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INTELLECTUAL PROPERTY

'Seagate' clarifies key waiver issue

Attorney-client privilege waiver applied to opinion counsel only, not separate litigation counsel.

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FOR A YOUNG NAVAL officer in charge of a complex shipboard propulsion plant, an early, painful lesson is, "If it ain't broke, don't fix it." While the adage may not be grammatically proper, its fundamental truth applies equally to fields beyond naval propulsion. Indeed, the U.S. Court of Appeals for the Federal Circuit's en banc decision in the case of *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007), can be viewed as demonstrating the wisdom of that lesson in patent litigation as well.

In *Seagate*, the Federal Circuit radically altered the law of willful patent infringement and, in clarifying dictum from its earlier decision in *In re EchoStar Communications Corp.*, 448 F.3d 1294 (Fed. Cir. 2006), restored the sanctity of the attorney-client privilege for litigation counsel to its "unbroken" condition. Unfortunately for defendants in infringement suits, in a cryptic passage, the court may have tried too hard to "fix" the system through its suggestion that an accused infringer could still lose its litigation attorney-client privilege for engaging in "chicanery." While patent infringement defendants welcome the court's decision protecting the privilege for litigation counsel in the face of claims of willful infringement, the absence of any guidance regarding this new suggestion of "waiver-by-chicanery" may prove to be troublesome.

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This article will review the recent history of the weakening of the litigation privilege, discuss the Federal Circuit's *EchoStar* decision and then examine the basis for *Seagate*'s suggestion of "waiver-by-chicanery." It will conclude that relevant case law does not appear to support the court's dictum embracing this new doctrine and that this dictum may subject litigants to yet further challenges to the litigation privilege.

Trial courts have the discretion to increase damages for patent infringement by a factor of three. 35 U.S.C. 284 (2000). Because of the absence of any statutory guidance for the exercise of that discretion, judicial decisions historically authorized enhancement in the case of willful infringement when the infringer failed to exercise due care to avoid infringement. E.g., *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991).

To counter claims of willfulness, accused infringers may show that they acted in good faith. In support of that defense, they may obtain and rely upon the opinion of a competent attorney that the asserted patent is invalid, unenforceable and/or not infringed. In order to assert that defense, however, they must produce the opinion and waive any privilege associated with it.

Differing rulings on waiver

The extent of that privilege waiver has varied widely across judicial districts. One line of authority held that the waiver can extend to trial counsel's communications and work product, but only if they contradicted or cast doubt upon the opinion. See, e.g., *BASF A.G. v. Reilly Indus. Inc.*, 283 F. Supp. 2d 1000, 1006 (S.D. Ind. 2003). Other district courts applied a broad privilege waiver holding that all "opinions received by the client relating to infringement must be revealed, even if they come from defendants' trial attorneys." *Akeva LLC v. Mizuno Corp.*, 243 F. Supp. 2d 418, 423 (M.D.N.C. 2003). Still other courts held that the waiver extended to work product, even that which had not been communicated to the client.

Eventually, the debate reached the Federal Circuit in *EchoStar*. In that case, the court held that the waiver resulting from an accused infringer's reliance upon the opinion of counsel did not extend to work product that counsel had not communicated to their client. *EchoStar*, 448 F.3d at 1303. However, in a footnote, the court suggested that the continuing nature of alleged infringement might render all advice received during the course of the litigation subject to waiver—arguably including advice and work product provided by litigation counsel. See id. n.4.

The mere suggestion that an accused infringer could lose the privilege with its litigation counsel created a significant stir among the patent bar and prompted further litigation. Noting the Federal Circuit's suggestion, several district courts relied on the *EchoStar* dictum to order the disclosure of accused infringers' communications with independent trial counsel. See, e.g., *Informatica Corp. v. Bus. Objects Data Integration Inc.*, 454 F. Supp. 2d 957 (N.D. Calif. 2006); *Genentech Inc. v. Insmed Inc.*, 442 F. Supp. 2d 838, 846-448 (N.D. Calif. 2006).

