MORRISON | FOERSTER

Legal Updates & News

Legal Updates

In re Seagate Technology, LLC: The Federal Circuit Will Address Significant Issues Regarding Willful Infringement *En Banc*

January 2007
by Alison Tucher, Jason A. Crotty

Related Practices:

- Intellectual Property
- Litigation
- Patent Litigation

On January 26, 2007, the Federal Circuit moved aggressively to decide significant issues regarding the role of an opinion of counsel in patent infringement cases that include an allegation of willful infringement. The court announced that it will give *en banc* review to a writ of *mandamus* filed by Seagate Technology, LLC, appealing district court orders that found a broad privilege waiver extending to trial counsel. The court invited briefing on the following questions:

> (1) Should a party's assertion of the advice of counsel defense to willful infringement extend waiver of the attorney-client privilege to communications with that party's trial counsel? *See In re EchoStar Commc'n Corp.*, 448 F.3d 1294 (Fed. Cir. 2006).
>
> (2) What is the effect of any such waiver on work-product immunity?
>
> (3) Given the impact of the statutory duty of care standard announced in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), on the issue of waiver of attorney-client privilege, should this court reconsider the decision in *Underwater Devices* and the duty of care standard itself?

The case will have a significant impact on the attorney-client privilege and attorney work-product immunity in patent cases. Moreover, the third question was not even raised in Seagate's petition, and the Court's *sua sponte* decision to hear the matter *en banc* suggests that the court will broadly reconsider whether the duty of due care requires a party to obtain legal advice when it becomes aware of third party patents. *In re Seagate Technology* will provide the Federal Circuit with an opportunity to continue the good work it began in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*), of revisiting the question, what is the proper role of an opinion of counsel in combating allegations that infringement has been willful? It will also allow the Federal Circuit to clarify important questions regarding the scope of the waiver of the attorney-client and work-product privileges. The decision will have broad ramifications. Willful infringement is alleged in more than 90% of patent cases because damages may be trebled where willfulness is established.[1]

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*, 717 F.2d at 1390-91. The duty of due care generally requires obtaining competent legal advice before engaging in any potentially infringing activity or continuing such activity. *Id.*

Since *Underwater Devices*, reliance on an opinion of counsel stating that there is no infringement or that the patent is invalid has become one of the primary defenses to a charge of willful infringement. Reliance on an opinion of counsel typically requires that the accused infringer waive the attorney-client privilege as to the subject matter of the opinion. Issues regarding the scope of the resulting

waiver have generated extensive satellite litigation that has split district courts, resulting in uncertainty and inconsistency. This uncertainty has significantly raised the cost of patent infringement litigation. In the past few years, the Federal Circuit decided two significant cases regarding willfulness allegations and an opinion of counsel.

In 2004, the Federal Circuit reversed its prior rulings and abolished the negative inference that an opinion of counsel was (or would have been) unfavorable if the alleged infringer failed to produce or obtain an exculpatory opinion of counsel in response to a charge of willful infringement. *See Knorr-Bremse*, 383 F.3d 1337 (*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. Although *Knorr* resolved the adverse inference issue, it has had a limited impact in district courts because willfulness continues to be evaluated in light of "all relevant facts and circumstances" concerning the accused infringer's state of mind.

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*, 448 F.3d 1294. In a footnote, the Federal Circuit also held that waiver of the attorney-client privilege extends to advice given *after* litigation begins. *Id.* at 1302 n.4. Although *EchoStar* did not involve any attempt to discover trial counsel's communications with the client, this footnote has been construed by several district courts as supporting a waiver of the attorney-client privilege as to trial counsel.

One of the decisions that found a waiver of trial counsel's communications was issued by a judge in the U.S. District Court for the Southern District of New York. The orders of that court are the subject of Seagate's petition.

Significance

Under current Federal Circuit jurisprudence, a potential infringer with notice of a patent has an affirmative duty of due care that generally includes a duty to seek legal advice. In order to prove that it satisfied this duty, a defendant typically waives the attorney-client privilege in order 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. (Under *Knorr*, the accused infringer is not subject to an adverse inference if it decides not to waive the privilege, but it cannot present such evidence in its response to the allegation of willfulness.) Under *EchoStar*, the waiver of the attorney-client privilege extends to all communications on the same subject matter, regardless of the timing of those communications. Thus, if an accused infringer produces an opinion of counsel regarding non-infringement, *all* communications regarding non-infringement are waived. Moreover, any attorney work-product that is communicated to the client or that reflects a communication with the client is also waived.

However, *EchoStar* did not address whether the scope of the waiver extends to trial counsel — that issue will be addressed in *Seagate*. The consequences of a holding that a waiver extends to trial counsel would be profound. An opinion typically discusses issues of validity and/or infringement, precisely the subjects on which trial counsel must speak freely because they will be the subject of the trial and are a critical part of risk assessment for purposes of settlement. Documents and testimony that would have to be produced would surely include trial counsel's thought processes and litigation strategy. Note however that, in *EchoStar*, the court stated that parties that rely on an opinion of counsel do "not give their opponent unfettered discretion to rummage through all of their files and pillage all of their litigation strategies." *In re EchoStar*, 448 F.3d at 1303. As to attorney work-product, a waiver would be disruptive for similar reasons. However, *EchoStar* provides a framework for assessing work-product waiver issues.

The Federal Circuit's decisions in both *Knorr* and *EchoStar* suggest that that court may believe that its decisions and those of some trial courts have encroached too far on the attorney-client privilege and the work-product doctrine. The court may also be reluctant to reaffirm *Underwater Devices* if it answers the first two questions in the affirmative, i.e., holds that communications with trial counsel and trial counsel's work product are waived if the accused infringer relies on an opinion of counsel. Thus, the affirmative duty to obtain legal advice articulated in *Underwater Devices* may be scaled back or eliminated.

The Federal Circuit's *sua sponte* order that it will hear the *In re Seagate* petition *en banc* is an unusual and surprising move. This bold action may signal that the court will not only decide the

significant issues of whether an accused infringer waives communications with trial counsel and counsel's work product on the subjects of an opinion of counsel it relies upon, but may also revisit the fundamental issue of whether the duty of due care requires a party of obtain an opinion of counsel at all, and, if so, when and under what circumstances.

Conclusion

Because willful infringement is alleged in virtually all patent cases and a finding of willfulness can result in treble damages, issues regarding willful infringement are hotly contested in many patent cases. As a result, the impact of the court's *en banc* decision in *Seagate* will have a significant impact on patent litigation, regardless of the outcome.

The Federal Circuit's non-precedential order was issued on January 26, 2007. Petitioner is to file its brief within 30 days of the Order, the brief from Respondent is due 30 days later, and a reply by petitioner is due 10 days after that. Briefs of *amicus curiae* will be entertained in accordance with Federal Rule of Appellate Procedure 29 and Federal Circuit Rule 29, meaning that a brief (and a motion to file the brief) must be filed within 7 days after the brief of the party being supported. The court stated that oral argument, if any, will be scheduled at a later date.

Note: EchoStar Communications Corporation and TPO Displays Corporation filed an *amicus* brief in support of Seagate's writ petition. Morrison & Foerster represented these parties in the Federal Circuit. Morrison & Foerster also represented EchoStar Communications Corporation in *In re EchoStar*.

Footnotes

1: See Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227, 232 (2004-2005); *Read Corp. v. Portec Inc.,* 970 F.2d 816, 826 (Fed. Cir. 1992).