

Keywords: Advice of Counsel, Attorney-Client Privilege, Opinion, Willful Infringement, Waiver

General: The previous standard of due care for proving willful infringement, as recited in *Underwater Devices*, is overruled as inconsistent with other civil jurisprudence and a recklessness standard is imposed. Further, reliance on an opinion of counsel does not waive privilege with respect to a separate and independent trial counsel.

In re Seagate Technology, LLC
(Fed. Cir., Misc. Docket No. 830)
Decided August 20, 2007

I. Facts

Seagate Technologies, LLC (Seagate) was sued by Convoke, Inc., and the Massachusetts Institute of Technology (Convoke) in the District Court for the Southern District of New York, on July 13, 2000, alleging willful infringement of U.S. Patent Nos. 4,916,635 (the '635 patent) and 5,638,267 (the '267 patent). After U.S. Patent No. 6,314,473 (the '473 patent) issued on November 6, 2001, Convoke amended the complaint to include willful infringement of the '473 patent.

Prior to the filing of the suit by Convoke, Seagate retained counsel to provide opinions concerning the Convoke patents. In total, three opinions were prepared. The first was received by Seagate on July 24, 2000, and concluded that many of the claims in the '635 and '267 patents were invalid and that Seagate did not infringe. An updated opinion, provided to Seagate on December 29, 2000, also concluded that the '267 patent was possibly unenforceable. The opinion counsel reviewed an application that was similar in subject to the '473 patent, but recommended further analysis after issuance of a patent. After the '473 patent issued, an opinion was provided to Seagate on February 21, 2003. At all times during this process, the counsel providing these opinions (opinion counsel) was separate and independent of trial counsel.

In early 2003, Seagate informed Convoke of its intention to rely on the three opinions in defending itself against willful infringement. The opinion counsel's work product was provided to Convoke and the opinion counsel was made available for depositions. Convoke moved to compel Seagate to disclose all communications and work product on the same subjects, i.e. infringement, invalidity, and unenforceability, not only with opinion counsel but also with trial counsel.

The district court ruled that Seagate had waived privilege for all communications with both opinion counsel and trial counsel. The waiver was determined to have started from the time that Seagate became aware of the allegedly infringed patents and would last until any infringement ended. While the district court provided for *in camera* review of any documents relating to trial strategy, the court stated that any advice that questioned Seagate's reliance on the opinion must be disclosed. Further, the district court ruled that the privilege was waived for any work product communicated to Seagate on the same subject matter.

After this ruling, Convoke moved for the production of all documents and communications with trial counsel concerning infringement, invalidity, and unenforceability and served notice for depositions of trial counsel. In response, Seagate moved for a stay and a certification of an interlocutory appeal, however, Seagate's motion was denied by the district court. Seagate then petitioned the Federal Circuit for a writ of mandamus, as discussed below. The Federal Circuit noted that the case highlighted the practical dilemma that previous decisions had created with respect to attorney-client privilege and work product protection. Accordingly, the Court *sua sponte* ordered an *en banc* review of the petition and the issues it raised.

II. Issues

1. Should the Court reconsider the duty of due care standard, especially given its inconsistent effects on attorney-client privilege?
2. Should a party's assertion of an advice of counsel defense to willful infringement extend waiver of the attorney-client privilege to communications with that party's trial counsel?
3. What is the effect of any such waiver on the protection of the work-product of trial counsel?

III. Discussion

The Court began the analysis with a discussion of the standard for granting a writ of mandamus. In this discussion, the Court laid out the fundamental elements for granting the writ, specifically that the party seeking the writ has the burden to prove that no other means existed for attaining the relief desired, and that the right to issuance must be "clear and indisputable." Further, the Court noted that mandamus review for discovery orders may be granted if (1) there was an important issue of first impression, (2) the privilege would be lost if the review were to be delayed, and (3) delaying review could cause the development of doctrines that may weaken the privilege. The Court affirmed that the present case met these standards.

The court also noted that the determination of the scope of the waiver of attorney-client privilege is reviewed on an abuse of discretion standard. The law to be used is that of the Federal Circuit itself, as the issues in this case, willful infringement and the advice of counsel, invoke substantive patent law.

1. Yes. The court decided that the standard for the duty of due care decided in *Underwater Devices* was inconsistent with other decisions in civil litigation, being more in line with a negligence standard when a recklessness standard should be used. Further, the inconsistent and negative effects on the attorney-client privilege also suggested its reconsideration.

The Court started its discussion by noting that while 35 U.S.C. § 284 gives courts the discretion to increase damages for infringement by up to three times the actual damages, no statutory guidelines are provided. Accordingly, the Court has required a showing of willful infringement for the awarding of increased damages (*Beatrice Foods*).

The current standard for determining willfulness in patent infringement was defined by the Court in *Underwater Devices*, in which the court noted that the duty of due care included, among other things, "the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity." Accordingly, parties accused of willful infringement often assert an advice of counsel defense, in which the party claims that infringement was not in bad faith due to reasonable reliance on the opinion of counsel.

However, reliance on the standard defined in *Underwater Devices* has caused substantial problems for litigants, primarily due to the effects on the attorney-client privilege and the work product doctrine. For example, in one line of cases (*Kloster Speedsteel*), if an accused infringer did not produce an opinion of counsel, a negative inference could be drawn that either no advice was obtained or that a negative opinion was obtained, triggering the possibility of higher damages. While the Court has overturned this line of cases (*Knorr-Bremse*), other issues remain.

