McDermott Will & Emery

In re Seagate

Case Overview

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Willful Infringement and the Advice of Counsel Defense

- Patent infringement is a form of strict liability tort; a defendant may be found guilty of patent infringement regardless of its motive or intent.
- The nature of a defendant's actions may be relevant to the question of *willful* infringement.
- There is no statute defining what constitutes willful infringement; the courts historically equated willful infringement with bad faith or wanton and malicious conduct.

Willful Infringement and the Advice of Counsel Defense (cont.)

- A finding of willful infringement is significant because it may result in the patentee being awarded enhanced damages pursuant to 35 U.S.C. § 284.
- 35 U.S.C. § 284 is silent as to what justifies an award of enhanced damages.
- The Federal Circuit has consistently held that an award of enhanced damages generally requires a showing of willful infringement.

Willful Infringement and the Advice of Counsel Defense (cont.)

- Prior to the formation of the Federal Circuit, a "widespread disregard of patent rights was undermining the national innovation incentive" (1979 Report, Dep't of Commerce).
- One of the Federal Circuit's purposes was to "promote greater uniformity" in the area of patent law and restore confidence in the patent system.
- An early result of this effort was *Underwater Devices Inc. v. Morrison-Knudsen Co*., 717 F.2d 1380 (Fed. Cir. 1983).

Willful Infringement and the Advice of Counsel Defense (cont.)

- In *Underwater Devices*, the Federal Circuit established the modern test for determining willful infringement: “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.”
- The duty of due care standard included “the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.”

Willful Infringement and the Advice of Counsel Defense (cont.)

- The *duty* to obtain legal advice intensified the importance of the "advice of counsel defense" to a charge of willful infringement.
- Under this defense, an accused willful infringer aims to establish that due to reasonable reliance on advice from counsel, its continued accused activities were done in good faith. Typically, counsel's opinion concluded that the patent is invalid, unenforceable, and/or not infringed.

Willful Infringement and the Advice of Counsel Defense (cont.)

- The duty of due care standard effectively resulted in a *de facto* requirement that a defendant accused of willful infringement produce an opinion of counsel in defense to the claim.
- Prior to 2004, the law imposed an "adverse inference" on defendants who failed to produce an opinion of counsel in defense to a willfulness charge: "[A defendant's] silence on the subject, in alleged reliance on the attorney-client privilege, would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its [activities] would be an infringement of valid U.S. patents." *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).

Willful Infringement and the Advice of Counsel Defense (cont.)

- Problems resulting from the duty of due care standard and the adverse inference:
- First, reliance on an advice of counsel defense results in waiver of the attorney-client privilege. But "the attorney-client privilege rests at the center of our adversary system and promotes 'broader public interests in the observance of law and administration of justice' and 'encourages full and frank communication between attorneys and their clients." *United States v. Philip Morris, Inc*., 314 F.3d 612, 618 (D.C. Cir. 2003), *quoting Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981).

Willful Infringement and the Advice of Counsel Defense (cont.)

- Second, "[Defendant] is correct that moving forward with discovery [on the question of willfulness] will subject it to the harm of having to disclose the advice of counsel before it has been found liable to the plaintiffs. That is the natural consequence of the Federal Circuit's decisions. . . ." *Johns Hopkins Univ. v. CellPro*, 160 F.R.D. 30, 35-36 (D. Del. 1995).

Willful Infringement and the Advice of Counsel Defense (cont.)

- Third, the question of whether a defendant would rely on the advice of counsel defense, and the associated questions regarding the scope of any resulting waiver of privilege, resulted in the courts and parties engaging in extensive and expensive satellite litigation.
- Fourth, the application of the duty of due care standard gave rise to “window-dressing” opinions. Companies felt compelled to obtain opinions not for the purpose of making informed business decisions, but solely for protection from a willful infringement claim in any litigation concerning the patents in question.

Willful Infringement and the Advice of Counsel Defense (cont.)

- Fifth, the duty of due care standard had facilitated opportunities for abusive gamesmanship by certain patentees.
- Many companies viewed the risk of trebled damages in a later litigation an unacceptable one, and would agree to pay the patentee for a license that they arguably did not need.
- The risks associated with “knowledge” of a patent resulted in companies avoiding learning what was being patented in their industries. This fear stifled, rather than encouraged, innovation (2003 FTC Report).

Willful Infringement and the Advice of Counsel Defense (cont.)

