

ALERT



August 2007

In re Seagate Tech., LLC

The Federal Circuit revises the standard for proving willful infringement under 35 U.S.C. § 284 and clarifies the scope of waiver of privilege associated with relying on opinions of counsel.

Under 35 U.S.C. § 284, a patent owner is entitled to either a reasonable royalty or lost profits that result from infringement of his patent. If an infringer is found to have willfully infringed a patent, then punitive damages of up three times the actual damages can be assessed. On August 20, 2007, the Federal Circuit issued the unanimous *en banc* decision *In re Seagate Tech., LLC*, Misc. Docket No. 830, overruling its prior test for proving willfulness, and holding that an award of enhanced damages due to willful infringement requires “at least a showing of objective recklessness” proven by clear and convincing evidence. This ruling eliminates the “affirmative duty of due care” previously imposed on any potential infringer.

The Court further held that when a party asserts an opinion of counsel in defense to a willful infringement allegation, the associated waiver of privilege or work product materials will not (normally) extend to trial counsel.

1. State of the Law Prior to *Seagate*.

Twenty-four years ago, the Federal Circuit held in *Underwater Devices Inc. v. Morrison-Knudson Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) that “[w]here...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.” This “affirmative duty include[d], *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.” *Id.* Since then, nearly every case included an allegation of willful infringement, and the willfulness inquiry nearly always turned on the accused infringer’s state of mind.

In light of the “duty of due care” standard articulated in *Underwater Devices*, accused infringers often asserted reliance on the advice of counsel as a defense to willfulness and often obtained written opinions of counsel of invalidity, non-infringement, and/or unenforceability. In addition, prior to *Seagate*, Federal Circuit law required that parties relying on an opinion of counsel waive the privilege as to all communications relating to the subject matter of the opinion. The scope of this waiver was unclear, however, with some district courts extending waiver only so far as communications with opinion counsel, and other courts extending the waiver to include communications with in-house counsel or even trial counsel. Reliance on opinion counsel’s advice of invalidity or non-infringement at trial therefore risked a broad waiver of the privilege as to communications with both opinion and litigation counsel.

Last year’s Federal Circuit decision *In re Echostar Communication Corp.*, 448 F.3d 1294 (Fed. Cir. 2006), injected further uncertainty by holding that reliance on the advice of in-house counsel

triggered waiver of the attorney-client privilege, including “work product protection and the attorney-client privilege for all communications on the same subject matter, as well as any documents memorializing attorney-client communications.” *Echostar*, 448 F.3d at 1299, 1302-1303. Patent owners used this language from *Echostar* to argue that the subject matter waiver thus broadly extended to trial counsel as well.

2. Factual Background.

Seagate Technology, LLC was sued for patent infringement in the Southern District of New York. It obtained three independent opinions of counsel and, to defend against allegations of willfulness, disclosed the opinions and argued that it reasonably relied on them. Seagate also disclosed all of opinion counsel’s work product and made opinion counsel available for deposition. Nonetheless, the plaintiffs moved to compel discovery of “any communications and work product of Seagate’s other counsel, including its trial counsel.”

Seagate, slip op. at 3. The district court concluded that by relying on an opinion of counsel defense, Seagate waived the attorney-client privilege for all communications with counsel, whether opinion counsel, trial counsel, or in-house counsel, from the time Seagate first learned of the patents to when the alleged infringement ceased. *Id.* at 3-4. Fearing disclosure of attorney-client communications and attorney work product that could expose its litigation strategy in advance of trial, Seagate moved to stay the district court’s decision pending an interlocutory appeal, and which district court denied. Seagate petitioned the Federal Circuit for a *writ of mandamus*.

3. *Seagate* Revises the Standard Required to Prove Willfulness.

Seagate expressly overrules the standard of willfulness articulated in *Underwater Devices*. Looking to civil law in other contexts, including copyright and recent Supreme Court precedent relating to punitive damages, the Court found that “although [35 U.S.C. § 284] does not define willful, it has consistently been defined as including reckless behavior.” *Seagate*, slip op. at 10. The Court held that the standard previously articulated in *Underwater Devices*, more akin to a negligence standard, “fails to comport with the general understanding of willfulness in the civil context.” *Id.* at 11.

The Federal Circuit thus held that “proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness,” and “reemphasize[d] that there is no affirmative obligation to obtain opinion of counsel.” *Id.* at 12. Further clarifying the new standard, the Federal Circuit explained that clear and convincing evidence would be required to prove willfulness, and that the defendant’s state of mind was no longer relevant:

[T]o 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 objective inquiry. If 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.

Id. (internal citations removed).

4. *Seagate* Clarifies the Scope of Waiver Resulting from Reliance on an Opinion of Counsel.

