Intellectual Property News

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The Federal Circuit rewrites the standard for willful infringement and drastically narrows the scope of privilege waivers

The Federal Circuit's *en banc* decision in *In re Seagate Technology, LLC*, Fed. Cir. Case No. Misc. 830 (Aug. 20, 2007), raised the standard of proof for willful patent infringement. By raising the standard of proof, and overturning a 24-year-old decision, the Federal Circuit has limited the impact of a threat of treble damage awards that patent holders use against companies accused of patent infringement. Companies faced with the uncertainty of a jury finding willful infringement, and the possibility of treble damages, have often chosen to settle rather than take a case to trial. *Seagate* requires every patentee and potential patent infringement defendant to reassess the risk of treble damages for willful infringement. It also requires every potential patent infringement defendant to reassess the value of noninfringement opinions from counsel.

A Unanimous Decision

The Federal Circuit unanimously granted a writ of mandamus reversing a district court's ruling that the assertion of an advice of counsel defense to a claim of willful infringement operated as a broad waiver of the attorney-client or work product privilege. In doing so, the Federal Circuit also expressly overruled the long-standing *Underwater Devices* "duty of due care" standard for willfulness and imposed a new standard: (1) objective recklessness; combined with (2) an infringer's subjective knowledge of the risk of infringement.

The Federal Circuit's language (emphasis added) on the new standard for willful infringement is ringing and unambiguous:

- We . . . hold that proof of willful infringement permitting enhanced damages requires at least a showing of ***objective recklessness***.

- Because ***we abandon the affirmative duty of due care***, we also reemphasize that ***there is no affirmative obligation to obtain opinion counsel***.

- Accordingly, 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***. The state of mind of the accused infringer is not relevant to this objective inquiry.

- If this threshold objective standard 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***.

Moreover, the Federal Circuit ruled that any allegations of willful infringement in a complaint must be based solely on the defendant's conduct ***before the complaint was filed***. A patentee cannot rely on prospective post-complaint infringing conduct:

- [W]hen a complaint is filed, a patentee must have a good faith basis for alleging willful infringement. So a willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer's pre-filing conduct.

The Federal Circuit then ruled that any patentee that does ***not seek or is not granted*** a preliminary injunction should be barred from recovering damages enhanced for willfulness:

- A ***patentee who does not attempt to stop an accused infringer's activities*** in this manner [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.

- 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.

Finally, the Federal Circuit held that, given these changes in the law, asserting an advice of counsel defense ***does not*** waive attorney-client or work product privilege for communications between a defendant and its trial counsel:

- Because willful infringement in the main must find its basis in prelitigation conduct, communications of trial counsel have little, if any, relevance warranting their disclosure, and this further supports generally shielding trial counsel from the waiver stemming from an advice of counsel defense to willfulness.

- In sum, we hold, as a general proposition, that ***asserting the advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel***.

- In sum, we hold that, as a general proposition, relying on opinion counsel's work product ***does not waive work product immunity with respect to trial counsel***.

The only exception to this rule arises "if a party or counsel engages in chicanery."

Conclusion

The decision in *Seagate* is another watershed in a string of recent decisions for patent infringement claims. By raising the standard of proof for willful infringement and making it harder to justify treble damages, both plaintiffs and defendants will most likely place a lower value on patent infringement

claims in the future. Accused infringers will be less likely to settle to avoid a potentially huge treble damages claim and any future settlement amounts may be dramatically lower. By raising the standard of willful infringement to incorporate a showing of objective recklessness, the Federal Circuit has added a degree of predictability to patent infringement cases. This seems to be following the unbroken string of Supreme Court and Federal Circuit *en banc* decisions benefiting accused infringers, including the Supreme Court's decisions in *KSR* (making it easier for accused infringers to prove obviousness), *Microsoft v. AT&T* (making it clear that foreign reproduction of U.S.-produced software does not infringe U.S. patents), and *MedImmune* (making it easier for accused infringers to choose forum), and the Federal Circuit decision in *DSU* (making it harder for patent owners to prove inducement of infringement).

The intellectual property team at Mayer, Brown, Rowe & Maw LLP is prepared to answer your questions regarding the implications of this decision on patent infringement claims. For inquiries related to this alert, please contact **Ian N. Feinberg** at mifeinberg@mayerbrownrowe.com or **Eric B. Evans** at meevans@mayerbrownrowe.com.

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