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## ***In re Seagate Technology, LLC: The Federal Circuit Establishes a New Standard for Willfulness and Enhanced Damages and Clarifies Waiver of Privilege Law***

On August 20, 2007, the Court of Appeals for the Federal Circuit issued its decision in *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007). This en banc decision substantially changes the law regarding the availability of enhanced damages for patent infringement and clarifies issues regarding waiver of attorney-client privilege and work product protection created by the reliance on the advice of counsel as a defense to willful infringement. Because the Court's decision expressly overturns the 24 year-old precedent established by *Underwater Devices*, it affects discovery and trial in almost every patent infringement case. The impact of *Seagate* will likely be felt for years to come. In particular, the effect the decision will have on the practice of obtaining written opinion letters from counsel will only become clear once the courts have had a chance to apply this new standard.

The Court's decision in *Seagate* addresses three important issues: (1) the conditions under which a court may award enhanced damages for patent infringement, (2) the scope of the waiver triggered by reliance on the advice of counsel as a defense to an allegation of willful infringement, and (3) whether the waiver extends to trial counsel's work product. With respect to these issues, the Court's decision either substantially changes the law or provides much-needed guidance on issues where district courts had reached conflicting results.

**First**, the Federal Circuit expressly overruled *Underwater Devices, Inc. v. Morrison Knudsen*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983), a 24 year-old precedent regarding an alleged infringer's obligations to respect a patentee's rights. The Federal Circuit has long held that district courts may award enhanced damages only in instances of willful infringement. Since 1983, willful infringement determinations have been governed by the "affirmative duty of due

care” standard articulated in *Underwater Devices*. Under that standard, courts focused on the alleged infringer’s state of mind.

In *Seagate*, the Court establishes a new test for willful infringement, holding that willful infringement requires a showing of “objective recklessness” on the part of the infringer. The Court further noted that “[b]ecause we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain opinion of counsel.” *Seagate*, slip op. at 12. The Court set forth a new, two-step process for determining whether the infringer’s conduct has been objectively reckless. *First*, the patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions infringed a valid patent. In making this threshold determination, the infringer’s subjective state of mind is irrelevant. *Second*, if the patentee can meet this threshold requirement, then the patentee must demonstrate that the objectively high risk was either known or should have been known to the infringer. *Seagate*, slip op. at 12.

The Court’s two-part test leaves several issues open, including:

- (1) Whether the patentee’s burden of proof for the second part of the willful infringement test is clear and convincing evidence or a mere preponderance of evidence.
- (2) What sorts of evidence can be used to prove or to disprove objective recklessness. It may be that opinions of counsel and dueling legal experts will be used to address this issue rather than to address the alleged infringer’s state of mind as was previously the case.
- (3) The Court also did not spell out precisely how high the patentee’s burden has become. While the Court specifically reserved this issue for development in future

cases, it did suggest that a substantial question regarding infringement or validity that is sufficient to avoid a preliminary injunction also is likely sufficient to avoid a willful infringement finding. Whether close claim construction questions or factual disputes sufficient to defeat summary judgment would have the same effect is an open question.

- (4) The procedural effects of the new test for willful infringement also remain to be determined. For example, is bifurcation of discovery or trial on willfulness issues now more appropriate because of the two-part test?

**Second**, the Court held that, in general, asserting an advice of counsel defense in response to a charge of willful infringement, and disclosing opinions of patent opinion counsel, does not result in a waiver of the attorney-client privilege for communications with trial counsel. *Seagate*, slip op. at 18. This is a significant restriction on the scope of the privilege waiver.

In a previous decision, the Federal Circuit had held that asserting the advice of counsel defense waived the attorney-client privilege for all communications on the same subject matter. There was little consistency, however, among district courts regarding whether the waiver extended to opinions, whether formal or informal, expressed by trial counsel. That uncertainty meant alleged infringers were often forced to make a difficult choice between disclosing highly sensitive communications with trial counsel or risking a finding of willful infringement and resulting enhanced damages.

**Third**, the Court ruled that, in general, relying on patent opinion counsel’s work product in asserting an advice of counsel defense generally will not waive work product immunity with regard to trial counsel. *Seagate*, slip op. at 18-19. As with the attorney-client privilege, the Federal Circuit had previously held that assertion of

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the advice of counsel defense waived work product protection on the same subject matter that was communicated to the client.

While the Court's holdings regarding the scope of privilege and work product waivers provide importance guidance, the *Seagate* decision leaves some questions unanswered. The Court explicitly refrained from addressing how asserting the advice of counsel defense might affect waiver of privilege and work product protection with regard to in-house counsel. The Court also left open the possibility that there could be situations in which a party's conduct might waive privilege or work product protection as to trial counsel, such as when, in the Court's words, "counsel engages in chicanery." *Seagate*, slip op. at 18.