

INTELLECTUAL PROPERTY LITIGATION PRACTICE

***IN RE SEAGATE TECHNOLOGY, LLC,
MISC. DOCKET NO. 830 (FED. CIR. AUGUST 20, 2007)***

In a rare, unanimous *en banc* decision, the United States Court of Appeals for the Federal Circuit overruled nearly twenty-five years of precedent regarding the standard used for proving willful infringement in connection with enhanced damages in patent infringement cases. As described below, the new standard requires a showing of objective recklessness by the accused infringer and eliminates the affirmative duty of due care upon notice of infringement. In addition, the Federal Circuit clarified that the scope of waiver arising from an accused infringer's reliance upon an advice of counsel defense in response to a charge of willful infringement does not extend to attorney-client communications with trial counsel or to the work product of trial counsel, absent extenuating circumstances.

Properly seen as a pro-defendant ruling, this decision dramatically raises the bar for patent infringement plaintiffs to plead and prove willful infringement. In addition, patent infringement defendants can have increased comfort about the confidentiality of their communications with their trial counsel about the claims in the case, even when they have decided to rely upon an opinion of counsel as a defense to a claim of willful infringement.

Background

On July 13, 2000, Convolve, Inc. and the Massachusetts Institute of Technology (collectively "Convolve") sued Seagate Technology, LLC ("Seagate") for infringement of two patents.

In January, 2002, Convolve amended its complaint to allege infringement of a third patent. Convolve alleged willful infringement by Seagate of all three patents.

Shortly before Convolve filed the suit, Seagate retained a patent lawyer to provide opinions on whether Seagate infringed the Convolve patents and whether the patents were valid. During the subsequent two and a half years, the patent lawyer provided three written opinions, concluding that Seagate did not infringe the Convolve patents and that many of the claims were invalid and possibly unenforceable. Seagate's opinion counsel operated separately from Seagate's trial counsel.

In the pending lawsuit, Seagate elected to rely upon these opinions in defense to Convolve's allegation of willful infringement and, accordingly, disclosed the opinions and all of opinion counsel's work product during discovery. Convolve then sought to obtain all communications and work product from all of Seagate's other counsel, including its trial counsel. In deciding a motion to compel this discovery, the trial court held that Seagate had waived the attorney client privilege and work product protection over all communications between it and any counsel (including trial counsel and in-house counsel) involving the subject matter of the Sekimura opinions (i.e., infringement, invalidity, and unenforceability). The trial court ordered Seagate to produce all related documentation and make its counsel available for deposition, including Seagate's trial counsel.

After the trial court refused Seagate's request for a stay and certification for an interlocutory appeal, Seagate filed a petition for writ of mandamus with the Federal Circuit. The Federal Court granted a stay and then, *sua sponte*, ordered an *en banc* review of the petition. In addition to the parties' briefs, the Federal Circuit received over twenty *amicus curiae* briefs.

Decision

The Federal Circuit's decision begins with the appropriate standard for proving willful infringement.

While enhanced damages for patent infringement are authorized under the patent statute (35 U.S.C. § 284), there is no statutory standard for awarding these damages. The courts have long held that enhanced damages requires a showing of willful infringement and, since 1983, have evaluated willful infringement under the affirmative due care standard set forth in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) ("Where . . . 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. Such 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.") (citations omitted).

In *Seagate*, the Federal Circuit first looked to other statutory schemes involving willfulness, such as willful infringement under the Copyright Act (17 U.S.C. § 504(c)) and punitive damages in certain civil claims (such as the Fair Credit Reporting Act and the Fair Labor Standards Act). The court concluded that willfulness under these statutes requires a showing of reckless disregard of the law. Recognizing that *Underwater Devices* had established a lower threshold for willful infringement, closer to a negligence standard, inconsistent with "the general understanding of willfulness in the civil context," the Federal Circuit overruled the standard set in *Underwater Devices* and held that "proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness." It explained:

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. See *Safeco*, slip op. at 19 ("It is [a] high risk of harm, objectively assessed, that is the essence of recklessness at common law."). 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.

The next issue for the court was the scope of waiver of the attorney-client privilege arising from an accused infringer's reliance on advice of counsel as a defense to willful infringement. While the attorney-client privilege is the oldest privilege recognized by the common law, a waiver of the attorney-client privilege generally constitutes a waiver to all other communications on the same subject matter. In the specific context of an advice of counsel defense, the case law has varied as to whether a waiver as to opinion counsel extends to a waiver as to trial counsel. The Federal Circuit recognized that the functions of trial counsel and opinion counsel are "significantly different" and that there are numerous interests served in protecting the sanctity of communications between a client and its trial counsel. In addition, willfulness generally depends upon the infringer's pre-litigation conduct, so a patentee must have a good faith basis for alleging willful infringement at the time a complaint is filed. If an infringer's post-filing conduct is reckless, the Federal Circuit noted that a patentee can move for a preliminary injunction. "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. Similarly, if a patentee attempts to secure injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness." Ultimately, the Federal Circuit concluded that trial counsel communications have little relevance to willfulness, and stated that "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.”

The final issue the Federal Circuit addressed was whether a waiver as to opinion counsel would extend to trial counsel’s work product. It decided 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 of the nature of the work product doctrine.” Finding that a narrow scope of waiver strengthens the adversary process, the Federal Circuit concluded that “as a general proposition, relying on opinion counsel’s work product does not waive work product immunity with respect to trial counsel,” recognizing that under Fed. R. Civ. P. 26(b)(3) a party may obtain discovery of work product only upon a sufficient showing of need and hardship.

Conclusion

The *Seagate* decision is a dramatic, but clarifying shift in the law on willfulness. Raising the standard for establishing willful infringement, the Federal Circuit adopted a recklessness-based standard found in other areas of the law, thereby eliminating the focus on the accused infringer’s subjective state of mind. Instead, as the courts adapt to this new approach, they will address the types of conduct which constitute “objective recklessness.” Companies may now be able to act prudently, using reasonable business practices, without necessarily going to the time and expense of engaging opinion counsel every time they face an accusation of infringement. Moreover, accused infringers who choose to rely upon opinions of counsel can now do so without worrying about the potential disclosure of their communications with their trial counsel.

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