

## **GROWING PAINS: THE *SEAGATE* STANDARD AFTER *POWELL* v. *HOME DEPOT***

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### **I. INTRODUCTION**

The Federal Circuit re-defined the standard for proving willful infringement in In re Seagate Technology, LLC.<sup>1</sup> The court acknowledged, however, that there was work to be done “to further develop the application of this standard.”<sup>2</sup> The Federal Circuit's recent decision in Powell v. Home Depot U.S.A., Inc.<sup>3</sup> shows that work is ongoing and filled with pitfalls.

In Powell, the Federal Circuit addressed procedural and substantive questions about the willfulness standard. Whereas willfulness previously was tried to a single fact-finder, the Federal Circuit held the court and the jury should divide the task of determining willfulness. Specifically, courts – and not juries – must determine whether defenses based on a rejected claim construction or other legal issues such as inequitable conduct preclude a finding that a plaintiff can meet the objective prong of the Seagate test.

Substantively, the Federal Circuit affirmed a finding of willful infringement where the district court had (1) found no likelihood of success on the merits based on the defendant's noninfringement arguments, and (2) adopted the defendant's claim

constructions and granted summary judgment of no literal infringement on two different grounds, but then reversed its claim constructions mid-trial. The district court's pre-trial decisions thus appeared to establish that the defendant had legitimate, credible and reasonable liability defenses – the very type of defenses that the Federal Circuit previously held precluded a finding of willful infringement.

The Powell decision leaves in its wake a confused standard that is difficult to apply and devoid of any meaningful guidance as to how jury findings of willfulness should be reviewed.

## II. THE WILLFULNESS STANDARD AFTER SEAGATE

The Federal Circuit in Seagate abrogated the existing negligence-based duty of care standard for proving willful infringement. Under the new standard, the patentee must show that, on the merits, the accused infringer faced an objectively high likelihood of infringing a valid patent.<sup>4</sup> Once the patentee meets this “objective prong,” the second, “subjective prong” requires proof that the accused infringer knew or should have known of the objectively high likelihood of infringement. The patentee must prove each prong by clear and convincing evidence.

In cases following Seagate, the Federal Circuit appeared to clarify what constituted an “objectively high likelihood of infringement.” In Black & Decker, Inc. v. Robert Bosch Tool Corp., a non-precedential case that nevertheless has been followed by district courts, the court held that “both legitimate defenses to infringement claims and credible invalidity arguments demonstrate the lack of an objectively high likelihood that a party took actions constituting infringement of a valid patent.”<sup>5</sup> Similarly, the court in Cohesive Technologies, Inc. v. Waters Corp. held that there was no objectively high

likelihood of infringement where the accused infringer offered a reasonable claim construction under which its products did not infringe.<sup>6</sup> These cases indicate that a reasonable, legitimate or credible defense is sufficient to defeat a claim of willful infringement.

### III. POWELL v. HOME DEPOT

#### A. The District Court Proceeding

Home Depot, the defendant in Powell, scored some early victories. The district court rejected Powell's construction of the terms "table top"<sup>7</sup> and "dust collection structure for collecting sawdust." Based on those constructions, the court granted Home Depot's motion for summary judgment of no literal infringement.<sup>8</sup> It denied Home Depot's motion for summary judgment of noninfringement under the doctrine of equivalents, however, describing the evidence on that issue as "conflicting and inconclusive."<sup>9</sup> Home Depot also sought summary judgment on its inequitable conduct claim. The court determined that the representation to the PTO at issue was material and false, but held that there was a genuine factual issue as to Powell's intent and denied Home Depot's motion.<sup>10</sup>

Undeterred by the district court's claim construction and summary judgment rulings, Powell sought a preliminary injunction. The district court assessed Powell's likelihood of success on infringement and identified four limitations in dispute. It held that Powell could not show a likelihood of success that the accused product had a "table top" under the doctrine of equivalents because it failed to rebut the presumption of prosecution history estoppel for that limitation. Specifically, the court found that Powell "neither explained the reason for the amendment nor presented any evidence as to why

the amendment cannot be reasonably viewed as surrendering a particular equivalent.”

The court declined to address the other three limitations.

At trial, the parties’ fortunes changed. The district court revised its construction of both “table top” and “dust collection structure” mid-trial, adopted Powell’s proposed constructions, and vacated the summary judgment decisions based on the abandoned constructions. The court did not allow the jury to hear any evidence concerning the inequitable conduct allegations or its pre-trial decisions. Accordingly, the jury could not determine whether the claim construction and inequitable conduct defenses were legitimate, reasonable or credible under the objective prong of Seagate. Additionally, it could not consider, for purposes of deciding the subjective prong, the extent to which the claim construction defenses informed Home Depot’s understanding of the objectively-defined risk. The jury returned a verdict of willful infringement.

