On August 20, 2007, in a unanimous en banc opinion, the Court of Appeals for the Federal Circuit (CAFC) held that the proper standard for willfulness is “objective recklessness.” With In re Seagate Technology, LLC, the CAFC overruled its former “duty of due care” standard for willfulness. The court thereby made it more difficult to prove willfulness and easier to avoid such liability. On a related issue, the CAFC ruled that waiver of privilege regarding opinion counsel due to disclosure of an opinion generally does not constitute waiver of privilege regarding trial counsel. The court thus protected privileged communications with trial counsel and hindered discovery of such communications.

**Background**

The discretion of courts to enhance damages in patent infringement cases is provided by 35 U.S.C. § 284, which states in relevant part:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement. . . . [T]he court may increase the damages up to three times the amount found or assessed.

Absent statutory guidance for such increased damages, the CAFC has awarded enhanced damages where willful infringement was established. In 1983, in Underwater Devices, Inc. v. Morrison-Knudsen Co., the CAFC promulgated the “duty of due care” standard for willfulness:

> Where . . . 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 . . . the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.

Given this duty, alleged infringers obtained opinions of counsel (advising them on infringement, invalidity, or unenforceability of the patent) and asserted reliance on advice of counsel as a defense against allegations of willful infringement, requiring disclosure of the opinion. In disclosing the opinions, alleged infringers waived the attorney-client privilege. Thus, the duty of due care posed a dilemma for alleged infringers: either relinquish the strongest defense against willfulness, namely, the opinion, or waive attorney-client privilege at least to some degree. The scope of the degree of waiver was viewed differently by various courts and thus created uncertainty and another source of dispute.

In Seagate, Convolve, Inc., and the Massachusetts Institute of Technology sued Compaq Computer Corporation and Seagate Technology, Inc., for willful patent infringement. Seagate obtained opinions of counsel advising that it had not infringed the asserted patents and that the patents were invalid and/or unenforceable due to inequitable conduct. Seagate engaged opinion counsel that was separate and independent from Seagate’s trial counsel. Seagate then asserted an advice of counsel defense against the willfulness charge and disclosed the opinions.

During discovery, Convolve requested “communications between Seagate and any attorneys on the same subjects” as those discussed in the opinions of counsel. Seagate produced communications with its opinion counsel, but refused to provide communications from its trial counsel. Convolve moved to compel such production on the basis that Seagate had waived the attorney-client privilege (and work-product immunity). The trial court agreed with Convolve and ordered Seagate to produce such communications from its trial counsel. Seagate thus petitioned the CAFC for a writ of mandamus, which the court granted.

Recognizing the “functional relationship” between its willfulness jurisprudence and the privilege waiver quandary, the CAFC sua sponte ordered en banc review of the petition and considered not only the writ issue of scope of waiver of privilege, but also the question of the proper standard for willfulness in patent law.

**The CAFC’s Decision**

Based on Supreme Court precedent and that of its sister circuits in civil law, the CAFC determined that courts generally employ a recklessness standard in enhancing damages for willfulness. By contrast, the CAFC concluded that its willfulness standard “is more akin to negligence,” which is “inconsistent with Supreme Court precedent” and “the general understanding of willfulness in the civil context.”

The CAFC then held:

> Accordingly, we overrule the standard set out in Underwater Devices and 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 of counsel.

Elaborating on the recklessness standard, the court explained:

[T]o establish willful infringement, a patentee must show . . . that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. . . . If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.

The court also discussed the difference between pre-litigation and post-litigation allegations of willfulness. The court noted that “a willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer’s pre-filing conduct,” so opinions obtained after the lawsuit has commenced “appear to be of . . . marginal value” and “will likely be of little significance.”

Moreover, guided by the “significantly different functions of trial counsel and opinion counsel,” “fairness,” the “demands of our adversarial system of justice,” and the dependence of willfulness on “an infringer’s prelitigation conduct,” the CAFC held that “as a general proposition . . . 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.” The court cautioned, however, that this is not “an absolute rule,” as “trial courts remain free to exercise their discretion in unique circumstances to extend waiver to trial counsel. . . .”

Finally, using essentially the “same rationale,” the court contemplated whether such waiver “extends to trial counsel’s work product” and held that “it does not, absent exceptional circumstances.”

Implications of the Seagate Decision

One obvious result of Seagate is the decreased need to obtain opinions of counsel to defend against willfulness claims when the defendant’s first notice of the patent is the lawsuit because any opinion would necessarily be obtained after the lawsuit began. Because favorable opinions of counsel might provide evidence of lack of objective recklessness, opinions obtained before a lawsuit is filed may still effectively rebut willfulness allegations.

Another striking implication is the pro-accused infringer, anti-patentee stance of the CAFC in this case. Recently, the Supreme Court has signaled to the CAFC through a number of decisions the perceived need to rein in the rights of patent holders. With this decision, the CAFC seems to have heeded the Supreme Court’s message.

Less predictable is the untested recklessness standard in patent infringement cases and the facts that will satisfy that standard. For example, it is not clear when an “objectively high likelihood” exists that one’s actions will constitute infringement of a valid patent. Nor is it apparent when such a risk “should have been known.”

Finally, the effect of Seagate on settlement also is uncertain. On the one hand, the lower probable damages and consequent greater bargaining power of accused infringers could foster settlement. On the other hand, with less at stake financially, accused infringers may be more willing to risk trial, such that Seagate may discourage settlement.

For more information on the Seagate decision and its implications, please contact a member of the firm’s IP litigation or patents and innovation counseling practices.