



## ***In re Seagate*: Willful Infringement, Advice of Counsel, and Waiver**

In its recent *en banc* decision, *In re Seagate Technology LLC*,<sup>1</sup> the Court of Appeals for the Federal Circuit (“Federal Circuit”) went a long way towards clarifying the choices and relieving some of the burdens faced by a person accused of willful infringement. The *Seagate* decision is the latest in a line of cases that have significantly changed the legal landscape on willful infringement, advice of counsel, and waiver.

In its September 2004 *en banc* decision, *Knorr-Bremse Systeme fuer Nutzfahrzeuge GmbH v. Dana Corp.*,<sup>2</sup> the Federal Circuit held that no negative inference could be drawn from an accused infringer’s assertion of attorney-client privilege and/or work product privilege.<sup>3</sup> *The Knorr-Bremse* court held that it would be improper to draw a negative inference as to what counsel would have said from the fact that the accused infringer failed to obtain advice of counsel.<sup>4</sup>

In another pre-*Seagate* decision, *In re EchoStar Comm. Corp.*,<sup>5</sup> the Federal Circuit held that assertion of advice of counsel would waive work product immunity as to: (a) “documents that embody a communication between the attorney and client concerning the subject matter of the case, such as a traditional opinion letter;”<sup>6</sup> and (b) documents that were not provided to the client but which nonetheless “discuss a communication between attorney and client concerning the subject matter of the case . . . .”<sup>7</sup> However, it clarified that work product immunity is not waived as to documents that reflect only opinion counsel’s mental impressions and



were not given to the client,<sup>8</sup> and that the attorney-client privilege and work product immunity were waived as to all opinion counsel, even if the accused infringer relied only on opinion of in-house counsel and not outside opinion counsel or vice versa.

Although the *Knorr-Bremse* and *EchoStar* decisions relieved some of the pressures on persons accused of willful infringement and clarified some of the issues relating to the scope of waiver, they left many other questions unanswered. The *Seagate* decision answers some—but far from all—of those questions.

## I. WILLFUL INFRINGEMENT REQUIRES A SHOWING OF OBJECTIVE RECKLESSNESS

Prior to *Seagate*, the prevailing case on the duty to obtain opinion of counsel was *Underwater Devices, Inc. v. Morrison-Knudsen, Inc.*<sup>9</sup> In that case, the Federal Circuit held that an accused infringer has an “affirmative duty to exercise due care to determine whether or not he is infringing,”<sup>10</sup> and that “[s]uch an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel **before** the initiation of any possible infringing activity.”<sup>11</sup> In *Seagate*, the Federal Circuit emphatically overruled the affirmative duty to obtain advice of counsel announced in *Underwater Devices*. Based on its analysis of Supreme Court precedent, the Federal Circuit explained that “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.”<sup>12</sup>



In place of *Underwater Devices*' affirmative duty, the *Seagate* decision held "that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness."<sup>13</sup> In other words, "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 Federal Circuit "also reemphasize[d] that there is no affirmative obligation to obtain opinion of counsel."<sup>15</sup>

Although patent infringement itself is a strict liability offense, courts have always treated willful infringement as a subjective offense requiring an analysis of the infringer's state of mind.<sup>16</sup> The Federal Circuit rejected this subjective analysis for a two-step analysis in which the first step is a purely objective one—"the state of mind of the accused infringer is not relevant to this objective inquiry."<sup>17</sup> Judge Newman's concurrence, which was supported by the majority in a footnote, emphasized that "the standards of commerce" would be one of the factors a court could use in its objective inquiry.<sup>18</sup>

There is now also a second, more subjective, step which is applied only after the threshold objective standard is proven by clear and convincing evidence: "[T]he 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."<sup>19</sup> This element thus may be satisfied by objective evidence—that an accused infringer "should have known" of the objectively high risk. This second

element may, however, also be proven with subjective evidence that the accused infringer in fact knew of this risk. Thus, the actual state of mind of the accused infringer remains a relevant inquiry, but plays a much more diminished role in the willful infringement inquiry.

