

How *Seagate* has reshaped patent litigation practices

The CAFC's decision *In re Seagate* reshaped the rules on willful infringement and the use of opinions. **Eileen McDermott** assesses the impact so far.

In August 2007, the US Court of Appeals for the Federal Circuit (CAFC) ruled in a case that will have an impact on two issues that US trial lawyers in patent cases deal with every day: willful infringement and the use of counsel opinions. The decision will have far reaching consequences – both for plaintiffs who may now find it harder to win triple damages when they accuse defendants of willfully infringing their patents and for the many patent attorneys for whom opinion-writing work forms a significant part of their practice.

In *In re Seagate*, the CAFC rejected its 24-year-old proclamation in *Underwater Devices v Morrison Knudson* that defendants in patent infringement suits have an "affirmative duty" to make sure that they do not infringe patent rights. This affirmative duty included an obligation to seek the advice of counsel as to whether a certain conduct might be considered infringing. If a defendant did not seek such advice, a plaintiff could claim willful infringement and sue for up to three times the damages awarded in the case.

This standard often led to problems with respect to attorney-client privilege during the trial, when such opinions were required to be disclosed. In addition, many practitioners argued that it placed an undue burden of proof on the backs of defendants. By removing the duty of due care benchmark, the CAFC has now raised the bar for plaintiffs seeking to prove willfulness in patent infringement

cases, and has arguably made life much easier for defendants.

But has *Seagate* truly had any discernible impact yet? Has the number of willful infringement pleadings fallen, for instance? Have companies stopped seeking exculpatory opinions? And has it changed the way attorneys on either side prepare for trial? Furthermore, as the new standard has begun to be applied by the lower courts, several more areas of uncertainty have emerged, raising even more questions. For example does *Seagate* truly preclude a jury from considering the lack of an opinion as evidence of willful infringement? And what exactly constitutes "objective recklessness", which the Court cited as the new yardstick for finding of willfulness?

While it is still too early to answer many of these questions definitively, IP professionals are detecting some important early trends.

A sea change for trial preparation?

It may be too soon for companies and practitioners to make any substantive change to their patent or trial strategies based on the *Seagate* ruling, but there are several critical new factors that they must take into consideration. "In the litigation context, *Seagate* has definitely changed the way you prepare and try infringement case," says Larry Gotts of Paul Hastings.

One key difference, according to Gotts, lies in the CAFC's assertion that "a

One-minute read

Six months after the US Court of Appeals for the Federal Circuit (CAFC) handed down its opinion *In re Seagate*, the patent community is still contemplating the effects. While the Court clarified issues relating to the necessary standard for finding willful infringement, as well as the use of counsel opinions by companies fearful of infringing their rivals' patents, many practical questions remain unanswered. Eileen McDermott assesses the impact of *Seagate* so far. She asks whether defendants, plaintiffs and their trial advisors have changed their litigation practices in the wake of the decision and explains how the lower courts have applied the CAFC's ruling in their decisions over the past six months.

willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer's pre-filing conduct." Since *Seagate* says that reckless behavior conducted post-filing should instead be handled by obtaining a preliminary injunction, "which generally provides an adequate remedy for combating post-filing willful infringement," attorneys who are representing defendants suddenly have a lot less to worry about.

"The CAFC was clear that post-filing activity is not relevant," says Gotts. "That's significant for those of us out there who work on defendants. It's eased the burden."

Counsel opinions: A case history at the CAFC

Underwater Devices v Morrison Knudsen

"When 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 interalia, the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity."

Kloster Speedsel v Crucible

"Silence on the subject, in alleged reliance on the attorney-client privilege, would warrant the conclusion that [the infringer] either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid US patents."

Knorr-Bremse Systeme Fuer Nutzfahrzeuge v Dana Corp

"The majority opinion here [eliminates] the inference that an undisclosed or unobtained opinion of counsel was or would have been adverse. But the majority opinion does not address whether a potential infringer can satisfy the requirement of due care without securing and disclosing an opinion of counsel, or, if such an opinion is not absolutely required, whether an adverse inference can be drawn from the accused infringer's failure to obtain and disclose such an opinion."

In re Echnstar Communications Corp

"If a document [prepared by outside counsel] was not communicated to EchoStar, its relevant value is outweighed by the policies of the work-product doctrine. Thus, it was an abuse of discretion for the district court to determine that the scope of the waiver of privilege extended to such documents."

