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Legal Updates

In re Seagate Technology, LLC: The Federal Circuit Abolishes the Duty of Due Care in Willfulness Cases

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Introduction

Yesterday the Federal Circuit issued a decision that will affect almost every company accused of patent infringement, as well as the trial lawyers and opinion counsel who represent them. In a much-anticipated *en banc* decision,^[1] the court overruled its standard for proving willful patent infringement, raising the bar by requiring clear and convincing evidence of “objective recklessness” on the part of the accused infringer, rather than a mere failure to exercise “due care” to avoid patent infringement. The court also held that if a defendant elects to rely on an opinion of counsel, the resulting waiver does *not* generally include attorney-client communications with trial counsel or the work product of trial counsel.

This decision will have a significant impact on willfulness in patent cases. By abolishing the duty of due care, the Federal Circuit likely made it more difficult for patentees to show willfulness. The incentive for accused infringers to waive the attorney-client privilege by producing an opinion of counsel is now greatly reduced, which will mean less collateral litigation regarding waiver in willfulness cases. Indeed, under the new standard companies are likely to refrain from obtaining opinions in the first place in many more circumstances. Finally, if a defendant elects to waive the privilege, it can do so knowing that communications with trial counsel, and trial counsel’s work product, are not a part of that waiver.

Background

In 1983, the Federal Circuit held that where a potential infringer has notice of another’s patent rights, he has an affirmative duty of due care to determine whether or not he is infringing. See *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390-91 (Fed. Cir. 1983). The duty generally required obtaining competent legal advice *before* engaging in any potentially infringing activity or continuing such activity. *Id.* After *Underwater Devices*, reliance on an opinion of counsel stating that there is no infringement or that the patent is invalid became one of the primary defenses to a charge of willfulness. However, reliance on an opinion required that the accused infringer waive the attorney-client privilege as to the subject matter of the opinion. Issues regarding the scope of the waiver generated extensive and inconsistent satellite litigation, raising the cost of patent litigation.

In the past few years, the Federal Circuit decided two significant cases regarding willfulness. In 2004, the Federal Circuit abolished the negative inference that an opinion of counsel was (or would have been) unfavorable if the alleged infringer failed to produce or to obtain an exculpatory opinion of counsel in response to a charge of willful infringement. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*). The court stated that its prior precedent allowing an adverse inference resulted in inappropriate burdens on the attorney-client relationship that distorted the relationship. *Id.* at 1343-44.

In 2006, the court held that although reliance on an opinion of counsel waives the attorney-client privilege as to the subject matter of the opinion, there is no waiver of un-communicated work product, i.e., work of opinion counsel that was not communicated to the client. See *In re EchoStar Communications Corp.*, 448 F.3d 1294 (Fed. Cir. 2006). Although *EchoStar* did not involve any attempt to discover trial counsel's communications with the client, *EchoStar* was construed by several district courts as supporting a waiver of the privilege as to trial counsel.

Questions Addressed by the Federal Circuit

The Federal Circuit granted *en banc* review on three questions:

- (1) should the Federal Circuit revisit *Underwater Devices* and, if so, what should the new standard be?
- (2) does reliance on an opinion of counsel waive attorney-client communications with trial counsel? and
- (3) does reliance on an opinion of counsel waive trial counsel's work product?

In addressing the first question, the court started by surveying the law regarding willful infringement, including the fact that the patent statute is devoid of an explicit standard for awarding enhanced damages. *Seagate*, No. M830, 2007 U.S. App. LEXIS at *12-*14. Absent statutory guidance, the Federal Circuit has held that enhanced damages require a showing of "willful infringement." The court then discussed *Underwater Devices* and its progeny, and reviewed the consequences of that body of law, including the disputes regarding waiver of the attorney-client privilege and work product doctrine (*EchoStar*) and the consequences of a decision not to obtain or disclose legal advice (*Knorr-Bremse*). The court then stated: "In this case, we confront the willfulness scheme and its functional relationship to the attorney-client privilege and work product protection." *Id.* at *19.

