



PATENT HAPPENINGS

SPECIAL REPORT — IN RE SEAGATE

A publication by **LATIMER, MAYBERRY & MATTHEWS IP LAW, LLP**
on judicial, legislative, and administrative developments in patent law.

JUDICIAL HAPPENINGS

In re Seagate and its Questions

a.) New Standard for Willful Infringement

In unanimous opinion of the *en banc* court¹, the Federal Circuit overruled almost twenty-five years of its basic precedent for willful infringement. Since the 1983 opinion in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), the court had held that where “a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing.” *Id.* at 1389. This duty of due care normally required the potential infringer to obtain an opinion of counsel that its conduct did not infringe the patent or that the patent claims were invalid. *Id.* at 1390. The “affirmative duty of due care” formed the backbone of the court’s willful infringement jurisprudence. But in *In re Seagate Technology*, Misc. Dckt. No. 830, 2007 WL 2358677 (Fed. Cir. Aug. 20, 2007) (*en banc*), the court overruled *Underwater Devices*, and abandoned the standard of an “affirmative duty of due care.” *Id.* at *5.

The Federal Circuit considered recent Supreme Court precedent construing non-patent statutes that provided penalties for “willful” conduct and required that conduct meriting the penalty had to rise to the level of “objective recklessness,” rather than mere negligence. In view of this precedent, the Federal Circuit concluded that the affirmative duty of due care improperly permits imposition of enhanced damages (something the court views as being a penalty)² for mere negligence in proceeding with potentially infringing conduct. *Id.* Accordingly, the court held

that the affirmative duty of due care no longer applies as the test for willfulness. *Id.* Instead, the court adopted a new two-part test for finding willful infringement.

Under the new standard, “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.” *Id.* For this prong, “[t]he state of mind of the accused infringer is not relevant. . .” *Id.* If the patentee satisfies this objective threshold, it 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.” *Id.*

Probably because the court considered the issue in the context of a discovery dispute, and not in the context of an actual ruling on willful infringement³, the court’s analysis provides little guidance on how to assess and apply the two prongs in practice. For example, the court did not explain how the new standard would operate in the face of deliberate copying or continued infringing activity in the wake of actual notice to the accused infringer from the patentee; the classic examples where prior Federal Circuit precedent would generally uphold a finding of willful infringement and enhancement of damages.⁴ Indeed, the court stated it would wait for “future cases to further develop the application of this standard.” *Id.* Nonetheless, it did note that “the standards of commerce would be among the factors a court might consider.” *Id.* at n.5.

¹ Only ten members of the court participated in the case. Judges Michel and Moore did not participate.

² *Delta-X Corp. v. Baker Hughes Prod. Tools, Inc.*, 984 F.2d 410, 413 (Fed. Cir. 1993) (“Enhanced damages are punitive, not compensatory.”)

³ The court concluded that it was not deciding a hypothetical case or rendering an advisory opinion because the legal standard for determining willful infringement has relevance to the discovery dispute the parties had appealed. *Id.* at *6.

⁴ See generally, Robert A. Matthews, Jr., 5 ANNOTATED PATENT DIGEST § 31:60

Elsewhere in the opinion, the court referred to the strength of the parties' showing of infringement and invalidity as factors relevant to determining whether there is an "objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* at *8. Indeed, given that the accused infringer's state of mind has no relevance to the objective prong, *id.* at *5, the strength of the infringement case appears to be the only factor left for a court to consider. As an example of the analysis considering the strength of the infringement case in the context of alleged willful infringement arising from post-filing conduct, the Federal Circuit instructed that if the patentee failed to move for a preliminary injunction or failed to obtain a preliminary injunction to stop the post-filing conduct, that would tend to show that the patentee could not have met the "objectively high likelihood" standard. *Id.* at *8. According to the court, "if a patentee attempts to secure injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness." *Id.* Additionally, the court instructed that "[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.* Hence, it appears that the standard of an "objectively high likelihood that its actions constituted infringement of a valid patent" focuses on the strength of the infringement charges and the accused infringer's inability to raise any legitimate defenses. Judge Gajarsa's concurring opinion provides additional support for this view of the standard where he summarized the new test as follows:

[the patentee] must show, by clear and convincing evidence, (1) that [the accused infringer]'s theory of noninfringement/invalidity, was not only incorrect, but was *objectively unreasonable*, and (2) that [the accused infringer] ran a risk of infringing [the patentee]'s patents substantially greater than the risk associated with a theory of noninfringement/invalidity that was merely careless.

Id. at *17 (emphasis added).

