

United States

Hiding in plain sight: avoiding damages for wilful patent infringement

Under the US patent system, the only thing worse than being found to be an infringer is being found to be a wilful infringer. A wilful infringer not only pays compensatory damages, but may also, under certain circumstances, face enhanced damages, which can be as much as three times the compensatory damages (35 USC § 284). The best way to avoid this fate is to avoid a finding of infringement; in general, businesses choose to defend against a patent infringement claim only if they believe that they have a strong non-infringement, invalidity or unenforceability defence (or if the demanded damages are deemed grossly excessive). At times those careful calculations fail, however, and the court enters a judgment of infringement. This chapter considers some steps that a patent infringement target can take before trial to minimise the possibility of a finding of wilfulness.

The legal landscape

What is 'wilful infringement'?

'Wilful infringement' is a common law concept, not a statutory one – Section 284 of the Patent Act states only that "the court may increase the damages up to three times the amount found or assessed". Between 1983 and 2007 wilful infringement required proof by "clear and convincing evidence in view of the totality of the circumstances that [the infringer] acted in disregard of the... patent and lacked a reasonable basis for believing it had a right to do what it did" (*Amstead Indus v Buckeye Steel Castings Co*, 24 F 3d 178, 181 (Fed Cir 1994)). The claimant had to prove that the potential infringer had actual notice of the patent and failed to "exercise due care to determine whether or not he [was] infringing" (*Underwater Devices Inc v Morrison-Knudsen Co*, 717 F 2d 1380, 1389-90 (Fed Cir 1983)). At the time, the term 'such an affirmative duty' was deemed to include "the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity" (*id*). Essentially, negligent patent infringement was all

that was needed to establish wilfulness, but a competent defensive opinion from counsel was sufficient to defeat a wilfulness claim. Of course, assertion of this 'advice of counsel' defence raised the question in each case of the breadth of the defendant's waiver of the attorney-client privilege and work product doctrine, with some courts requiring disclosure of communications not only with opinion counsel, but also with trial counsel.

Since August 2007 wilfulness has been judged under a new, less stringent recklessness standard. Now 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" (*In re Seagate Tech LLC*, 497 F 3d 1360, 1371 (Fed Cir 2007)). This first prong is an objective standard where there is no need to prove culpable intent (similar to the scienter requirement in fraud cases). The state of mind of the accused infringer "is not relevant to... [the] inquiry" (*id*). However, the second prong of the test touches on the accused infringer's knowledge: "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." (*Id.*)

The role of counsel opinions and privilege

When *Seagate* did away with the duty of due care, it also did away with the explicit 'duty to seek and obtain competent legal advice from counsel' regarding the potentially infringing activity. The court also emphasised that the wilfulness inquiry should focus on the alleged infringer's pre-litigation conduct, rather than its post-litigation conduct (*id* at 1374). For this and other reasons, the *Seagate* court made its second significant ruling: adopting a 'limited waiver' default rule covering the advice of counsel defence. Before *Seagate* the law had been uncertain on this point, with some courts stripping all

privilege and work product protections from all work related to the preparation of the defence, before and after filing the litigation. Now, however, “asserting the advice of counsel defence and disclosing opinions of opinion counsel [does] not constitute waiver of the attorney-client privilege for communications with trial counsel” (*id.*). Of course, this limit is not absolute and trial judges still have the discretion to extend the waiver to trial counsel in extreme situations, “such as if a party or counsel engages in chicanery” (*id.*).

What should a business do?

Consistent with the *Seagate* court’s emphasis on pre-litigation conduct, a party must take affirmative steps long before a suit is filed in order to insulate its conduct from the wilfulness inquiry. The *Seagate* decision was only issued in August 2007 and the opinion expressly left important details to be resolved through litigation. Based on the Federal Circuit’s track record since then and the perspective of experience regarding the previous jurisprudence, some suggestions can be made.

Obtain a non-infringement opinion from competent counsel

When *Seagate* was first published its rejection of the duty of care rule requiring infringement targets to obtain clean opinions of counsel before proceeding with the allegedly infringing conduct received much attention. Both in-house and external counsel predicted the end of formal opinions. Not so fast, said the Federal Circuit. In a 2008 panel opinion the court declared that “a competent opinion of counsel concluding either that [the alleged infringer] did not infringe the... patent or that it was invalid would provide a sufficient basis for [the alleged infringer] to proceed without engaging in objectively reckless behavior with respect to the... patent” (*Finisar Corp v DirecTV Group, Inc*, 523 F 3d 1323, 1339 (Fed Cir 2008)). As *DirecTV* obtained a competent opinion of non-infringement, the court reversed the trial court’s wilfulness finding. (See also *Black & Decker, Inc v Robert Bosch Tool Corp*, 260 Fed Appx 284 (2008) – “legitimate” and “credible” non-infringement and/or invalidity defences demonstrate the lack of objective recklessness.)

Design around, explicitly and openly

In general, designing around is viewed favourably by the courts. Identifying the key limitations of the patent as they apply to the product, obtaining counsel’s opinion and then openly seeking ways to avoid those limitations all constitute evidence that a company truly believed that the resulting product avoided the patent terms. Even if the company’s efforts to avoid the patent ultimately fail, these circumstances will allow a finder of fact to reject a wilfulness claim (*Soitec SA v Silicon Genesis Corp*, 81 Fed Appx 734 (Fed Cir 2003)). If, on the other hand, a company builds up a record demonstrating that it desperately needs a copycat product and pressures its research and development department to do whatever it takes to make one – now – it may obtain the opposite result (see *Applied Medical Resources Corp v US Surgical Corp*, 435 F 3d 1356 (Fed Cir 2006)).

Take a licence, then sue for declaratory judgment

While not expressly discussed in *Seagate*, the Supreme Court decision in *MedImmune Inc v Genentech Inc* (127 S Ct 764, 777 (2007)), announced in January 2007, established an important tool for a party that wants to assert defences of invalidity, unenforceability or non-infringement without risking being found a wilful infringer. Before *MedImmune* a licensee could not bring a declaratory judgment action challenging the patent unless it was no longer in good standing (ie, it had stopped paying royalties). But ceasing to pay royalties made the challenging party an infringer with obvious notice of the patent and thus exposed it to a wilfulness finding (*id.*, 127 S Ct at 774). By allowing a licensee in good standing to assert these defences nonetheless, the Supreme Court removed that sword of Damocles and allowed – at least theoretically – for further challenges to patents. Of course, this option is not appropriate for all situations, but it certainly is an option that should be considered when the licensee learns of a strong defence after the licence is entered into (as occurred in *MedImmune*).

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