Legal Backgrounder

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IN RE SEAGATE: WE HAVE MET THE ENEMY, AND HE IS US

by

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For a quarter of a century, the comic strip "Pogo" satirized the foibles of the American political system through the apt metaphor of swamp creatures. Confronted by the latest problem, the swamp creatures knew just where to place the blame, exclaiming, "We have met the enemy, and he is us." In its recent decision *In re Seagate,* the Federal Circuit surveys the problems caused by its test for willful infringement, admits, "We have met the enemy and he is us," and tries to correct the situation. How did this problem come to pass?

How The Federal Circuit Became the Enemy. The Federal Circuit's articulated test for willful infringement, set forth in its 1983 *Underwater Devices* opinion, required an accused willful infringer to obtain a competent opinion of counsel. Because practically all plaintiffs now allege willfulness as a matter of course seeking enhanced damages, all defendants are forced to assert the defense mandated by the Federal Circuit in *Underwater Devices* that they relied on the advice of opinion counsel. Naturally, plaintiff's counsel wanted to challenge the opinions, which of necessity required some degree of waiver of the attorney-client privilege. The growing battleground became the appropriate scope of the waiver of attorney-client privilege and the work product doctrine. The situation became more complicated with *In re EchoStar Commnc'ns Corp.*, which greatly expanded the scope of the waiver and led inexorably to the district court's decision in the *Seagate* case.

Seagate had obtained opinion counsel to help it meet the Federal Circuit's test. The district court ordered Seagate to disclose all communications Seagate had with all counsel *including its trial counsel*. With that decision, the Federal Circuit had to confront the issue that defendants in patent infringement actions were now in an impossible position, a position caused by the Federal Circuit's test for willfulness, exacerbated by its recent decision in *Echostar*. The Federal Circuit addressed this issue directly in *In re Seagate Technology,* determining not just the specific question asked – the proper scope of the attorney client/work product waiver when a defendant charged with willful infringement asserts the opinion-of-counsel defense – but specifically solving the root problem, the appropriate test for determining a charge of

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willful infringement, a problem of its own creation.

The Federal Circuit also used this occasion, somewhat indirectly, to address its larger "political" problem with the Supreme Court. The past few years, the Supreme Court has worked to bring the Federal Circuit and patent law into line with the other circuits. In *MercExchange v. eBay*, the Supreme Court held that district courts determining whether to order permanent injunctions in a patent case must use the same four-prong test applied in every other case. Similarly, in *MedImmune v. Genentech,* the Supreme Court effectively overruled the Federal Circuit's unique test for jurisdiction in a declaratory judgment case. In analyzing the proper test for willful infringement, the Federal Circuit sent the strong message that it was falling into line. It based its *Seagate* analysis on Supreme Court precedent, with no less than three citations to Supreme Court decisions to support its new test. It cites to *Safeco Ins. Co. of Am. v. Burr*, 127 S. Ct. 2201 (2007) to justify its new test of objectively reckless behavior in determining willful infringement, and then cites to the Supreme Court decisions in *Farmer v. Brennan* and *United States Nat'l Bank of Or.* to support that analysis. The message could not have been clearer – "We, the Federal Circuit, now understand the Supreme Court is supreme, and we are ready to fall into line with everyone else" or, stated another way, "No mas."

The Problem Created by the Federal Circuit – Defendant Beware. The not-so-simple issue for the Federal Circuit involved the scope of waiver for attorney-client privilege and the work product doctrine in light of the Federal Circuit's decision in *EchoStar.* While the Federal Circuit asserts that *EchoStar* did not determine whether the advice of counsel defense waived privileges for trial counsel and their work product, it came more than dangerously close and clearly set up the issue for a future case like *Seagate*. In *Echostar,* the Federal Circuit held that in-house counsel's advice waives attorney-client privilege and work product protection and that assertion of the defense also waives attorney-client privilege and work product protection for "all communications or the same subject matter as well as any documents memorialized by the attorney-client communications."

This opinion led to a great deal of litigation as district courts struggled to determine what precisely was covered by the waiver and what was not when a party asserted the advice of counsel defense. For the past year, district courts have struggled to determine the proper scope of the waiver. This issue seemed to culminate in the district court's decision in *Seagate*. Like many companies confronted with the possibility of a patent infringement suit, Seagate retained an attorney to provide an opinion regarding the invalidity or unenforceability of the threatened patent and non-infringement. Seagate notified plaintiff Convolve of its intention to rely on the opinion of counsel defense, producing the opinion letters, the work product of opinion counsel, while it also made counsel available for deposition. At that point, Convolve moved to compel discovery of any communications and work product of Seagate's other counsel including its trial counsel. The trial court, based its analysis on the *EchoStar* decision and concluded that Seagate had waived attorney-client privilege for all communications between Seagate and *any* counsel including trial attorneys and in-house counsel. According to the trial court, the waiver began when Seagate first gained knowledge of the patents and would continue until the alleged infringement stopped. Seagate petitioned the Federal Circuit for *writ of mandamus* after the Trial Court denied its motion for a stay and a certification for an interlocutory appeal. With this ruling, trial counsel found themselves in an impossible position. They needed opinion counsel in order to avoid a finding of willful infringement under the Federal Circuit's *Underwater Devices* test. But the assertion of that defense now threatened to open their trial files to opposing counsel. At a minimum, it looked like every defense trial team would have to engage in the expense of litigating the waiver question and undergo the anxiety that plaintiff's counsel would obtain its trial plans, in whole or in part because rarely, if ever, could a defendant afford to forego the defense.

