The Federal Circuit Puts the "Willfulness" Back Into Willful Infringement

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In a highly anticipated decision, the Federal Circuit has substantially rewritten the standard to prove "willful" patent infringement. In *In re Seagate*,[2] the Court jettisoned the historical requirement that defendants must satisfy "an affirmative duty of care," replacing it with a heightened standard for willfulness akin to the standard found in other jurisprudence: patentees must now prove that a defendant acted in an "objectively reckless" manner prior to being sued. Patent infringement defendants applauded the ruling, which could substantially reduce findings of willfulness—and the attendant specter of up to treble damages and attorneys' fees.

The Federal Circuit gave further reason for defendants to cheer, holding communications with trial counsel—even concerning issues touching on willfulness—cannot be discovered by plaintiff. This is true even if a defendant waives that privilege for its "opinion" counsel—counsel that had provided an opinion that the defendant did not infringe. Defendants no longer face an historical awkward choice, as an accused infringer can now defend itself by relying on its attorney's noninfringement and invalidity opinions defending without fear of having their litigation strategies raided and trial counsel called to a deposition.

On paper the Federal Circuit's rulings appear far reaching; their actual impact in practice, however, remains yet to be seen. We will here look at the history of the problems that led to the Court's ruling, the potential impact of the changed law and heightened standard, and the impact on defendants' and plaintiffs' course of conduct.

I. A Brief History of a Troubled—and Now Rejected—Standard.

The Patent Act itself provides for up to three times enhanced damages and attorneys' fees in an "exceptional case"—a term not defined by the Act.[3] Onto this statutory framework, the Federal Circuit grafted the concept of "willfulness"—if a jury found that a defendant had willfully infringed a patent, that formed a basis for an "exceptional case," allowing the judge to enhance the damages and award fees. The Federal Circuit set forth this "willfulness" concept and its related machinery in 1983 in the landmark case of *Underwater Devices*.[4]

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[2] Misc. No. 830, 2007 WL 2358677 (Fed. Civ., Aug. 20, 2007) (*en banc*).

[3] 35 U.S.C. §§ 284-85.

[4] *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983).

The touchstone of the *Underwater Devices* standard was the concept of an "affirmative duty of due care." As the Court put it: "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*."[5] While a patentee had to prove a defendant was willful by clear and convincing evidence, that seemingly high burden was largely illusory. The burden shifting impact of the defendant's "affirmative duty" standard was undeniable—a jury, having found a defendant liable for infringing a patent[6] often had little trouble overcoming the patentee's "clear and convincing" burden, instead focusing on whether the defendant had satisfied its "affirmative duty" to make sure it was not infringing.

Compounding this burden shift, the Federal Circuit expressly recognized that the affirmative duty included the duty to seek and obtain competent legal advice from patent counsel before initiating any possible infringing activity.[7] Being communications between an attorney and a client, such opinions were obviously covered by the attorney-client privilege. But how could a defendant defend itself other than by waiving that very privilege? Otherwise, the defendant would have little evidence to point to that it had, in fact, satisfied its "affirmative duty."

The Court further exacerbated the defendant's problems in *Kloster Speedsteel*[8] and *Fromson*[9] when it created its infamous "negative inference." That negative inference said this: if you obtained an opinion of counsel and relied on the attorney-client privilege, the jury could be instructed to draw an inference that such an opinion was unfavorable. Similarly, if you obtained no opinion, the jury could draw a similar inference. This left the defendant with no real choice but to 1) obtain an opinion of counsel, and 2) waive the privilege on that opinion to try to establish that it satisfied its affirmative duty.

"Fine," one thinks, "just do that." But such a privilege-waiving approach brought on its own set of problems, engendered by the *scope of the waiver* of privilege. Once a defendant waived privilege for an opinion, many district courts held the scope of that waiver expansive—waiver could run not only to the opinion and communications with opinion counsel, but further to the opinion counsel's underlying work product, and even to communications with and work product of litigation counsel regarding the substance of the opinion. Because such opinions generally went to core issues in a case—infringement and invalidity—this led to the very difficult position of potentially having the inner sanctum of litigation counsel's trial strategy violated should one waive privilege on the opinion.