The district court held a bench trial on Home Depot’s inequitable conduct defense. In a decision issued several months after trial, it found that “Powell intentionally and materially deceived the PTO,” but determined that “the conduct was not so offensive as to warrant holding his patent unenforceable.”<sup>11</sup> In the same decision, the district court characterized the inequitable conduct defense as “a somewhat close call,”<sup>12</sup> but found, without any reference to its pre-trial claim construction and summary judgment decisions, that the infringement and invalidity issues “[were] not a close case.”

At the end of trial – but prior to its decision on inequitable conduct – the district court heard oral argument on Home Depot’s motion for judgment as a matter of law on willfulness. The court made clear that it was applying a Rule 50 standard and thus “[was] obligated to look at the evidence in the light most favorable to the non-moving party,

most favorable to Mr. Powell, and give him the benefit of all of the inferences that can be reasonably drawn from that testimony.”<sup>13</sup> Citing evidence that was relevant only to the subjective prong, the court denied Home Depot’s motion.

After trial, Home Depot filed another motion for judgment as a matter of law of no willfulness. The court again denied the motion, this time summarily. Therefore, no fact-finder ever determined that Powell proved by clear and convincing evidence that Home Depot’s claim construction and inequitable conduct defenses were not legitimate, credible or reasonable. In addition, the jury determined that Home Depot knew or should have known of an objectively high likelihood of infringement without hearing significant evidence regarding the infringement issues in the case.

B. The Federal Circuit Decision

On appeal, the Federal Circuit addressed the district court’s decision to withhold the claim construction and inequitable conduct evidence from the jury and the sufficiency of the evidence supporting the willfulness finding.

1. The procedural holding

After affirming the jury's finding of infringement, the Federal Circuit addressed willfulness. Home Depot argued that the district court erred in not allowing the jury to hear evidence on the claim construction and inequitable conduct defenses. The Federal Circuit determined, however, that the district court properly limited the evidence before the jury. It explained that “the answer to whether an accused infringer’s reliance on a particular issue or defense is reasonable is a question for the court when the resolution of that particular issue or defense is a matter of law.”<sup>14</sup> Because Home Depot’s claim

construction arguments and inequitable conduct defense raised issues of law, the court, rather than the jury, needed to consider their applicability to the objective prong.

The Federal Circuit also indicated in a footnote that a district court should decide whether the accused infringer's reliance on a legal defense was not objectively reckless *before* sending the willfulness issue to the jury.<sup>15</sup> In cases where there are allegations of inequitable conduct (not uncommon), or noninfringement or invalidity defenses based on a particular claim construction (extremely common), the Federal Circuit thus endorsed a threshold inquiry in which the district court makes findings as to whether a patentee's willfulness claim can go forward in light of "the legal issues that have been decided by the court." This procedural framework means that both the court and the jury would act as fact-finders to decide whether a patentee can prove objective recklessness.

Having the court act as an initial fact-finder would favor an accused infringer. Most obviously, it requires the patentee to leap an additional hurdle to prove willfulness. In addition, a court may be more likely than the jury to keep the objective prong inquiry separate from (a) the overall questions of infringement and/or validity, and (b) the intent-related evidence (such as copying) that is irrelevant to the objective prong but often the most inflammatory evidence in the case.

The Federal Circuit's endorsement of a threshold inquiry suggests that it made willful infringement harder to prove. But in fact, the opposite appears to be true. The Federal Circuit did not *require* district courts to conduct the threshold inquiry on legal issues before sending willfulness to the jury. In another footnote, the court stated that "district courts have broad discretion to set the order of trial. Thus, certain issues that affect resolution of the objective prong inquiry, such as unenforceability, may be tried

after the jury has considered the subjective prong in the infringement proceeding.” The court’s use of the word “tried” is misleading, however, because it went on to endorse a procedure where issues such as unenforceability, at least as they relate to willfulness, would not be “tried.” In the same footnote, the Federal Circuit stated that, when issues of law are determined after the jury considers willfulness, “it is proper to reconsider the ultimate resolution of willful infringement upon a renewed motion for judgment as a matter of law.”<sup>16</sup>

