

Analyzing Allegations of Willful Patent Infringement Claims After *Seagate*

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Analyzing Allegations of Willful Patent Infringement Claims After *Seagate*

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In re Seagate Technology, LLC, 497 F.3d 1360 (Fed. Cir. 2007), *petition for cert. denied*,³ fundamentally changed the way in-house counsel should analyze allegations of patent infringement. *Seagate* abolished the accused infringer's affirmative duty of due care⁴ and reemphasized that a defendant no longer had the obligation to obtain an opinion of counsel as a defense against willful infringement.⁵

Seagate also increased the burden of persuasion for the patentee to prove willfulness by requiring the patentee to demonstrate by clear and convincing evidence that the accused infringer acted with "objective recklessness" and eliminated the accused infringer's affirmative obligation to provide evidence that it did not willfully infringe.⁶ The Federal Circuit, however, failed to clearly define "objective recklessness," and recognized that the term is not self-defining. This article explores the concept of objective recklessness, and provides guidance to in-house counsel when evaluating allegations of infringement.

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³ *Convolve* filed a petition for Writ of Certiorari with the U.S. Supreme Court on November 15, 2007, *Convolve, Inc. v. Seagate Technology, LLC*, (No. 07-656), 2007 WL 4132978 (Nov. 15, 2007), and *Seagate* filed a brief in opposition on January 22, 2008, *Convolve, Inc. v. Seagate Technology, LLC*, (No. 07-656), 2008 WL 194293 (Jan. 22, 2008). On February 25, 2008, the U.S. Supreme Court denied the petition.

⁴ Thereby reversing the position the Federal Circuit enunciated previously in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983).

⁵ *Seagate*, 497 F.3d at 1371. *Seagate* was an interlocutory appeal seeking a writ of mandamus subsequent to the trial court's ruling on several discovery motions, which required the production of materials *Seagate* claimed were privileged.. The Federal Circuit did not have to address the issue of willfulness to resolve the narrow issues on appeal.

⁶ By eliminating the affirmative duty of due care. *Seagate*, 497 F.3d at 1371.

Strict Liability. *Seagate* reaffirms that patent infringement is a strict liability offense: if the evidence shows that a defendant practiced a valid patent, liability follows. The core defenses of non-infringement and invalidity typically are technical. *How* the patent was infringed (innocently or deliberately) is not relevant to the issue of liability – it is relevant only to the issue of damages.

Seagate requires that, to recover enhanced damages for willful infringement, a patentee must prove by clear and convincing evidence that the accused infringer deliberately and knowingly practiced a valid patent. Even if a patentee is able to show by clear and convincing evidence that an accused infringer was objectively reckless in its infringement, however, there is no guarantee that the patentee will be awarded enhanced damages or attorneys' fees, only that the patentee is *eligible* to receive enhanced damages and attorneys' fees.

This paper explores how the district courts that have applied *Seagate's* new standard of objective recklessness. The emerging pattern is that trial courts examine evidence of the infringer's intent and awareness of the alleged patent, then compare that subjective evidence to a hypothetical standard of "objective recklessness." The subjective evidence can be elicited by examining the mindset of the accused infringer. If the patentee can show that the accused infringer intentionally infringed or that the infringer consciously ignored a valid patent, then enhanced damages are more likely. The greater the evidence of premeditated infringement or the greater the degree of recklessness, the greater the likelihood of enhanced damages.

The hypothetical standard of objective recklessness is more nebulous. To satisfy the new willfulness standard under *Seagate*, the patentee initially must prove that there is sufficient admissible evidence that could persuade a jury to find, by clear and convincing evidence, that the accused infringer acted with objective recklessness. Then, if this initial prong of *Seagate* is

satisfied, the patentee has the burden to show that the accused infringer *knew or should have known* that the infringer acted with objective recklessness. If a trial is bifurcated between liability and damages, such evidence likely would be most relevant in the damages portion of the case.

Objective Recklessness Explored. The *Seagate* court imposed a new standard when finding willful infringement:⁷

[p]roof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.⁸

“Objective recklessness” is an invention of the Federal Circuit. The phrase was not mentioned in any of the briefs of the parties, nor can it be found in any of the more than twenty amicus briefs. The Court did not attempt to provide a comprehensive definition for objective recklessness. It provided some clues to how it would define and interpret objective recklessness, however. Referring to the standard of recklessness in civil law, the Federal Circuit said that a reckless person is someone who “acts...in the face of an unjustifiably high risk of harm that is either known or so obvious that it should have been known.”⁹ Consider how this standard applies to accused infringers.

