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Intellectual Property Update

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THE FEDERAL CIRCUIT ELIMINATES THE "AFFIRMATIVE DUTY OF DUE CARE" AND ADDRESSES THE SCOPE OF WAIVER

Recently, in *In Re Seagate, LLC*, the Court of Appeals for the Federal Circuit ("CAFC") changed the patent infringement willfulness doctrine and addressed whether the waiver resulting from the advice of counsel and work-product defenses extend to trial counsel. The court ruled that parties charged with infringement no longer have "an affirmative duty of due care." The court also ruled that parties relying on a written opinion of counsel as a defense are less likely to be forced to disclose privileged communications with their trial counsel.

In 1983, the CAFC created a precedent for evaluating willful infringement of patents where a potential infringer has an affirmative duty to exercise due care to determine whether or not he is infringing to avoid paying enhanced damages (e.g., treble damages). The affirmative duty includes the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.

In light of the duty of due care, defendants accused of willful infringement commonly asserted an advice of counsel defense. Under this defense, the defendant aims to establish that due to reasonable reliance on advice from counsel, its continued accused activities were done in good faith. Asserting such a defense waives work-product protection and the attorney-client privilege for all communications on the same subject matter.

As a result, when a party was accused of patent infringement, the party often obtained an opinion letter from a patent attorney, referred to as opinion counsel, on whether the party is indeed infringing. When a patent infringement case reached trial, the accused party would often waive privilege for those opinion letters.

In the *Seagate* case, the plaintiffs used the privilege waiver of opinion counsel communications to seek communications between defendants and their trial counsel. The district court ordered Seagate to turn over trial counsel communications to its opponent. Seagate appealed this order to the CAFC.

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In an unanimous en banc opinion, the CAFC overruled its prior precedent in deciding what constitutes willful infringement, holding that willful infringement enhanced damages now requires "at least a showing of objective recklessness," and addressed the scope of waiver.

Accordingly, 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. The state of mind of the accused infringer is not relevant to the inquiry. If this threshold objective standard is met, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding at the district court level) was either known or so obvious that it should have been known to the accused infringer. The court left it to future cases to further develop application of this standard, but in a footnote stated that the court expected that the standards of commerce would be among the factors a court might consider.

This change to the willfulness standard focuses less on whether the accused infringer obtained opinion counsel, and more on whether the accused infringer did what a reasonable company should have done under the circumstances. As a result, a company doesn't necessarily have to obtain opinion counsel every time they are accused of patent infringement. However, given that future cases will develop the factors a court considers in making a determination of willfulness, getting patent counsel involved still makes good sense to assist companies in avoiding charges of infringement.

With regard to the Attorney-Client Privilege and Work-Product waiver, the court concluded that "the significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel." The court held as a general proposition that when asserting an opinion of counsel in defense to a willful infringement claim, any waiver of privilege or work-product materials does not extend to trial counsel.

This holding allows trial courts to exercise their discretion in unique circumstances to extend waiver to trial counsel, such as if a party or counsel engages in chicanery. The court also stated that the general principles of work-product protection remain in force, so that a party may obtain discovery of work-product absent waiver upon a sufficient showing of need and hardship, bearing in mind that a higher burden must be met to obtain that pertaining to mental processes.

For further information, or to inquire about patents, assignments, licenses, and other aspects of intellectual property, please contact your Reinhart attorney or Kevin Wingate at kwingate@reinhartlaw.com, telephone 815-633-5300.

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