

# INTELLECTUAL PROPERTY

## **Seagate ruling changes standard in law of willful patent infringement**

David M. Beckwith/ Special to *The Daily Transcript / San Diego Source*  
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The U.S. Court of Appeals for the Federal Circuit rewrote the law of willful patent infringement with its *In re Seagate Technology LLC* ruling. The court raised the bar on proving willful patent infringement, replacing the older "duty of due care" standard with a new required showing of "objective recklessness." This change in the law makes it more difficult for patent owners to obtain enhanced damages, and lowers the costs of defending against such claims. The court also ruled that the assertion of an advice-of-counsel defense to willful infringement does not waive attorney-client and work product privileges relating to trial counsel. Thus, a patent defendant is no longer faced with the threat of disclosing all privileged communications with its trial lawyers as the price for reliance on an opinion of non-infringement or patent invalidity by separate opinion counsel.

The matter came to the Federal Circuit on a privilege-waiver issue arising from Seagate's (NYSE: STX) assertion of an advice-of-counsel defense to willful infringement. Seagate asserted reliance on the advice of separate and independent opinion counsel. The advice-of-counsel defense triggered a subject-matter waiver of attorney-client privilege and work product for Seagate's other communications with its opinion counsel. The District Court ruled that such a waiver also extended to outside trial counsel. Seagate petitioned the Federal Circuit for relief, leading the Federal Circuit, on its own, to revamp its approach to willful infringement and to reverse the lower court ruling.

Under prior case law, willfulness was evaluated based on a potential infringer's affirmative duty to determine whether or not he was infringing, which included "the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity." A failure to seek and obtain legal advice, or a refusal to disclose the advice, was grounds for an adverse inference that the advice would have been or was unfavorable to the accused infringer.

Under the old rule, companies had become reluctant to review others' patents since mere awareness of a patent could lead to a de facto presumption of willful infringement in future litigation. Indeed, mere notice of a patent given to a potential defendant could set the stage for a later finding of willful infringement. While it cost the patentee little more than the value of a stamp to send a notice letter enclosing a copy of a patent, the recipient immediately was faced with the decision whether to obtain an opinion of counsel, which could cost tens of thousands of dollars. Meanwhile, all the patentee had to do was sit back and wait, and then sue at some later time. Multiply this scenario by the hundreds of such letters a large corporation might receive each year, and the problem is clear.

The Federal Circuit relied on Supreme Court and copyright law precedent to determine that the proper minimum standard for willfulness is "objective recklessness." To meet this standard, a plaintiff "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 infringer's state of mind is not relevant. In addition, the patentee must further show that "this objectively defined risk ... was either known or so obvious that it should have been known" to the potential infringer. The court stated that "[b]ecause we abandon the affirmative duty of due care, we also re-emphasize that there is no affirmative obligation to obtain opinion of counsel."

The court then held that waiver of attorney-client or work product privileges triggered by the assertion of the advice-of-counsel defense generally will not extend to trial counsel. The Federal Circuit reasoned that the functions of trial and opinion counsel are different and they give fundamentally different types of legal advice, such that fairness and protection of the adversarial process dictates that trial counsel communications be protected against disclosure. The court also explained that allegations of willful infringement are based mainly in prelitigation conduct, so that trial counsel's advice has little, if any, relevance to the issue of willful infringement.

The *Seagate* opinion also identified the effect of preliminary injunctions on willful infringement claims. The court explained that a willful infringement case based solely on conduct occurring after the filing of the lawsuit could be prevented through a preliminary injunction. Thus, foregoing a preliminary injunction at the outset of litigation, or unsuccessfully attempting obtain injunctive relief, could negatively impact a willful infringement case based on conduct occurring after the filing of the lawsuit.

*Seagate* represents a sea change in the law of willful infringement. The shift to the pre-filing "objective recklessness" standard should make it harder for patent owners to succeed on a charge of willful infringement. Because the court clarified that there is no affirmative duty to obtain opinion, the utility of such opinions is reduced and the costs of doing business and defending against willful infringement are lessened. In addition, since privilege waiver will not extend to trial counsel absent exceptional circumstances, patent defendants no longer face a dilemma whether to assert an advice-of-counsel defense or risk loss of all privilege for patent litigation strategy.

A final caveat: the U.S. Supreme Court is considering a discretionary petition to review the *Seagate* decision. If accepted, the matter will be briefed and argued again before the Supreme Court.

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