The Federal Circuit also suggested that “objective recklessness” requires that the patentee show, by clear and convincing evidence, that “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” If the threshold is

⁷ This article leaves for a separate discussion the tension in the first step of the new standard: examining intent of the infringer. The Federal Circuit expressly indicated that the state of mind of the infringer is not relevant to the objective inquiry. Does this suggest that evidence of the infringer’s intent is less relevant to for the subjective inquiry? Should discovery into intent be limited or eliminated?

⁸ *Seagate*, 497 F.3d at 1371.

⁹ *Seagate*, 497 F.3d at 1371 (citing *Farmer v. Brennan*, 511 U.S. 825, 836, (1994)).

established, then it must be shown that this risk “was either known or so obvious that it should have been known to the accused infringer.”¹⁰

In a concurring opinion, Judge Newman suggested that objective recklessness would be fleshed out in the “standards of commerce.”¹¹ In a footnote, the majority opinion endorsed Judge Newman’s suggestion, but none of the judges explained what “standards” they hoped would inform their new objective recklessness test.¹²

Recklessness defined. “Recklessness” is a well-known standard. For example, in a securities case, the Sixth Circuit held that recklessness was “highly unreasonable conduct which is an extreme departure from the standards of ordinary care. While the danger need not be known, it at least must be so obvious that any reasonable man would have known of it.”¹³

Looking to other case law for guidance on objectiveness. Looking to other cases helps guide our understanding of the new concept of “objective” recklessness and the “standards of commerce” as articulated by the Federal Circuit. For an understanding of what “objective” means, in criminal law, the Supreme Court has held that the “standard for measuring the scope of a suspect's consent under the Fourth Amendment is that of ‘objective’ reasonableness – what would the typical reasonable person have understood by the exchange between the officer and the suspect?”¹⁴

¹⁰ *Seagate*, 497 F.3d at 1371.

¹¹ *Id.* at 1385 (Newman, J. concurring) (“[t]he standards of behavior by which a possible infringer evaluates adverse patents should be the standards of fair commerce, including reasonableness of the actions taken in the particular circumstances”).

¹² *Seagate*, 497 F.3d at 1371 n.12.

¹³ *Miller v. Champion Enters. Inc.*, 346 F.3d 660 (6th Cir. 2003).

¹⁴ *Florida v. Jimeno*, 500 U.S. 248, 251 (1991). In that case, an individual gave consent to search his car subsequent to a traffic stop. The Court found that this consent would reasonably be applied to the contents of a crumpled up brown paper bag on the floor of the back seat. The court indicated that the consent to search the vehicle would not have extended to a locked briefcase in the locked trunk of the car.

Courts analyzing instances of excessive force also apply an “objective reasonableness standard.” “*Objective reasonableness* is a criterion which defines ‘reasonable force’ in terms of what an average person looking back at the arrest would think was justified. The standard is to be distinguished from *subjective reasonableness*, which encompasses only what the officers thought was reasonable at the time of the arrest.”¹⁵ In another case, officers apprehended a suspect after a long and dangerous car chase, a crash, foot pursuit, and use of a police dog and stun gun. After evaluating the circumstances, the Court found that the officers acted with objective reasonableness and dismissed the case.¹⁶ The standard was set for establishing a qualified immunity defense that will protect a government actor is if it was “objectively reasonable” for him to believe that his actions were lawful at the time of the challenged act. “The objective reasonableness test is met – and the defendant is entitled to immunity [from suit] – if ‘officers of reasonable competence could disagree’ on the legality of the defendant’s actions.”¹⁷

¹⁵ *Williams v. Franklin County Ohio Sheriff's Dep't*, 619 N.E.2d 23, 25 (Ohio App. Ct. 1992) (emphasis added). There, six officers, each in excess of 200 pounds, were trying to restrain a weaponless, 140-pound woman. The woman continued to physically resist arrest upon which one of the officers used a stun gun one or two times. The physical evidence also suggested the that woman’s arm was broken or severely strained and that she had been sprayed with mace. One of the officers indicated that he did not feel it necessary to use the stun gun. Based on these determinations, the court found that there was insufficient evidence of objective reasonableness.