In rejecting *Underwater Devices'* affirmative duty and adopting an "objectively reckless" standard for proving willful infringement, the *In re Seagate* decision therefore puts the burden of proving willful infringement squarely back on the patentee.

## II. THE RELATIONSHIP BETWEEN WILLFUL INFRINGEMENT AND PRELIMINARY INJUNCTIONS

The *Seagate* decision also impacts preliminary injunction strategy: "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."<sup>20</sup> Similarly, a patentee who seeks a preliminary injunction but fails to obtain one is likely not entitled to enhanced damages and attorneys' fees because "it is likely the infringement did not rise to the level of recklessness."<sup>21</sup> In particular, "[a] substantial question about invalidity or infringement is likely sufficient not only to avoid a preliminary injunction, but also a charge of willfulness based on post-filing conduct."<sup>22</sup>

The *Seagate* decision left open the possibility that a patentee could recover enhanced damages for post-filing conduct even after being refused a preliminary injunction in those rare



cases where the patentee is denied a preliminary injunction based on other factors “despite establishing a likelihood of success on the merits . . . .”<sup>23</sup>

At times, a patentee has the choice of filing a lawsuit asserting infringement soon after the accused infringer introduces a product. In that situation, the vast majority of damages are likely to be accrued after the lawsuit is filed. After *Seagate*, the patentee now has the difficult choice of waiting some time to file the lawsuit so that more of the damages are accrued prior to filing the lawsuit, or filing a motion for preliminary injunction fairly early in the lawsuit to avoid waiving enhancement of damages accrued post filing. The first choice carries the attendant risk of a defense based on laches and a waiver of damages for activities that occurred more than six years prior to filing.<sup>24</sup> The latter has the inherent risks attendant to seeking an injunction with little opportunity for discovery and the attendant costs of litigating such a motion.

### **III. ATTORNEY-CLIENT PRIVILEGE AND WORK PRODUCT IMMUNITY WAIVER AS IT RELATES TO TRIAL COUNSEL**

Although *EchoStar* addressed the issue of whether reliance on in-house counsel’s advice waives attorney-client privilege and/or work product immunity as to outside counsel,<sup>25</sup> in that case both in-house and outside counsel were opinion counsel. The *Seagate* decision addresses the extent of waiver of attorney-client privilege and work product protection where trial counsel is not opinion counsel.



In *Seagate*, the Federal Circuit recognized the different roles that opinion counsel and trial counsel play. “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. And trial counsel is engaged in an adversarial process.”<sup>26</sup> Because of the fundamentally different role played by opinion counsel (whether in-house or outside) and trial counsel, the concern regarding an underlying waiver—that a person not be able to use attorney-client privilege as both sword and shield—is alleviated. Additionally, “in ordinary circumstances, willfulness will depend on an infringer’s prelitigation conduct.”<sup>27</sup> The Federal Circuit, therefore, held 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.”<sup>28</sup>

The Federal Circuit also held that “as a general proposition, relying on opinion counsel’s work product does not waive work product immunity with respect to trial counsel.”<sup>29</sup> Indeed, the court concluded that “the same rationale generally limiting waiver of the attorney-client privilege with trial counsel applies with even greater force to so limiting work product waiver because . . . [p]rotecting lawyers from broad subject matter of work product disclosure ‘strengthens the adversary process, and . . . may ultimately and ideally further the search for the truth.’”<sup>30</sup>



The Federal Circuit noted, however, that its holdings regarding waiver of attorney-client privilege and work product immunity as to trial counsel were not meant as absolute rules. The court left “open the possibility that situations may arise in which waiver may be extended to trial counsel, such as if a party or his counsel engages in chicanery.”<sup>31</sup> Also, the court clarified that its holding regarding waiver of work product immunity was subject to the general principles governing work product under the Federal Rules of Civil Procedure, which allow discovery of non-mental process work product “upon a showing [of] substantial need . . . [and a showing] that the party is unable without undue hardship to obtain the substantial equivalent of the materials by other means.”<sup>32</sup> The Federal Circuit also reaffirmed that non-tangible work product was still subject to protection under the Supreme Court’s decision in *Hickman v. Taylor*, 329 U.S. 495 (1947), and its progeny.<sup>33</sup>