A significant remaining issue is the effect of the current willfulness standard on attorney-client privilege when relying on advice of counsel as a defense. The Court recently confirmed (*In re EchoStar*, 2006) that relying on the advice of counsel waives attorney-client privilege for all communications on the same subject. Further, asserting an advice of counsel defense also waives work product protection and attorney-client privilege for all communications on the same subject matter, including attorney-client communications. However, the Court did not consider the effects of this decision as it relates to separate trial counsel. Thus, the decision of the district court that Seagate had waived all attorney-client privilege was reasonable in light of the Federal Circuit's decision in *EchoStar*. Unfortunately, the

waiver has not been consistently applied by the district courts, with some extending the waiver to all communications on the subject, others exempting trial counsel, and still others exempting trial counsel only for communications that do not question the value of the opinion.

The Court continued its discussion by examining the definition of willfulness used by the other circuit courts and by the Supreme Court. The Court noted that in the analogous situation of copyright infringement, willfulness has been consistently defined by the other circuit courts as including reckless behavior. Furthermore, the Supreme Court recently held that willfulness is a statutory condition of civil liability for punitive damages, and that the standard civil usage of willfulness includes reckless behavior. In contrast, the current standard for willful infringement set by *Underwater Devices* is more consistent with negligence. Accordingly, the Court overruled *Underwater Devices* and stated that there is no affirmative duty to obtain an opinion of counsel.

The new standard for determining willful infringement, as laid out by the court in this case, is that “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.” *In re Seagate*, 06-M830 at 12. If this threshold is met, the patentee must also demonstrate that this risk “was either known or so obvious that it should have been known to the accused infringer.” *Id.*

NOTE: Circuit Judge Gajarsa makes a compelling argument for total elimination of any willfulness standard. In a concurring opinion that examines the historical development of the statutory damages provisions, he notes that Congress neither imposed nor implied standards for enhanced damages and that enhanced damages have historically been used to compensate for inequities in the system. He believes that enhanced damages may be more useful if left to the discretion of the district courts for use in balancing equitable concerns. For example, a plaintiff may be successful in proving infringement, but may not be able to prove the real extent of damages. In this case, a court may choose to enhance damages by some measure. In his analysis, this would be more consistent with the Supreme Court’s decision in *GM*, which held that there should be no bad faith standard read into 35 U.S.C. § 284 (as applied to the awarding of prejudgment interest on actual damages).

2. No. The Court held that relying on an opinion to defend against a charge of willful infringement does not extend the waiver of privilege beyond the opinion counsel. The privilege is still intact with respect to trial counsel and work product of trial counsel.

The Court started with a discussion of the historical importance of the attorney-client privilege in encouraging full communication between attorneys and clients. The privilege is owned by the client who determines whether or not to waive the privilege. Generally, a waiver applies to all other communications on the same subject. This is believed necessary to prevent a party from inequitably disclosing favorable communications while hiding unfavorable communications. However, even under this general standard, the courts determine the ultimate scope of the waiver based on the circumstances.

The Court stated that a waiver based on reliance on opinion of counsel should extend only to the opinion counsel and not to the trial counsel. The primary reason for this holding is the different functions of the two counsels. The opinion counsel provides an objective assessment that may be used for business decisions. In contrast, trial counsel is engaged in an adversarial function. The difference has been emphasized in other cases, which held that the trial counsel’s defenses are not equivalent to objective opinions and may not be used as a defense against willful infringement (*Crystal Semiconductor*). The Court also emphasized the importance to the public good and efficient litigation resulting from not extending the waiver to trial counsel.

Further, the Court noted that willfulness usually depends on pre-litigation conduct. While the willful infringement may continue after filing, the patentee may seek an injunction to prevent further infringing conduct. Accordingly, opinions of trial counsel may have very little relevance to the willfulness determination.

Finally, the Court emphasized that this is not an absolute rule. The trial court may use its discretion to extend the waiver if the circumstances require, for example, if a party has engaged in deception.

3. The waiver to the work product and privilege for opinion counsel does not generally extend to trial counsel, except in special situations, for example, deception on the part of the accused party. However, the general rules of work product protection remain in effect.

The Court began its discussion by reviewing the general rules of the work product doctrine. Specifically, a party may obtain discovery of work product under certain conditions. This is easier for factual work product, which may be discovered upon a sufficient showing of need and undue hardship. However, protection of mental process work product remains nearly absolute.

Work product protection may be waived, but the scope of the waiver is likely to be interpreted as being narrower than that of a waiver of attorney-client privilege. Protection from broad work product waivers is believed to protect the integrity of the adversarial trial process by preventing the disclosure of opponents' thoughts and plans. The Supreme Court has upheld such narrow waivers, preventing general "fishing expeditions" into opponents' files. In this case, Convolv has been given materials and access to opinion counsel, but such access is not extended to the work product of the trial counsel. Rule 26(b)(3) partially codifies work product protection, applying to "documents and tangible items." The courts also protect "nontangible" work product under the Supreme Courts decision in *Hickman*, which prevents the deposition of Seagate's trial counsel.

IV. Conclusions

1. The change in the standard of due care may weaken a patentee's position when pursuing an infringement suit. Prior to this change a patentee could get treble damages for negligent, willful, or deliberate infringement (and only absolute damages when the infringing party was unaware of the patent). After the rules change, a patentee may get treble damages only for willful or deliberate infringement.

However the value of opinions has apparently increased. Since a party that obtains a legitimate, well-reasoned opinion of counsel prior to any litigation would appear not to be reckless, obtaining an opinion would appear to be more valuable than ever.

2. The changes in the waiver rules substantially increase the predictability in using an opinion in a proceeding. The Court's limitation of the waiver of attorney-client privilege and work product protection to the opinion counsel apparently makes the use of an opinion a safer option.