¹⁶ *Zackery v. Stockton Police Dep't*, 2008 WL 53224 (E.D. Cal. Jan. 2, 2008) There, the plaintiff was driving recklessly, running stop lights, and exceeding the speed limit in a manner that posed a serious danger to other drivers and pedestrians. He failed to stop although police pursued him. Plaintiff evaded roadblocks and almost hit an officer with his vehicle as he sought to avoid capture. Plaintiff did not stop until he crashed his car into a tree and even then attempted to flee on foot. Plaintiff was intoxicated and under the influence of morphine and a psychiatric medication which were mixed with alcohol. By his own admission, plaintiff was delusional, hearing voices, and was suffering lapses of memory. He thought he was being pursued by space ships. Officers warned that if the plaintiff did not stop fleeing, a K-9 officer would be dispatched. The Plaintiff did not stop and thus the K-9 apprehended the plaintiff. The plaintiff continued to physically resist arrest and was subsequently stunned to restrain him.

¹⁷ *Lennon v. Miller*, 66 F.3d 416, 420 (2d Cir. 1995). In this case, officers came upon a woman driving a car for which she was not the registered owner. The officers believed the car to be stolen and attempted to stop the vehicle. The woman attempted to drive away and was arrested. The court ruled that the jury could not find that the officer’s judgment was so flawed that no reasonable officer would have made a similar choice. Thus, the court upheld the qualified immunity.

In the context of an applicant seeking asylum in the United States, “[t]o establish a well-founded fear of future persecution, an applicant must demonstrate ‘a subjective fear of persecution, and that fear must be *objectively reasonable*.’ . . . The objective prong requires the applicant to establish that ‘a reasonable person in [her] circumstances would fear persecution’ if deported.”¹⁸

In Title VII cases – workplace rights cases – courts follow an “analysis which requires...an *objective reasonableness* standard in evaluating the conduct and its effect on the work environment.... ‘Conduct that is not severe or pervasive enough to create an objectively hostile or abusive work environment – an environment that a reasonable person would find hostile or abusive – is beyond Title VII’s purview.’”¹⁹

Courts have also examined the standard of “objective reasonableness” when examining the actions of lawyers: “We apply the law of the pertinent regional circuit when reviewing the imposition of Rule 11 sanctions....The Fourth Circuit examines an attorney’s legal arguments using a standard of *objective reasonableness*. To satisfy that requirement, there must be ‘some

¹⁸ *Chen v. Gonzales*, 470 F.3d 1131, 1135 (5th Cir. 2006). In this case, the appellate court looked at several of the petitioner’s claims and found them to be unsupported by objective evidence. For example, the petitioner claimed that, if returned to China, she would be persecuted if she continued to practice her religion, but the trial judge determined that there was no specific objectively reasonable evidence that she would be subjected to persecution, and that the evidence showed that only a small percentage of Christians or other unregistered religions are persecuted in China. Similarly, the trial judge could not find objectively reasonable evidence that she would be tortured upon her return to China as punishment for illegally leaving China. By contrast, in *Bi Hua Weng v. Mukasey*, (No. 06-3862) 2007 WL 4461786 (6th Cir. Dec. 19, 2007), the court determined both that the Applicant had suffered past persecution due to China’s one-child policy, and that she would be subject to future persecution should she return to China. Therefore, the appellate court found her fear to be objectively reasonable and reversed the Immigration Law Judge’s decision that Weng failed to establish eligibility for asylum based on past persecution.

¹⁹ *King v. Hillen*, 21 F.3d 1572, 1582 (Fed. Cir. 1994) (quoting *Harris v. Forklift Sys., Inc.*, 510 U.S. 17, 21 (1993)). There, the appellate court reviewed the findings of the Merit Systems Board, which, in turn, reviewed the findings of an administrative law judge regarding allegations of sex-based conduct in the workplace. The court found that the Board acted improperly in its review, in part as related to the Board’s own perception of some of the allegations, instead of applying whether the conduct would have affected a reasonable person of the same sex in the same position.

basis in law’ to support each legal argument in the complaint. A legal argument is unjustified if a reasonable attorney would recognize it as frivolous.”²⁰ Likewise:

In determining whether Rule 11 sanctions should be imposed against an attorney, the court applies a ‘test of *objective reasonableness*’ rather than a test of subjective bad faith...

