



INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

'Seagate's' Objective Standard—'State of Mind' Irrelevant

Times have changed in patent law. That is clear from the U.S. Court of Appeals for the Federal Circuit's en banc opinion in *In re Seagate Tech. LLC*, 2007 WL 2358677 (Fed. Cir. Aug. 20, 2007), which overruled long-standing precedent and set a more demanding standard for patentees seeking to prove that patent infringement is "willful"—a necessary predicate to an award of enhanced damages.

The en banc court also ruled that defendants who introduce opinions of counsel to rebut charges of willful infringement will not risk waiver of attorney-client and work product privileges claimed for the work of separate trial counsel. *Seagate* is part of a trend in the Federal Circuit—and the Supreme Court—that has swung the pendulum in patent law away from patentees and eased the burdens of accused infringers.

'Underwater Devices' Standard

The pre-*Seagate* willfulness standard was announced in one of the earliest decisions of the Federal Circuit, *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). *Underwater Devices* was issued at a time when, the Federal Circuit later said, "widespread disregard of patent rights was undermining the national innovation incentive." *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004).

To address that perceived problem, *Underwater Devices* placed significant burdens on accused infringers. It held that, where "a potential infringer has actual knowledge 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 counsel before the initiation of any possible infringing activity." 717 F.2d at 1389-90 (citations omitted).

The *Underwater Devices* rule set off a chain reaction: the obligation of due care typically required obtaining a legal opinion, that opinion had to be



disclosed (if not, an adverse inference might be drawn), and disclosure meant waiver of the attorney-client privilege—a waiver that might extend even to trial counsel. In 2004, the Federal Circuit dealt with some of these issues, holding in *Knorr-Bremse* that invoking the attorney-client or work product privileges to shield counsel's opinion does not give rise to an adverse inference regarding willfulness, and that no such inference can be drawn from the failure to obtain an opinion. And in *In re Echostar Commc'ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006), the Court held that a waiver of privilege did not extend to work product never communicated to the accused infringer.

Seagate, however, went much farther. The en banc Court of Appeals determined that the *Underwater Devices* standard—which is "akin to negligence"—was out of sync with willfulness standards used in other intellectual property contexts (particularly copyright) and in the common law. The Court noted the holding in *Safeco Ins. Co. of Am. v. Burr*, 127 S.Ct. 2201 (U.S. 2007), which found that willfulness under the Fair Credit Reporting Act includes reckless behavior.

In place of *Underwater Devices*, the Court of Appeals established a two-part willfulness standard: First, 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." The infringer's "state of mind" is not relevant to this objective standard. If this "threshold" test is satisfied, "the patentee must also 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." The Court left it to "future cases" to "further develop" this standard, although it noted that "standards of commerce would be among the factors a court might consider" regarding willfulness.

Significantly, the Court noted that "because we abandon the affirmative duty of due care, we also re-emphasize that there is no affirmative obligation to obtain opinion of counsel."

The new standard might make it easier for defendants to obtain summary judgment on willfulness, by arguing that the first, objective test is met, regardless of the infringer's state of mind. The standard may also provide an incentive for patentees to provide more detailed information to accused infringers in pre-suit communications, hoping to establish a record of reckless disregard. (Doing so, however, increases the risk of a declaratory judgment action.) Going forward, courts may determine willfulness based on an overall evaluation of the defendant's conduct, considering industry practice, the defendant's sophistication and resources, and its diligence. While defendants need not obtain an opinion, doing so is still likely to yield important advantages at trial.

The 'Seagate' Court

In addition to overruling *Underwater Devices*, the *Seagate* court also ruled that, "as a general proposition," asserting an advice of counsel defense and disclosing opinions of opinion counsel will not waive attorney-client or work product privileges for the work of trial counsel. Here, the Court stressed that the role of opinion counsel is "to provide an objective assessment for making informed business decisions," while trial counsel "focuses on litigation strategy and evaluates" how best to present the case at trial. Only in unusual circumstances—for example, where there is "chicanery"—will the privileges attaching to trial counsel be waived.

The Court also observed that willfulness ordinarily will depend upon "an infringer's prelitigation conduct." Therefore, "a patentee who does not attempt to stop an accused infringer's activities" by seeking a preliminary injunction "should not be allowed to accrue enhanced damages based solely on the infringer's post-filing conduct. Similarly, if a patentee attempts to secure injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness." In view of these statements, patentees who do not obtain preliminary injunctions

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may find it quite difficult to rely on post-litigation conduct to establish willfulness.

Following on the Supreme Court's opinions in *eBay* (regarding the standards for injunctions) and *MedImmune* (concerning declaratory judgment) *Seagate* is another decision eliminating rules that gave enhanced protection to patent holders and thereby harmonizing patent law with the rules governing other intellectual property.

Patents

eBay Inc. v. MercExchange LLC, 126 S.Ct. 1837 (2006), held that permanent injunctions in patent cases should be issued according to the "traditional" four-factor test, rather than a special standard peculiar to patent litigation. Under the test, a plaintiff must demonstrate irreparable injury, that legal remedies are inadequate and that the balance of hardships and the public interest favor an injunction. Two district court cases illustrate how the *eBay* standard has been applied. On remand in *eBay* itself, a district court refused to issue an injunction. 2007 WL 2172587 (E.D. Va., July 27, 2007). The court found no irreparable harm, emphasizing that *MercExchange* had not practiced the patents, and instead was quite willing to license them. By contrast, in *Commonwealth Scientific and Indus. Research Org. ("CSIRO") v. Buffalo Tech. Inc.*, 492 F.Supp2d 600 (E.D. Tex. 2007), the court entered a permanent injunction despite plaintiff CSIRO's licensing activities. CSIRO is the principal research organization of the Australian government, established to develop and license technology that will earn royalties to fund other research. Noting that *eBay* had warned against bright line rules, the CSIRO court stated that "some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents...rather bring their work to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so."