The court observed that the term "willful" is not unique to patent law and that it has been consistently defined as "including reckless behavior" in other contexts, including copyright infringement. The Federal Circuit noted that the Supreme Court had recently adopted a consistent meaning in *Safeco Ins. Co. of Am. v. Burr*, 127 S. Ct. 2201 (2007). The Federal Circuit continued:

In contrast, the duty of care announced in *Underwater Devices* sets a lower threshold for willful infringement that is more akin to negligence. This standard fails to comport with the general understanding of willfulness in the civil context . . . and it allows for punitive damages in a manner inconsistent with Supreme Court precedent. . . . Accordingly, we overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness. Because we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain opinion of counsel.

Id. at *21-*22 (citations omitted). Suggesting that changed circumstances, among other things, justified overruling longstanding precedent, the court also noted that *Underwater Devices* was decided "when widespread disregard of patent rights was undermining the national innovation incentive." *Id.* at *15 (quoting *Knorr-Bremse*).

The court recognized that the term "[reckless] is not self-defining." *Id.* at *22 (quoting *Farmer v. Brennan*, 511 U.S. 825, 836 (1994)) (alteration in original). However, "[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." *Id.* (citation omitted). The court then stated the new legal standard for willful infringement:

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 (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. We leave it to future cases to further develop the application of this standard.

Id. at *22-*23 (citations and footnote omitted). It will be up to future courts to flesh out this standard.

As to the second question, the court held that assertion of the advice of counsel defense does not waive privilege for communications with trial counsel. After observing that the attorney-client privilege is “the oldest of the privileges for confidential communications known to the common law” and noting the public interest value of the privilege, the court held that waiver should *not* extend to trial counsel:

Recognizing the value of a common approach and in light of the new willfulness analysis set out above, we conclude that the significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel. Whereas opinion counsel serves to provide an objective assessment for making informed business decisions, trial counsel focuses on litigation strategy and evaluates the most successful manner of presenting a case to a judicial decision maker. . . . Therefore, 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 *27-*28. The court also stated “the interests weighing against extending waiver to trial counsel are compelling,” including the need to protect trial counsel’s thoughts and the fact that willfulness generally depends on the accused infringer’s pre-litigation conduct. *Id.* at *28. “Because willful infringement in the main must find its basis in prelitigation conduct, 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.” *Id.* at *31-*32. The court stated that there are other remedies for post-filing actions: “when an accused infringer’s post-filing conduct is reckless, a patentee can move for a preliminary injunction, which generally provides an adequate remedy for combating post-filing willful infringement.” *Id.* at *30.

The court concluded:

In sum, we hold, as a general proposition, that asserting the advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel. We do not purport to set out an absolute rule. Instead, 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 *32.

As to the third question, the court also addressed whether the assertion of the advice of counsel defense waives protection for trial counsel’s work product. “An advice of counsel defense asserted to refute a charge of willful infringement may also implicate waiver of work product protection. Again, we are here confronted with whether this waiver extends to trial counsel’s work product. We hold that it does not, absent exceptional circumstances.” *Id.* at *33.

The Federal Circuit noted that the work product protection may be waived but that the Supreme Court had approved of narrowly restricting the scope of work product waivers, particularly where waiver would involve counsel’s mental processes, as they would in *Seagate*. *Id.* at *35-*36. The court concluded:

Accordingly, we hold that, as a general proposition, relying on opinion counsel’s work product does not waive work product immunity with respect to trial counsel. Again, we leave open the possibility that situations may arise in which waiver may be extended to trial counsel, such as if a patentee or his counsel engages in chicanery. And, of course, the general principles of work product protection remain in force, so that a party may obtain discovery of work product absent waiver upon a sufficient showing of need and hardship, bearing in mind that a higher burden must be met to obtain that pertaining to mental processes.

Id. at *36-*37.

Significance

Under pre-*Seagate* jurisprudence, a potential infringer with notice of a patent had an affirmative duty of due care that generally included a duty to seek legal advice. In order to satisfy this duty, a defendant typically waived the attorney-client privilege to disclose the fact that a competent attorney

informed the accused infringer that it did not infringe or that the patent was invalid or unenforceable.

The willfulness inquiry focused on the state of mind of the accused infringer — did it really rely on the opinion, and was it reasonable to do so. The scope of the privilege waiver was frequently a hotly contested issue as plaintiffs searched for evidence that the defendant received advice inconsistent with the formal opinion. *Seagate* changes all of this.

