



JONES DAY  
**COMMENTARY**

## ***IN RE SEAGATE:* THE FEDERAL CIRCUIT SCUTTLES UNDERWATER DEVICES AND NARROWS PRIVILEGE/IMMUNITY WAIVER**

The Federal Circuit's recently issued *en banc* decision in *In re Seagate Technology* (Fed. Cir. Aug. 20, 2007) overruled the court's previous standard for finding willful infringement, eliminated the previous affirmative duty to exercise due care to avoid infringing activity, and replaced it with a heightened standard of objective recklessness. Further, recognizing the significant role that opinions of counsel almost always play in the willfulness analysis, the Federal Circuit also took the opportunity to clarify the scope of the waiver for attorney-client privileged communications and work product when an accused infringer elects to rely upon its opinions of counsel to defeat an allegation of willful infringement. This decision marks a substantial departure from the Federal Circuit's willfulness jurisprudence of nearly 25 years. Setting a new standard creates a clean slate for litigants and judges alike to design new proofs.

### **HOLDINGS OF *IN RE SEAGATE***

On some issues, the Federal Circuit's unanimous *en banc* decision is clear. The court explicitly overruled its previous decision in *Underwater Devices v. Morrison-Knudsen Co.* (1983) and held that "proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness." The court also emphasized that there is no affirmative obligation to obtain an opinion of counsel to avoid allegations of willful infringement.

Relying on a number of nonpatent decisions from the United States Supreme Court, the Federal Circuit provided some guidance as to the meaning of "objective recklessness," although it left development of the standard to future cases:

[T]he civil law generally calls a person reckless who *acts in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known*. 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 this objective inquiry. If this threshold objective standard is satisfied, the patentee *must also demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer*. We leave it to future cases to further develop the application of this standard (emphasis added; internal citations and punctuation omitted).

The court also clarified that if an accused infringer elects to waive the attorney-client privilege and work-product immunity to rely on the advice-of-counsel defense, the scope of the waiver will not extend to privileged communications between the client and *trial* counsel. As to the waiver of work product, the court held that “as a general proposition, relying on opinion counsel’s work product does not waive work product immunity with respect to trial counsel.”

Thus, this decision fundamentally affects the law concerning willful infringement and the attorney-client privilege. First, in order to prove willfulness, a patentee must show (by clear and convincing evidence) (1) that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and (2) that the infringer knew or should have known about this objectively defined risk. Second, accused infringers can now rely on the advice-of-counsel defense without fear of triggering a broad waiver of attorney-client communications involving trial counsel and without fear that trial counsel’s work product will necessarily be disclosed (although, as is always the case, factual work product may be discoverable upon the requisite showing of good cause).

## BACKGROUND

Section 284 of the Patent Act permits patentees to recover enhanced damages for infringement, but the statute does not give any guidance for determining when enhanced damages are appropriate. That determination has been left to the discretion of the courts, and the Federal Circuit has held that one such basis for awarding enhanced damages is a finding of willful infringement.

Nearly 25 years ago, in *Underwater Devices*, the Federal Circuit set the standard for willful infringement, imposing an affirmative duty to exercise due care to determine whether or not one is infringing. That affirmative duty included, among other things, the duty to seek and obtain competent legal advice from counsel before engaging in a potentially infringing activity, if the accused infringer had had “actual notice of another’s patent rights.” Because of this affirmative duty, it became common practice for patent owners to send a potential defendant a “charge letter” in an effort to put them on notice of the patent rights and trigger this duty of care. The recipient of such a letter would typically seek an opinion letter from counsel so that, if sued, the advice-of-counsel defense could be invoked to rebut any charge of willful infringement.