Copyright

In *New York Mercantile Exch., Inc. v. Intercontinental Exch., Inc.*, 2007 WL 2189129 (2d Cir. Aug. 1, 2007), the U.S. Court of Appeals for the Second Circuit refused to recognize a copyright in daily settlement prices produced by the New York Mercantile Exchange (NYMEX) to value customer positions in futures trades. The settlement price, designed to represent NYMEX's appraisal of the value of each futures contract, is based on market price data. As required by law, NYMEX produces and announces the prices daily, to allow contracts to be marked to market to determine margin requirements. Agreeing with the United States, which appeared as amicus, the Court of Appeals found that an infringement claim was barred under the merger doctrine, which precludes copyright protection where there are so few ways of expressing an idea "that protection of the expression would effectively accord protection to the idea itself." Given that the expression of the fair market value of a futures contract takes the form of a number, NYMEX failed to demonstrate a large enough "range of possible variations [of that expression to] preclude application of the merger doctrine." The Court of Appeals also

relied on policy considerations, noting that, as an active commodities market required to announce settlement prices, NYMEX did not need the financial incentives of copyright protection to continue to produce the prices. The panel did not decide the "close question" of whether settlement prices are sufficiently original to merit copyright protection.

A sharply divided U.S. Court of Appeals for the Ninth Circuit panel explored the outer boundaries of secondary liability for copyright infringement in *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 2007 WL 1892885 (9th Cir. July 3, 2007). Perfect 10 distributes images of what it calls "the world's most beautiful natural models." It claims that many Web sites—based abroad, allegedly to escape the reach of U.S. intellectual property laws—reproduce its images (which are copyrighted and marked with Perfect 10's trademark) and offer the pirated material for sale online. In May, the Ninth Circuit held that Perfect 10 could maintain claims of contributory copyright infringement against Google's image search engine, which indexes the offending Web sites, if it could show that Google had actual knowledge of infringing activity and failed to take "simple measures" to prevent infringement. *Perfect 10, Inc. v. Amazon.com, Inc.*, 2007 WL 1428632 (9th Cir. May 16,

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2007). In the *Visa* case, however, the panel majority rejected Perfect 10's attempt to impose secondary liability upon credit card providers that process payments to the infringing sites. The Court of Appeals applied the familiar test for contributory copyright infringement—requiring that a party with knowledge of infringement either "induce" or "materially contribute" to infringing activity. The panel majority found that the test was not satisfied, because providers of methods of payment take no "affirmative steps" to induce infringement and have "no direct connection" to infringing activity. The majority distinguished *Amazon*, where Google's search engine helped to locate and therefore distribute infringing material. A claim of vicarious copyright infringement was not available because defendants did not have the "right and ability to control the infringing activity." Predicting that the majority opinion would "prove to be no end of trouble," dissenting Judge Alex Kozinski would have found both contributory and vicarious liability, reasoning that providing credit is an

"essential step in the infringement process," and that card providers retain the right to stop or limit illegal activity by refusing to deal with infringing sites. For similar reasons, the majority and dissent split over whether defendants had sufficient control over or connection to infringing activity to be liable for contributory or vicarious infringement of Perfect 10's trademarks.

Fitzgerald v. CBS Broad., Inc., 491 F.Supp2d 177 (D. Mass. 2007), rejected a broadcaster's fair use defense. Plaintiff Fitzgerald was the only news photographer on hand to photograph the arrest of notorious Boston mobster Stephen "the Rifleman" Flemmi. Without obtaining a license, two CBS local television stations broadcast a cropped version of the photo as part of a news report of the sentencing of a gang member whose cooperation led to Mr. Flemmi's arrest. In evaluating fair use under §107 of the Copyright Act, courts evaluate the nature of the use, the nature of the copyrighted work, the amount of the work taken, and the effect of the use on the potential market for or value of the work. The court found that the two "most important" factors—the nature of the use and market effect—weighed against fair use. The use was not "transformative"—it did not add new information, aesthetics or insights. And permitting free use in news reports would destroy the market for such photographs and "fly in the face of the practical experience of the freelance photojournalism industry."

Trademarks

The Ninth Circuit employs an eight-factor test, established in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979), to determine likelihood of confusion in trademark cases. Like tests used by other circuits, the *Sleekcraft* factors focus on strength of the marks, proximity of the goods, similarity of the marks, evidence of actual confusion, purchaser sophistication, the defendant's intent and other criteria. In *Jada Toys, Inc. v. Mattel, Inc.*, 2007 WL 2199286 (9th Cir. Aug. 2, 2007), Mattel claimed that a competitor's HOT RIGZ mark infringed Mattel's HOT WHEELS trademark. The trial court dismissed the claim on summary judgment, finding no likelihood of confusion based solely on dissimilarity of the marks. Reversing, the Court of Appeals stressed that all of the *Sleekcraft* factors must be considered and weighed, and warned against the tendency of a district judge to elevate "subjective impressions" concerning the marks over objective evidence. Even where two marks are "subjectively dissimilar," evidence of actual confusion and the "context" in which the goods are sold is "particularly relevant."