

## In re Seagate: A New Standard for Willful Patent Infringement

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On August 20, 2007, the United States Court of Appeals for the Federal Circuit rendered a decision that radically changed the law surrounding enhanced damages for willful patent infringement. The new rule strongly favors defendants accused of willful infringement. Writing for a unanimous court sitting en banc, Judge Mayer in *In re Seagate Technology, LLC* ("*In re Seagate*")<sup>1</sup> overruled prior Federal Circuit precedent that imposed on a potential infringer "an affirmative duty to exercise due care to determine whether or not he is infringing."<sup>2</sup> The new standard announced by the court is an objective one in which the state of mind of the accused infringer is not relevant. Under this new standard, a plaintiff will not be entitled to enhanced damages for willfulness unless it proves by "clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent."<sup>3</sup> The Federal Circuit also drew a clear line on the question of privilege waiver. Absent activities akin to "chicanery" by a party or trial counsel, neither an advice-of-counsel defense nor the disclosure of a noninfringement/invalidity opinion are sufficient to waive privilege—either communications or work product—as to trial counsel.<sup>4</sup>

This memorandum briefly summarizes the prior law on willful infringement and waiver of privilege, sets forth the changes introduced by *In re Seagate*, and concludes by identifying some likely implications of the case.

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<sup>1</sup> Misc. Docket No. 830, \_\_\_ F.3d \_\_\_, slip op. (Fed. Cir. Aug. 20, 2007).

<sup>2</sup> *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) (citation omitted), overruled on other grounds by *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004).

<sup>3</sup> *In re Seagate*, slip op. at 12.

<sup>4</sup> *Id.*, slip op. at 18, 21.

## WILLFULNESS LAW PRIOR TO IN RE SEAGATE

### Willfulness and the Affirmative Duty of Care

Section 284 of title 35 of the United States Code enables a court, in its discretion, to award enhanced damages up to three times the compensatory award to a successful patentee at trial.<sup>5</sup> Although the statute itself does not set forth the circumstances under which the trebling of damages is appropriate, courts have applied the statute to penalize a defendant for willfully infringing a patent.<sup>6</sup>

Prior to the Federal Circuit's decision in *In re Seagate*, a defendant was liable for willful infringement where, "upon consideration of the totality of the circumstances, clear and convincing evidence establishe[d] that the infringer acted in disregard of the patent," that is, "the infringer had no reasonable basis for believing it had a right to engage in the infringing acts."<sup>7</sup> Courts considered nine factors in assessing whether a defendant had engaged in willful infringement;<sup>8</sup> but they placed particular emphasis on the alleged infringer's investigation into, and good faith belief of, the invalidity and/or noninfringement of the patent.<sup>9</sup> The Federal Circuit further held in *Underwater Devices Inc. v. Morrison-Knudsen Co.* that "[w]here . . . 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

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<sup>5</sup> 35 U.S.C. § 284 (West 2007) (effective Nov. 29, 2000) ("[T]he court may increase the damages up to three times the amount found [by the jury] or assessed [by the court].").

<sup>6</sup> See, e.g., *Electro Med. Sys., S.A. v. Cooper Life Scis., Inc.*, 34 F.3d 1048, 1056 (Fed. Cir. 1994); *Am. Safety Table Co. v. Schreiber*, 415 F.2d 373, 378 (2d Cir. 1969).

<sup>7</sup> *Electro Med. Sys.*, 34 F.3d at 1056.

<sup>8</sup> *Transclean Corp. v. Bridgewood Servs., Inc.*, 290 F.3d 1364, 1377-78 (Fed. Cir. 2002) (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992)). The nine "Read factors" are: (1) deliberate copying; (2) the infringer's investigation into and good faith belief of invalidity or noninfringement of the patent; (3) the infringer's litigation conduct; (4) the infringer's size and financial condition; (5) the closeness of the case; (6) the duration of the misconduct; (7) remedial action by the infringer; (8) the infringer's motivation for harm; and (9) whether the infringer attempted to conceal its misconduct. *Id.*

<sup>9</sup> See, e.g., *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1370-71 (Fed. Cir. 2004) (primarily focusing on the infringer's failure to conduct a sufficient investigation in affirming the district court's enhanced damages award); *Akeva L.L.C. v. Mizuno Corp.*, 243 F. Supp. 2d 418, 420 (M.D.N.C. 2003) ("One of the more important factors of the totality of the circumstances test is whether the alleged infringer obtained a competent opinion from counsel.").

counsel before the initiation of any possible infringing activity.”<sup>10</sup> As a result, a defendant accused of willfully infringing a patent, or even one simply put on notice that a potentially relevant patent exists, often felt compelled to obtain an opinion of counsel regarding the invalidity, unenforceability, and/or noninfringement of the patent.

