Seagate and Its Impact

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35 U.S.C. § 284

- “Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.”
- Although the statute specifies no criteria for the awarding of increased damages, courts have long interpreted this provision to mean that increases are appropriate only when the plaintiff proves, by clear and convincing evidence, that the defendant “willfully” infringed.

Willful infringement: General Principles, pre-*Seagate*

- Two-step process for determining whether to award enhanced damages
  - First, the trier of fact should "determine whether an infringer is guilty of conduct upon which increased damages may be based." *Jurgens*, 80 F.3d 1566, 1570 (Fed. Cir. 1996).
  - Second, if the infringer is guilty of such conduct, the court then determines "whether, and to what extent, to increase the damages award given the totality of the circumstances." *Id.*
- Enhanced damages awards serve both deterrent and punitive purposes. *SRI*, 127 F.3d 1462, 1468 (Fed. Cir. 1997).

Willful infringement: General Principles, pre-*Seagate*

- Willfulness depends on the "totality of the circumstances." *SRI*, 127 F.3d at 1465-66. Courts emphasized three factors in particular:
  - "(1) whether the infringer deliberately copied the ideas or design of another;
  - "(2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed, and
  - "(3) the infringer's behavior as a party to the litigation." *Id.*
- Factor (2) often dominated.

Willful infringement: General Principles, pre-*Seagate*

- "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," which "affirmative duty includes, *inter alia*, the **duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity**." *Underwater Devices*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) (emphasis added).

Willful infringement: General Principles, pre-*Seagate*

- Although failure to obtain an opinion of counsel was not always determinative, the CAFC permitted the trier of fact to draw an adverse inference–that the infringement *was* intentional and deliberate--from a defendant's failure to offer in evidence a favorable opinion (i.e., an opinion that the defendant's conduct either did not infringe or that the patent was invalid or unenforceable). *Kloster Speedsteel*, 793 F.2d at 1565, 1580 (Fed. Cir. 1986).
- The mere fact that a defendant *did* obtain a favorable opinion did not necessarily shield the defendant from liability, if the trier of fact concluded that the defendant should have doubted the opinion. *See, e.g.*, *SRI*, 127 F.3d at 1465.

Willful infringement: General Principles, pre-*Seagate*

- In addition to the three general "wilfulness" factors, courts may consider several other factors "particularly in deciding on the extent of enhancement." These include:
  - (1) "Defendant's size and financial condition";
  - (2) "Closeness of the case";
  - (3) "Duration of defendant's misconduct";
  - (4) "Remedial action by the defendant";
  - (5) "Defendant's motivation for harm"; and
  - (6) "Whether defendant attempted to conceal its misconduct." *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992).
- Upon a finding of willfulness, a court also has discretion to declare the case exceptional and to award attorneys' fees pursuant to § 285. *See Jurgens*, 80 F.3d at 1573 n.4.

Criticisms

- “Duty of due care” = negligence, not willfulness
- Duty may discourage firms from reading patents, lest they be deemed to have knowledge; undermines fundamental purpose of patent law
- Opinions are expensive; further resources may be diverted to strategic considerations: when to seek, what to ask, etc.
- Allegations of willful infringement rampant (Moore (2000); Moore (2004)). Pressure to settle?
- Fears of getting locked into a position as the case evolves in unexpected directions
- Risk of waiving attorney-client privilege and work product immunity
- From an economic perspective, awarding attorneys’ fees to the prevailing party may make sense in many cases; but awarding enhanced damages risks overdeterrence, where the infringement is not concealed or difficult to detect

Knorr-Bremse Systeme fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1347 (Fed. Cir. 2004) (en banc)

- "When the attorney-client privilege and/or work product privilege is invoked by a defendant in an infringement suit . . . no adverse inference shall arise from invocation of the" privilege.
- "When the defendant had not obtained legal advice," after being put on notice of an existing patent and prior to allegedly infringing that patent, it is not "appropriate to draw an adverse inference with respect to willful infringement" (i.e., "an inference or evidentiary presumption that such an opinion would have been unfavorable").

Knorr-Bremse, continued

- “Should the existence of a substantial defense to infringement be sufficient to defeat liability for willful infringement even if no legal advice has been secured?” No, but:
- “Precedent includes this factor with others to be considered among the totality of the circumstances, stressing the ‘theme of whether a prudent person would have sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated,’ *SRI Int’l, Inc. v. Advanced Tech. Labs. Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997).”

