

Is A Defendant A Willful Patent Infringer? Trial Courts Must Decide Whether The Actions Are Objectively Reasonable

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The Federal Circuit's recent decisions have sought to address a number of issues relating to damages in patent cases. In its recent decision in *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, No. 2010-1510, ___ F.3d ___ (Fed. Cir. June 14, 2012), available at <http://www.cafc.uscourts.gov/images/stories/opinions-orders/10-1510.pdf> ("*Bard*"),^[1] the Federal Circuit made clear that the objective prong of the willfulness standard set forth in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc) ("*Seagate*") is a question of law that may be based on mixed questions of law and fact, and that the determination of that prong is subject to *de novo* appellate review. While it will take some time to see the impact of *Bard*, the decision will have an impact on how the objective prong is determined and may make it more difficult for a patentee to obtain enhanced damages and attorneys' fees.



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Patent Damages Background

Section 284 of Title 35 of the United States Code sets forth the damages that are available to a patentee and permits a court to award up to trebled damages.^[2] The Patent Act, 35 U.S.C. §§ 1-376, does not define when enhanced damages should be awarded; this issue has been the subject of many decisions over the years but largely turns on whether a defendant is found to be a willful infringer.

In *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), the Federal Circuit set the standard for determining willful infringement in a patent case. The Federal Circuit held:

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. Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.

Id. at 1389-90 (citations omitted). That standard was akin to negligence, and numerous decisions from the Federal Circuit after *Underwater Devices* sought to elaborate on the standard and identify factors that would be relevant to a willfulness determination. See, e.g., *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc) *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992); *Quantum Corp. v.*

Tandon Corp., 940 F.2d 642 (Fed. Cir. 1991), *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101 (Fed. Cir. 1986).

Recently, the Federal Circuit has been active in attempting to clarify damages issues, including the analysis and factors involved in calculating a reasonable royalty and what constitutes willfulness. In *Seagate*, the Federal Circuit overruled its prior precedent based on the Supreme Court's decision in *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47 (2007), in which the Supreme Court determined the meaning of willfulness in a statute that permitted the imposition of punitive damages for a willful violation of the statute. Based on *Safeco*, the Federal Circuit held that willfulness is more akin to recklessness than negligence and, therefore, changed the analysis that must be performed in determining whether a defendant in a patent case is a willful infringer. In particular, the Federal Circuit held that a patentee must satisfy a two-prong test. First, the 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." *Seagate*, 497 F.3d at 1371 (citing *Safeco*, 551 U.S. at 69). If a patentee met its burden, then "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." *Id.*

Following *Seagate*, the Federal Circuit held that, in general, the "objective" prong of *Seagate* tends not to be met where an accused infringer relies on a reasonable defense to a charge of infringement." *Bard* at pp. 4-5 (quoting *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010)). Therefore, appeals on the issue of willfulness under the first prong of the *Seagate* test often hinged on whether the defense or theory was reasonable. See *Bard* at pg. 5 (citing *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011)).

The *Bard* Decision

Following a trial in which a jury found that W.L. Gore & Associates, Inc. ("Gore") willfully infringed the patent-in-suit and awarded the plaintiffs \$185 million, the judge found that the plaintiffs were entitled to enhanced damages and doubled the award. Gore appealed to the Federal Circuit, which subsequently affirmed. See *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 670 F.3d 1171 (Fed. Cir. 2012). Gore filed a petition for rehearing and rehearing *en banc* relating to the willfulness analysis, and a few companies filed an *amicus curiae* brief arguing that the objective prong of the *Seagate* test should be decided as a matter of law with a *de novo* appellate review standard. The Federal Circuit denied *en banc* review but granted rehearing *en banc* to permit the original panel to address the issue of willfulness. See *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, No. 2010-1510 (June 14, 2012) (*per curiam*), available at <http://www.cafc.uscourts.gov/images/stories/opinions-orders/10-1510%20order.pdf>. That same day, the original panel issued the *Bard* decision, in which it reaffirmed its prior opinion except it vacated portions of that opinion that related to willfulness and remanded the issue of willfulness to the trial court.