Although Judge Newman joined the court's opinion, she wrote separately in a concurring opinion to state her concerns that the "objectively reckless" standard may be construed as permitting intentional disregard for a patentee's rights in some circumstances. She stated:

Although new uncertainties are introduced by the court's evocation of "objective standards" for such inherently subjective criteria as "recklessness" and

"reasonableness," I trust that judicial wisdom will come to show the way, in the common-law tradition. The standards of behavior by which a possible infringer evaluates adverse patents should be the standards of fair commerce, including reasonableness of the actions taken in the particular circumstances. It cannot be the court's intention to tolerate the intentional disregard or destruction of the value of the property of another, simply because that property is a patent; yet that standard of "recklessness" appears to ratify intentional disregard, and to reject objective standards requiring a reasonable respect for property rights. The fundamental issue remains the reasonableness, or in turn the culpability, of commercial behavior that violates legally protected property rights.

Id. at *18 (Newman, J., *concurring*).

b.) Unanswered Questions on the New Standard

Undoubtedly future cases will have to sort out and address the many unanswered questions regarding how the new willfulness standard will apply in litigation. For example, what facts will apply in analyzing whether the patentee showed an "objectively high likelihood that [the accused infringer's] actions constituted infringement of a valid patent"? Should the objective analysis (i.e., how a reasonably prudent business person would view the facts) be limited to those facts known to the accused infringer? Or should the analysis additionally include all facts readily ascertainable by a reasonable business person, even if not known by the accused infringer? Are such facts limited to those known or ascertainable when infringement first began, or can later-developed facts be used in the analysis?⁵ If later-developed facts may be used, does that make litigation defenses more relevant to the analysis?⁶ Should the "objectively

⁵ See *Silby v. Foote*, 55 U.S. 218, 223 (1852) (stating that it feared accused infringers "too often . . . infringe first, and look for defenses afterwards"). But see *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus. Inc.*, 508 U.S. 49, 65 (1993) [hereinafter *PRE*] (permitting use of later-developed case law to show probable cause to defeat a sham litigation claim).

⁶ In the sham litigation context, the law holds that objective unreasonableness of a plaintiff's claim is not determined based on the circumstances existing at the conclusion of the lawsuit, where the plaintiff has lost, but on how the claim appeared when the plaintiff filed the lawsuit. See *Filmtec Corp. v. Hydranautics*, 67 F.3d 931, 938 (Fed. Cir. 1995). Under *Seagate*, should this standard apply to litigation defenses asserted when the accused infringer files its answer and before those defenses have been challenged by the patentee? How should the Federal Circuit's reference in *Seagate* to a showing of a "substantial question" of

baseless” standard for analyzing sham litigation infringement claims⁷ apply in assessing an accused infringer’s noninfringement or invalidity defenses under the patentee’s burden to prove “objectively reckless” conduct? Should the court or the jury assess whether the patentee’s evidence meets the “objectively reckless” standard?⁸ Should the courts routinely stay discovery on the second prong of the standard — the accused infringer knew, or should have known of, the objectively high risk of infringement — until the patentee proves there was an objectively high risk of infringement?⁹ Will accused infringers find summary judgment a more accessible means of disposing of willful infringement claims? As shown by the foregoing, which barely begins to address the multitude of questions creative litigants will raise in the future, the adoption of the new willfulness standard will take much time and effort on the part of the judiciary, litigants, and commentators to sort out and resolve.

c.) Continued Need for Opinions of Counsel

Extending the notion of *Knorr*,¹⁰ that an accused infringer should not always have to obtain an opinion of counsel or else face the possibility of enhanced damages, the Federal Circuit, as part of abandoning the

validity or noninfringement, as done in preliminary injunction proceedings where both sides have at least preliminarily challenged each other’s positions, factor into the analysis.

⁷ See generally, APD §§ 34:19 thru 34:21.

⁸ Typically, the Federal Circuit had permitted the fact-finder, often the jury, to determine whether the totality of the circumstances showed that an infringer acted willfully, with the trial court thereafter exercising its discretion on whether to enhance damages. See APD § 31:14 Right to Jury Trial on Issue of Willfulness.

In the context of sham litigation claims, however, the law treats the “probable cause” determination, i.e., the objective prong of the analysis, as a question of law for the court. *PRE*, 508 U.S. at 63 (“Where, as here, there is no dispute over the predicate facts of the underlying legal proceeding, a court may decide probable cause as a matter of law. . . . ‘The question is not whether [the defendant] thought the facts to constitute probable cause, but whether the court thinks they did.’”). Should this apply to the *Seagate* standard?

⁹ Discovery of a plaintiff’s subjective motives for purposes of sham litigation claims may be stayed until the defendant has proved the objective prong of the sham litigation standard. *PRE*, 508 U.S. at 65-66.