#### IV. THOUGHTS, UNANSWERED QUESTIONS, AND ADVICE

Based on the *Knorr-Bremse*, *EchoStar*, and *Seagate* decisions, a person accused of willful infringement has much greater legal justification in not seeking advice of counsel regarding infringement and/or validity of the patent. That being said, these cases should not be interpreted as a blanket permission to not seek advice of counsel. Willful infringement will henceforth be judged on an objective standard, and whether to obtain advice of counsel will become more of a business decision—based on “the standards of commerce”—than it used to be. For example, if the asserted patent appears, at first blush, to read directly on the accused infringer’s product, then it may still be in a potential defendant’s best interest to obtain





advice of counsel.<sup>34</sup>

The contours of what constitutes “objective recklessness” and when “the standards of commerce” mandate obtaining opinion of counsel are questions that will be answered over the next few years. In the absence of clarity on this standard, it remains paramount for any accused infringer to seek out and obtain appropriately qualified and trusted advice of counsel. Ironically, while the standard of “objective recklessness” remains undefined, the advice sought, at least initially, should be whether it would be prudent to obtain a formal opinion of counsel regarding infringement or patent validity.

If, however, an accused infringer does obtain advice of counsel, it is clear that a trial court will consider various factors such as “the nature of the advice, the thoroughness and competence of the legal opinion presented, and its objectivity.”<sup>35</sup> Over the years, there has been a fairly uniform split as to whether it is better to obtain that advice from in-house or outside counsel. The *Seagate* decision adds an additional twist to this decision—whether to work with outside counsel who may also be trial counsel, or alternatively to work with an outside law firm that will provide an opinion concerning infringement or validity of the patent or patents at issue alone.

As a general proposition, the *Seagate* decision holds that an accused infringer’s invoking the advice of counsel defense and disclosing the relied-upon opinion does not constitute waiver of the attorney-client privilege or work product immunity for communications



with trial counsel.<sup>36</sup> This is not an absolute rule, however, because 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.” Therefore, no matter whether in-house, outside, opinion, trial, or any combination of counsel is involved, it is crucial to avoid collusion between any counsel that is aimed at generating an opinion dictated by an accused infringer’s preferred outcome.

Some companies may be in the position of having outside opinion counsel who are independent from outside trial counsel, but often times outside opinion and trial counsel are likely to work for the same law firm. The advantage of having outside opinion and trial counsel at the same law firm is the synergy that comes from a truly in-depth understanding of the technology at issue, even if opinion counsel is likely to be a fact witness. For example, if the accused infringer asserts the advice of counsel defense, most ethics rules do not foreclose other attorneys from the same law firm representing the accused infringer at trial.<sup>37</sup> Therefore, as discussed below, the primary concern that arises from having opinion and trial counsel at the same law firm is the imputed waiver of attorney-client privilege and work product immunity that may arise from the accused infringer’s invoking the opinion of counsel defense. If, on the other hand, an accused infringer were to retain completely independent opinion counsel, it may impact the thoroughness of the advice obtained, and would certainly add to the cost of such an opinion. In light of the *Seagate* and *EchoStar* decisions, the advantage of having independent opinion counsel would be that the accused infringer could



rely on the opinion of counsel defense without waiver of attorney-client privilege and work product immunity as to trial counsel.

The *Seagate* decision did not specifically address the use of opinion counsel and trial counsel from the same firm or in-house legal department. Given the *Seagate* court's strong reaffirmation of the sanctity of trial counsel privilege, however, it is clear that the avoidance of "chicanery" is paramount. Often, firms have created an ethical wall between opinion counsel and trial counsel, which serves to ensure that opinion counsel's analysis is indeed independent from trial strategy. Such an ethical wall would also likely go a long way in preventing even the appearance of "chicanery," and (more importantly) preserves the objectivity of opinion counsel.