#### Waiver of Privilege

Under the Federal Circuit’s recent decision in *In re EchoStar*, once an accused infringer asserts the advice-of-counsel defense in response to a claim of willful infringement, the alleged infringer waives certain attorney-client privileges and work-product immunities.<sup>11</sup> The waiver extends not only to the advice on which the accused infringer directly relied, but also to “‘all other communications relating to the same subject matter’” contained in the opinion.<sup>12</sup> Thus, “when [the alleged infringer] chose to rely on the advice of in-house counsel, it waived the attorney-client privilege with regard to any attorney-client communications relating to the same subject matter, including communications with counsel other than in-house counsel . . . .”<sup>13</sup> Similarly, a defendant waives work-product protection for any factual or non-opinion work product relating to the subject matter of the disclosed opinion that is either itself communicated to the defendant or that references or describes communications with the defendant.<sup>14</sup>

After the Federal Circuit’s ruling in *EchoStar*, the district courts split on whether the scope of the attorney-client privilege and work product waiver reached the accused infringer’s trial counsel. Several courts interpreted *EchoStar* as extending the waiver to attorney-client communications between the accused infringer and any counsel, including trial counsel, and to any communications involving the subject matter of the disclosed opinion, e.g.,

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<sup>10</sup> 717 F.2d at 1389-90 (emphasis in original) (citations omitted), overruled on other grounds by *Knorr-Bremse*, 383 F.3d 1337; see also *Minn. Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992) (stating that the affirmative duty of due care “normally requires the potential infringer to obtain competent legal advice before infringing or continuing to infringe”).

<sup>11</sup> See *In re EchoStar Commc’ns Corp.*, 448 F.3d 1294, 1299, 1304 (Fed. Cir. 2006) (“Once a party announces that it will rely on advice of counsel, for example, in response to an assertion of willful infringement, the attorney-client privilege is waived.”), cert. denied, 127 S. Ct. 846 (2006).

<sup>12</sup> *Id.* at 1299 (quoting *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1349 (Fed. Cir. 2005)).

<sup>13</sup> *Id.* (citing *Akeva*, 243 F. Supp. 2d at 423). The court in *EchoStar* did not reach the question of whether the subject matter waiver extended specifically to trial counsel.

<sup>14</sup> *Id.* at 1304. *EchoStar* did not, however, require disclosure of uncommunicated work product that does not reflect client communications. *Id.* at 1303-04.

noninfringement, invalidity, or unenforceability.<sup>15</sup> Other courts refused to adopt such an expansive view of waiver under EchoStar, although the specific contours of the narrower scope of the waiver varied from court to court.<sup>16</sup>

## BACKGROUND

On July 13, 2000, Convoke, Inc. and the Massachusetts Institute of Technology (collectively "Convoke") sued Seagate Technology, LLC ("Seagate"), alleging willful infringement of U.S. Patent Nos. 4,916,635 (the "'635 Patent") and 5,638,267 (the "'267 Patent").<sup>17</sup> Convoke amended its complaint on January 25, 2002, asserting that Seagate also willfully infringed U.S. Patent No. 6,314,473 (the "'473 Patent").<sup>18</sup>

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<sup>15</sup> See, e.g., *Computer Assocs. Int'l, Inc. v. Simple.com, Inc.*, No. 02 Civ. 2748, 2006 U.S. Dist. LEXIS 77077, at \*12-\*13 (E.D.N.Y. Oct. 20, 2006) (mem.) (holding that the extension of waiver to trial counsel is consistent with the Federal Circuit's decision in EchoStar); *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F. Supp. 2d 354, 356 (D. Del. 2006) (mem.) (applying EchoStar and holding that "[w]hen a defendant asserts the advice-of-counsel defense, the attorney-client privilege is waived . . . as to communications with 'litigation counsel,' and any other counsel . . ."); *Beck Sys., Inc. v. ManageSoft Corp.*, No. 05 C 2036, 2006 U.S. Dist. LEXIS 53963, at \*21 (N.D. Ill. July 14, 2006) (mem.) (interpreting EchoStar as extending waiver to all communications between the alleged infringer and any counsel, including trial counsel, regarding the subject matter of the legal advice on which the infringer relies); *Informatica Corp. v. Bus. Objects Data Integration, Inc.*, 454 F. Supp. 2d 957, 964 (N.D. Cal. 2006) (applying the waiver to relevant communications with trial counsel because "EchoStar makes it crystal clear that attorney-client communications on the subject of the opinion [the alleged infringer] relies on for its defense are subject to waiver"), *aff'd*, No. C 02-3378, 2006 U.S. Dist. LEXIS 58976 (N.D. Cal. Aug. 9, 2006).

<sup>16</sup> See, e.g., *Ampex Corp. v. Eastman Kodak Co.*, No. 04-1373, 2006 U.S. Dist. LEXIS 48702, at \*5-\*13 (D. Del. July 17, 2006) (mem.) (refusing to compel the production of all communications between the accused infringer and trial counsel regarding the subject matter of the disclosed opinion of counsel); *Intex Recreation Corp. v. Team Worldwide Corp.*, 439 F. Supp. 2d 46, 53 (D.D.C. 2006) (mem.) (finding that, for trial counsel, waiver only extends to communications that conflict with the relied-upon opinion); *Genentech, Inc. v. Insmmed Inc.*, 442 F. Supp. 2d 838, 847 (N.D. Cal. 2006) (extending waiver to opinions and advice from trial counsel that were central and highly material to the ultimate questions of infringement and invalidity and, thus, to the client's decision to launch and/or continue sale of the accused product, but not ordering disclosure of communications involving trial strategy).

<sup>17</sup> *In re Seagate*, slip op. at 2.