- The Federal Circuit took its first major step toward reversing the impact of the duty of due care standard with the 2004 decision *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp*., 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*).
- The court recognized that the adverse inference imposed "inappropriate burdens on the attorney-client relationship" and held that maintaining the attorney-client privilege for opinions of counsel would not give rise to an adverse inference.
- However, with the duty of due care standard still requiring "the duty to seek and obtain competent legal advice from counsel," few companies felt comfortable foregoing obtaining opinions of counsel.

Willful Infringement and the Advice of Counsel Defense (cont.)

- District courts continued to struggle with the question of the scope of the waiver. While the associated waiver would extend to all communications with opinion counsel, it was far from clear whether the waiver should extend to communications on the same subject matter with other attorneys, particularly those with defendants' trial counsel.
- District courts reached various results in addressing this question. Some extended waiver to communications with trial counsel; others declined to do so; and still others looked for a middle-ground approach.

Willful Infringement and the Advice of Counsel Defense (cont.)

- *In re EchoStar Commc'ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006) ("once a party announces that it will rely on advice of counsel, for example, in response to an assertion of willful infringement, the attorney-client privilege is waived. The widely applied standard for determining the scope of the waiver of attorney-client privilege is that the waiver applies to all other communications relating to the same subject matter").

The Facts of the *Seagate* Case

- On July 13, 2000, Convolve, Inc. and M.I.T. sued Seagate in the Southern District of New York alleging, among other things, infringement of the ‘635 and ‘267 patents.
- The ‘473 patent issued on 11/6/01.
- Convolve amended its complaint to add the ‘473 patent on 1/25/02.
- Convolve alleged willful infringement of all asserted patents.

Opinions of Counsel

- Prior to the lawsuit being filed, Seagate retained Gerald Sekimura to provide opinions regarding the Convolve patents.
- Mr. Sekimura provided three opinions:
  - A preliminary opinion on July 24, 2000 covering the ‘635 and ‘267 patents;
  - A full opinion in December 2000 addressing the ‘635 and ‘267 patents; and
  - A final opinion in February 2003 addressing the ‘473 patent.

Opinions of Counsel (cont.)

- Seagate's trial counsel was not involved in this opinion process; Mr. Sekimura's work was separate and independent from that of trial counsel.

Release of Opinions

- Consistent with the trial court's scheduling order, in early 2003 Seagate advised Convolve of its intention to rely on the Sekimura opinions in defending against the willful infringement claims.
- Seagate produced Mr. Sekimura's opinions and all work product related to them.
- Seagate also made Mr. Sekimura and the business person within Seagate who relied on the opinions available for deposition.

Motion to Compel

- Convolve moved to compel discovery of any communications and work product of Seagate's other counsel, including trial counsel, on the subject matter of the opinions – infringement, invalidity and unenforceability.

Order to Produce

- In May of 2004, the magistrate judge issued an order finding that:
  - Seagate waived the attorney-client privilege when it disclosed the Sekimura opinions;
  - The waiver extended to all communications regarding the subject matters of the Sekimura opinions (infringement, invalidity and unenforceability) and covered both inside and outside counsel;

Order to Produce (cont.)

- The waiver began when Seagate first gained knowledge of the patents and would continue until the alleged infringement ceased;
- Work product protection also was deemed waived; and
- Although the Court stated that it would review *in camera* those documents involving trial strategy, it held that any document undermining Sekimura's opinions would warrant disclosure.

Seagate's Petition for Writ of Mandamus

- Seagate filed objections with the district court, which the court denied in July 2006.
- Seagate asked the district court for reconsideration, and/or for the district to certify its orders for interlocutory appeal under 28 U.S.C. § 1292, which the district court denied.
- On September 29, 2006, Seagate filed a petition for writ of mandamus with the Federal Circuit.
- That same day, the Federal Circuit issued an order staying the district court's orders pending consideration of Seagate's petition.

The Federal Circuit's *En Banc* Order

- On January 26, 2007, the Federal Circuit *sua sponte* issued an order to hear Seagate's petition *en banc* and asked the parties to address three questions:
  - Does waiver extend to trial counsel?
  - What is the effect of a waiver on work product?
  - Should the Court reconsider the existing law on the duty of care standard in patent cases?

