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HRO Alert

FEDERAL CIRCUIT ISSUES LANDMARK DECISION ON WILLFUL PATENT INFRINGEMENT

The U.S. Court of Appeals for the Federal Circuit (“CAFC”) has just issued a rare *en banc* opinion that overrules long-standing precedent while at the same time clarifying certain aspects of patent litigation practice. In *In re Seagate Technology, LLC*, the CAFC revisited the thicket of precedent related to willful infringement, the role that opinion of counsel plays in its determination, and the effect of reliance on opinion of counsel on waiver of attorney-client privilege and work product immunity.

WILLFUL INFRINGEMENT NOW REQUIRES A SHOWING OF “OBJECTIVE RECKLESSNESS”

For years, the courts have relied on the finding of willfulness in determining whether to increase damages for patent infringement beyond those actually proven. The CAFC defined the previous negligence-based standard of proof for willful infringement in *Underwater Devices Inc. v. Morrison-Knudsen Co.*¹ Under this standard, a potential infringer having “actual notice of another’s patent rights” had “an affirmative duty to exercise due care to determine whether or not it is infringing.” According to *Underwater Devices*, this affirmative duty included “the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.” The *Underwater Devices* decision was later limited in *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp.*,² where the CAFC held that an accused infringer’s failure to obtain and rely upon such an opinion does not give rise to any adverse inference with respect to willfulness.

The *Seagate* decision represents a seismic shift in the jurisprudence of the CAFC on the issue of willfulness. The CAFC expressly overturned *Underwater Devices*, now holding that proof of willful infringement requires the higher showing of “objective recklessness.” In replacing the “affirmative duty of due care” standard first announced in *Underwater Devices* with an “objective recklessness” standard, the CAFC brought the doctrine of willful infringement back into the context of punitive remedy for which the U.S. Supreme Court has long required conduct that is not merely negligent.³ Thus, instead of allowing patent plaintiffs to threaten potentially devastating damages for willful infringement on the basis of mere negligence, patent plaintiffs will now have to prove that accused infringers acted in the face of an objective risk of patent infringement. Additionally, patent plaintiffs will have to prove that this risk was either known to the infringer or so obvious that it should have been known. Although the CAFC stopped short of requiring proof of the infringer’s subjective intent as a basis of willfulness, and it left it to the trial courts to further develop the application of the “objective recklessness” standard, the *Seagate* opinion makes it clear that the proof of willful infringement will become more difficult for patent plaintiffs. In any event, the *Seagate* decision did not change the fact one of the best means for minimizing potential risk of a finding of willfulness is to obtain a competent written noninfringement or invalidity opinion before engaging in potentially infringing acts or as soon as a potentially relevant patent comes to light.

¹ *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

² *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (*en banc*).

³ See, e.g., *McLaughlin v. Richland Shoe Co.*, 486 U.S. 128, 132-33 (1988).

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Landmark Decision on Willful Patent Infringement

RELIANCE ON AN OPINION OF COUNSEL WILL NOT NORMALLY RESULT IN THE WAIVER OF ATTORNEY-CLIENT PRIVILEGE OR WORK PRODUCT IMMUNITY WITH RESPECT TO TRIAL COUNSEL

Since *Underwater Devices* was decided in 1983, formal written opinions of counsel have remained one of the principal ways for accused infringers to defend themselves against a charge of willful infringement. Because producing such an opinion can lead to potentially damaging waiver of attorney-client privilege and work product immunity as to those issues covered in the opinion (see *In re Echostar Commc'n Corp.*⁴), infringement defendants typically find themselves in a quandary having to decide whether to rely on an opinion of counsel defense and thereby risk being forced to waive the privilege and immunity.

Following the *Echostar* decision in 2006, the trial courts have not applied the scope of the waiver uniformly. For example, some trial courts have held that the disclosure of an opinion of counsel served as a waiver also as to its *trial counsel*. Other courts have limited this waiver to *opinion counsel*. Still others have forged a hybrid.

In *Seagate*, the CAFC has clarified this issue somewhat by holding that “as a general proposition,” the accused infringer’s reliance on an opinion of counsel in defending against a claim of willful infringement will not usually waive attorney-client privilege or work-product immunity with respect to trial counsel. Although district courts remain free to exercise their discretion in unique circumstances, this newly-announced and sensible rule should alleviate many concerns of infringement defendants who wish to rely on an opinion of counsel but worry about a potential waiver of privilege. Unfortunately, *Seagate* does not appear to clarify the scope of waiver where the accused infringer uses the same trial counsel (or trial counsel from the same firm) as the counsel that rendered the relied upon opinion, as is often the case in patent litigation practice. It is quite likely that this issue will be before the CAFC in the near future.

For more information about the issues discussed in this alert, contact any of us here at Holme Roberts & Owen LLP.

⁴ *In re Echostar Commc'n Corp.*, 448 F.3d 1294 (Fed. Cir. 2006).

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