¹⁰ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345-46 (Fed. Cir. 2004) (*en banc*) (“[T]here continues to be an affirmative duty of due care to avoid infringement of the known patent rights of others, [but] the failure to obtain an exculpatory opinion of counsel shall no longer provide an adverse inference or evidentiary presumption that such an opinion would have been unfavorable.”).

affirmative duty of duty care, expressly stated that “there is no affirmative obligation to obtain opinion of counsel.” *Id.* at *5. While in isolation this statement may suggest that accused infringers no longer need to obtain competent opinions of counsel, other statements by the *Seagate* court suggest that opinions of counsel will continue to have importance in the post-*Seagate* regime.

For example, the court instructed that “[a]lthough an infringer’s reliance on favorable advice of counsel, or conversely his failure to proffer any favorable advice, is not dispositive of the willfulness inquiry, it is *crucial* to the analysis.” *Id.* at *3 (emphasis added). Additionally, the court’s instruction that district courts should consider “standards of commerce” in their willfulness analysis, *id.* at *5 n.5, may allow for the possibility of finding willful infringement where an infringer fails to obtain an opinion of counsel under circumstances where a reasonable prudent business person would have sought an opinion of counsel. See also *id.* at *18-*19 (Newman, J.) (*concurring*) (“The standards of behavior by which a possible infringer evaluates adverse patents should be the standards of fair commerce, including reasonableness of the actions taken in the particular circumstances. It cannot be the court’s intention to tolerate the intentional disregard or destruction of the value of the property of another, simply because that property is a patent . . . The fundamental issue remains the reasonableness, or in turn the culpability, of commercial behavior that violates legally protected property rights.”).

Apart from whether the failure to obtain an opinion of counsel might tend to show culpable conduct, the Federal Circuit also instructed that “the reasoning contained in . . . opinions ultimately may preclude [an infringer]’s conduct from being considered reckless if infringement is found[,]” even where the opinion was tardily obtained. *Id.* at *9. Hence, an opinion of counsel that presents a well-reasoned and supported noninfringement or invalidity analysis may suffice to raise a substantial question on the issue of infringement or invalidity, and thereby defeat the patentee’s attempt to show by clear and convincing evidence that there was “an objectively high likelihood that [the accused infringer’s] actions constituted infringement of a valid patent.” *Id.* at *5; see also *id.* at *8 (stating that showing “a substantial question about invalidity or infringement is likely . . . to avoid . . . a charge of willfulness based on post-filing conduct”); *id.* at *17 (patentee must show accused infringer’s “theory of

noninfringement [or] invalidity, was not only incorrect, but was objectively unreasonable[.]” (Gajarsa, J, *concurring*).

d.) Judge Gajarsa’s Concurring Opinion

While concurring in the new standard for willful infringement, Judge Gajarsa, joined by Judge Newman, wrote separately to state his view that willful infringement should not be the only means for a patentee to recover enhanced damages under 35 U.S.C. § 284. According to Judge Gajarsa, because § 284 does not expressly mention the word “willful” — it merely states “the court may increase the damages up to three times the amount found or assessed” — he saw no reason to “engraft a willfulness requirement onto section 284.” Instead, he stated that the Federal Circuit should follow the “plain meaning” of the statute and “leave the discretion to enhance damages in the capable hands of the district courts.” *Id.* at *11.

Judge Gajarsa noted two situations that, in his view, could justify awarding enhanced damages in the absence of willful infringement. First, to the extent that a patentee, through no fault of its own, could not overcome obstacles to proving the full extent of its damages, an award of enhanced damages could appropriately serve as a remedial mechanism to achieve full compensation. *Id.* at *13. But prior Federal Circuit precedent squarely rejects this view.¹¹ Nonetheless, other precedent arguably supports the view that a court may award enhanced damages as a way to insure the patentee receives full compensation.¹² Still, given the broad reach of modern discovery and the record keeping practices of today’s

business¹³, one may question whether a situation would arise where a patentee who diligently exercised its discovery rights could not prove the full extent of the damages it sustained, assuming the infringer did not engage in spoliation or sanctionable discovery misconduct.¹⁴ Second, Judge Gajarsa opined that some circumstances may dictate that monetary relief in the form of enhanced damages may provide a more equitable resolution of an infringement dispute than a permanent injunction. *Id.* at *13.

