

Susan G. L. Glovsky
Hamilton Brook Smith Reynolds
530 Virginia Road
P.O. Box 9133
Concord, Massachusetts 01742
978-341-0036
www.hbsr.com

Willfulness, Preliminary Injunctions, Scope of Waiver, and the Role of Opinions Post-*Seagate*

Perhaps the Federal Circuit was tired of being reversed by the Supreme Court when it reversed itself on August 20 in *In Re Seagate Technology, LLC*, 2007 U.S. App. Lexis 19768 (Fed. Cir. 2007) (*en banc*) (Newman, J., Garjarsa, J., concurring), overruling two decades of its own precedent. This is an outline for ABA Roundtable discussions of significant issues presented by the *Seagate* decision, an *en banc* unanimous decision of the Federal Circuit.

Proof of willfulness, preliminary injunction strategy, scope of privilege and work product waiver, and the role of opinions are all significantly impacted by *Seagate*. The intent of the outline is to facilitate discussion at the Roundtables by participants prepared to take *Seagate* to the next level for each of these issues. This outline supplements the outline *Opinions of Counsel and the Scope of Waiver: Examining EchoStar and Seagate*, by Robert H. Resis and Jason S. Shull provided for the discussion of this topic at Roundtables that took place while *Seagate* was pending.

I. How to Prove (or Disprove) Willfulness:

A. The New Standard

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. ... If this threshold objective standard is satisfied, the patentee must also determine 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.

B. The Elements

- *The infringer acted*
- *Despite*

- *Objectively high likelihood that its actions constituted infringement of a valid patent*
- *Risk was known to the accused infringer*
- *Risk was so obvious that it should have been known to the accused infringer*

C. Proving (or Disproving) the Elements

- The elements of the new standard will have to be proven at trial.
- What evidence will be elicited in discovery and used at trial for each of the elements of Willfulness?
- Will there be expert testimony and who will be the expert?
 - A patent lawyer speaking as an expert on likelihood that the actions constituted infringement of a valid patent?
 - An objectively reasonable entrepreneur on what the accused infringer should have considered likely?
 - A risk analyst?

D. Existing Precedent

In arriving at the new standard, the Federal Circuit relied on Supreme Court precedent concerning the meaning of willfulness as a statutory condition of civil liability for punitive damages. *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. ___, Nos. 06-84, -100, slip op. (June 4, 2007), and other Supreme Court decisions. *See McLaughlin v. Richland Shoe Co.*, 486 U.S. 128, 132-33 (1988) (concluding that willful violations of the Fair Labor Standards Act include reckless violations); *Trans World Airlines, Inc. v. Thurston*, 469 U.S. 111, 128 (1985). *See also*, Keeton, D. Dobbs, R. Keeton, & D. Owen, *Prosser and Keeton on Law of Torts* § 34, p. 212 (5th ed. 1984)).

What further guidance for proving willfulness do these cases provide?

II. Preliminary Injunctions:

The Federal Circuit created a new connection between the recovery of enhanced damages and preliminary injunctions. The court ruled that “[a] patentee who does not attempt to stop an accused infringer’s activities [by moving for 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.”

The discussion of preliminary injunctions came in the context of the scope of waiver of attorney-client privilege to avoid enhanced damages in a patent infringement action. Trial courts have statutory discretion to enhance damages for patent infringement.

35 U.S.C. § 284. The statute is devoid of any standard for awarding enhanced damages. Before *Seagate*, Federal Circuit precedent held that an award of enhanced damages required a showing of willful infringement. In linking preliminary injunctions and enhanced damages, the Federal Circuit reasoned that an allegation of willful infringement in a complaint will be based on pre-litigation conduct. After the complaint is filed, a preliminary injunction generally provides an adequate remedy for combating post-filing reckless conduct.