<sup>18</sup> *Id.*

Prior to the initiation of the lawsuit, Seagate had retained Gerald Sekimura to provide an opinion regarding Convolv's patents.<sup>19</sup> On July 24, 2000, shortly after Convolv's complaint was filed, Seagate received its first written opinion from Mr. Sekimura, in which he concluded that many of the claims of the '635 Patent and the '267 Patent were invalid and that Seagate's products did not infringe.<sup>20</sup> The opinion also considered Convolv's pending International Application WO 99/45535 (the "'535 Application"), which recited technology similar to the technology disclosed in the yet-to-be-issued '473 Patent.<sup>21</sup> On December 29, 2000, Mr. Sekimura provided an updated written opinion to Seagate, concluding that the '267 Patent was possibly unenforceable and noting that the '535 Application required further analysis. On February 21, 2003, Seagate received a third written opinion from Mr. Sekimura concerning the validity and infringement of the by-then-issued '473 Patent.<sup>22</sup> Seagate's opinion counsel operated separately and independently from Seagate's trial counsel at all times.<sup>23</sup>

In early 2003, Seagate notified Convolv of its intent to rely on the three opinion letters it had received from Mr. Sekimura in defending against Convolv's willful infringement claims, and Seagate disclosed to Convolv all of Mr. Sekimura's work product and made him available for deposition.<sup>24</sup> Convolv then moved to compel discovery of any communications and work product of Seagate's other counsel, including trial counsel.<sup>25</sup> On May 28, 2004, the trial court concluded that, by asserting the advice-of-counsel defense, Seagate had waived the attorney-client privilege for all communications between it and any counsel, including its trial counsel and in-house counsel,<sup>26</sup> concerning the subject matter of Mr. Sekimura's opinions, i.e., infringement, validity, and enforceability.<sup>27</sup> The trial court further determined that the waiver began when Seagate first learned of the patents at issue and would last until the alleged

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<sup>19</sup> Id.

<sup>20</sup> Id.

<sup>21</sup> Id.

<sup>22</sup> Id.

<sup>23</sup> Id., slip op. at 3.

<sup>24</sup> Id.

<sup>25</sup> Id.

<sup>26</sup> The Federal Circuit did not address those portions of the trial court's discovery orders pertaining to in-house counsel, as Seagate sought relief only with respect to its trial counsel. Id., slip op. at 3 n.2.

<sup>27</sup> Id., slip op. at 3.

infringement ended. The court also concluded that protection of work product communicated to Seagate had been waived.<sup>28</sup>

In response, Convolve sought the production of the opinions of Seagate's trial counsel relating to infringement, validity, and enforceability of the patents, and noticed depositions of the trial counsel.<sup>29</sup> After the trial court denied Seagate's motion for a stay and refused to certify an interlocutory appeal, Seagate petitioned the Federal Circuit for a writ of mandamus.<sup>30</sup> The Federal Circuit stayed the discovery orders and ordered en banc review of Seagate's petition, requesting that the parties address three questions:

- "Should a party's assertion of the advice of counsel defense to willful infringement extend waiver of the attorney-client privilege to communications with that party's trial counsel?"
- "What is the effect of any such waiver on work-product immunity?"
- "Given the impact of the statutory duty of care standard announced in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), on the issue of waiver of attorney-client privilege, should this court reconsider the decision in *Underwater Devices* and the duty of care standard itself?"<sup>31</sup>

#### THE FEDERAL CIRCUIT'S OPINION

##### Replacing the Affirmative Duty of Due Care with an Objective Recklessness Standard

In a unanimous decision written by Judge Mayer, the Federal Circuit sitting en banc overruled *Underwater Devices Inc. v. Morrison-Knudsen Co.* and abandoned the affirmative duty of due care as well as a subjective standard for determining willfulness. In their place, the court held that "to 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."<sup>32</sup> Moreover, the court held that this proof must

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<sup>28</sup> Id., slip op. at 3-4.

<sup>29</sup> Id., slip op. at 4.

<sup>30</sup> Id.

<sup>31</sup> Id.

<sup>32</sup> Id., slip op. at 12. While Judge Gajarsa agreed with the court's decision to grant Seagate's writ of mandamus, Judge Gajarsa argued that the court should go even further and hold that a plaintiff

demonstrate “objective recklessness.”<sup>33</sup> The court found that the lower threshold for willful infringement set forth in *Underwater Devices*, which was more akin to a negligence standard, did not comport with the general understanding of willfulness in the civil context<sup>34</sup> and was inconsistent with Supreme Court precedent regarding punitive damages.<sup>35</sup>

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need not prove willfulness at all in order to be entitled to enhanced damages under Section 284, instead leaving the discretion to enhance damages entirely “in the capable hands of the district courts.” *Id.*, concurring slip op. at 1 (Gajarsa, J., concurring). In Judge Gajarsa’s opinion, the discretionary enhancement of damages for remedial purposes, irrespective of the defendant’s state of mind, is appropriate and consistent with Congress’s overriding purpose of affording patent owners complete compensation. *Id.*, concurring slip op. at 4-13 (Gajarsa, J., concurring).

<sup>33</sup> *Id.*, slip op. at 12.

<sup>34</sup> *Id.*, slip op. at 10-11. For example, the courts have consistently defined willful infringement under the Copyright Act as requiring at least reckless behavior. *Id.*, slip op. at 10.