Knorr-Bremse, continued

- Unresolved issues
  - Ongoing questions relating to waivers of attorney-client privilege/work product immunity with respect to trial counsel (e.g., *Echostar*)
  - Is the failure to obtain an opinion of counsel still relevant to the question of whether the defendant discharged its duty of due care? Can the failure to obtain an opinion be brought to the jury's attention, or does this risk inducing the jury to draw the forbidden adverse inference?
  - What if it was objectively reasonable, ex ante, to believe the patent was invalid, not infringed, or unenforceable, but the defendant subjectively did not form such a belief?

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

- **"We overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.**
- **"Because we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain opinion of counsel."**
- **"[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."**
- **"The state of mind of the accused infringer is not relevant to this objective inquiry."**
- **"If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." The court "leave[s] it to future courts to further develop the application of this standard," but agrees with concurring Judge Newman that "the standards of commerce would be among the factors a court might consider."**
- **"[I]f a patentee attempts to secure injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness."**

Seagate, continued

- **As for attorney-client privilege, CAFC holds "that asserting the advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel."**
- **As for work product immunity, waiver does not extend to trial counsel's work product, absent exceptional circumstances.**

Seagate, continued: Judge Gajarsa's concurring opinion

- **Judge Gajarsa concurs in the court's opinion, but he would not limit a court's authority to enhance damages to cases involving willful infringement.**
- **More importantly, perhaps, Judge Gajarsa reads the CAFC opinion as requiring the plaintiff to "show, by clear and convincing evidence, (1) that Seagate's theory of noninfringement/invalidity, was not only incorrect, but was objectively unreasonable, and (2) that Seagate ran a risk of infringing Convolve's patents substantially greater than the risk associated with a theory of noninfringement/invalidity that was merely careless."**
- **"If Convolve is unable to show the former, Seagate cannot be found to have willfully infringed, regardless of any evidence of its subjective beliefs."**
- **". . . Seagate's subjective beliefs may become relevant only if Convolve successfully makes this showing of objective unreasonableness."**

Aftermath

- Courts interpret *Seagate* as requiring plaintiffs to satisfy both an objective and a subjective requirement.
- Courts have held that plaintiffs failed to satisfy the objective prong in several cases.
  - *Black & Decker*: "legitimate defenses to infringement" and "credible validity arguments"
  - *Pivonka*: "colorable challenge"
  - *Resqnet*: arguments regarding invalidity and noninfringement, though ultimately unsuccessful, were "substantial" and "reasonable"
  - *Trading Techs.*: arguments were "neither unreasonable nor frivolous"
  - *Franklin Elec.*: initial summary judgment ruling of noninfringement, though overruled on appeal, proved that defendant was not objectively reckless.
  - *Rhino Assocs.*: attempt to design around
  - *TGIP*: defense arguments were "hardly objectively unreasonable"

Aftermath, continued

- Some courts have expressed uncertainty whether the "totality of the circumstances" standard survives *Seagate*, and if so how it applies. *Energy Transp. Group*; *Trading Techs.*; *Depomed.*
- Some uncertainty whether failure to obtain an opinion of counsel remains relevant. *Energy Transp. Group; Broadcom.*
- Motions to defer discovery on willfulness disfavored?
- Does *Seagate* change willfulness (partially) into a question of law? Do we need expert witnesses on objective reasonableness?

Patent Reform Act

- H.R. 1908 would amend § 284 by making it explicit in the statute that a court may award up to treble damages for willful infringement.
- Would permit a finding of willfulness only if the infringer continued to infringe after receiving written notice from the patentee and having had a reasonable opportunity to investigate; or intentionally copied with knowledge of the patent; or persisted in infringing after having once been adjudged an infringer, leading to a second judgment of infringement.

Patent Reform Act

- Would not permit a court to find that an infringer has willfully infringed “for any period of time during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed by the conduct later shown to constitute infringement of the patent.”
- States that “an informed good faith belief . . . may be established by-(i) reasonable reliance on advice of counsel;(ii) evidence that the infringer sought to modify its conduct to avoid infringement once it had discovered the patent; or (iii) other evidence a court may find sufficient to establish such good faith belief.”
- Further provides that “[t]he decision of the infringer not to present evidence of advice of counsel is not relevant to a determination of willful infringement under paragraph (2).”
- In addition, “[b]efore the date on which a court determines that the patent in suit is not invalid, is enforceable, and has been infringed by the infringer, a patentee may not plead and a court may not determine that an infringer has willfully infringed a patent.”