Considering an issue as a “renewed motion for judgment as a matter of law” is far different from “trying” it. A motion for judgment as a matter of law under Rule 50 is predicated on “a party [having] been fully heard on an issue during a jury trial.” It presupposes a trial on the issue. But this is precisely the procedure that the district court followed and the Federal Circuit affirmed in Powell. The issues of Home Depot’s claim construction and inequitable conduct defenses were never “tried.” Evidence relating to those issues was directly relevant to both the objective and subjective prongs of the Seagate test, but the jury in Powell never “heard” that evidence. Therefore, the jury never determined whether the plaintiff carried his burden of proving willfulness by clear and convincing evidence in light of those defenses. For its part, the district court never engaged in its own *de novo* fact-finding concerning those defenses as they applied to willfulness. Instead, the district court merely determined whether there was evidence sufficient for a reasonable jury to find willfulness.

In a case where inequitable conduct was “a close call” and the court granted summary judgment of no literal infringement based on two of the defendant’s claim constructions, the procedure that the district court followed was highly consequential.

The burden of proof essentially flipped. Rather than requiring Powell to prove by clear and convincing evidence that the defenses were not legitimate, Home Depot was forced to prove that no reasonable jury could find that the defenses were not legitimate. This result is difficult to reconcile with decades of the Federal Circuit's jurisprudence on willfulness.<sup>17</sup>

2. The substantive holding

The Powell decision also is significant because of the Federal Circuit's determination that substantial evidence supported the willfulness finding. The two noninfringement arguments (based on the "table top" and "dust collection structure" limitations) that led the district court to find no likelihood of success on the merits and grant, albeit temporarily, summary judgment of no literal infringement seem to establish legitimate, credible and reasonable defenses that would preclude a finding of objective recklessness. To argue otherwise is to suggest that the district court's pre-trial decisions based on Home Depot's defenses were themselves *unreasonable*.

A prior district court decision in Arlington Industries v. Bridgeport Fittings, Inc. recognizes this logic.<sup>18</sup> There, the district court adopted a patentee-friendly claim construction even though another district court, construing the very same claim limitation, had previously adopted a construction for which the defendant in Arlington had argued. The district court recognized that the other court's adoption of the defendant's preferred claim construction was strong and even conclusive evidence that the defendant's liability defense was legitimate, credible and reasonable. The court stated that "it would be difficult to conjure up a defense which would be more 'reasonable' than one expressly adopted by a federal judge, albeit in conflict with a second federal judge."



The Federal Circuit never directly confronted these issues in Powell. It said nothing about the “table top” limitation. On the “dust collection structure” limitation, the court explained that the argument was “premised on a claim construction determination that the court ultimately abandoned or modified after the trial commenced.”<sup>19</sup> The district court’s decision to change its mind, however, should have been secondary. The more important point was that Home Depot had offered a claim construction and corresponding defense that the district court had found sufficiently well-supported, credible and reasonable to accept and use as a basis to grant summary judgment of no literal infringement. That the district court changed its mind does not render the defense unreasonable or not credible. Additionally, the Federal Circuit never expressly determined that, as a matter of law, Home Depot’s defenses were not legitimate, credible or reasonable. It did not even acknowledge that standard. Instead, it merely stated – without any explanation – that it “was not persuaded by the strength of Home Depot’s non-liability positions based on the preliminary injunction denial.”<sup>20</sup>

There was a dissent in Powell, and the dissenting judge would have found that Home Depot’s defense based on the “table top” limitation was objectively reasonable and reversed the willfulness finding. Even the dissent, however, “agree[d]” with the majority that “the district court’s adoption of Home Depot’s construction in the preliminary injunction stage does not show its objective reasonableness.”<sup>21</sup> Like the majority, the dissent did not explain why the district court’s initial adoption of Home Depot’s defense nevertheless permitted a conclusion that the defense was objectively unreasonable.

The Federal Circuit’s unwillingness to credit Home Depot’s arguments on literal infringement would be less noteworthy if the record showed Home Depot had no credible

defense under the doctrine of equivalents. But, the opposite is true: the district court acknowledged that Home Depot had a strong defense to infringement under the doctrine of equivalents. As noted above, in denying the preliminary injunction, the district court found that Powell likely could not assert infringement under the doctrine of equivalents for the “table top” limitation because of a narrowing amendment during prosecution that triggered prosecution history estoppel. Therefore, Home Depot’s defense to infringement under the doctrine of equivalents, based on Powell’s failure to rebut the presumption of prosecution history estoppel, would appear to be legitimate and credible.

