



## In Re: Seagate - Raising the bar for patent holders

September, 2007

Key Results:

- ***Willfulness (allowing enhanced damages) requires clear and convincing evidence of "objective recklessness," i.e., that infringer acted despite objectively high likelihood of infringing a valid patent***
- ***Advice of Counsel Defense does not waive attorney-client privilege with trial counsel***
- ***Advice of Counsel Defense does not waive protection of trial counsel's work product***

Last week, the Federal Circuit raised the bar for patentees by establishing a tougher standard for willfulness and narrowing the scope of the waiver that results from an advice of counsel defense. Overruling a nearly twenty-five year-old standard in patent infringement cases, the Federal Circuit, sitting *en banc*, unanimously held that a finding of willfulness (allowing enhanced damages to be awarded) requires clear and convincing proof of "objective recklessness." The decision abolishes the Court's long-standing and less-stringent "affirmative duty of care" standard articulated in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390-91 (Fed. Cir. 1983). As a result, it will be significantly more difficult for patentees to prove willful infringement, which should provide some welcome relief to companies with new products and technologies who find themselves accused of infringement.

In addition, the Court held that where an accused infringer relies upon the advice of counsel to defend itself against a claim of willful infringement, the resulting waiver does not extend to attorney-client communications with trial counsel or to the work-product of trial counsel.

## **1. Background**

The U.S. Patent Act allows a patentee to recover enhanced damages for infringement. However, the Act does not provide any guidance as to the circumstances under which enhanced damages are appropriate, leaving it to the courts to fashion appropriate rules and standards for enhanced damages. The Federal Circuit has held that willful infringement may serve as a basis for such enhanced damages.

In 1983, the Federal Circuit held that where one has notice of another's patent rights, there is an affirmative duty of due care to determine whether or not one is infringing. *Underwater Devices*, 717 F.2d at 1390-91. The duty required the potential infringer, among other things, "to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity." *Id.* at 1390 (emphasis in original). Consequently, one of the more common defenses to a patent infringement claim over the past quarter of a century has been reliance on an opinion of counsel that there is no infringement or that the patent is invalid. However, accused infringers were often in the unenviable position of having to choose between foregoing a potentially strong defense (advice of counsel); or asserting the defense at the cost of waiving the attorney-client privilege and work-product protection. The scope of such waivers was hotly contested, generating still more litigation.

## **2. The Seagate Decision**

### **A. New Standard: "Objective Recklessness"**



Under the *Seagate* decision, proof of willful infringement involves two steps:

[1] 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. . . . [and] [2] 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 *Seagate* Court emphasized that the state of mind of the accused infringer is not relevant to the first step of the analysis. Once the threshold objective standard is satisfied, however, the analysis then turns to whether the accused infringer either knew of the high likelihood of infringement or *should have* known. The Court concluded, "We leave it to future cases to further develop the application of this standard." This new standard appears to be more in line with traditional notions of when exemplary or punitive damages are appropriate. The old standard, which placed an affirmative duty of care on the accused infringer, was more akin to a negligence standard, which typically, in and of itself, will not warrant punitive or exemplary damages. The new standard, requiring "objective recklessness," is more akin to tort law, where exemplary or punitive damages are available for conduct that involves the disregard of a very high likelihood of injury.

## **B. Waiver of Attorney-Client Privilege and Work Product Protection**

Having established a new standard for enhanced damages, the Court continued:

Recognizing the value of a common approach and in light of the new willfulness analysis set out above, we conclude that the significantly different functions of trial counsel and opinion counsel advise against extending the 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 . . . is engaged in an adversarial process. . . . 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.

While the above excerpt appears to lay out a bright line rule (at least in cases where trial counsel and opinion counsel are not the same), the Court denies that it has done so: "We do not purport to set out an absolute rule. Instead, trial courts remain free to exercise their discretion in unique circumstances to extend the waiver to trial counsel, such as if a party or counsel engages in chicanery." In addition, the opinion appears to leave trial courts some discretion where trial counsel and opinion counsel are the same.

Finally, the Court held that "absent exceptional circumstances," the waiver also *does not* extend to trial counsel's work product:

Here, the same rationale generally limiting waiver of the attorney-client privilege with trial counsel applies with even great force to so limiting work product waiver because of the nature of the work product doctrine. . . . "It is believed that the integrity of our system would suffer if adversaries were entitled to probe each



other's thoughts and plans concerning the case." [quoting *Coastal States Gas Corp. v. Dep't of Energy*, 617 F.2d 854, 864 (D.C.Cir. 1980)].

Again, the Court left open the possibility of situations in which the waiver might extend to work product of trial counsel, such as cases of "chicanery," and it further admonished that "the general principles of work product protection remain in force, so that a party may obtain discovery of work product absent a waiver upon a sufficient showing of need and hardship . . . ."

### **C. Practical Implications**

From a practical perspective, the new standard for willfulness changes the analysis for when it will be cost-effective for a company to obtain opinions from counsel because, in many cases, there is now a lower risk for a lawsuit and, where suit is filed, a lower chance of liability for willful infringement. Companies will need to weigh and assess more carefully what is at stake in their new products and technologies if they are to take full advantage of the benefits of this new standard.

In addition, the *Seagate* opinion may help stem the ever rising tide of patent litigation. By heightening the burden of proof for willfulness, the Court has reduced the incentive for some patent holders to sue. Also, where suit is brought, there is now less incentive for an accused infringer to waive the attorney-client privilege by producing an opinion of counsel, which should reduce the amount of collateral litigation over the scope of the resulting waiver. Moreover, where an accused infringer relies on the opinion of counsel, the Federal Circuit has both narrowed and clarified the scope of the waiver, further curtailing the need to litigate that issue.