In asserting the defense, these accused infringers immediately encountered problems because the advice-of-counsel defense, and its attendant subject-matter waiver, clashed with the principles of protecting attorney-client privileged communications. Courts would not allow parties to use attorney-client privilege as both “a sword and a shield,” selectively disclosing favorable information while claiming privilege as to unfavorable information. Consequently, accused infringers often faced a Catch-22: either forgo the advice-of-counsel defense and maintain attorney-client privilege and work-product immunity, or invoke the defense but risk exposure of potentially damaging communications. Indeed, because the adverse consequences of a willful-infringement verdict were so severe (potentially trebled damages as well as attorney fees), accused infringers were under great pressure to waive the privilege and introduce opinions of counsel at trial.

If an accused infringer decided not to invoke the advice-of-counsel defense, it then risked an adverse-inference jury instruction until the Federal Circuit struck down that practice in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.* (2004). Moreover, because the boundaries as to the scope of the waiver remained unsettled for many years, invoking the advice-of-counsel defense could result in broad and unpredictable disclosures of privileged and protected information, going far beyond the accused infringer's response to the charge letter. After years of avoiding that issue, the Federal Circuit finally addressed the scope of the waiver in *In re EchoStar Communication Corp.* (2006). There, the court held that the accused infringer not only waived the attorney-client privilege as to in-house counsel, but also waived the attorney-client privilege and work-product immunity for all related information, except for work product never communicated to those relying on the legal advice.

*EchoStar*, however, did not specifically address the advice-of-counsel defense as applied to trial counsel's communications and work product. In the absence of clear guidance from the Federal Circuit, trial courts split over the proper scope of the waiver with respect to trial counsel. Some refused to extend the waiver to trial counsel's communications; others did extend the waiver, but only for those communications that would undermine the advice-of-counsel defense. A third viewpoint extended the waiver to all trial counsel materials.

It is against this legal backdrop that Convolve, Inc., and its coplaintiff, the Massachusetts Institute of Technology, sued Seagate, alleging infringement of two patents and later adding a third. Before the lawsuit, Seagate had hired independent counsel, separate from Convolve's trial counsel, to provide three opinions regarding Convolve's patents. These opinions concluded that many of the asserted claims were invalid, that one patent was potentially unenforceable, and that Seagate's products did not infringe.

In accordance with the trial court's scheduling order, Seagate gave notice of its intention to invoke the advice-of-counsel defense at trial. Seagate disclosed all of its opinion counsel's work product and made its opinion counsel available for deposition. Convolve then moved to compel discovery of any relevant communications with and work product of

Seagate's other counsel, including its trial counsel. The trial court concluded that because Seagate had waived the attorney-client privilege, it would be compelled to produce all communications concerning the opinions with any counsel, including in-house and trial counsel. The trial court ordered an *in camera* review of certain documents to prevent disclosure of trial strategy, but stated that even those communications would be disclosed if they contained advice that undermined the reasonableness of Seagate's reliance on the opinions. Lastly, the trial court ruled that work product communicated to Seagate was not immune from discovery.

In light of the district court's order, Convolve demanded production of Seagate's *trial* counsel opinions relating to infringement, validity and enforceability of the patents and noticed *trial* counsel for deposition. Seagate requested a stay and certification of an interlocutory appeal to seek relief from the discovery orders, which the trial court denied. Out of other options, Seagate petitioned the Federal Circuit for a writ of mandamus to stop the broad compulsory disclosure of its privileged communications with its trial counsel.

The Federal Circuit stayed discovery and *sua sponte* ordered *en banc* review of the petition. Ultimately, the court granted Seagate's writ of mandamus, holding that the trial court's determination of the scope of waiver was an abuse of discretion. The Federal Circuit did not limit its decision to the discrete discovery issue presented, but instead took the opportunity to revamp the standard for willful infringement and to opine upon the proper reach of the waiver if an accused infringer elects to rely on its opinions of counsel. It justified its decision to reach the question of the proper legal standard by "recognizing the functional relationship between our willfulness jurisprudence and the practical dilemmas faced in the areas of attorney-client privilege and work-product protection."