In applying a test of objective reasonableness with respect to an attorney’s actions, Second Circuit has held that sanctions are warranted where: it is clear that: (1) a reasonable inquiry into the basis for a pleading has not been made; (2) under existing precedents there is no chance of success; and (3) no reasonable argument has been advanced to extend, modify or reverse the law as it stands.^[21]

A close analogy may be drawn from the examination of intent in copyright cases, where the courts have held different standards of intent. In *Knitwaves, Inc. v. Lollytogs Ltd.*, the court determined copyright infringement to be willful where the defendant knowingly infringed or acted with reckless disregard.²²

In re Aimster Copyright Litigation, which involved the swapping of computer files containing copyrighted music, the Seventh Circuit addressed the “willful blindness” concept.²³ In *Aimster*, the court determined that “[w]illful blindness is knowledge, in copyright law (where indeed it may be enough that the defendant *should* have known of the direct infringement),” thus

²⁰ *Antonious v. Spalding & Evenflo Cos., Inc.*, 275 F.3d 1066, 1072 (Fed. Cir. 2002) (citations omitted). There, the court applied Rule 11 in the context of patent infringement actions, to require that an attorney interpret the pertinent claims of the patent in issue before filing a complaint alleging patent infringement, where the interpretation would be unjustified if a reasonable attorney would find the claim construction frivolous. The court found that the attorney’s claim construction did not appear too frivolous, as the court did not find the patent allegations to be unjustified.

²¹ *Nagle v. John Hancock Mut. Life Ins. Co.*, 767 F. Supp. 67, 70 (S.D.N.Y. 1991). The trial court examined the actions of the plaintiff’s attorney. The attorney contemporaneously filed suit on the same issue in two different administrative agencies and maintained a frivolous count in the complaint. The court found that the law is unclear as to election of remedies; therefore the double filing was not necessarily improper. The fact that the attorney indicated that a count of the complaint was likely to be dismissed but still maintained the action by itself was not enough to warrant an inference of bad faith, as there may be a reasonable explanation which has not been addressed or evidenced.

²² *Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996, 1010-11 (2nd Cir. 1995).

²³ *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003).

falling back onto a “knew or should have known” standard. Finally, in *Island Software & Computer Service, Inc. v. Microsoft Corp.*, the court determined that summary judgment on the issue of willfulness was inappropriate due to the absence of actual, rather than constructive, knowledge.²⁴

Applying this guidance from other contexts to patent cases. What do these other cases mean for patent infringement? If the Federal Circuit embraces these other lines of cases, then three conclusions may be drawn:

(1) Objective recklessness will be very difficult to prove. Imagine applying the standard for unreasonable force (“The objective reasonableness test is met – and the defendant is entitled to immunity [from suit] – if ‘officers of reasonable competence could disagree’ on the legality of the [accused officer’s] actions.”²⁵) to patent cases. If patent attorneys of reasonable competence could disagree on whether a patent is valid or infringed (and isn’t this the case in virtually every litigation?), then findings of willful infringement will be rare indeed.

(2) The heightened standard will not limit extensive and intrusive discovery into the motivations of the accused infringer. Virtually all of the cases applying the objective reasonableness standard still delve into the specific facts of the allegedly wrongful action, and then compare it to the hypothetical objective standard.

(3) Many willfulness claims will be resolved by summary judgment. Many cases on objective reasonableness can and should be resolved on summary judgment, because the standard is so difficult to overcome. In patent infringement cases, if the court rejects a summary judgment motion of willfulness and determines that there is sufficient evidence to proceed to the jury with a willful infringement claim, the risk to the accused infringer dramatically increases.

²⁴ *Island Software & Computer Serv., Inc. v. Microsoft Corp.*, 413 F.3d 257 (2d Cir. 2005).

²⁵ *Lennon*, 66 F.3d at 420.

At the end of the day, the best guidance to determine whether conduct is “objectively reckless” is to step into the shoes of the hypothetical “reasonable person.” Law students are taught that, for torts, the question is “what would a reasonably prudent person do?” Applying this approach to potential infringers who have indication that they might be practicing a valid patent suggests a course of conduct that is commensurate with the level of knowledge. For example, if an infringer has been notified that it may be infringing a specific patent, a reasonably prudent person would likely look at the patent and compare it to the allegedly infringing act. If, however, the patent holder provides the infringer with a greater degree of notice consisting of claim charts and an infringement analysis, a reasonably prudent accused infringer would have to apply greater care in analyzing the allegedly infringing act. The more likely that there is infringement of a valid patent with no change in action after notice, the greater the likelihood that there will be objective recklessness.