This led to a Hobson's choice for defendants: withhold the opinion, live with the "negative inference," and pray for a substantive victory in court; or waive privilege on the

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[5] *Id.* at 1389-90.

[6] The only time willfulness applies in any event.

[7] *Id.* at 1390.

[8] *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).

[9] *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1573 (Fed. Cir. 1988).

opinion—and potentially on one's innermost litigation strategies and communications.[10] And thus was the situation for defendants until 2004, when the Federal Circuit began to reel in this expansive and troubling problem.

The Federal Circuit first struck down its negative inference. In *Knorr-Bremse*,[11] the Court recognized that drawing a negative inference from a defendant's reliance on the attorney-client privilege flew in the face of virtually all modern jurisprudence. The Court held *en banc* a jury should no longer be instructed to draw a negative inference based on a defendant's reliance on privilege. Going further, the Court held for policy reasons that the jury should not draw a negative inference based on lack of any opinion. But this did not solve the underlying problem presented by *Underwater Devices*' "affirmative duty" and its attendant requirement of an opinion: even post-*Knorr*, if you relied on privilege or obtained no opinion, how did you establish that you had satisfied your affirmative duty of care? After all, to show that you believed you did not infringe, what better evidence could you present than evidence that a patent attorney told you so? So while *Knorr* was of some solace, in actual practice defendants were still called on to make the troubling decision of whether to waive privilege on their opinions—and possibly subsequent communications with trial counsel—or instead simply hope they won on the merits.

The Federal Circuit then took a second step in defendants' direction by limiting the scope of waiver. In *In re EchoStar*,[12] the Federal Circuit held that opinion counsel's underlying work product was not discoverable even when a defendant waived the attorney-client privilege on the opinion. Their reasoning was that the defendant's state of mind—not counsel's—drove the issue of willfulness. While not expressly addressing trial counsel, the Court created a strong argument that trial counsel's internal work product would be similarly protected. Left open, however, was the scope of waiver of subsequent privileged communications with *trial* counsel. So defendants were still placed in the position of potentially having to reveal their innermost communications with its trial counsel.

But that all changed in *Seagate*. In this case, a defendant produced three opinions of counsel to defend itself against willful infringement. The patentee then moved to compel discovery of attorney-client communications with and work product of Seagate's trial counsel. The Federal Circuit granted mandamus review, but in doing so, certified questions beyond this mere scope of waiver issue.[13]

> 1. Should a party's assertion of the advice of counsel defense to willful infringement extend waiver of the attorney-client privilege to communications with the party's trial counsel? See

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[10] The Federal Circuit attempted to ameliorate this by suggesting willfulness should be tried after liability. Courts, seeking streamlined approaches to trial, have been reluctant to do so.

[11] *Knorr-Bremse Systeme Fuer Nutzfahir Zeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344-45 (Fed. Cir. 2004) (*en banc*).

[12] *In re EchoStar Comm'ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006).

[13] *Seagate*, 2007 WL 2358677, at *2.

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

2. What is the effect of any such waiver on work-product immunity?

3. Given the impact of the statutory duty of care standard announced in Underwater Devices, Inc. v. Morrison-Knudsen Co., 717 F.2d 1380 (Fed. Cir. 1983), on the issue of waiver of attorney-client privilege, should this court reconsider the decision in Underwater Devices and the duty of care standard itself?

With its commitment to resolve these issues *en banc*, the Federal Circuit clearly had set its sights on the underlying *Underwater Devices* standard.

At oral argument, it appeared that the justices hoped that addressing the underlying "affirmative duty of care" standard would resolve the issue of waiver. Counsel for both sides explained it would not—even heightening the standard and eliminating the affirmative duty, defendants might still waive privilege on their opinions, so the underlying waiver issue had to be addressed. The Federal Circuit recognized this, and ruled on both the underlying standard and the scope of waiver.

