

Seagate opinion represents sea change in willfulness

In a decision that it was not asked to make, the U.S. Court of Appeals for the Federal Circuit raised the standard for willfulness, making it harder for patent owners to receive enhanced damages when they win infringement claims. The court did not, however, indicate precisely how much harder it is likely to be.

In its en banc opinion *In re Seagate Technology LLC*, the Federal Circuit established a new test for willfulness, holding that “objective recklessness” must be demonstrated for a finding of willful

infringement. To do that, patent owners must first clearly show that a valid patent has been infringed.

“If there’s a close question of infringement, it may not meet the standard for willfulness, even if it’s resolved in favor of the patent owner,” says John Kozak, a member of LVM’s Chicago office. “There’s a test, and the infringement and validity must be established as objective fact.”

Once infringement has been clearly established, the patent holder must show that the infringer knew or should have known there was a high risk of infringement when the infringing use began. Only then can the patent owner argue that the infringer acted with conscious disregard of the high risk of infringement — or with recklessness.

The court left open how patent owners can show that an infringer should have known of the infringement, but said in a footnote that “standards of commerce” would be one factor considered.

“There will be confusion, and litigation, surrounding the application of

the ‘objectively reckless’ standard, so the determination of willfulness likely will still be on a case-by-case basis,” says Bruce Gagala, a member of LVM’s Chicago office. “It’s possible the courts will look not only at the acts of the individual parties, but at the industry of the putative infringer to determine prevailing intellectual property practices. The application of the standard may well vary according to industry and complexity of the patented invention.”

Regardless of how the standards eventually evolve, patent owners now stand a lesser chance of winning the double or treble damages awarded with findings of willfulness. Additionally, says Kozak, their licensing and royalty income may suffer.

“There may be less incentive for potential licensees to take licenses when they know they’re unlikely to be liable for large damages,” he says. “Or this opinion could depress royalties, or simply kill some cases. Willfulness may not be as big a club as it was.”

Ironically, the opinion on willfulness was *sua sponte*, or unsolicited. The issue in *Seagate* was duty of due care and reliance on advice of counsel as a defense against allegations of willful infringement.

The Federal Circuit said that citing an opinion of counsel that a patent is invalid, unenforceable or not infringing does not waive attorney-client privilege for communications with trial counsel. The court also emphasized that there is no obligation for an alleged infringer to obtain an opinion of counsel.

“The *Seagate* opinion makes it more difficult for patent owners to prove willfulness, while at the same time reducing potential infringers’ risk in relying on counsel’s opinion to refute allegations of willfulness,” Gagala says. “The court’s opinion also does away with the artificial distinction between ‘opinion counsel’ and ‘trial counsel,’ since waiver of privilege for reliance on counsel’s opinion is now limited to the opinion.”

How district courts are interpreting *eBay v. MercExchange*

The U.S. Supreme Court's expansive allowance of compulsory licensing in *eBay v. MercExchange* has changed the view of the patent right. The traditional view was that patents gave companies the right to exclude others from practicing their inventions. Courts used compulsory licenses sparingly, for example to ensure public health and safety. Last year, *eBay* changed those traditional views.

In the wake of *eBay*, district courts are settling on guidelines for determining whether a permanent injunction or compulsory license should follow a finding of infringement.

"Some district courts appear to be indicating that when there is direct competition between the patented and infringing products, a permanent injunction will follow a finding of infringement absent the traditional exceptional circumstances," says John Augustyn, a member in LVM's Chicago office.

Universities and other research institutions that develop but do not practice their inventions have voiced concern that compulsory licensing could destroy their reputations as research institutions and significantly de-value their patent portfolios.

"That concern has been allayed recently by district courts that are willing to grant a permanent injunction to an ongoing research institution whose invention constitutes a core technology platform of the infringing product," says Jeff Burgan, a member in LVM's Chicago office.

Still, adds Augustyn, "Some district courts appear to be prepared to deny a permanent injunction when the patentee is purely a licensing entity rather than a research institution, or when the patented technology covers only a minor component of a complex product."

The Supreme Court's decision in *eBay* may change enforcement strategies in other ways, as well.

"The district courts are starting to make clear that, as with proving lost

profits, the patentee must tie market injury to the patented aspect of the product," says Burgan. "In the past, practicing patentees may have chosen to forego lost profit claims due to the inherent difficulty in proving such a nexus. In light of recent permanent injunction decisions, though, lost profit claims could be the norm."

While the district courts have been largely uniform, some factors a few district courts consider in denying permanent injunctions may not stand judicial scrutiny over time. One district court recently found that a patentee's decision not to seek a preliminary injunction at the beginning of the case was inconsistent with its request for a permanent injunction at the end of the case.

"Not seeking a preliminary injunction, and expeditiously seeking a permanent one, can sometimes be the most time-effective strategy to eliminate the harm caused by infringement," says Augustyn.

New rules move TTAB closer to federal court procedures

Parties that take trademark disputes before the Trademark Trial and Appeal Board (TTAB) are now subject to more stringent discovery and disclosure rules, as the TTAB works to streamline proceedings and encourage early settlements.

Under rules that took effect in November, TTAB cancellation and opposition proceedings now are more akin

to federal litigation, says Boris Umansky, an associate in LVM's Chicago office.