<sup>35</sup> *Id.*, slip op. at 11. The Supreme Court recently addressed the meaning of willfulness as a statutory condition of civil liability for punitive damages in *Safeco Insurance Co. of America v. Burr*, 127 S. Ct. 2201 (2007). “[T]he Court concluded that the ‘standard civil usage’ of ‘willful’ includes reckless behavior” and that this definition “comports with the common law usage, ‘which treated actions in ‘reckless disregard’ of the law as ‘willful’ violations.’” In *re Seagate*, slip op. at 11 (quoting *Safeco*, 127 S. Ct. at 2208-09).

Consistent with the objective nature of the new standard, the court further held that the state of mind of the accused infringer is not relevant to the issue of willfulness.<sup>36</sup> The inquiry will be whether a reasonable person would be reckless in concluding he could continue the allegedly infringing activity given the facts established by the patentee on infringement and validity. Once this threshold objective standard is satisfied, the patentee must then “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.”<sup>37</sup> In other words, the patentee must establish that the facts that underlie the proof satisfying the threshold standard of recklessness were known (or should have been known) to the alleged infringer before the patentee filed suit.

#### Waiver Generally Does Not Extend to Trial Counsel

The Federal Circuit also held that, in general, “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.”<sup>38</sup> The court reasoned that, because of the significantly different functions of trial counsel and opinion counsel, the situation does not present the classic “sword and shield” concerns that would mandate broad subject matter waiver.<sup>39</sup> Furthermore, the court found that the policies weighing against extending waiver to trial counsel were compelling, stating that “[i]n most cases, the demands of our adversarial system of justice will far outweigh any benefits of extending waiver to trial counsel.”<sup>40</sup> The court also reasoned that, “[b]ecause willful infringement in the main must find its basis in prelitigation conduct, communications of trial counsel have little, if any, relevance warranting their disclosure.”<sup>41</sup>

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<sup>36</sup> Id., slip op. at 12.

<sup>37</sup> Id. While the Federal Circuit left further development of this new willfulness standard to future cases, the court also stated it expects that standards of fair commerce will be among the factors a court might consider, as Judge Newman suggested in her concurring opinion. Id., slip op. at 12 & n.5; id., concurring slip op. at 2 (Newman, J., concurring).

<sup>38</sup> Id., slip op. at 18.

<sup>39</sup> Id., slip op. at 15.

<sup>40</sup> Id., slip op. at 16.

<sup>41</sup> Id., slip op. at 18. The court also stated that, when an accused infringer’s post-filing conduct is reckless, the patentee can move for a preliminary injunction, which generally provides an adequate remedy. Id., slip op. at 16-17.



Similarly, the Federal Circuit held that, under most circumstances, asserting the advice-of-counsel defense does not waive the work product of trial counsel,<sup>42</sup> arguing that the rationales that support limiting waiver of the attorney-client privilege with regard to trial counsel apply “with even greater force to so limiting work product waiver because of the nature of the work product doctrine.”<sup>43</sup> The court reasoned that “[p]rotecting lawyers from broad subject matter waiver of work product . . . ‘strengthens the adversary process, and . . . may ultimately and ideally further the search for the truth.’”<sup>44</sup> Furthermore, because trial counsel’s mental processes “enjoy the utmost protection from disclosure,” the court found that “a scope of waiver commensurate with the nature of such heightened protection is appropriate.”<sup>45</sup>

The court cautioned, however, that protection of communications with trial counsel and the work product of trial counsel is not absolute. “[T]rial courts remain free to exercise their discretion in unique circumstances to extend waiver to trial counsel, such as if a party or counsel engages in chicanery.”<sup>46</sup> Nevertheless, the court’s decision provides substantially greater protections for the attorney-client privilege and work-product immunity than were previously enjoyed by patent defendants.

#### THE CONSEQUENCES OF IN RE SEAGATE

##### The Decision’s Likely Implications

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<sup>42</sup> Id., slip op. at 21. However, the court also noted that the general principles of work product protection remain in force, so that a party may obtain discovery of work product absent waiver upon a sufficient showing of need and hardship (or upon meeting the higher burden for discovery of work product pertaining to an attorney’s mental processes). Id.

<sup>43</sup> Id., slip op. at 19-20.

<sup>44</sup> Id., slip op. at 20 (quoting *In re Martin Marietta Corp.*, 856 F.2d 619, 626 (4th Cir. 1988)).

<sup>45</sup> Id. (citing *Martin Marietta*, 856 F.2d at 625-26). The Federal Circuit also noted that the United States Supreme Court has approved of narrowly restricting the scope of work product waiver. Id., slip op. at 20-21 (discussing a criminal case, *United States v. Nobles*, 422 U.S. 225 (1975), in which the Supreme Court “approvingly noted the ‘quite limited’ scope of waiver imposed by the trial court and its refusal to allow a general ‘fishing expedition’ into the defense files or even the investigator’s report”).

<sup>46</sup> Id., slip op. at 18; see also id., slip op. at 21. The opinion does not explain what it means by “chicanery.”

By overruling *Underwater Devices* and creating a new heightened standard for willful infringement that is objective in nature, the Federal Circuit's opinion in *In re Seagate* should have a considerable impact on patent litigation in several regards.

The Federal Circuit's reluctance to extend waiver of the attorney-client privilege to trial counsel in most cases removes much of a defendant's prior disincentive to rely on an advice-of-counsel defense. It appears unlikely, however, that this will lead to an increased use of the defense because the holding of *In re Seagate* significantly dilutes the value of the advice-of-counsel defense. The court's new test is an objective one. An infringer's state of mind—and, thus, any communications with opinion counsel offered to show the infringer's state of mind—is not relevant. As a result, it seems likely that accused infringers will assert an advice-of-counsel defense rarely, if at all.