The Federal Circuit explained that even though patent infringement is an ongoing offense that can continue after litigation commences, a patentee must have a good faith basis for alleging willful infringement in a complaint. Reckless post-filing conduct is appropriately addressed through a preliminary injunction motion. This analysis led the Federal Circuit to pronounce that a patentee who does not attempt to stop an accused infringer's activities through a preliminary injunction motion is barred from accruing enhanced damages based solely on the infringer's post-filing conduct. Also, the infringement likely would not rise to the level of recklessness if a patentee attempts but fails to secure injunctive relief.

- Is the Federal Circuit's pronouncement to be discounted as merely *dicta*?
- What does this heightened significance for preliminary injunctions mean for future patent cases?
- Does it favor one type of patentee over another?
- What impact will it have on licensing?
- What impact will it have on resolving patent disputes?
- Will it change your practice in filing preliminary injunction motions?

III. **Scope of Waiver:**

After establishing the new standard, the Federal Circuit went on to address the scope of waiver of attorney-client privilege resulting from an advice of counsel defense asserted in response to a charge of willful infringement.

The Federal Circuit decided that:

- *Asserting the advice-of-counsel defense and disclosing opinions of counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel.*
- *Relying on opinion counsel's work product does not waive work product immunity with respect to trial counsel.*

- *Situations may arise in which waiver may be extended to trial counsel, such as if a patentee or his counsel engages in “chicanery.”*

Excluding trial counsel from the waiver that results from reliance on an opinion was based on a number of considerations, including “the significantly different functions of trial counsel and opinion counsel. Opinion counsel serves to provide an objective assessment for making informed business decisions, [while] trial counsel focuses on litigation strategy and evaluates the most successful manner of presenting a case to a judicial decision maker.”

The wish has come true for Advocates for a different standard for opinion and trial. What are the ramifications?

- What is waived?
- What is not waived?
- Separate opinion and trial counsel?
 - For – Will it be more clear what is waived and what is not waived?
 - Against -- If opinion counsel is before litigation and trial counsel is after litigation, is timing enough of a distinction?
- Can opinion and trial counsel talk to each other in the same or separate firms?
- Should opinion counsel be told changes in fact that are learned through discovery?

IV. **The Role of Opinions:**

Before *Seagate*, two decades of Federal Circuit precedent provided that a potential infringer with actual notice of another’s patent rights had an affirmative duty to exercise due care to determine whether infringement had occurred. This included a duty to seek and obtain competent legal advice from counsel before the initiation of possible infringing activity. To meet the affirmative duty of due care, companies obtained an opinion from counsel concerning validity and infringement of the patent. The opinion, a privileged attorney-client communication, formed the basis for a defense to enhanced damages. In ensuing litigation, an accused infringer had to choose between the assertion of the attorney-client privilege and reliance on the opinion to avoid a willfulness finding if infringement was found.

The Federal Circuit’s decision to abandon the affirmative duty of due care is the culmination of its recent decisions in *Knorr-Bremse* and *Echostar* trending toward heightened respect for the attorney-client relationship. The Federal Circuit explicitly left it to future cases to develop application of the following announced standard: “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. ... If this threshold objective standard is satisfied, the patentee must also determine 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.”

As a result of this new standard, the “state of mind of the accused infringer is not relevant to this objective inquiry” and “there is no affirmative obligation to obtain [an] opinion of counsel.”

- What role will opinions play in future litigation?
- Are they evidence that “the infringer [did not] act[] despite an objectively high likelihood that its actions constituted infringement of a valid patent”?
- That is, though there is no affirmative obligation to obtain an opinion, is the existence of an opinion a factor to consider in determining the objective likelihood that the accused infringer’s actions constituted infringement of a valid patent?
- Opinions remain significant to avoid increased financial and other risks when introducing a new product, investing in a new venture, deciding whether to enter into license agreements, and in other contexts. Will corporations be able to focus more on counsels’ opinions for these business purposes and less on their role in the defense of claims of willfulness?