Willfulness is now a two-step inquiry that focuses on the whether the infringer acted with reckless disregard for whether it infringed a valid patent. First, objective recklessness must be proven by the patentee by clear and convincing evidence. If this threshold requirement is met, the inquiry moves to whether this objective risk was known to the infringer or so obvious that it should have been known. Although the nature of the new test will be clarified by future courts, the net result appears to make it more difficult for patentees to assert a successful claim of willful infringement.

The post-*Seagate* willfulness inquiry is also essentially limited to pre-litigation conduct, as the court stated that a preliminary injunction may be a better remedy for willful infringement after suit is begun. Thus there is less need for a defendant to obtain an opinion in situations where it learns of the patent or its potential application for the first time when it is sued.

The court also reminded patent plaintiffs that they must have a Rule 11 basis for asserting willful infringement, a comment that may encourage defendants and district judges to apply Rule 11's requirements more rigorously in the future.

As to what is waived if an accused infringer discloses an opinion of counsel, *Seagate* clarifies that the waiver does not include communications with trial counsel, or trial counsel's work product. By ruling that a waiver of the attorney-client privilege does not extend to trial counsel absent "chicanery," the court ensured that companies can obtain full and frank advice from their trial lawyers about patent infringement without risk of waiving the privilege that is the cornerstone of confidential attorney-client communication. (The decision, however, does not address what happens when opinion counsel and trial counsel are the same, nor when they interact to some degree.) Although not articulated, the "chicanery" exception would appear to focus on litigation conduct and potential abuses of the trial counsel exception to the subject matter waiver.

Although *Seagate* resolved several issues, the new rules, particularly the new standard for willfulness, raise many new questions. Though there is no longer a duty of due care, a potential infringer must avoid situations where its infringement could be viewed as too risky by an "objective" observer. The parameters of the new test are currently unclear. If a defendant's acts of infringement are deemed willful (e.g., reckless), not only may it face enhanced damages, it may reduce its chances of obtaining indemnification from third parties.^[2]

Finally, *Seagate* is another decision in which the Federal Circuit has apparently sought to align itself with the law of other circuits and other areas of the law. The Supreme Court has recently taken a number of patent cases and its decisions have reversed the Federal Circuit in several instances where the Federal Circuit had announced rules unique to patent cases. See, e.g., *eBay v. MercExchange, LLC*, 126 S. Ct. 1837 (2006) (injunctive relief) and *MedImmune v. Genentech*, 127 S. Ct. 764 (2007) (declaratory judgment jurisdiction).

Note: Morrison & Foerster submitted an *amicus* brief in *Seagate* on behalf of EchoStar Communications Corp. and BEA Systems, Inc. urging the court to overrule *Underwater Devices* and to adopt a recklessness standard for willfulness, and to protect attorney-client communications by holding that the waiver does not extend to trial counsel. Morrison & Foerster also represented EchoStar in *In re EchoStar*. Finally, Morrison & Foerster submitted an *amicus* brief in *Knorr-Bremse* urging abolition of the adverse inferences on behalf of BEA Systems, Inc., and Novell, Inc.

Footnotes

^[1] *In re Seagate Technology, LLC*, No. M830, 2007 U.S. App. LEXIS 19768 (Fed. Cir. Aug. 20, 2007), attracted significant attention from third parties. The briefing on the merits attracted more than 20 *amicus* briefs.

^[2] While much of the attention with respect to opinion letters has been focused on obtaining such advice to rebut a charge of willfulness, the Federal Circuit recently held that reliance on an opinion of counsel may be relevant to the determination of whether a defendant had the requisite intent to be

liable for inducing infringement. *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006). The Federal Circuit noted that the accused infringer in that case obtained letters from patent counsel advising that the products did not infringe, and concluded, “the record contains evidence that [the accused infringer] did not believe its [product] infringed. Therefore, it had no intent to infringe.” *Id.* at 1307. *DSU* suggests that reliance upon opinions of counsel may help establish an absence of specific intent to induce infringement, and thus that opinions may have continuing value in some situations even in the post-*Seagate* environment.