The Solution – We Broke It/We Fix It. In determining the scope of the waiver for attorney-client privilege and the work product doctrine when an alleged infringer relies on the defense of opinion of counsel, the Federal Circuit recognized that the problem stemmed directly from its test for willful

infringement. Its test was the problem, and the Federal Circuit understood it needed to fix the problem. Accordingly, before addressing the waiver issue, the Federal Circuit confronted the underlying problem – its test for willful infringement that required the opinion of counsel defense.

In today's world of patent litigation it is the rare exception when a plaintiff does not assert a willfulness charge in its allegations of patent infringement. To defend against that allegation, and thus avoid the threat of enhanced damages, defendants had to seek and obtain competent legal advice from counsel to meet the Federal Circuit's test, set forth in *Underwater Devices,* to demonstrate that it met its "affirmative duty to exercise due care to determine whether or not [it] is infringing." Given *EchoStar* and now *Seagate*, it appeared that any defendant trying to satisfy the Federal Circuit's test would waive attorney-client privilege and work product doctrine not just for its opinion counsel but its trial counsel as well, an intolerable situation.

The Federal Circuit recognized that the unintended consequences of its test for willful infringement had now created inappropriate "opportunities for abusive gamesmanship" as recognized by Judge Newman in her concurring opinion. Accordingly, to restore balance and fairness to the system, the Federal Circuit needed to fix the problem. It had to overrule its 1983 *Underwater Devices* decision "because that case had been misapplied in the *extremis* of high stakes litigation." (Again, quoting Judge Newman.)

The Federal Circuit discusses at length its past efforts to define a workable test for determining willful infringement. It correctly notes that 35 U.S.C. § 284 does not contain the actual phrase "willful infringement." Accordingly, the Federal Circuit needed to adopt a test so trial courts would understand when they might assess enhanced damages. It then justifies its decision to establish the affirmative duty to exercise due care articulated in *Underwater Devices* because, in 1983, there was "widespread disregard of patent rights" which undermined "the national innovation incentive."

After almost a quarter of a century, that test no longer works. The Federal Circuit abandons its old test, finding that it is based on a finding of mere negligence when recent Supreme Court precedent and the precedent of "our sister circuits" equates willfulness with reckless conduct, and not with negligent actions, for determining enhanced damages. Thus, as stated earlier, the Federal Circuit accomplishes two missions. First, it devises a new test to fix the abuses of its old formulation. Second, it demonstrates that this new test is in line with Supreme Court decisions, citing to *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 479 (1961) and to *Safeco,* and to the other circuits' rulings.

The Federal Circuit adopted a threshold objective standard that 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. Once that high objective test is met, then the patentee has to demonstrate that the objectively defined risk was either known or so obvious that it should have been known to the accused infringer.

Judge Gajarsa disagrees with the majority that an award of enhanced damages pursuant to § 284 requires a finding of willfulness. He does believe in enhanced damages but suggests an objective test similar to the test articulated by the majority. Because no finding of objective unreasonableness had yet been made he would have deferred discussion of the attorney-client privilege and work product doctrine engaged in by the majority, a not surprising position given his authorship of *Echostar*.

Attorney Client Privilege. After deciding its new test for willful infringement, the Federal Circuit turned its sights back to the issue before it. In analyzing the scope of the waiver of the attorney-client privilege, the majority recognizes the difference between the function of opinion counsel who is "to provide an objective assessment for making informed business decisions" with the function of the trial counsel who "focuses on litigation strategy and evaluates the most successful manner of presenting a case to a judicial

decision maker." Because of this difference, "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." Accordingly, the Federal Circuit held, as a general proposition, that asserting the advice of counsel defense and disclosing the opinions of opinion counsel do not constitute waiver of the attorney-client privilege or communications with trial counsel. A similar analysis applies to the work product doctrine. In both instances, the Federal Circuit realized that the rule is not absolute and there are unique circumstances such as "engaged[ing] in chicanery." The analysis concludes with a not unexpected statement that "We believe this view comports with Supreme Court precedence, which is made clear . . ." citing to *Jaffey*, 518 US at 9.

The reference to chicanery is important because, without saying so, that concern may well have been the basis for the Federal Circuit's previous decision in *EchoStar,* a concern that trial counsel, in fact, would influence the underlying advice provided by opinion counsel, and if true, patentee's counsel had every right to explore that relationship. However, that concern did not justify the automatic intrusion into trial counsel's playbook as a matter of course simply because the defendant was required in defending against a willfulness allegation to rely on the advice of opinion counsel.

Neither The End Nor The Beginning of The End. The seriousness of the problem confronted by the Federal Circuit is best demonstrated by the lengthy list at the beginning of the opinion of the *amicus* briefs submitted and considered by the Federal Circuit. In fact, Judge Newman specifically mentions the importance of the *amicus* briefs that persuaded her the Federal Circuit needed to "reduce the opportunities for abusive gamesmanship." The Federal Circuit had adopted the "due care" standard to address the problem that patentees could not adequately protect their right. The unintended consequence was that the pendulum shifted in such a way that the patentee could require a defendant to waive attorney-client privilege and work product regarding trial strategy in defending against the charge of willfulness. This clearly was not the result envisioned by the Federal Circuit when it issued its test in 1983. After the Battle of Alamein, Churchill said, "This is not the end. It is not even the beginning of the end. It is, perhaps, the end of the beginning." There is no doubt that future battles await. At some point the pendulum will shift again and the Federal Circuit would have to develop a new standard.

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