Judge Gajarsa also opined that the Supreme Court’s holding that § 284 did not impose a bad faith requirement on the award of prejudgment interest should apply to enhanced damages.¹⁵ *Id.* at *14-*15. The authority to award prejudgment interest, however, originates as part of the mandatory provisions of § 284, while the authority to award enhanced damages arises from the discretionary provisions. *See* 35 U.S.C. § 284 (“Upon finding for the claimant the court *shall* award the claimant damages . . . together with interest and costs . . . [T]he court *may* increase the damages up to three times the amount found or assessed.”) (emphasis added). This could justify different standards for these two items, including a requirement of proving some form of bad faith or a failure to meet minimum standards of commerce before a court can exercise its discretion to enhance damages.¹⁶

The majority side-stepped the points Judge Gajarsa raised in his concurring opinion by noting that whether a district court can award enhanced damages for circumstances other than willful infringement did not fall within the scope of the questions set forth in the court’s order granting *en banc* review, and therefore the court could not properly address that issue. *Id.* at *1, n.2.

e.) The Privilege Issues

As to the privilege issues that prompted the mandamus petition, the Federal Circuit reigned in the scope of waiver by ruling that, absent unusual compelling circumstances, the waiver of attorney-client privilege and work-product immunity associated

¹¹ *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1579 (Fed. Cir. 1991) (“Damages cannot be enhanced to award the patentee additional compensation to rectify what the district court views as an inadequacy in the actual damages awarded. . . . To permit the award of enhanced damages because of perceived inadequacies in the actual damages awarded would be likely to cause patentees generally to seek, and the district courts to award, enhanced damages whenever the infringer’s lack of, or deficiencies in, its records makes it difficult for the patentee to calculate damages with the desirable degree of precision. We decline thus to upset the basis upon which damages in patent infringement cases traditionally have been awarded.”).

¹² *See* cases cited at *13; *see also Clark v. Wooster*, 119 U.S. 322, 326 (1886) (“There may be damages beyond this [established royalty], such as the expense and trouble the plaintiff has been put to by the defendant, and any special inconvenience he has suffered from the wrongful acts of the defendant; but these are more properly the subjects of allowance by the court under the authority given to it to increase the damages.”).

¹³ *See Woodland and Trust v. Flowertree Nursery, Inc.*, 148 F.3d 1368, 1373 (Fed. Cir. 1998) (noting today’s “ubiquitous paper trail of virtually all commercial activity”).

¹⁴ Legitimate document destruction policies permitting destruction of records less than six-years old could present such a situation in view of the six-year pre-filing damages period permitted by § 286.

¹⁵ *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653 (1983).

¹⁶ *See Gen. Motors*, 461 U.S. at 655 n.10 (prejudgment interest is akin to delay damages, and not a penalty).

with the disclosure of an opinion of counsel would not normally extend to trial counsel. *Id.* at *7-*10. Refusing to impose an absolute rule, the Federal Circuit instructed that “trial 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.” *Id.* at *9.

Under the facts before it, the Federal Circuit noted that trial counsel had operated independently of opinion counsel. *Id.* at *1. This notion of independence appears as an underlying premise to the court’s general rule that waiver for opinion counsel will not typically extend to trial counsel since the court justified its ruling by relying on the different functions each type of counsel serves. The court explained:

[W]e conclude that the significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel. Whereas opinion counsel serves to provide an objective assessment for making informed business decisions, trial counsel focuses on litigation strategy and evaluates the most successful manner of presenting a case to a judicial decision maker. And trial counsel is engaged in an adversarial process. . . . Because of the fundamental difference between these types of legal advice, this situation does not present the classic “sword and shield” concerns typically mandating broad subject matter waiver. Therefore, fairness counsels against disclosing trial counsel’s communications on an entire subject matter in response to an accused infringer’s reliance on opinion counsel’s opinion to refute a willfulness allegation.

Id. at *7.

The Federal Circuit also held that the rationale for not extending the waiver of attorney-client privilege to trial counsel applies with “even greater force” to not limiting trial counsel’s work-product immunity. *Id.* at *10.

The court also addressed the “substantial need” qualification of work-product immunity. Following the courts that appear to allow discovery of mental impressions protected by work-product immunity upon a heightened showing of need, rather than following the courts giving mental impressions absolute immunity, the Federal Circuit instructed 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, bearing in mind that a higher burden must be met to obtain that pertaining to mental processes.” *Id.* at *10.

f.) Legislative Reform?

Given the fervor that this year’s proposed patent reform has garnered, it will be interesting to see whether advocate groups will urge Congress, when it reconvenes in September, to modify the existing proposed patent reforms in response to the new standard for determining willful infringement or whether the willfulness reforms will quietly fade away. It will also be interesting to see whether any groups will champion Judge Gajarsa’s views that a district court should have discretion to award enhanced damages for circumstances beyond willful infringement and urge Congress to legislatively clarify § 284 to this end.

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