## OBJECTIVE RECKLESSNESS: THE NEW STANDARD FOR WILLFUL INFRINGEMENT

In reaching its ultimate conclusion that the proper standard for finding willful infringement is recklessness, the Federal Circuit looked to other circuits and the Supreme Court for

guidance. The fact that the court declined to cite its own precedent in support of its primary conclusion is evidence of this decision's substantial departure from 25 years of established Federal Circuit precedent. (The *Seagate* decision's heavy reliance upon Supreme Court authority is atypical of previous Federal Circuit decisions and may reflect a tacit acknowledgment of the unusually active role the Supreme Court has taken to shape the contours of patent law in recent years.)

Not only did the Federal Circuit look to different courts for guidance, it looked beyond patent law. For example, the court cited copyright cases, noting that other circuits employ a recklessness standard for enhancing statutory damages for "willful" copyright infringement and recognizing that the Supreme Court had drawn parallels between copyright law and patent law in several of its recent decisions. The court also looked to the Supreme Court's recent interpretation of "willful" behavior in *Safeco Insurance Co. of America v. Burr* (2007), which concluded that the standard usage of the term "willful" includes recklessness in the context of the Fair Credit Reporting Act.

The court sharply contrasted its standard for willfulness in *Underwater Devices* with these precedents and concluded that the old standard, which was "more akin to negligence," was inconsistent and should be overruled. In place of the old standard, the court promulgated a new, two-part test for willful infringement. First, under the new test, a patentee must show that "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." The court noted that "[t]he state of mind of the accused infringer is not relevant to this objective inquiry." Second, if the objective threshold is met, the patentee must also demonstrate that the accused infringer knew or should have known of this objectively defined risk. The Federal Circuit declined to develop the test further, but rather "[l]e[ft] it to future cases to further develop the application of this standard."

This portion of the court's decision inspired two separate concurrences. Judge Newman wrote a separate opinion emphasizing her view of the "objective standards" that potential infringers should use to evaluate potentially adverse patents.

According to Judge Newman, these standards "should be the fair standards of commerce, including reasonableness of the actions taken in the particular circumstances." Judge Gajarsa's opinion, joined by Judge Newman, argued that, absent support in statutory language, the court should discontinue reading a "willful infringement" standard into Section 284.

## SCOPE OF THE WAIVER OF ATTORNEY-CLIENT PRIVILEGE

In defining the scope of the privilege waiver, the Federal Circuit rejected the district court's broad decision that compelled disclosure of communications with trial counsel; instead, it "conclude[d] that the significantly different functions of trial counsel and opinion counsel advise[d] against extending waiver to trial counsel." Opinion counsel, the court reasoned, provides an objective assessment to businesses for making informed business decisions. Trial counsel's role, on the other hand, focuses on litigation strategy and developing the most successful way to present a case to a court. These divergent roles weigh against broad subject-matter waiver, because fears of "sword and shield" gamesmanship do not arise where the only communications sought to be introduced come from opinion counsel.

The adversarial system is better served by protecting communications between an accused infringer and its trial counsel. For this reason, then, the court further found that "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." The court based this conclusion on the assumption that enhanced damages for willful infringement ordinarily depend on an accused infringer's pre-litigation conduct. To support this assumption, the court reasoned that if an accused infringer's post-filing conduct were reckless, a patentee could move for a preliminary injunction as a remedy for that willful infringement. If the accused infringer could defeat a preliminary injunction by demonstrating a substantial question of the patent's validity or infringement, then it follows that the infringement cannot be willful. Indeed, the court went so far as to suggest 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."

In the end, the court held that asserting the advice-of-counsel defense and disclosing communications with *opinion* counsel does not waive the attorney-client privilege for communications with *trial* counsel, at least under most circumstances. The rule is not absolute; trial courts have the discretion to extend the waiver to trial counsel in unique circumstances, such as, in the words of the Federal Circuit, if a party or counsel engages in "chicanery."