The court further notes that, at the time a complaint is filed, a patentee must already have a "good faith basis for alleging willful infringement" under Rule 11.<sup>47</sup> It is unclear how this rule will play out in practice. Given the objectively high standard announced by the court, a plaintiff must have a Rule 11 basis for believing that its infringement case and the validity of its patent are such that it would be "objectively reckless" for a reasonable person to continue the allegedly infringing activity. Before asserting a claim of willfulness, at a minimum this standard should require plaintiffs to have completed detailed claim charts establishing their case on infringement, or have some other solid factual basis for making the claim (e.g., the accused infringer admitted to using an industry standard that is known to practice the patented invention). District courts may determine that providing detailed information concerning alleged infringement and validity (i.e., extensive claim charts) prior to the litigation will be necessary to plead willfulness after *In re Seagate*,<sup>48</sup> putting patentees attempting to draft cease and desist letters without exposing themselves to declaratory judgment actions in an uncomfortable position following *Sandisk Corp. v. STMicroelectronics, Inc.*<sup>49</sup>

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<sup>47</sup> *Id.*, slip op. at 16.

<sup>48</sup> After the litigation begins, a patentee should still be entitled to non-privileged discovery on willfulness under the "objective recklessness" standard, such as whether the alleged infringer was aware of the patent before the litigation started. The patentee, if it is able to obtain and develop this evidence throughout the course of the litigation, will presumably be able to amend its complaint to add a willfulness claim later, even if there is no Rule 11 basis for alleging willfulness at the time the complaint is filed.

<sup>49</sup> 480 F.3d 1372 (Fed. Cir. 2007). The currently proposed Patent Reform Act would similarly require a patentee to provide detailed claim charts as a prerequisite to showing willfulness. See generally S. 1145, 110th Cong. (2007); H.R. 1908, 110th Cong. (2007).

The opinion further diminishes the likelihood that a patentee will succeed on a willfulness claim by according virtually no value to post-litigation information to which the alleged infringer has been exposed. The opinion holds that, “in ordinary circumstances, willfulness will depend on an infringer’s prelitigation conduct.”<sup>50</sup> The court further held: “[W]illful infringement in the main must find its basis in prelitigation conduct . . . .”<sup>51</sup> Under the court’s new standard, communications with trial counsel after the litigation begins “have little, if any, relevance,” and even post-litigation opinions from opinion counsel are of “marginal value.”<sup>52</sup>

Indeed, if a patentee intends to rely on the accused infringer’s post-litigation conduct to support a claim for enhanced damages, the court instructs the patentee to “move for a preliminary injunction.”<sup>53</sup> “A patentee who does not attempt to stop an accused infringer’s activities in this manner should not be allowed to accrue enhanced damages based solely on the infringer’s post-filing conduct.”<sup>54</sup> Following this guidance, patentees may perceive a need to file more motions for preliminary injunctions, seeking to preserve the right to pursue enhanced damages based on post-filing conduct.

#### How Will Trial Courts Apply the New Standard?

The court gave essentially no guidance on how its two-step test should be applied at trial.<sup>55</sup> Because the first part of the test is objective, the proof at trial will be directed to what a reasonable person or entity, applying commercial standards, would conclude based on facts

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<sup>50</sup> In re Seagate, slip op. at 16.

<sup>51</sup> Id., slip op. at 18 (emphasis added).

<sup>52</sup> Id.

<sup>53</sup> Id., slip op. at 17 (citing 35 U.S.C. § 283; Amazon.com, Inc. v. Barnesandnoble.com, Inc., 239 F.3d 1343, 1350 (Fed. Cir. 2001)).

<sup>54</sup> Id.

<sup>55</sup> In discussing preliminary injunctions, the court provides some insight into how it expects district courts to apply the recklessness standard. The court held: “A substantial question about invalidity or infringement is likely sufficient not only to avoid a preliminary injunction, but also a charge of willfulness based on post-filing conduct.” Id. The “lessened showing” of a “substantial question” of noninfringement or invalidity necessary to support a successful opposition to a preliminary injunction motion “accords with the requirement that recklessness must be shown to recover enhanced damages.” Id.

introduced at trial. The patentee will have to demonstrate by clear and convincing evidence that it would be “objectively reckless” for a reasonable person in the alleged infringer’s position to continue the infringing activity. Given the inherent uncertainties in claim construction and validity, particularly with regard to obviousness in light of the Supreme Court’s decision in *KSR International Co. v. Teleflex Inc.*,<sup>56</sup> establishing this threshold objective standard will be difficult. Moreover, the proof on this aspect of the test will, of necessity, mirror to a large extent the proof the patentee will present in support of the underlying case. In light of the “objectively reckless” portion of the test, only the clearest case of infringement and validity would seem to satisfy the standard. Put another way, so long as the defendant demonstrates non-frivolous noninfringement and/or invalidity arguments, it is unlikely that its decision to continue the allegedly infringing activity could be considered “objectively reckless.”<sup>57</sup>

If the patentee can meet this threshold standard, it must then show that, at the time the complaint was filed, the infringer knew—or that it was so obvious the infringer should have known—the facts established to meet the threshold standard. In other words, the patentee has to prove the accused infringer knew (or should have known) all of the facts that support the patentee’s showing that it would be “objectively reckless” for a reasonable person in the infringer’s position to conclude he or she could continue the allegedly infringing activity.