The Federal Circuit's Decision

- Nearly two dozen *amicus curiae* briefs were filed in response to the *en banc* order.
- Oral argument was held before the *en banc* court on June 7, 2007.
- On August 20, 2007, a unanimous court issued its decision.

Does the "Advice of Counsel Defense" Waiver Extend to Trial Counsel?

- **No**: as general proposition, asserting the advice of counsel defense and disclosing opinions of opinion counsel does not constitute waiver of the attorney-client privilege for communications with trial counsel.
- The court qualified this holding by noting that trial courts could, in unique situations, extend waiver to trial counsel, such as if a party or counsel engages in "chicanery."
- The court clarified that the *EchoStar* decision did not consider whether waiver applied to trial counsel communications.

Does the "Advice of Counsel Defense" Waiver Extend to Trial Counsel? (cont.)

- Rationale for holding re: trial counsel:
  - Functions of trial and opinion counsel are different;
  - Each provide fundamentally different kinds of advice;
  - Trial counsel typically not involved with pre-litigation events that give rise to willfulness claims.

Does the "Advice of Counsel Defense" Waiver Extend to Trial Counsel? (cont.)

- Above all else, strategic advice of trial counsel must be protected from disclosure:
  - Supreme Court's *Hickman v. Taylor* decision supports this view.
- Demands of adversarial system "far outweigh" benefits of extending waiver to trial counsel in "most cases" and absent "exceptional circumstances."

Does the same reasoning apply to attorney work product?

- In a word, “yes.”
- Intangible and tangible work product of trial counsel given broad protection.
- The mental process work product of trial counsel is subject to “nearly absolute protection.”

A New Standard for Proving Willful Infringement

- The 1983 *Underwater Devices* decision was reconsidered and reversed.
- The duty of due care standard was replaced with an “objective recklessness” standard.
- The court confirmed that there is no affirmative obligation to obtain opinions of counsel.

A New Standard for Proving Willful Infringement (cont.)

- The court's rationale:
  - The term "willful" is not unique to patent law, but has a well-established meaning in the civil context.
  - Analogy to copyright cases, where a finding of willful copyright infringement requires reckless behavior.
  - A recent Supreme Court case addressing willful violations of the Fair Credit Reporting Act held that the "standard civil usage" of "willful" required "reckless behavior." (*Safeco Ins. Co. of Am. v. Burr*, 551 U.S. ___, Nos. 06-84, -100, slip op. (June 4, 2007)).

A New Standard for Proving Willful Infringement (cont.)

- The court's rationale (cont.):
  - The duty of due care standard, in contrast, did not require reckless behavior. Rather, it "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."

The Federal Circuit's Two-Part "Objective Recklessness" Test for Willfulness in Patent Cases

- First, the 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."
  - State of mind of the alleged infringer not relevant.
- Second, if the threshold objective standard is met, 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.

The Federal Circuit's Two-Part "Objective Recklessness" Test for Willfulness in Patent Cases (cont.)

- A court may consider "standards of commerce" in determining whether the new willfulness standard has been met.
- The court left it to future cases to develop the application of the new standard.

Unanswered Questions Regarding Privilege Waiver and Opinions of Counsel

- What form of “chicanery” will be sufficient to eliminate application of the general rule against waiver?
- Whose “chicanery” and when must it occur to be relevant?
- Is “chicanery” measured on an objective scale?

Unanswered Questions Regarding Privilege Waiver and Opinions of Counsel (cont.)

- Does this ruling apply equally when the opinion counsel is in the same firm as the trial counsel?
- Are opinions of counsel obtained after the commencement of the action similarly subject to the same narrow waiver?
- Should trial counsel be recommending that opinions of counsel be obtained?

Unanswered Questions Regarding Privilege Waiver and Opinions of Counsel (cont.)

- How does the decision impact a company's decision to obtain opinions of counsel?
- How does the decision impact communications with in-house counsel ("we do not address the trial court's discovery orders pertaining to Seagate's in-house counsel")?

Unanswered Questions Regarding The "Objective Recklessness" Standard

- What advice should be given to clients regarding the investigation to be taken into possible infringement when designing new products?
- What sources should be used to determine the "standards of commerce"?

Unanswered Questions Regarding The "Objective Recklessness" Standard (cont.)

- Can you introduce expert testimony on the presence or absence of "objective recklessness"?
- Does the reference to the Supreme Court opinions on punitive damages bring into play all of the law relating to punitive damages that has developed in recent years?