The ruling may also mean less work for plaintiffs, since the higher standards for proving willfulness may well discourage attorneys from asking for enhanced damages altogether. "[*Seagate*] clarifies when you're likely to get willful infringement," says Philip Johnson, chief patent counsel at Johnson & Johnson. "A lot of patent holders were wasting time and money trying to prove willful infringement."

William Alper of Cohen Pontani Lieberman & Pavane in New York agrees. He says that plaintiffs used to try for willfulness as a matter of course. "Now they have to think twice about it," he says.

While such adjustments are important, most agree that the primary way in which *Seagate* has affected patent litigation relates to the Court's findings that opinions are no longer required as evidence of non-infringing activity.

Opinions: to seek or not to seek?

"The primary way that *Seagate* has changed strategy for trial is that we don't get an outside opinion as a knee-jerk reaction," says Alper. "Although most people feel it's still far wiser to [obtain an opinion], if you really don't think you're going to need it, why bother?"

That could be good news for big companies. According to Alper and others, the rise of so-called patent trolls means that the once relatively simple task of obtaining a written opinion from counsel has become potentially crippling for larger companies.

"Historically, companies got opinions so they could ensure that a product would stay on the market, or to make its investors feel more comfortable. But the rise of patent trolls was making them feel like they needed to get an opinion for every patent they were put on notice of," says McDermott Will & Emery's Brian Ferguson, who argued *In re Seagate* before the CAFC.

Seeking advice of counsel for all of those patents can be time-consuming and expensive. "There's no doubt that *Seagate* did not find that opinions are bad, but some companies are plagued by trolls and constantly being put on notice of infringement," adds Gotts. "With the duty of due care removed, companies can make more reasoned business judgments about whether or not to get an opinion."

Another reason it may be advisable to refrain from seeking an outside opinion is to avoid unnecessary confusion. "It involves getting an other set of lawyers

involved, which can get messy," says Alper. "Not having to obtain an opinion makes it easier to prepare for trial and to give your clients good advice."

But despite the Court's contention that lack of an opinion can no longer be held against accused infringers, most practitioners and companies agree that it is still a good idea. "I haven't had a single one of my counterparts say that they're going to make any substantial change in strategy, it's too early for that," says Phil Johnson of Johnson & Johnson.

For companies looking for additional comfort about their activities, it is still advisable to get an outside opinion because the advice is worth having, adds Alper. If the advice is that you are infringing, you can avoid a big problem by changing your behavior.

With the duty of due care removed, however, there is less pressure on defendants to seek traditional written opinions, a process that can be lengthy and costly. "What's happened is from outside or in-house counsel," says Ferguson.

"The new standard [for finding willful infringement] is objective recklessness, so you may just need to do your due diligence," says Gotts. "There's no standard anymore for the type of opinion you have to get. Any evidence that you sought advice is admissible."

Finally, even if a defendant does seek an outside opinion, it may not be necessary to divulge it under the new *Seagate* standard. "Even if there is an opinion of counsel, we don't now automatically assert reliance on that against an allegation of willful infringement, because we may never need to," says Alper. "Failure to have an opinion can no longer be held against you – that's a really important thing."

What the lower courts have said: post-*Seagate*

TGIP v A&T

"Reasonable persons, properly instructed 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."

Franklin Electric v Dover Corp

"Regardless of the contrary decisions of the Appeals Court, the analysis establishes defendants' conduct in selling its product was not reckless in the sense that there was an 'objectively high likelihood' that its actions were infringement. Given the significant support in the language of the patent, the specification and prosecution history for defendant's non-infringement position plaintiff cannot meet its burden to prove objective recklessness by clear and convincing evidence."

Dell USA v Lucent Technologies, Inc.

"With the complete abandonment of the affirmative duty of due care and the establishment of an objective test for willfulness in *Seagate*, a defendant's decision not to obtain an opinion of counsel is no longer relevant to willful infringement...Since a defendant's decision not to obtain an opinion of counsel is irrelevant to the willfulness inquiry, it is not admissible at trial."

Energy Transportation v William Demant

"The court...concludes that nothing in *Seagate* forbids a jury to consider whether a defendant obtained advice of counsel as part of the totality of the circumstances in determining willfulness."