In addition to the extraordinarily high burden the court’s new standard places on patent plaintiffs, the test will also create a virtual “trial within a trial” that introduces a host of unique procedural issues for the trial courts to resolve. For example, is it proper for a jury to determine that certain claim construction positions are frivolous or, since claim construction is a matter of law, will that be a decision for the court? Since the ultimate judgment of obviousness is a legal determination,<sup>58</sup> will the court or the jury decide whether it would be “objectively reckless” for a person to believe that a patent was invalid under Section 103? Undoubtedly, different trial courts will provide a variety of responses to these issues and others. It will be some time before the issues are resolved in the Federal Circuit.

#### The Court’s Holding on Waiver of Privilege

Although it resolves many of the issues left open by *EchoStar*—and ensures that the attorney-client privilege will be preserved in patent cases—the court’s holding with respect to waiver of privilege also creates an opportunity for confusion. Even though communications with

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<sup>56</sup> 127 S. Ct. 1727 (2007).

<sup>57</sup> This reality brings the majority decision close to Judge Gajarsa’s concurring opinion, which is discussed below.

<sup>58</sup> *KSR Int’l Co.*, 127 S. Ct. at 1745.

trial counsel after the litigation begins are now irrelevant, the court still permits patentees to introduce opinions of counsel obtained before litigation started. Yet, the court concludes that communications with trial counsel covering the same subjects as the opinion of counsel are shielded from discovery. Thus, an alleged infringer is still in the position of being able to rely on an opinion of counsel while preventing the patentee from discovering contemporaneous communications with trial counsel that may undermine the conclusions of the opinion.

As discussed above, this may be of little consequence in practice because the court's opinion essentially eliminates any incentive for an accused infringer to seek advice of counsel in the first instance since the subjective intent of the infringer is not relevant. Indeed, infringers now have precisely the opposite incentive: the less they know, the better.

#### Judge Gajarsa's Concurrence

Judge Gajarsa, in his concurrence, sets out a logical framework that is consistent with the underpinnings of willfulness jurisprudence, and that focuses on the merits of each case. The concurrence argues that willfulness should hinge on whether or not the alleged infringer puts on any non-frivolous defenses at trial.<sup>59</sup> If the alleged infringer has a reasonable argument with respect to noninfringement or invalidity (even if that argument ultimately turns out to be wrong), the alleged infringer as a matter of law "cannot be found to have willfully infringed, regardless of any evidence of its subjective beliefs."<sup>60</sup> Judge Gajarsa notes that, in his view, this proposed formulation is "consistent with" the majority opinion.<sup>61</sup> Judge Gajarsa's approach also resolves most of the thorny issues left open by the court's opinion, focusing the willfulness determination on the merits of an alleged infringer's defenses at trial rather than extraneous issues such as the alleged infringer's awareness and investigation of the patent before litigation begins.<sup>62</sup>

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<sup>59</sup> In re Seagate, concurring slip op. at 14-15 (Gajarsa, J., concurring).

<sup>60</sup> Id., concurring slip op. at 15 (Gajarsa, J., concurring).

<sup>61</sup> Id., concurring slip op. at 14 (Gajarsa, J., concurring).

<sup>62</sup> Judge Gajarsa's concurrence does not fully resolve the problems left open by the majority opinion. Because his proposed solution would likely avoid any waiver of privilege issues in most cases (by rendering opinions of counsel of very little significance), see generally id., concurring slip op. at 15 (Gajarsa, J., concurring), he does not even reach the privilege issue. Id. However, in a willfulness jurisprudence focused on the merits of an alleged infringer's defenses, waiver issues should arise even less often than under the court's test.

The patent statute expressly leaves it to the discretion of the lower courts to determine when to impose treble damages.<sup>63</sup> Similarly, the *In re Seagate* majority states that “[w]e leave it to future cases to further develop the application of” the standard it announces.<sup>64</sup> If district courts choose to follow Judge Gajarsa’s merits-based approach in applying the court’s decision, the *In re Seagate* opinion may succeed in bringing a level of order and predictability to the previously chaotic world of willfulness jurisprudence.

#### Application of the Court’s New Willfulness Standard

On August 31, 2007, the feasibility of the Federal Circuit’s new willfulness standard was put to the test when Judge Woodlock of the District of Massachusetts provided what appears to be its first substantive application. In *Cohesive Technologies, Inc. v. Waters Corp.*,<sup>65</sup> the court first quoted *Seagate*’s holding regarding “objective recklessness” and then set out a number of factors courts should consider in determining whether infringement is willful:

(1) whether there was a bona fide disagreement regarding patent invalidity or infringement, (2) whether the infringer solicited or followed the advice of counsel, (3) whether there was continued infringement after notice of probable infringement was received, (4) whether there was a degree of similarity between the patented and accused devices, (5) whether the infringer took efforts to avoid infringement, and (6) whether the infringer was indemnified against infringement costs.<sup>66</sup>

It is not clear whether these six factors are based on the court’s interpretation of *In re Seagate*, its interpretation of preexisting willfulness law, a combination of both, or the court’s own willfulness formulation. The court did not cite any authority for this test, and it does not appear to come directly from any prior case law.