II. The New Standard

In *Seagate*, the Federal Circuit first expressly overturned the *Underwater Devices* standard, setting out a new standard that enhanced damages requires a showing of "objective recklessness." Gone was the "affirmative duty of care" and the Court "reemphasized" that "there is no affirmative obligation to obtain opinion of counsel." The Federal Circuit established a two part test for assessing willfulness under its new standard:

- First, a patentee must show by clear and convincing evidence that the infringer acted despite an *objectively high likelihood* that its action constituted infringement of a valid patent. The *state of mind* of the accused infringer is *not relevant to this objective inquiry*.

- Only after 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.[14]

The Court left it to future cases to further develop the application of standard.

[14] *Id.* at *5.

The Court next turned to the waiver issues. Recognizing the fundamental problems of having to waive the attorney-client privilege on communications with trial counsel, the Federal Circuit established the bright line standard that waiver of privilege with opinion counsel *does not* waive privilege with trial counsel. It held the same with respect to work product.[15]

In reaching its result, the Federal Circuit took an interesting excursion down the path of pre-litigation versus post-litigation conduct. It noted that waiver of trial counsel's communications is counseled against because "in ordinary circumstances, willfulness will depend on an infringer's *pre-litigation* conduct." It then observed that if a patentee could not establish willfulness on the date it filed suit, it should not be able to accrue enhanced damages based solely on the infringer's post-filing conduct. Instead, if faced with egregious infringement, the Federal Circuit said a patentee should seek a preliminary injunction. If the patentee fails, the infringement likely did not rise to the level of recklessness anyway. That is, if a substantial question about validity or infringement would avoid a preliminary injunction, that same substantial question should preclude a finding of "objective recklessness," and thus preclude willfulness. While this analysis did seem to set one measure of objective recklessness—a "close case" could not lead to objective recklessness, and hence willful infringement—it may set the stage for an increased filing of preliminary injunctions. We will discuss this further below.

Just what is "objectively reckless" behavior? One finds a bit of guidance in the *Seagate* opinion on the point. The Court cited extensively to copyright cases for its "objectively reckless" standard. But a read of those copyright cases will not comfort defendants. In the *Yurman Design*[16] case, for example, a defendant who had long been in the business and had an intellectual property counselor for over 12 years, failed to investigate the possibility of intellectual property violations. The result? Willful copyright infringement.[17] This certainly sounds like at least an implicit suggestion that one had better consult with intellectual property counsel to avoid a finding of willfulness. Of course copyright cases are somewhat of a different beast—after all, a fundamental condition for copyright infringement is that one has "copied." In such circumstances, it hardly surprising that willfulness would be found.

Rather than focus on what the standard means, consider the potential evidence the "objective reckless" standard brings into play. Defendants may now have access to a great deal more *non-opinion* evidence with which to defend themselves. As noted in the concurring opinion, objective recklessness must be measured against the commercial backdrop. Large corporations may receive hundreds of "notice letters" a year—is it objectively reckless for them not to get a fifty-some-odd-thousand dollars opinion on each and every one? Probably not—but

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[15] An interesting aside: it seems axiomatic learned work product protection extends not only to documents, but also to mental opinions in counsel's head. *Hickman v. Taylor*, 329 U.S. 495. The Federal Rules of Civil Procedure, however, are not so clear—while they expressly apply the *work product* doctrine to *documents*, they are silent on "intangible" work product. In *Seagate*, the Federal Circuit took the opportunity to make clear that the rule of *Hickman v. Taylor* still applies to such intangible work product. *Seagate* at *11.

[16] *Yurman Design, Inc. v. Paj, Inc.*, 262 F.3d101 (2nd Cir. 2001).

[17] *Id*. at 113.

more to the point, evidence of all the letters should come in.[18] How about plaintiffs who send out hundreds of notice letters to the industry? Should a hundred first class stamps lead to a hundred $50,000 opinions? Seems unreasonable—and again, such mass-mailing evidence should come in. And for service providers and distributors, doesn't it seem reasonable to go to the vendor and ask them to handle an infringement claim? It used to be that simply pointing to your vendor could be evidence of *failure* to satisfy the affirmative duty of care, but now that seems to be strong evidence that one acted in a commercially reasonable manner.