Trading Technologies v eSpeed

"We agree with plaintiff that the court's decision in *Seagate* did not alter the requirement that the totality of circumstances must be taken into account when determining whether infringement was willful. However...we find that plaintiff did not meet its burden of demonstrating that defendants acted despite an objectively high likelihood of infringement...While defendants knew of plaintiff's patent application, this knowledge alone is not enough to demonstrate willfulness."

To be clarified

Despite the seemingly clear terms set by *Seagate* on the subject, as the new standard has begun to work its way through the district courts, the question of whether or not a jury can still consider a defendant's lack of opinion has somehow remained open. In *Energy Transportation v William Demant* for instance (see summary of post-*Seagate* cases), a judge denied the defendant's motion to preclude the jury from considering its failure to obtain an opinion as evidence of willfulness.

"There is need for further clarification of this issue," says Alper. "I think that's a misreading of *Seagate*. There shouldn't be any inference drawn from the absence of an opinion. This will have to be resolved on appeal, but it seems so inconsistent with what the CAFC was doing in *Seagate*."

Perhaps not surprisingly, Ferguson agrees. "I absolutely believe that it's a misreading [of the *Seagate* ruling]. In my view, that's completely inconsistent with *Seagate* and puts the defendant back in the untenable pre-*Seagate* position. It's a completely unfortunate reading."

There are other ambiguities to be worked out as well, including the parameters of "objective recklessness," which have yet to be defined by any court. "The bar and clients are all wrestling with that," says Gotts. "The *Seagate* decision itself said that the Court recognized that [objective restlessness] is not self-defining, so it will be an evolution."

Trends

In the context of the US judicial system, six months may not be a lot of time, but some practitioners have already begun to detect early *Seagate*-related trends. Robert Yoches of Finnegan Henderson says that he's already noticed a decline in the number of willful infringement cases being brought. "We've seen fewer allegations of willful infringement and less time spent on trying to prove it," claims Yoches.

Of course, others believe it is still far too early to tell. "It's too soon to detect trends, but unfortunately, it's still almost *de rigueur* to file for willful infringements," says Terrence McMahon of McDermott Will & Emery, who represented *Seagate*

along with Ferguson. "So far I haven't seen a change."

However, practitioners do seem to agree that the number of judgments as a matter of law (JMOLs) in willful infringement cases is already increasing, and will continue to increase in the future.

"There are going to be more JMOLs, it's happening already," says Gotts. In *Qualcomm v Broadcom*, for instance (see box), a judge overturned a jury verdict of willful infringement against Qualcomm based on the new *Seagate* standard.

"I do think you're seeing a trend where the district courts feel they can address the question on summary judgment," says Ferguson. "I think you'll see fewer cases get to a jury."

Looking forward

So what can patent practitioners expect for the post-*Seagate* future? For one thing, many attorneys agree that settlement amounts will fall significantly. "There's no question that settlement amounts will be reduced because the likelihood of losing has been reduced by half," says Alper.

Alternatively, growing numbers of defendants may choose not to settle at all, since the risks involved in litigation are now not to settle at all, since the risks involved in litigation are now significantly lower. "What's more likely is that the elimination of the duty of due care will embolden defendants and will prompt more cases to go to trial," says Gotts.

Once in the courtroom, expert testimony may become more common in willful infringement cases. "Pre-*Seagate* experts were used, but more often they were patent lawyers who would testify on the duty of due care standard," says

Ferguson. "Now it will turn more on the experience of in-house people."

Patent life post-*Seagate*

While plaintiffs may have a harder time winning treble damages after *Seagate*, overall most practitioners feel that the decision brought some much-needed clarity to a very murky area of patent law.

"*Seagate* has made life easier for practitioners," says Alper. "You're better able to move against allegations of willfulness and you're not confronted with those nasty questions

as a defendant about waiving [attorney-client] privilege."

So while there may be no denying that, as Gotts points out, "between *KSR*, *Seagate* and *eBay*, it's become less desirable to be a patent plaintiff," the *Seagate* standard seems to promise less confusion, even for plaintiffs.

"Whether you agree with the ruling or not, you can't argue that at last now we all understand the parameters," says Ferguson. "Now, there's less confusion and the cost of litigation has dropped and that's good for everyone." ■