Nevertheless, applying these factors, the *Cohesive Technologies* court held that plaintiff had failed to prove willful infringement where defendant did not copy plaintiff’s patent, defendant’s in-house counsel drafted an opinion of non-infringement in good faith based upon scientific experiments prior to the litigation, and there was a bona fide dispute over whether defendant’s product infringed.<sup>67</sup> The court held that defendant “engaged in

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<sup>63</sup> See 35 U.S.C. § 284.

<sup>64</sup> *In re Seagate*, slip op. at 12.

<sup>65</sup> Nos. 98-12308-DPW, 99-11528-DPW, 01-12307-DPW, 2007 WL 2746805 (D. Mass. Aug. 31, 2007).

<sup>66</sup> *Id.* at \*16.

<sup>67</sup> *Id.* at \*16-\*19.

sufficient due diligence in determining whether its product would infringe to convince me that its effort to avoid infringement was in good faith . . . . [I]t manufactured the accused [product] only after satisfying its obligation to ensure there was not a high likelihood, considered both objectively and subjectively, that its actions would constitute infringement.”<sup>68</sup> The court concluded that, because there was “a material dispute of fact” as to infringement and because “a reasonable jury could find” that defendant did not infringe, its conduct was not willful.<sup>69</sup>

Thus, at least one court appears to have interpreted the willfulness test set forth in *In re Seagate* in much the same way Judge Gajarsa did: if a reasonable person could conclude that a patent defendant does not infringe, there cannot be a willfulness finding under *In re Seagate*. However, Cohesive Technologies’ apparent creation of a new six-factor test untethered to *In re Seagate*, and its reliance on the defendant’s “good faith” and “subjective” intent in rejecting the plaintiff’s willfulness claim, suggest that the Cohesive Technologies court did not properly apply the teaching of *In re Seagate*.

Cases since Cohesive Technologies have been similarly inconsistent in their application of the court’s new standard. In *VNUS Medical Technologies, Inc. v. Diomed Holdings, Inc.*,<sup>70</sup> defendants AngioDynamics, Vascular Solutions, Inc. (“VSI”) and Diomed Holding, Inc. (“Diomed”) filed motions for summary judgment arguing that plaintiff lacked evidence to establish that they had willfully infringed plaintiff’s patents.<sup>71</sup> Judge Chesney of the Northern District of California appeared to take a subjective approach to willfulness in denying defendant Diomed’s motion for summary judgment on willfulness. She held that, because plaintiff had introduced evidence that Diomed possessed actual knowledge of the patents at issue and continued to sell the allegedly infringing products thereafter, there was a triable issue of fact on willfulness.<sup>72</sup> Similarly, the court held that the two opinions of counsel on which Diomed had relied were “preliminary” and lacked any factual and legal analysis, and were therefore insufficient to grant summary judgment on willfulness.<sup>73</sup> Finally, in further apparent tension with the holding in *In re Seagate* that the willfulness determination should be a purely objective one, the court rejected without any extensive analysis Diomed’s argument that

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<sup>68</sup> Id. at \*17 (emphasis added).

<sup>69</sup> Id. at \*18.

<sup>70</sup> No. C-05-2972 MMC, 2007 WL 3165548 (N.D. Cal. Oct. 24, 2007).

<sup>71</sup> Id. at \*1.

<sup>72</sup> Id. at \*2-\*4.

<sup>73</sup> Id.

because it had “raised . . . ‘substantial defenses’” on the merits, it could not be found to have willfully infringed.<sup>74</sup> It is not clear, however, to what extent the parties’ substantive infringement and validity arguments had been developed at this stage of the proceedings.

In *TGIP, Inc. v. AT&T Corp.*,<sup>75</sup> decided just five days later, Judge Clark of the Eastern District of Texas seemed to take a very different approach in granting defendant AT&T’s renewed motion for judgment as a matter of law on willfulness after an adverse jury verdict. Though the court found that AT&T’s reliance on opinion letters “would not conclusively prove that AT&T was objectively reasonable” if AT&T still had the burden of proof under the old standard, the burden was now on plaintiff to show objective recklessness.<sup>76</sup> The court held that plaintiff’s “scintilla” of evidence of willfulness—consisting of pre-suit notice letters and the jury verdict itself—failed to meet that burden.<sup>77</sup> Unlike Judge Chesney’s approach in *VNUS*, the court in *TGIP* focused almost exclusively on the merits of AT&T’s defenses, finding the closeness of the case dispositive:

Even though AT&T ultimately did not prove its invalidity defense by clear and convincing evidence, its position was hardly objectively unreasonable. The patentee was concerned enough to ask for reexamination of the 768 patent, and to delay taking action on the 114 patent for six years. In fact, the USPTO did require changes to the 768 patent.

Likewise, it cannot be said there is clear and convincing evidence that it was known or obvious that there was an objectively high likelihood that AT&T’s non-infringement position was incorrect. Even if the jury’s finding of infringement is ultimately upheld, it was, at best, a very close question. Reasonable persons, properly instructed

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<sup>74</sup> Id. at \*3 n.5. The court held in a footnote only that the plaintiff’s mere failure to move for summary judgment on invalidity did not establish that Diomed had raised substantial defenses. Judge Chesney did not examine the merits of Diomed’s defenses at all, as *In re Seagate* seems to require. See id. And the court appeared to take a similarly subjective approach with respect to Diomed’s co-defendants, granting their motions for summary judgment on willfulness because plaintiff had not introduced sufficient evidence that these defendants knew about the patents and copied them—not because those defendants had offered non-frivolous defenses.

