements: (1) that the defendant must subjectively believe that there is a high probability that a fact exists, and (2) that the defendant must take deliberate actions to avoid learning that fact.

D. Discussion Points:

1. Given the heightened intent standard, will a finding of inducement by “willful blindness” necessarily establish the requisite intent for willful infringement?
2. If an accused infringer is found to have been “willfully blind,” can they avoid willful infringement?

VI. In-House Counsel Perspective

- A. How does the person making the decision to continue the allegedly infringing conduct reasonably rely on defenses to the patent infringement allegations?
- B. Do opinions of counsel still matter?
- C. Privilege considerations
- D. Practical checklist of issues to consider when receiving a letter demanding a license