How have district courts applied *Seagate*?

A review of the district court decisions in the months following *Seagate* shows a varied application and result. The following discusses in chronological order the district court cases that discuss and apply *Seagate* with respect to willfulness claims:

The District Court for the District of Massachusetts found in *Cohesive Technologies, Inc. v. Waters Corp.* that because the defendant, in good faith, sought the opinion of counsel and that there was a bona fide dispute about whether it infringed the patent; there was no willfulness on behalf of the defendant.²⁶

Although the jury in *Baden Sports, Inc. v. Kabushiki Kaisha Molten* found that the infringer willfully infringed, the court did not impose enhanced damages because the plaintiff did

²⁶ *Cohesive Techs., Inc. v. Waters Corp.*, No. 98-12308 et al., 2007 WL 2746805 (D. Mass. Aug. 31, 2007)

not prove that the defendant intentionally copied the plaintiff's patented invention and that the defendant did change its design after the complaint was served on the defendant.²⁷

In *Computer Associates Int'l v. Simple.com*, the court ruled on the accused infringer's motion for bifurcation and stay of discovery on the issue of willfulness. The court examined the factors of judicial economy (which heavily disfavors bifurcation), juror comprehension (which slightly favors bifurcation), and prejudice (which was moot) and determined that in light of *Seagate*, the accused infringer will not likely suffer because of the lack of bifurcation.²⁸

The District Court for the Northern District of California also found that the infringer did not foreclose the possibility of acting willfully in *VNUS Medical Technologies, Inc. v. Diomed Holdings, Inc.*. In that case, the three defendants moved for summary judgment on the issue of willfulness; the court refused to grant the motion as to one of the defendants, reasoning that there could be (and there was) a showing of actual notice and that the opinion of counsel that they relied on may not have been sufficient. Thus, there was a possibility that the trier of fact could find that the defendant acted willfully. The court granted the summary judgment motion in favor of the other two defendants reasoning that there was not sufficient evidence to show knowledge on the part of these defendants.²⁹

After the jury found that the infringer willfully infringed the patent under the pre-*Seagate* standard the trial court in *Informatica Corp. v. Business Objects Data Integration, Inc.* in the Northern District of California reversed the jury's finding on a motion for a judgment as a matter of law after *Seagate* issued. The trial court found that the questions of infringement and

²⁷ *Baden Sports, Inc. v. Kabushiki Kaisha Molten*, No. C06-210MJP2007 WL 2790777 (W.D. Wash. Sept. 25, 2007).

²⁸ *Computer Assocs. Int'l, Inc. v. Simple.com, Inc.*, No. 02 Civ. 2748, 2007 WL 2815812, at *4-*5 (E.D. N.Y. Sept. 25, 2007).

²⁹ *VNUS Med. Techs., Inc. v. Diomed Holdings, Inc.*, No. C-05-2972, 2007 WL 3165548 (N.D. Cal. Oct. 24, 2007).

invalidity to be very close questions (and hotly contested), thus, as a matter of law there was insufficient evidence to support the jury's finding of willfulness.³⁰

In the Eastern District of Texas, the trial court, in *TGIP v. AT&T*, found no willfulness, thus no enhanced damages because the court determined that there was no willfulness.³¹ The court reasoned that AT&T relied upon the opinion of counsel, that the patentee “was concerned enough” about one of the patents-in-suit to request the PTO to reexamine the patent, and that the patentee delayed six years in filing suit on the second patent in suit. Because it was a “close question” a reasonable person could not find by “clear and convincing evidence” that AT&T acted willfully. Therefore, the court granted a judgment as a matter of law reflecting no willful infringement.

In *Rhino Associates, L.P. v. Berg Manufacturing & Sales Corp.*, the Pennsylvania district court found that since the infringer acted in good faith and attempted to design around the patented product, it did not act with an “objectively high likelihood that its actions constituted infringement of a valid patent,” thus, there was no finding of willfulness. The court indicated that it would not excuse from willfulness all attempts at design-arounds or workarounds, but that any exception would depend on the facts of the case.³²

In the Northern District of Illinois, the trial court in *Abbott v. Sandoz* granted the defendant's motion for summary judgment as to willfulness. The defendant argued and the court

³⁰ *Informatica Corp. v. Bus. Objects Data Integration, Inc.*, No. C 02-03378, 2007 WL 3203062 (N.D. Cal. Oct. 29, 2007).