"The TTAB now has rules for discovery and settlement conferences, initial disclosures, and pretrial disclosures that more closely align with federal litigation practices," he says. "When the TTAB sends a notice of filing, it now sends a list of due dates for an initial discovery conference, initial disclosures,

disclosure of expert testimony and pretrial disclosures, along with official discovery and testimony period deadlines. Both parties automatically must provide information, without either party serving written discovery requests."

As a result, he adds, trademark disputes before the TTAB require more advance planning and may take more time than in the past, especially at the onset of the proceedings.

continued on next page

Recent Federal Circuit rulings may prove significant

Recent rulings by the Court of Appeals for the Federal Circuit have encompassed the right of licensees to sue for patent infringement, the right of courts to order ongoing royalties, what constitutes a controversy sufficient for declaratory judgment consideration, and who should be considered an “ordinary observer.” In some cases, the rulings could have significant effect on patent law.

International Gamco Inc. v. Multimedia Games Inc.

In this potentially noteworthy decision, the court determined that “exclusive enterprise licenses” do not necessarily give licensees the right to sue for patent infringement without joining the patent owners as plaintiffs. Exclusive enterprise licenses are amalgams of field of use and territorial licenses.

Unless an exclusive enterprise license confers all substantial rights in the licensed patent within the licensed territory, the court ruled, the licensee has no standing to file suit in its own name. Granting that right, the judges said, could expose the patent owner to multiple suits for a single infringement.

Paice LLC v. Toyota Motor Corp.

Finding that Toyota had infringed Paice patents related to hybrid vehicle transactions, the district court ordered Toyota to pay “an ongoing royalty” of \$25 per infringing vehicle. The Federal Circuit upheld the lower court’s right to order the royalty, but remanded the case for more consideration and explanation of the amount awarded.

The Federal Circuit distinguished its action from a compulsory license, saying a compulsory license implies that anyone who met certain criteria could use the licensed product. By contrast, the court said, the ongoing royalty order applies only to Toyota. It does not authorize other manufacturers to use the patented invention.

Adenta GmbH v. Orthoarm Inc.

A letter saying Orthoarm would pursue its available legal remedies to protect its rights if Adenta carried out its threat to stop paying royalties created enough of an immediate controversy to justify a declaratory judgment action, the Federal Circuit ruled.

Adenta, claiming that a licensed patent was invalid, advised Orthoarm that it would stop paying royalties on the license. Orthoarm’s response was enough

to create a reasonable apprehension of an infringement suit that was of sufficient immediacy to support an action for declaratory judgment, the court said. ***Arminak and Associates Inc. v. Saint-Gobain Calmar Inc.***

The ordinary observer in the test for design patent infringement may be an industrial buyer, rather than a general consumer, the Federal Circuit said in upholding a lower court’s decision. At issue were shrouds for trigger sprayers on liquid household products. While differences in the designs might not be apparent to consumers, they would be immediately discernable to industrial buyers.

The patent at issue covers only the shroud, which is one of several component parts that must be assembled before the product is offered for sale to the public. Therefore, the “ordinary observers” for the shrouds are the industrial buyers that purchase the stand-alone trigger spray devices, the justices ruled. It was the first time the Federal Circuit has directly addressed the question of whether an ordinary observer can be an industrial buyer of components for retail products.

New rules

continued from previous page

Additionally, a standard protective order available on the TTAB’s Web site automatically applies to all new and pending actions as of Aug. 31, 2007. Unless one of the parties objects, the protective order ensures that confidential or trade secret information will be used solely for that particular TTAB proceeding, provided that the party disclosing the information follows the requirements of disclosure set forth in the standard protective order. Use of the standard protective order should

speed up discovery in TTAB proceedings since completing such orders no longer requires lengthy negotiations between parties. That being said, it is still important to have both sides sign off on the standard protective order, especially when dealing with a *pro se* litigant.

The rules include other changes such as requiring the initiating party to serve opposing parties with a notice of opposition and petition for cancellation — again, more in line with federal court rules. The full set

of TTAB rules is available on the TTAB Web site, www.uspto.gov/go/dcom/ttab/.

“The TTAB is an appellate body for the U.S. Patent and Trademark Office, and is charged with determining issues involving federal trademark registration,” Umansky says. “It wants to encourage early settlement, and there is some evidence that the federal courts’ disclosure model has helped with the early disposition of cases. The new rules may also promote more efficient discovery and reduce incidents of unfair surprise.”

LVM Announces

LVM is pleased to announce that, in recognition of their contributions to the firm, **John L. Gase, Robert T. Wittmann** and **Kevin C. Parks** have become members, resident in the firm's Chicago office.

Leydig, Voit & Mayer is pleased to announce that the following attorneys have become associated with the firm:

Chicago

Kevin Keenan received a B.S. in mechanical engineering, *magna cum laude*, from the University of Michigan in 2002, and a J.D. from Chicago-Kent College of Law in 2007.

Michelle L. Calkins received a B.A. in physics and political science, *magna cum laude* and with

honors, from Miami University in 2004, and a J.D., *magna cum laude*, from the University of Illinois College of Law in 2007.

James M. Robertson rejoined Leydig, Voit & Mayer as counsel in its Rockford office. He received a B.S. in metallurgical/materials science engineering from the University of Arizona in 1985, and a J.D. from the University of Alabama in 1991.

Leydig, Voit & Mayer is pleased to announce that **Yuki Onoe** has joined its Chicago office as a technical adviser. She received a B.S. and M.S. in chemistry from Osaka University in 1996 and 1998, respectively, and a M.S. in linguistics from Georgetown University in 2002.

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