The collective influence of *Knorr-Bremse*, *EchoStar*, and *Seagate* is to afford an accused infringer with more options, both before suit is filed and after. The attorney-client privilege and work product immunity will be protected where appropriate, which alone gives accused infringers greater freedom to seek and obtain the very best legal advice from counsel of their choice. Accused infringers should not, however, follow any categorical rules about whether to obtain an opinion of counsel and from whom that opinion should come. The key is to act in an objectively reasonable manner, given the circumstances at hand.

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<sup>1</sup> 83 U.S.P.Q.2d 1865 (Fed. Cir. 2007) (*en banc*).

<sup>2</sup> 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*).

<sup>3</sup> *Id.* at 1344.

<sup>4</sup> *Id.* at 1345.

<sup>5</sup> 448 F.3d 1294 (Fed. Cir. 2006).

<sup>6</sup> *Id.* at 1302.

<sup>7</sup> *Id.* at 1304-05.

<sup>8</sup> *Id.* at 1304.

<sup>9</sup> 717 F.2d 1380 (Fed. Cir. 1983), overruled by *In re Seagate Tech. LLC*, 83 U.S.P.Q.2d 1865 (Fed. Cir. 2007) (*en banc*).

<sup>10</sup> *Id.* at 1389.

<sup>11</sup> *Id.* at 1390 (emphasis in original).

<sup>12</sup> 83 U.S.P.Q.2d at 1870 (internal citation omitted).

<sup>13</sup> *Id.*

<sup>14</sup> *Id.* (emphasis added).

<sup>15</sup> *Id.*

<sup>16</sup> *In re EchoStar*, 448 F.3d at 1303.

<sup>17</sup> *In re Seagate*, 83 U.S.P.Q.2d at 1870.

<sup>18</sup> *Id.* at 1880 (Newman, J. concurring) (“[t]he standards of behavior by which a possible infringer evaluates adverse patents should be the standards of fair commerce, including reasonableness of the actions taken in the particular circumstances”).

<sup>19</sup> *Id.* at 1870.

<sup>20</sup> *Id.* at 1872.

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* at 1873.

<sup>24</sup> 35 U.S.C. § 286.

<sup>25</sup> It does. See *In re EchoStar*, 448 F.3d at 1299.

<sup>26</sup> *In re Seagate*, 83 U.S.P.Q.2d at 1871-72.

<sup>27</sup> *Id.* at 1872.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* at 1874.

<sup>30</sup> *Id.* at 1873 (quoting *In re Martin Marietta Corp.*, 856 F.2d 619, 626 (4th Cir. 1988)).

<sup>31</sup> *Id.* at 1874.

<sup>32</sup> Fed. R. Civ. P. 26(b)(3).

<sup>33</sup> *In re Seagate*, 83 U.S.P.Q.2d at 1874.

<sup>34</sup> The “sword and shield” rationale for waiver of attorney-client privilege and work product immunity is also undiminished. If an accused infringer relies on the advice of counsel defense, it will waive its attorney-client privilege and work product immunity as to opinion counsel. *In re Seagate* reaffirms, however, that this waiver will typically not extend to trial counsel.

<sup>35</sup> *SRI Int'l, Inc.*, 127 F.3d at 1465.

<sup>36</sup> *In re Seagate*, 83 U.S.P.Q.2d at 1873-74.

<sup>37</sup> See, e.g., American Bar Association Model Rules of Professional Conduct Rule 3.7(b), which allows a lawyer to “act as advocate in a trial in which another lawyer in the lawyer’s firm is likely to be called as a witness unless” it would create a conflict of interest with a current or former client. In contrast, however, the presumption is that a lawyer is precluded from acting as an advocate before the United States Patent and Trademark Office if another lawyer from the same firm will submit an affidavit or be called as a witness before the Office. 37 C.F.R. § 10.63.

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