³¹ *TGIP, Inc. v. AT&T, Corp.*, No. 2:06-CV-105, 2007 WL 3194125 (E.D. Tex. Oct. 29, 2007).

³² *Rhino Assocs., L.P. v. Berg Mfg. & Sales Corp.*, NO. 1:04-CV-1611, 2007 WL 3490165, *4 (MD Pa Nov. 14, 2007).

agreed that the defendant was not unreasonable when it relied on a prior appellate court decision indicating a substantial question about the validity of the claims in suit.³³

In *MPT, Inc. v. Marathon Labels*, the trial court in the Northern District of Ohio granted the defendant's motion for judgment as a matter of law regarding willfulness, finding that the infringer acted in good faith. The court reasoned that the infringer removed an infringing product from the market when he concluded that it likely infringed, was forthright about its product, attempted design-arounds in good faith, and obtained counsel which responded with reasonable non-infringement and invalidity positions.³⁴ The Federal Circuit reviewed this holding post *Seagate* and affirmed the lower court's ruling.³⁵

In a bankruptcy proceeding, the court in *In re Muth Mirror Systems, LLC, v. Gentex Corp.*, did not rule on the issue of infringement, but in dicta indicated that if the defendant is found to be liable of infringement, that the defendant did not act willfully. The Court reasoned that the defendants were aware of the parameters of the patent and were careful to work around them.³⁶

The District Court for the Central District of California ruled on a motion for summary judgment that Applied Medical can present evidence to the jury of willfulness, finding that a "jury could rely on the two prior incidents of willful infringement [by the defendant] to determine that [it] should have been aware of an objectively high risk that [their product] would similarly infringe on the [plaintiff's patent]."³⁷

³³ *Abbott Labs. v. Sandoz, Inc.*, No. 05 C 5373 2007 WL 4287503 (N.D. Ill. Dec. 4, 2007).

³⁴ *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401 (N.D. Ohio 2007).

³⁵ *MPT, Inc. v. Marathon Labels, Inc.*, Nos., 2007-1183 et al., 2007 WL 4351745 (Fed. Cir. Dec. 12, 2007).

³⁶ *In re Muth Mirror Systems, LLC v. Gentex Corp.*, 379 B.R. 805 (Bankr. E.D. Wis. Dec. 5, 2007).

³⁷ *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, No. 8:03-cv-01267 (slip op. at) (C.D. Cal. Dec. 11, 2007).

In the Northern District of California, the court in *Depomed, Inc. v. Ivax Corp.*, denied a motion for summary judgment. The court found that a reasonable juror could find that the defendant sold the product despite an objectively high likelihood that its actions constituted infringement of a valid patent. Further, a reasonable person would not have believed that the patents were invalid. Additionally, the court found that the defendants had ample time to investigate and discover relevant patent. Moreover, there was evidence relating to the existence of the patent in a publicized agreement to license to third party. Therefore, the defendants knew or should have known about the patent.³⁸

In the District Court for the Southern District of Iowa, the trial court held that for the defendants to be found to have willfully infringed the patent “it must be proved, by clear and convincing evidence, that defendants had actual knowledge of plaintiff’s patent and that defendants had no reasonable basis for believing that the ‘A machine’ they constructed did not infringe plaintiff’s patent.” The trial court determined that these elements had been met. The court explained that after the defendants were notified that their machine might infringe, Defendants nonetheless continued to use the machine....[T]he fact that Defendants lied about the existence of the second machine throughout and even before the present proceedings evidences their knowledge that the second machine infringed on Plaintiff’s patent.”³⁹

In *Trading Technologies International, Inc. v. eSpeed, Inc.*, the court denied a post trial motion for enhanced damages. The court found that the plaintiff failed to carry the burden on willfulness. Although the defendants knew of the relevant patent application, the patentee could not show evidence of willfulness after the issuance of the patent. Furthermore, although the defendant’s did not initially provide a non-infringement defense as part of their case, the court

³⁸ *Depomed, Inc. v. Ivax Corp.*, No. C 06-00100, 2007 WL 4365476 (N.D. Cal. Dec. 12, 2007).