After discussing the *Seagate* two-prong test and a few post-*Seagate* decisions, the Federal Circuit noted that "willfulness has long been treated as a question of fact." *Bard* at pg. 5 (citations omitted). The court noted, however, that its post-*Seagate* decisions "have begun to recognize that the issues are more complex." *Id.* As a result, the Federal Circuit concluded that:

[S]imply 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 questions of validity that are not necessarily dependent on the factual circumstances of the particular party accused of infringement.

Id. at pg. 6.

The Federal Circuit then attempted to identify how this new test will be implemented by trial courts. The court made clear that purely legal issues (such as claims construction) will only be determined by a judge, whereas a court may have more flexibility in crafting the procedures for determining either fact-based or mixed issues defenses (such as obviousness). As the Federal Circuit made clear, however, the trial court judge is ultimately responsible for the decision:

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 the jury to determine the underlying facts relevant to the defense in the first instance, for example, the questions of anticipation or obviousness. But, consistent with this court's holding today, the ultimate legal question of whether a reasonable person would have considered there to be a high likelihood of infringement of a valid patent should always be decided as a matter of law by the judge.

Id. at pg. 9 (citing *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1324 (Fed. Cir. 2009)).

The court further held that by permitting *de novo* review of the objective prong, it is more likely to create more unified precedent. In reaching that holding, the Federal Circuit relied on the Supreme Court's decision in criminal cases involving probable cause. See *id.* at pg. 9 (citing *Ornelas v. United States*, 517 U.S. 690, 697-98 (1996)).

What Are The Implications Of *Bard*?

Since *Bard* will require courts to develop procedures to determine the objective prong of the *Seagate* test and the decision is so recent, it is likely that courts will create different procedures that will take some time to unify. For example, a court may create a procedure similar to the current *Markman* procedure to address purely legal defenses or theories of non-infringement or determine both claims construction and the objective prong at the same time. Such an approach would likely create efficiencies for the court and the litigants and, therefore, conserve judicial resources and reduce the costs for the parties. A *Markman*-like procedure may not be feasible or the most efficient manner of addressing the objective prong if the defense is purely fact-based on a mixed question of law and fact. Courts may have to determine the issue on a motion for partial summary judgment or wait to determine the issue on a motion for judgment as a matter of law.

Equally important to both patent holders and alleged infringers, *Bard* may result in patent holders being less likely to be awarded enhanced damages. Such a result can be seen from Judge Pauline Newman's concurrence in the vacatur and dissent on the issue of remand. While the merits panel remanded the case to the trial court, Judge Newman concluded that "it is apparent that willful infringement is not supportable" based on the evidence that Gore presented at trial. *Id.* at pg. 13. In particular, Judge Newman identified five facts relating to validity and inventorship that she believed demonstrated that Gore could have reasonably believed would invalidate the patent-in-suit: (1) one of Gore's employees was the first to conceive of the invention; (2) that employee provided the patentee with Gore-Tex® tubes that

were the invention; (3) the patentee tested the tubes at the request of Gore's employee; (4) others had tested the tubes in animals, and had published those results; and (5) the patent application was pending for 28 years. *See id.* While these facts are unique to *Bard*, the pronouncements that relevant prior art and the length of time a patent application was pending would not support a finding of willfulness may provide guidance to practitioners as to what may prevent a finding of willfulness.

[1] The opinion available from the Federal Circuit's website incorrectly identifies the date of the decision as June 11, 2011. Because the opinion is not in the Federal Reporter or on Westlaw as of the date of the article, citations to "*Bard* at pg. ___" refer to the page of the PDF file that is found at the Federal Circuit's website.

[2] Section 284 provides:

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. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

35 U.S.C. § 284.

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