

In re Seagate Technology, LLC - Impact On (Potential) Accused Infringers, Their Attorneys, and Patentees

By Robert H. Resis of Banner & Witcoff, Ltd.

Robert Resis has over 20 years of experience in representing clients in a wide variety of intellectual property matters. His primary concentration is in trial work. Mr. Resis practices in the Chicago office of Banner & Witcoff, Ltd., where he has spent his entire legal career.

The en banc decision of the Federal Circuit Court of Appeals in *In re Seagate Technology, LLC*, (Fed. Cir., August 20, 2007), overrules the Court's long time standard for evaluating willful infringement as set forth in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983). In *Underwater Devices*, the Federal Circuit held that 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” and that such “an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.”

In *Seagate*, the Federal Circuit held that “proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness [and not a negligence threshold associated with the duty of care announced in *Underwater Devices*].” The Federal Circuit reemphasized that because it was abandoning the affirmative duty of care, “there is no affirmative obligation to obtain opinion of counsel.”

The Federal Circuit went on hold that “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” and that the “state of mind of the accused infringer is not relevant to this objective inquiry.” The Federal Circuit further stated that “[i]f 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.” The Federal Circuit stated that it would “leave it to future cases to further develop the application of this standard.”

In light of its new willfulness standard, the Federal Circuit held “that the significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel. . . . Therefore, fairness counsels against disclosing trial counsel's

communications on an entire subject matter in response to an accused infringer's reliance on opinion counsel's opinion to refute a willfulness allegation.” The Federal Circuit noted that “a willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer's pre-filing conduct.”

By contrast, the Federal Circuit noted that “when an accused infringer's post-filing conduct is reckless, a patentee can move for a preliminary injunction, which generally provides an adequate remedy for combating post-filing willful infringement.” Indeed, the Federal Circuit stated that “[a] patentee who does not attempt to stop an accused infringer's activities in this manner should not be allowed to accrue enhanced damages based solely on the infringer's post-filing conduct” and similarly, “if a patentee attempts to secure injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness.” Thus, a “substantial question about invalidity or infringement is likely sufficient not only to avoid a preliminary injunction, but also a charge of willfulness based on post-filing conduct.”

The Federal Circuit stated that “[b]ecause willful infringement in the main must find its basis in prelitigation conduct, communications of trial counsel have little, if any, relevance warranting their disclosure, and this further supports generally shielding trial counsel from the waiver stemming from an advice of counsel defense to willfulness. . . . In sum, we hold, as a general proposition, that asserting the advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel. . . . [As to work product protection], “Again we are here confronted with whether this waiver extends to trial counsel's work product. We hold that it does not, absent exceptional circumstances.” The Federal Circuit held that “as a general proposition, relying on opinion counsel's work product does not waive work product immunity with respect to trial counsel” and that “work product protection remains available to ‘nontangible’ work product under [the Supreme Court’s seminal case] *Hickman*.”

Impact on (Potential) Accused Infringers

Under *Seagate*, the willfulness inquiry is now whether an accused infringer acted as an objectively reasonable entity would have acted under a totality of the circumstances. The *Seagate* decision does not hold that relying on an opinion of counsel is irrelevant to that inquiry. Thus, the *Seagate* decision should not be interpreted as a reason to stop seeking opinions of counsel with respect to the patent rights of others. As well, companies need to recognize that their conduct will be judged by their shareholders at a minimum. Irrespective of the potential for treble damages based on a finding of willfulness, shareholders will want management to reasonably review patent issues and take a prudent approach before the company engages in significant commercial investments and efforts relating to proposed goods and services. Indeed, in some cases, infringement can be avoided based on some basic knowledge of the issues.

Where the *Seagate* decision may have the most significant impact is in instances where there are or will be dozens or more components used in a product or way of doing business, and possibly hundreds or more patents on some or all of the components and/or

various combinations thereof. These instances frequently arise in the electronics and telecommunications industries. Under *Seagate*, an entity that contemplates a new product and/or service no longer has a “duty to seek and obtain competent legal advice from counsel” as to every one of such patents “*before* the initiation of any possible infringing activity.”

An entity that contemplates a proposed product or service may still want to take a conservative approach by identifying what appear to be the most relevant patent(s) and satisfy itself that there is no “objectively high likelihood that its actions [will constitute] infringement of a valid patent” so identified. To do so, the entity may decide to do a design around and/or obtain competent legal advice from counsel as to a patent(s) identified as being the most relevant. An entity may consider doing the same exercise to the extent not already done when it receives notice of a particular patent from a patentee and has been threatened with an infringement suit regarding a proposed or existing product or service.

When an entity decides to obtain opinion advice from counsel regarding a patent and its proposed or actual activities, it should ensure that the opinion advice is rendered by counsel other than who the entity wants to have as trial counsel. If opinion counsel and trial counsel are the same attorney, then the holding of *Seagate* would not be applicable and the patentee could then obtain all opinions of trial counsel because he or she would be the same individual as opinion counsel. In an abundance of caution, the entity may want to engage outside counsel from one law firm to provide opinion advice and another law firm to be trial counsel.

Because the *Seagate* decision appears to make it more difficult for a patentee to prove by clear and convincing evidence that an infringer’s infringement was willful, an entity that is negotiating a license or settlement with a patentee will be in a better bargaining position even if that entity did not have a opinion of counsel before the filing of a lawsuit.

Impact on the Attorneys of (Potential) Accused Infringers

Attorneys who represent potential accused infringers or accused infringers should ensure that their clients understand the change in the law under the *Seagate* decision so that their clients do not have any misconceptions based on past law or experiences. Still, attorneys should make clear to clients that the law will continue to evolve, particularly since the Federal Circuit has left “it to future cases to further develop the application of [its new] standard.”

Law firms that wish to be both opinion counsel and trial counsel should ensure that the attorney(s) providing the opinion advice are different from the attorney(s) acting as trial counsel.

Impact on Patentees

The *Seagate* decision appears to make it more difficult for a patentee to prove willfulness

by clear and convincing evidence since there is no longer a “duty of care”. Further, a patentee who does not obtain a preliminary injunction should not expect enhanced damages based on post-filing infringement. Thus, a patentee should have lower expectations of recovery from an accused infringer in negotiations and at trial.

Do not be surprised, however, to see a patentee argue that the fact an accused infringer obtained an opinion of counsel is admissible evidence that the accused infringer knew of the “objectively-defined risk,” thereby satisfying the second part of the new test of willfulness under *Seagate*. This argument would seem to be persuasive in only certain circumstances, such as where there is chicanery behind the opinion.

Conclusion

Since the Federal Circuit stated it was leaving it to future cases "to further develop the application" of the recklessness standard, uncertainty exists as to how the application of the standard will develop in the future. In the meantime, a (potential) accused infringer will need to navigate a path to best show that it did not have an objectively high likelihood that its actions constituted infringement of a valid patent. Accused infringers, potential accused infringers, and their attorneys should ensure clear distinction between opinion attorney(s) and trial counsel. Patentees should have lower expectations of proving willfulness, and corresponding settlements and recoveries.