Column
IP Lawyer

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A sea change in wilful infringement

A recent Federal Circuit decision has redefined the wilful damages landscape in the United States

In a highly anticipated patent decision, *In re Seagate Technology*, the US Federal Circuit has overruled years of precedent and significantly raised the bar for patent holders seeking enhanced damages for wilful infringement. The court also clarified unresolved issues regarding the scope of waiver of attorney-client privilege and work product immunity when asserting an advice-of-counsel defence to wilful infringement.

The US Patent Act permits damages for patent infringement to be increased up to three times at the discretion of the court. No guidance is provided as to when such enhanced damages are appropriate. Twenty-five years ago, in the *Underwater Devices* case, the newly created Federal Circuit set a standard for conduct for determining enhanced damages in an attempt to curb what it described as the then "flagrant disregard of presumptively valid patents without analysis". A potential infringer with actual notice of another's patent had an affirmative duty to exercise due care to avoid infringement. Failure to adhere to this standard was "wilful infringement" and a basis for enhanced damages.

This affirmative duty included the duty to obtain competent legal advice from counsel before initiation of any potential infringing activity. Failure to obtain legal advice or produce an exculpatory opinion of counsel in litigation gave rise to an adverse inference with respect to wilfulness. Thus, accused infringers were faced with a difficult choice – disclose opinions of counsel and incur a broad waiver of attorney-client privilege and work product immunity, or risk incurring treble damages for wilful infringement.

Three years ago, the now well-established Federal Circuit struck down the adverse inference for the failure to come forward with an exculpatory opinion. Then, last year the Federal Circuit said it would revisit the entire structure of the wilfulness analysis, in its rare *en banc* review in *Seagate*.

In its unanimous decision in *Seagate*, the Federal Circuit redefined the standard for wilful infringement. The Federal Circuit overruled the "affirmative duty of care" and held that a finding of wilful infringement now requires "at least a showing of objective recklessness". The court further announced that there is no longer any affirmative obligation to obtain a competent opinion of counsel before engaging in potentially infringing activity.

Relying on non-patent decisions from the Supreme Court, the court proffered a new two-part test for determining whether the infringer's conduct was wilful:

- First, the patent owner must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions infringed a valid patent. In making this threshold determination, the infringer's subjective state of mind is completely irrelevant.
- Second, the patent owner must demonstrate that the objectively high risk was either known or should have been known to the infringer.

The new standard for wilfulness aligns with the meaning of reckless behaviour in the context of copyright infringement and civil liability for punitive damages, eliminating a special rule for patent cases. The Federal Circuit said it left it to future cases to develop the application of this standard in patent cases.

Additionally, the Federal Circuit remarked that if a patent owner fails to seek a preliminary injunction to stop post-filing conduct, that would preclude recovery of accrued post-filing wilfulness damages. Thus, if a patent owner fails in a bid for a preliminary injunction, wilfulness will probably not be found.

Last year, the Federal Circuit began to address the unpredictable scope of waiver, finding that any reliance on advice of counsel waived the attorney-client privilege and work product immunity for all related information – a broad waiver. Some subsequent lower court cases extended the waiver to all communications and work product of trial counsel throughout the entire litigation. The *Seagate* decision clarified the scope of the waiver, saying that asserting an advice-of-counsel defence was not a waiver with respect to trial counsel. However, the court left the door open for a broader waiver based on a party's conduct; for example, when "counsel engages in chicanery".

After *Seagate*, patent owners will face an uphill battle in recovering wilful infringement damages. Now it is patent owners that may face difficult choices. For example, if the patent owner gives detailed notice of infringement, that may open the door to pre-emptive suits in a court not of the patent owner's choosing. Conversely, if pre-filing notice is not given, the patent owner risks foreclosing wilfulness damages. Without the spectre of wilful infringement, some patent owners could lose leverage in negotiating licences and settlements.

On the other hand, companies routinely accused of patent infringement, such as generic pharmaceutical companies and high-technology companies which are frequently sued by so-called patent trolls, may have a different perspective on *Seagate*. After *Seagate*, companies need not obtain an opinion of counsel as a part of a litigation defence strategy every time they are accused of infringement to avoid wilfulness. Prudent companies will probably still procure opinion letters as they play a vital role in making informed business decisions, minimising infringement liability and reassuring investors.

As an aside, despite increased clarity on scope of waiver, *Seagate* should not lead counsel to ignore the issues created when the same firm serves as both opinion and trial counsel. The opinion writer should be diligently screened from the litigation team. Further, because the court explicitly refrained from addressing waiver with respect to in-house counsel, companies should continue to be wary that communications of in-house counsel might be ultimately revealed during litigation.

The district courts will confront the questions *Seagate* did not answer as they struggle to apply the new rules. Some of those open questions are likely to end up before the Federal Circuit. For now, it is clear that *Seagate* is a sea change in the Federal Circuit's attitude towards enforcement of patents.

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