<sup>75</sup> Civil Action No. 2:06-CV-105, 2007 WL 3194125 (E.D. Tex. Oct. 29, 2007).

<sup>76</sup> Id. at \*13.

<sup>77</sup> Id.



and exercising impartial [judgment], could not find by clear and convincing evidence that AT&T acted in the face of an unjustifiably high risk of harm that was either known, or so obvious that it should have been known.<sup>78</sup>

Thus, the court in TGIP appears to have come much closer to applying the merits-based approach advocated for by Judge Gajarsa than the seemingly subjective test employed by Judge Chesney in VNUS, which focused on knowledge of the patent and the sufficiency of the opinions of counsel the defendant relied on.

Finally, in *Informatica Corp. v. Business Objects Data Integration, Inc.*,<sup>79</sup> Magistrate Judge Laporte of the Northern District of California appeared generally to follow the objective approach laid out in cases like TGIP, although under slightly different procedural circumstances. In *Informatica* the jury had found willful infringement prior to the Federal Circuit's ruling in *In re Seagate*, and the court had awarded a modest enhancement based on the totality of the circumstances test previously set forth in *Read Corp. v. Portec, Inc.*<sup>80</sup> Defendant Business Objects filed a renewed motion for judgment as a matter of law after *In re Seagate*, which the court denied.<sup>81</sup>

Nevertheless, the court held that, particularly in light of the now higher standard for showing willfulness under *In re Seagate*, enhanced damages were inappropriate because of the closeness of the case: "[W]illfulness was a close question given the uncertainty of how the claims would be construed in the software patents at issue and the evolution of Informatica's infringement theory . . . . The invalidity defense was also a somewhat close question. Although the jury resolved these issues in favor of Informatica, this result is not determinative of whether the questions were closely balanced and hotly contested."<sup>82</sup> While decided in a somewhat different procedural posture, *Informatica* thus again appears to hew more toward basing the willfulness determination on the merits of the defendant's non-infringement and invalidity cases, and not on subjective factors such as the defendant's knowledge of the patent.

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<sup>78</sup> *Id.*

<sup>79</sup> No. C 02-03378 EDL, 2007 WL 3203062 (N.D. Cal. Oct. 29, 2007).

<sup>80</sup> 970 F.2d at 826-27; see *Informatica*, 2007 WL 3203062, at \*5.

<sup>81</sup> *Informatica*, 2007 WL 3203062, at \*1, \*4.

<sup>82</sup> *Id.* at \*5.

There are no simple principles that may be crystallized from the early decisions that have come down since *In re Seagate*. At least to this point, *In re Seagate* has provided no further certainty as to how lower courts will analyze willfulness, or even what the willfulness finding will be based on. Some courts continue to examine willfulness subjectively, focusing on factors such as knowledge of the patent and good-faith reliance on opinions of counsel, while others take an objective approach that concentrates on the merits of the parties' infringement and validity cases. Early commentators have been similarly divided, with some writers arguing that a subjective component remains under *In re Seagate* and others contending with equal certainty that the test is now a purely objective one.<sup>83</sup> It remains to be seen whether the lower court decisions and commentary that follow will faithfully adhere to the plain language of *In re Seagate*'s objective test, or revert to the very inconsistency *In re Seagate* was trying to avoid.

For further information concerning the matters discussed in this memorandum, please feel free to contact members of the Firm's Intellectual Property Department, including:

George M. Newcombe (650-251-5050 gnewcombe@stblaw.com)

Henry B. Gutman (212-455-3180 hgutman@stblaw.com)

Robert Bourque (212-455-3595 rbourque@stblaw.com)

Kerry Konrad (212-455-2663 kkonrad@stblaw.com)

Jeffrey E. Ostrow (650-251-5030 jostrow@stblaw.com)

Lori Lesser (212-455-3393 llesser@stblaw.com)

Harrison J. Frahn IV (650-251-5065 hfrahn@stblaw.com)

Patrick E. King (650-251-5115 pking@stblaw.com)

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<sup>83</sup> Indeed, commentators' seemingly inconsistent interpretations of *In re Seagate* sometimes occur within the same publication. Compare, e.g., *After Seagate: The New Legal Standard for Willfulness*, IPLaw360, at 2-3 (Portfolio Media, Oct. 5, 2007) ("The reference to the risk of infringement being 'known,' as with all tests of recklessness, provides that a sufficient and culpable mental state is shown where the infringer acts with respect to the high risk of infringement with a 'conscious disregard' of the risk of infringement . . . . This is an explicit subjective test. Thus, all information about the risk of infringement that the infringer actually had is relevant, including warnings and "'notice letters.'") (emphasis added) with Kenneth W. Brothers, *Seagate Curtails Claims for Willful Infringement*, IPLaw360 (Portfolio Media, Aug. 21, 2007) ("[T]he test for willfulness is now purely objective, and never subjective.") (emphasis added); see also, e.g., Lynn Malinoski, *Seagate: A Sea Change in Willful Patent Infringement Law*, Legal Intelligencer 5 (Am. Lawyer Media, Sept. 19, 2007) ("[A]fter Seagate there is no longer an affirmative duty of care, and the infringer's state of mind – its good faith belief – is irrelevant.").