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INTELLECTUAL PROPERTY ALERT

THE FEDERAL CIRCUIT PUTS THE "WILLFULNESS" BACK IN WILLFUL INFRINGEMENT

In a much anticipated decision, the Federal Circuit has significantly rewritten the law of willful patent infringement. In *In re Seagate Technology*,[1] the Federal Circuit has ruled as follows:

- Defendants no longer have "an affirmative duty to exercise due care" to determine whether they are infringing third-party patents.
- Instead, proof of willful infringement permitting enhanced damages requires at least a showing of "objective recklessness."
- Even when an accused infringer relies on the advice of patent opinion counsel, that does not result in a waiver of privilege with trial counsel.

In this lawsuit, Seagate had fought a charge of willful infringement by providing three written opinions from its patent opinion counsel. These opinions concerned noninfringement, inequitable conduct and invalidity of the patents at issue. Seagate waived not only the attorney-client privilege that attached to the written opinions, but also its patent opinion counsel's underlying work product in preparing the opinions themselves. [2]

In response, plaintiffs Convolve and MIT sought the attorney-client communications and work product of Seagate's *trial* counsel, arguing that by waiving communications with opinion counsel, Seagate had put in issue all such substantive communications. Plaintiffs also sought to depose trial counsel on the same matters.

The Federal Circuit heard the case *en banc*, addressing not only the waiver issue, but the underlying standard for willful infringement itself. The importance of this case is seen from the reaction of the patent bar, which filed over 20 amicus briefs.

Under the long-standing rule of *Underwater Devices*, [3] defendants have had an affirmative duty of due care to avoid patent infringement; that is, a failure to affirmatively ensure that they do not infringe patents can result in a finding of willful infringement — and potentially treble damages.

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[1] Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007).
[2] This work-product waiver occurred before *In re Echostar*, 448 F.3d 1294 (Fed. Cir. 2006), which held that one need only waive the attorney-client privilege for opinions of counsel — the internal *work product* of the opinion counsel now remains protected.
[3] *Underwater Devices v. Morrison-Knudsen Co.,* 717 F.3d 1380 (Fed. Cir. 1983).

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Under this scheme, defendants were under a duty to obtain a competent opinion of counsel, an "important factor" in determining willful infringement.

The Federal Circuit observed the unworkability of the present scheme, noting that the *Underwater Devices* standard was more a standard of negligence than "willfulness" as that term is used in American jurisprudence. It abandoned the *Underwater Devices* standard, and instead put in place a new standard requiring a showing of "objective recklessness." It held that the patentee must first show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. Should it satisfy that threshold objective standard, the patentee must then demonstrate that this objectively defined risk was either known or should have been known to the accused infringer. In a nutshell, the Federal Circuit has set the bar for establishing "willful infringement" much higher.

The Federal Circuit then turned to the waiver issue. It noted the inconsistent law of waiver, where some courts had extended waiver to trial counsel, while others had declined to do so. The Federal Circuit recognized the significantly different functions of trial counsel and opinion counsel: opinion counsel provides an objective assessment for making informed business decisions, whereas trial counsel is an advocate, focusing on litigation strategy and evaluating the most successful manner of presenting a case to the judge or jury. The court concluded that fairness counsels against disclosing trial counsel's communications and work product.

So what does this all mean? It certainly raises the bar for proving willful infringement as well as prevents access to trial counsel's thoughts and impressions of the case. But a number of "overlapping" situations remain. What happens if opinion counsel is then retained as trial counsel? Does waiver end once the opinion counsel assumes his new role? What happens if a company has an affirmative program of reviewing patents to assess potential impact? Will this later be held against those companies? Finally, how will the plaintiffs' bar react? One can imagine that plaintiffs' attorneys will more aggressively assert patents before suit is filed, in the hope of establishing the foundation for proving "objective recklessness." Only time will tell how these non-bright-line situations will ultimately play in both substantive findings of willfulness and waiver of privilege.

And just what impact will this have on juries? Once a jury has found infringement, it tends to find a defendant culpable; will it make any difference that it must now find the defendant "objectively reckless" as opposed to having failed to satisfy its "affirmative duty of due care"? The Supreme Court has taken the Federal Circuit to task for its linguistically-formulaic approach to substantive law, and one wonders if this "change" will be no different. Nevertheless, both the defense bar and corporations facing accusations of willful patent infringement will no doubt view this ruling favorably. Findings of willful infringement leading to enhanced damages have been quite common in patent cases for many years—given *Seagate*, one would expect that trend will change.

CONTACT INFORMATION

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