The Court next addressed the appropriate scope of waiver of the attorney-client privilege resulting from reliance upon the advice of counsel as a defense to willfulness. Considering the “significantly different functions of trial counsel and opinion counsel,” the Court declined to extend the waiver resulting from reliance on advice of opinion counsel to trial counsel. The Court explained that “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.” *Id.* at 15. The Federal Circuit therefore held, “as a general proposition, that asserting the advice of counsel defense and disclosing opinions of counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel.” The Court explained that this holding is not an absolute rule, and that “trial courts remain free to exercise their discretion in unique circumstances to extend waiver to trial counsel, such as if a party or counsel engages in chicanery.” *Id.* at 18.

With regard to work product, the Court similarly held that “as a general proposition, relying on opinion counsel’s work product does not waive work product immunity with respect to trial counsel.” The Court again left open “the possibility that such situations may arise in which waiver may be extended to trial counsel, such as if a patentee or his counsel engages in chicanery.” *Id.* at 21.

5. The Federal Circuit’s Focus on Pre-Litigation Conduct.

In support of a rule protecting the privilege and work product of trial counsel, the Federal Circuit noted “that in ordinary circumstances, willfulness will depend on an infringer’s prelitigation conduct,” *id.* at 16, thus making communications with trial counsel irrelevant to reliance on an opinion of non-trial counsel. The Federal Circuit observed

that because a patentee must have a good faith basis for alleging willful infringement *before* filing a complaint, “a willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer’s pre-filing conduct,” and that the remedy for post-filing conduct is a preliminary injunction. *Id.* at 16-17.

Whether this focus on the preliminary injunction will be treated as law or mere *dicta* in later cases remains to be seen. But the Court focused on the patentee’s waiver of the preliminary injunction and its allegation of willful infringement after-the-fact of the Complaint:

[a] patentee who does not attempt to stop an accused infringer’s activities [by seeking a preliminary injunction] should not be allowed to accrue enhanced damages based solely on the infringer’s post-filing conduct. Similarly, if a patentee attempts to secure injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness.

Id. at 17. Future cases will decide the extent to which district courts will apply this logic when considering allegations of willful infringement, but future litigants will undoubtedly look to this portion of *Seagate* to form arguments about willfulness based on activities occurring after a Complaint has been filed.

6. Concurring Opinions.

Judges Newman and Gajarsa issued concurring opinions. Judge Newman’s concurrence discussed how *Underwater Devices* had been previously misapplied to require more from accused infringers than reasonable care, placing “disproportionate burdens...on otherwise law-abiding commercial enterprise.” Newman, J., concurring, at 2.

Judge Gajarsa’s concurrence, also joined by Judge Newman, argued that the language of Section 284 of the Patent Act is silent as to willfulness and therefore district courts should be left to their own discretion in awarding enhanced damages. Gajarsa agreed with the majority, however, that the Supreme Court’s decision in *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. ___, Nos. 06-84, -100, slip op. (June 4, 2007) necessarily

informs the standard on willful infringement. Examining *Safeco*, Judge Gajarsa provided some guidance on how district courts may apply the new “objective recklessness” standard:

“Under my reading of *Safeco*, which I believe is consistent with that of this court, [plaintiff] must show, by clear and convincing evidence, (1) that Seagate’s theory of noninfringement/invalidity, was not only incorrect, but was objectively unreasonable, and (2) that Seagate ran a risk of infringing [plaintiff]’s patents substantially greater than the risk associated with a theory of noninfringement/invalidity that was merely careless.

Garjarsa, J., concurring, at 14. Gajarsa proposes delaying the issues of attorney-client and work product waiver in relation to opinions of counsel until after a plaintiff has made a *prima facie* showing of “objective recklessness,” at which point “Seagate’s subjective beliefs may become relevant only if [plaintiff] successfully makes this showing of objective unreasonableness.” Garjarsa, J., concurring, at 14-15.

7. Strategic Observations.

Seagate represents a sea change in the Federal Circuit’s jurisprudence on the law of willful infringement, explicitly overruling 24 years of the *Underwater Devices* test. Patent holders seeking trebled damages under Section 284 will now have to prove objective recklessness by clear and convincing evidence. But *Seagate* also leaves many questions unanswered. Arguably, the “recklessness” standard for willful infringement articulated by the Federal Circuit is more difficult to allege and prove, but it is unclear what conduct will meet it. It is also unclear whether *Seagate*’s clarification of the scope of waiver will increase the value of opinions of counsel obtained from outside, independent, non-litigation counsel, or whether the Federal Circuit’s reaffirmation that “there is no affirmative obligation to obtain an opinion of counsel,” will obviate the need for such opinions. The Federal Circuit reserved these questions for future cases, and it will be important for any patentee or market competitor to closely follow the development of the law in this area.

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