³⁹ *Devon Distributing Corp. v. Miner*, 525 F. Supp. 2d 1089, 1096 (S.D. Iowa 2007).

indicated that this does not support a finding of willfulness. The court also indicated that the defendants' placement of funds in escrow pending the outcome of the trial did not amount to an indication of willfulness, but instead a shrewd business decision.⁴⁰

The Federal Circuit in *Black & Decker, Inc. v. Robert Bosch Tool Corp.* remanded the case based on a narrowing of the trial court's claim interpretation. However, the Federal Circuit did take the time to indicate that the defendant had legitimate defenses and credible invalidity arguments that demonstrated a lack of objectively high likelihood that a party took actions constituting infringement of a valid patent.⁴¹

In a pretrial conference, the Delaware district court in *Energy Transportation Group, Inc. v. William Demant Holding*, indicated that nothing in *Seagate* forbids a jury from considering whether a defendant obtained advice of counsel as part of the totality of circumstances in determining willfulness.⁴²

The Federal Circuit, in *Innogenetics, N.V. v. Abbott Labs.*, ruled on the trial court's grant of the judgment as a matter of law with respect to willfulness. Without a detailed explanation, the court simply indicated that it had reviewed the record and that the record did not indicate that the defendant's development and sale of its genotyping products were at risk of an objectively high likelihood of infringement.⁴³

In *ResQNet.com, Inc. v. Lansa, Inc.*, the district court in the Southern District of New York found that the defendant's claims of noninfringement/invalidity were substantial, reasonable, and far from the sort of easily dismissed claims that an objectively reckless infringer

⁴⁰ *Trading Techs. Int'l, Inc. v. eSpeed, Inc.*, No. 04 C 5312, 2008 WL 63233 (N.D. Ill. Jan. 3, 2008).

⁴¹ *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, Nos. 2007-1243, 2007-1244, 2008 WL 60501 (Fed. Cir. Jan. 7, 2008).

⁴² *Energy Transp. Group, Inc. v. William Demant Holding*, No. 05-422, 2008 WL 114861 (D. Del. Jan. 7, 2008).

⁴³ *Innogenetics, N.V. v. Abbott Labs.*, 5 12 F.3d (Fed. Cir. 2008)

would be forced to rely on. Thus, the court indicated that the record did not support a finding of objective recklessness by the defendant.⁴⁴

What does *Seagate* mean for licensing negotiations?

Seagate and related cases such as *Ebay Inc. v. MercExchange, L.L.C.*⁴⁵ arguably reduce the value of patent licenses. Before *Seagate*, there was a greater likelihood that the infringer would be found to have willfully infringed.⁴⁶ After *Ebay* and related injunction cases, there is a decreased likelihood of a court issuing an injunction prior to judgment. In *Vonage v. Verizon*,⁴⁷ the Federal Circuit, in a footnote, indicated that even after the infringer is found to be infringing, a court might still provide the infringer the time to create and implement a design-around. Furthermore, there is no empirical evidence to suggest that there is any trend indicating whether a respective court would be likely to grant an injunction.

Now that Federal Circuit has put a tremendous burden on the plaintiff by requiring that the plaintiff prove by clear and convincing evidence that the defendant willfully infringed in order to receive enhanced damages for willfulness, there is a decreased likelihood that a plaintiff will be able to carry that burden. Thus, there is a decreased likelihood of enhanced damages.

With the decreased likelihood of enhanced damages, reasonable royalties will no longer be the beginning point for negotiations. Defendants will recognize that at the end of the day of trial, they are most likely to have to pay reasonable royalties. Thus, unless defendants recognize their own bad faith, reasonable royalties will likely be the ceiling for negotiations. If not, then the defendant has little (beyond attorney's fees) to lose by going to trial.

⁴⁴ *ResQNet.com, Inc. v. Lansa, Inc.*, No. 01 Civ. 3578, 2008 WL 313921 (S.D. N.Y. Feb. 1, 2008).

⁴⁵ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

⁴⁶ Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. J. 227 (2004).

⁴⁷ *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1311 n.12 (Fed. Cir. 2007).

Scenarios

Scenario 1: You are a domestic manufacturer and/or seller of a product in the United States. You think that there might be a patent out there somewhere that your product might infringe. What do you do, as a reasonably prudent person, need to do (if anything)?