#### IV. CONCLUSION

The Powell decision could significantly impact how willfulness issues are tried and reviewed. Procedurally, it remains to be seen whether district courts will conduct the threshold inquiry for the objective prong that the Federal Circuit encouraged in Powell. And, if district courts defer any consideration of issues of law until after trial, it is unclear whether they will make findings of fact and conclusions of law, or apply a Rule 50 standard of review that passed muster in Powell.

Substantively, future adjudged infringers could face great difficulties in arguing that a willfulness finding should be overturned because it is not supported by substantial evidence. Almost any such argument could be effectively rebutted by pointing to the Federal Circuit’s refusal to overturn the willfulness finding in Powell despite objective facts – the early-stage court decisions – that seemed to establish the existence of legitimate, credible and reasonable defenses. In Powell, both the majority and the dissent seemed determined to avoid establishing any categorical rules that would preclude

willfulness. In its efforts to avoid tipping the scales too far in favor of accused infringers, the Federal Circuit may have inadvertently tipped them the other way.

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<sup>1</sup> In re Seagate Tech., LLC, 497 F.3d 1360 (Fed. Cir. 2007).

<sup>2</sup> Id. at 1371.

<sup>3</sup> Powell v. Home Depot U.S.A., Inc., 663 F.3d 1221 (Fed. Cir. 2011).

<sup>4</sup> Seagate, 497 F.3d at 1371.

<sup>5</sup> Black & Decker, Inc. v. Robert Bosch Tool Corp., 260 Fed. Appx. 284, 291 (Fed. Cir. 2008) (nonprecedential). See also Henrob Ltd. v. Bollhoff Systemtechnik GMBH & Co., No. 05-73214, 2009 U.S. Dist. LEXIS 89781, at \*27 (E.D. Mich. Sep. 29, 2009) and Safoco, Inc. v. Cameron Int'l. Corp., No. 05-0739, 2009 U.S. Dist. LEXIS 66187, at \*81 n.135 (S.D. Tex. Jul. 31, 2009).

<sup>6</sup> Cohesive Techs., Inc. v. Waters Corp., 543 F.3d 1351, 1374 (Fed. Cir. 2008).

<sup>7</sup> In addition to “table top,” the claims of the patent at issue, U.S. Patent No. 7,044,039, include other similar limitations such as “table having a top” and “planar top work surface.” We refer to those limitations collectively as the “table top” limitation.

<sup>8</sup> Powell v. Home Depot, No. 07-80435, 2009 U.S. Dist. LEXIS 45517, at \*14-17 (S.D. Fla. Jun. 1, 2009).

<sup>9</sup> Id. at \*18.

<sup>10</sup> Id. at \*20-21.

<sup>11</sup> Powell v. Home Depot, 715 F. Supp. 2d 1285, 1294-95 (S.D. Fla. 2010).

<sup>12</sup> Id. at 1298.

<sup>13</sup> Transcript of Record at 32, Powell v. Home Depot, 07-80435 (S.D. Fla. Feb. 24, 2010) (No. 801).

<sup>14</sup> Powell, 663 F.3d at 1236 (citing Cohesive Techs., Inc., 543 F.3d at 1374).

<sup>15</sup> Id. at 1237 n.1 (“The objective and subjective willfulness questions should be sent to the jury only when the patentee proves by clear and convincing evidence that the objective prong of *Seagate* is met as to the legal issues that have been decided by the court.”).

<sup>16</sup> Id. at 1237 n.2.

<sup>17</sup> In the ordinary case, the district court’s failure to consider inequitable conduct for willfulness purposes would have been just as important as the claim construction issues given that the court viewed inequitable conduct as a “close call.” The issue was only close, however, under the then-applicable standard governing inequitable conduct. That standard did not require a showing of but-for materiality, i.e., that the patent would not have issued but for the misconduct. Under the new standard for inequitable conduct announced during the pendency of Home Depot’s appeal in Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276 (Fed. Cir. 2011) (en banc), the inequitable conduct defense was not “close” because there clearly was no but-for materiality. Powell, 663 F.3d at 1237. Therefore, by historical accident – the change in the inequitable conduct standard during the appeal – the district court’s omission as to inequitable conduct was harmless.

<sup>18</sup> Arlington Indus., Inc. v. Bridgeport Fittings, Inc., 692 F. Supp. 2d 487, 504 (M.D. Pa. 2010).

<sup>19</sup> Powell, 663 F.3d at 1237.

<sup>20</sup> Id.

<sup>21</sup> Id. at 1242 n.1 (Dyk, J., concurring-in-part and dissenting-in-part).