## WORK-PRODUCT IMMUNITY

Generally speaking, the work-product immunity provides a lesser degree of protection from disclosure than the attorney-client privilege. Even absent waiver, both facts and trial counsel's thoughts and mental processes are potentially discoverable upon a sufficient showing of need and hardship, although the latter is available only in the rarest of circumstances. Like the attorney-client privilege, however, work-product immunity can be waived, though that waiver is likely to be narrow in scope.

The Federal Circuit concluded that reliance on opinion counsel's work product does not waive work-product immunity with respect to trial counsel, absent unique circumstances such as if a patentee or its counsel engages in chicanery. Further, whether or not there has been a waiver, the general discoverability principles applicable to work product remain in force—facts may be discoverable upon a sufficient showing of need and hardship, with a higher standard applicable to trial counsel's thoughts and mental processes.

## WHAT'S NEXT?

In the face of this departure from longstanding precedent, both patent holders and accused infringers alike must carefully consider the consequences of the Federal Circuit's decision in *In re Seagate*. First, trial courts will have to handle the substantive implications of this decision. Has the Federal Circuit eliminated enhanced damages for anything other than

the most egregious cases of willful infringement with this new, objective recklessness standard? Are patentees required to seek a preliminary injunction in order to recover enhanced damages for post-suit willful infringement? If so, how will that requirement affect conventional litigation and enforcement strategies? With the elimination of the affirmative duty of care, are there circumstances that will constitute "notice" such that an accused infringer should consider obtaining an opinion of counsel? Will obtaining an opinion still be advisable upon notice, or will that be unnecessary—or even inadvisable? And is sending a charge letter still a good idea for patent owners, or will it just expose the patent owner to the risk of a declaratory judgment action under the Federal Circuit's current interpretation of *MedImmune v. Genentech*?

Second, trial courts will have to determine how this new two-part test is supposed to work. Is the accused infringer's intent relevant to the second prong of the test announced in *Seagate*? Are opinions of counsel helpful or not? Is the testimony of opinion counsel relevant to the inquiry? Will there be more summary judgments of nonwillfulness based on the objective threshold inquiry?

Third, as trial courts "further develop the application of this standard," where will those courts look for guidance? Is regional circuit precedent, Supreme Court precedent, or Federal Circuit law more applicable? For example, will courts continue to apply the *Read v. Portec* factors in evaluating willfulness, or will that list of factors need to be revised? Because this decision calls into question the continued precedential value of almost all Federal Circuit law on the issue of willfulness, future litigants will have to ask which law should be cited in support of their positions, and why.

Finally, there is no question that patent issues are generating a tremendous amount of interest in the Supreme Court, and it has not hesitated to chart a course in the direction it sees fit. But is there something deeper driving these decisions? See, for example, *MercExchange v. eBay* (rejecting the mandatory injunction); *MedImmune v. Genentech* (allowing licensees to bring a patent challenge without breaching the licensing agreement); *KSR v. Teleflex* (removing rigid application of the TSM test); and *In re Seagate* (raising the standard for willful infringement). Do these decisions evidence an underlying attitude toward restricting patent rights? Or are they simply

the product of the continuing efforts of the judiciary to maintain a proper balance of the competing interests while staying true to the statutory framework enacted by Congress?

## CONCLUSION

As a result of the Federal Circuit's decision in *In re Seagate*, patentees, accused infringers, their counsel, and the courts now find themselves in the same boat, sailing on virtually uncharted waters. Patentees seeking enhanced damages may be tacking into stiffer wind in light of the new recklessness standard. For accused infringers, the advice-of-counsel defense may now be invoked with less risk. Rather than facing the choice between a broad waiver of attorney-client privilege and work-product protection or forgoing the defense altogether, accused infringers can now rest reasonably assured that their communications with trial counsel will remain privileged and trial counsel's work product will remain immune, under most circumstances.

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