III. The Impact of the Heightened "Objectively Reckless" Standard

As a threshold matter, has the standard really changed? Clearly the words have—instead of being instructed of a defendant's "affirmative duty of care," a jury will now be instructed on the plaintiff's duty to show "objective recklessness." This will no doubt have an impact on juries and will lessen the historical *de facto* burden-shifting. But only time will tell how much: most juries picture patent infringer as "bad actors"—will a jury who has just found you to be infringing a patent have a tall mountain to climb to find that you did so "recklessly"? So the impact may be less than some defendants would hope; nevertheless, I suspect the impact will be real.

But the standard and its two part test likely *will* lead to more dispositive rulings by the *judge* of no willful infringement. Should a defendant successfully avoid a preliminary injunction by raising a substantial question of infringement or invalidity, willfulness is likely out. Likewise, if the patentee did not know about the patent before suit, willfulness is clearly out. Finally, in close cases generally, a judge would have to think long and hard before allowing willfulness to go to the jury—given the Federal Circuit's guidance that a patentee must first show an "objectively high likelihood" of infringement, a close case would seem to defeat such finding. Finally, consider a case in which twenty claims are asserted, but only one is found to be infringed—was the defendant "objectively reckless"? Perhaps not.

But only time will tell the quantitative impact this new standard has.

IV. Impact of the Waiver Issue

On the issue of waiver, defendants can now breath easier in deciding how to defend themselves. They can now waive their attorney-client privilege with opinion counsel, comfortable that that waives neither underlying work product of their opinion counsel (under *EchoStar*), nor any communications with their trial counsel (under *Seagate*).

And while the Federal Circuit took pains to say opinions are not required, opinions will not die. To the contrary, they are now clearly protected and isolated in litigation, and would still seem to provide a strong—perhaps one's *strongest*—tool for establishing that one acted in an objectively reasonable manner.

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[18] Although I leave it to silver-tongued trial counsel on how to offer up the evidence that their defendant received hundreds of notice letters a year.

V. Impact on Patentees

Seagate will also likely have impact on the conduct of patentees—some intended, some not. Given only prefiling conduct is now relevant to willfulness, one would imagine patentees will make sure to put defendants on notice before filing suit. By doing so, however, they potentially subject themselves to declaratory judgment action. Patentees have long walked a tight rope between sufficient notice to trigger willfulness on the one hand, and "too much" notice triggering a declaratory judgment—that tight rope becomes even thinner yet.

A potential unintended consequence: more preliminary injunction motions. Suppose a patent holder files suit with no prefiling notice—under Seagate, that patentee *must* request a preliminary injunction to preserve its right to enhanced damages. If the patentee loses on the "substantial issue of invalidity or infringement" prong of preliminary injunction motion, enhanced damages are probably out in any event. But after the Supreme Court's *eBay* decision, a patentee can just as well lose for lack of irreparable harm—unrelated to the substantive merits. So one will likely see more preliminary injunction motions not to actually get a preliminary injunction, but instead to establish the likelihood-of-success prong. If a patentee won on that prong, it could arguably preserve a right to enhanced damages based on continued post-complaint infringement.

VI. Unanswered Questions

Some questions and issues remain unanswered. What happens if one retains one opinion counsel ultimately as trial counsel? Are all subsequent communications waived? Are communications subsequent to the opinion waived? For the time being, one suspects defendants will not be retaining their opinion counsel as trial counsel to avoid being the test case to answer this question. Nevertheless, it does seem highly artificial that in one case trial strategies would be protected, but in the other case they would not. Nevertheless, it seems that that is the current, bright-line rule.

How will the new willfulness standard actually affect findings, both by a court and by a jury? There should be some impact on the jury although as discussed above, perhaps less than one would expect. On the other hand, the new test does tend to outline bright line steps that can lead summary disposition of willfulness claims. And certainly without pre-filing notice, willfulness is likely out.

Finally, the ultimate question simply is how does a plaintiff establish "objective recklessness", and how does a defendant defend such a claim? Is this going to result in a substantial change in the way corporations address their infringement issues, or is it instead going to be the same—quite expensive—process as before, albeit judged under a different standard?

As the Federal Circuit said about the standard itself, we leave it to the district courts to work out the details.

Stay tuned!