Theoretically, nothing. You do not have actual notice of a patent that you are infringing, so at worst, at the end of a trial, little likelihood of having enhanced damages due to willfulness.

Is this acting but for an “unjustifiably high risk of harm or so obvious it should have been known?” No, not without actual notice of what you are actually infringing. In context, would an outsider consider your actions (of doing nothing) justified? Most likely, yes. How can you reasonably expect to act if you don’t know what it is that makes your actions infringing. The risk is that you may have to pay reasonable royalties **if** found liable (and attorney’s fees). There is little risk of injunction post *Ebay*. Reasonable royalties could be considered the cost of doing business.

Scenario 2: You are a domestic manufacturer and/or seller of a product in the United States. You receive a letter saying you infringe a patent (the accusers conveniently enclose a copy of the supposed patent that your product allegedly infringes). However, the accusers do not provide any details about how your product infringes. What do you, as a reasonably prudent person, need to do (if anything)?

In one aspect, theoretically, nothing. Actual notice is required and if you are only provided a copy of a patent without anything more you arguably do not have actual notice of a patent that you are infringing—i.e., you do not know why your actions are considered to be infringing; only that someone believes that you are doing something that is described in this issued patent.

Is this acting but for an “unjustifiably high risk of harm or so obvious it should have been known?” No, not without actual notice of what you are actually infringing. In context, would an outsider consider your actions (of doing nothing) justified? Most likely, yes. How can you reasonably expect to act if you don’t know what it is that makes your actions infringing. Thus, at the end of a trial, there is a small likelihood of having enhanced damages due to willfulness. Risk? Having to pay reasonable royalties if found liable (and attorney’s fees). Little risk of injunction post *Ebay*. This, obviously, is case specific and the patent that you receive may make it patently obvious why your behavior could be considered infringing.

In another aspect, you are an atypical person (i.e., trained or experienced in patent law) and understand the legalese of and technical language of patents and you, therefore, have an understanding of why your product infringes the patent. You now are likely to be held to a higher standard. (Does a reasonable person have an obligation to stop making/selling the product?) This increased knowledge base increases the likelihood that you may acting willfully; i.e., not be acting in good faith. It might be prudent and reasonable to at least get a second opinion; for example, from a reasonably unbiased in-house technical person. This second opinion may not necessarily call for a legal conclusion incorporating claim construction or infringement type analysis, but could relate to prior art or some other factor effecting the patentability of the patent.

Is this acting but for an “unjustifiably high risk of harm or so obvious it should have been known?” It is more likely, although without actual notice of what you are actually infringing, probably not. But your own experience and ability may substitute for actual notice. In context, would an outsider consider your actions (of doing nothing) justified? Less likely. How can you reasonably expect to act if you don’t know what it is that makes your actions infringing? If you

can reasonably determine what actions are infringing, then you most likely need to cease that activity.

Are there factors that make you believe either you don't infringe or that the patent is unenforceable (e.g., due to invalidity)? Is this reasonable?

Scenario 3: Similar to scenario 2, but now the patent owner has included a detailed claim chart explaining the infringed patent and how the claims relate to your product or activity. What now?

React. As the standard is not related to your subjective good faith, now that you have actual notice, your level of response should be increased. The level of reaction corresponds to the relationship between the patent and your accused product. At the very least, get a second opinion (unbiased) about the patent and the product. If the second opinion leans towards infringement, then, it would be prudent and reasonable to get advice of counsel.⁴⁸ If the advice of counsel⁴⁹ indicates that the product does not infringe or that the patent is an invalid patent, then there is reason to maintain the status quo. If advice indicates it is a close call, then there is still no reason not to maintain the status quo. If advice, however, indicates that the product likely infringes and that the patent is not invalid, then there is an increased responsibility to act in good faith and reasonably. You can either (1) stop making/selling the product or (2) attempt to design a 'design-around.' Thus, **if** found liable at the end of a trial, you have maintained good faith, thus, there is a small likelihood of having enhanced damages due to willfulness. So what is the risk? The risk is to have to pay reasonable royalties (and your attorney's fees). There is a small risk of a court imposing an injunction against your actions post-*Ebay*.

⁴⁸ In the post-*Seagate* world, it might be best to hire outside counsel for the opinion, counsel that will be different from any counsel that may be used during litigation on the same or related matter.

⁴⁹ *Seagate* did not resolve the issue of whether the opinion should be from outside counsel or in-house.