

Litigation Alert: *In re Seagate Technology, LLC*—Willful Infringement and the Scope of Waiver of the Attorney-Client Privilege and Work Product Doctrine

August 21, 2007

BY HEATHER N. MEWES AND CAROLYN CHANG

Fenwick
FENWICK & WEST LLP

On August 20, 2007, the Federal Circuit, sitting *en banc*, articulated a new standard for willful infringement: patentees must show at least objective recklessness. The Federal Circuit thus overruled its long-standing precedents requiring that an alleged infringer exercise an affirmative duty of due care before engaging in potentially infringing activity. This affirmative duty had been interpreted in many cases to require a formal opinion letter from patent counsel. In *Seagate*, the Federal Circuit makes clear that opinion letters are not required. The Federal Circuit's new standard – essentially going from a negligence-like “due care” standard to “objective recklessness” – is likely to impact greatly the availability of enhanced damages for patentees, as a finding of willful infringement is a key factor in this determination.

The Federal Circuit also addressed the scope of waiver when an alleged infringer relies on advice of counsel as a defense to willful infringement. The Federal Circuit held that where an alleged infringer does rely on an opinion letter, the waiver of the attorney-client privilege and work product immunity will not normally extend to trial counsel.

The facts were these. *Seagate* had obtained three opinion letters from patent counsel. It elected to rely on advice of counsel as a defense to a willful infringement allegation, and accordingly disclosed all three letters, and waived any privilege with respect to its opinion counsel's communications and work product. The district court, however, held that *Seagate's* reliance on the advice of counsel defense waived the attorney-client privilege and work product protections with respect to *trial counsel* as well, and ordered *Seagate* to produce all of its trial counsel's communications and work product. *Seagate* petitioned the Federal Circuit for a writ of mandamus directing the district court to vacate its orders. The Federal Circuit *sua sponte* ordered *en banc* review of *Seagate's* petition to address whether waiver resulting

from assertion of the advice of counsel defense in this context extends to trial counsel.

In so doing, the Federal Circuit reached beyond the waiver issue implicated by *Seagate's* petition to directly address and revisit the underlying willful infringement standard. The previous standard set forth in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983), held that where a potential infringer has actual notice of another's patent rights, it has an affirmative duty to exercise due care to determine whether it infringes. This duty included the duty to obtain competent legal advice from counsel before initiating any possible infringing activity. This was, in effect, a negligence standard.

In *Seagate*, the Federal Circuit noted that since its decision in *Underwater Devices*, willfulness as a condition of enhanced damages has been defined as reckless behavior in both the copyright context and in other civil contexts. In particular, the Federal Circuit relied on recent Supreme Court precedent that concluded that “willful” includes “reckless behavior” in addressing willfulness as a statutory condition of civil liability for punitive damages.

Consistent with such precedent, the Federal Circuit held that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness, overruling the standard set forth in *Underwater Devices*. The Federal Circuit previously signaled movement in this direction. In *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345-46 (Fed. Cir. 2004) (*en banc*), the Federal Circuit held that an accused infringer's failure to obtain legal advice does not give rise to an adverse inference with respect to willfulness. In abandoning the affirmative duty of due care in *Seagate*, the Federal Circuit reemphasized that there is no affirmative obligation to obtain the opinion of

counsel. Instead, to establish willful infringement, a patent holder 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 relevant only to establish that the accused infringer knew or should have known of this objectively high risk of infringement.

The Federal Circuit next addressed the scope of waiver of the attorney-client privilege resulting from assertion of an advice of counsel defense in response to a claim of willful infringement. In light of the new willfulness standard, the Federal Circuit concluded that the different functions of trial and opinion counsel advised against extending waiver to trial counsel. While opinion counsel provides objective assessments for business decisions, trial counsel focuses on litigation strategy in an adversarial process.

The Federal Circuit further recognized that willfulness ordinarily depends on an infringer's pre-litigation conduct, noting that a patent holder must have a basis for a claim of willful infringement at the time the complaint is filed. Because willfulness depends on an infringer's pre-litigation conduct, the post-litigation communications of trial counsel have little, if any, relevance warranting their disclosure. The Federal Circuit reasoned that post-filing willful infringement is adequately addressed by motions for preliminary injunction, stating that a patentee who does not attempt to stop an accused infringer's activities with a preliminary injunction should not be allowed to accrue enhanced damages based solely on the infringer's post-filing conduct. The Federal Circuit went on to conclude that if a patentee cannot secure a preliminary injunction, it is likely the infringement did not rise to the level of recklessness required to recover enhanced damages for willful infringement.

Applying the same rationale, the Federal Circuit also held that reliance on the advice of opinion counsel does not waive trial counsel's work product protections. The Federal Circuit explained that trial counsel's mental processes enjoy the utmost protection from disclosure, and the scope of waiver should take into account this heightened protection. The Federal Circuit thus concluded that the general

principles of work product protection remain in force with respect to trial counsel; a party may obtain discovery of work product upon a sufficient showing of need and hardship, bearing in mind that a higher burden must be met to obtain work product pertaining to mental processes. The Federal Circuit noted that trial courts remain free to exercise their discretion to extend waiver of both the attorney-client privilege and work product protection to trial counsel in unique circumstances, such as those in which the party or counsel engages in "chicanery." The Federal Circuit did not address whether any waiver extends to communications and work product of in-house counsel.

The Federal Circuit's opinion in *In re Seagate* provides clarity on the scope of the waiver of the attorney-client privilege and work product protections when asserting an advice of counsel defense. Indeed, the new objective recklessness standard for willful infringement announced by the Federal Circuit may lessen the need for obtaining opinions of counsel, and reduce complications arising from the corresponding privilege and work product waivers when such opinions are obtained and relied upon. Patent holders may be more likely to move for preliminary injunctions in an attempt to seek enhanced damages based on post-filing willful infringement.

The opinion is available at <http://www.fedcir.gov/opinions/M830.pdf>.

For further information, please contact:

Heather N. Mewes, Patent Litigation Partner
hmewes@fenwick.com, 415-875-2302

Carolyn Chang, Patent Litigation Associate
cchang@fenwick.com, 650-335-7654

©2007 Fenwick & West LLP. All Rights Reserved.

THIS UPDATE IS INTENDED BY FENWICK & WEST LLP TO SUMMARIZE RECENT DEVELOPMENTS IN THE LAW. IT IS NOT INTENDED, AND SHOULD NOT BE REGARDED, AS LEGAL ADVICE. READERS WHO HAVE PARTICULAR QUESTIONS ABOUT THESE ISSUES SHOULD SEEK ADVICE OF COUNSEL.