The *Seagate* litigation provided the Federal Circuit with an opportunity to address the controversy created, at least in part, by its dictum in *EchoStar*. In the trial court, the patentees alleged that Seagate was guilty of willful infringement. Even though Seagate relied upon the

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opinion of an independent counsel to defend against the claim of willfulness, the trial court ruled that Seagate's reliance on the opinion resulted in a waiver of all privileged communications between Seagate and both its opinion and litigation counsel. Seagate petitioned the Federal Circuit for relief from that discovery order, and the court accepted the case en banc to review not only the question of litigation waiver but also the underlying standard for willful infringement.

With respect to the litigation waiver, the court first rejected any suggestion that its *EchoStar* decision addressed waiver of the litigation counsel privilege. *In re Seagate*, 497 F.3d at 1370. Then, recognizing the significantly different functions performed by trial counsel and opinion counsel, the court held that any waiver associated with reliance upon an opinion of counsel should not result in waiver of the privilege as to independent litigation counsel. With that holding, the court confirmed that the attorney-client privilege for litigation counsel wasn't "broken." But then the court proceeded to "fix" the privilege by its further, vague suggestion in dictum that a party could nonetheless lose its attorney-client privilege with litigation counsel if the party or its counsel engages in "chicanery," Id. at 1375. The impact of that fix will likely necessitate still further corrective action by the Federal Circuit.

Waiver by chicanery

In its suggestion for this new doctrine of "waiver-by-chicanery," the *Seagate* court gave precious little guidance. Indeed, the court confined its entire discussion of this suggestion to only two sentences. It provided no explanation of the extent and type of "chicanery" that might result in a waiver of the litigation privilege. Nor did its isolated citation to *Jaffee v. Redmond*, 518 U.S. 1, 9 (1996), illuminate the parameters by which trial courts could evaluate conduct constituting "chicanery."

Indeed, the *Jaffee* case does not mention "chicanery" in any context. To the contrary, as the *Seagate* court earlier noted in its opinion, *Jaffee* provides substantial support for maintaining the litigation privilege inviolate. 497 F.3d at 1373. In *Jaffee*, the U.S. Supreme Court recognized a new privilege for psychotherapist-patient communications and rejected a balancing test that would vitiate the purpose of the privilege. Thus, *Jaffee* represents the Supreme Court's continued willingness to expand, not constrict, the number of recognized privileges and to reject back-door efforts to undermine them. One must struggle to find any support for an attack on the attorney-client privilege, the oldest and most fundamental of privileges, in *Jaffee*'s willingness to expand the number of testimonial privileges.

Certainly, courts have recognized their authority to vitiate the attorney-client privilege as to nonlitigation counsel and clients as a sanction. For example, the court, in *U.S. v. British American Tobacco (Investments) Ltd.*, 387 F.3d 884 (D.C. Cir. 2004), noted that "waiver of privilege is a serious sanction most suitable for cases of unjustified delay, inexcusable conduct, and bad faith." Id. at 891. Accord, e.g., *In re Teleglobe Communications Corp.*, 493 F.3d 345, 386 (3d Cir. 2007). However, in those and similar cases, the courts were considering the underlying privilege between the party and its nonlitigation counsel, not the privilege between the party and its trial counsel.

Possibility that waiver could apply to trial counsel caused a stir.

Nor does the term "chicanery" inherently provide definitive guidance. According to the *American Heritage Dictionary*, chicanery merely means "deception by trickery or sophistry." This degree of uncertainty is particularly unsettling to trial attorneys and clients alike and may chill open and candid communications between trial counsel and clients. And, read broadly, the *Seagate* court's waiver-by-chicanery suggestion may provide trial judges with an enormous amount of latitude in ordering waiver of privilege. So long as "unique circumstances" exist, a trial court may be free to impose this serious and chilling sanction.

Finally, another problematic aspect of this new waiver-by-chicanery suggestion is that waiver as a sanction can be predicated on actions of the attorney alone. In general, the attorney-client privilege belongs to the client and cannot be waived by unilateral actions of the trial counsel. Indeed, this view has been reaffirmed in the doctrine of inadvertent waiver. See, e.g., *Bank Brussels Lambert v. Credit (Lyonnais) Suisse S.A.*, 160 F.R.D. 437, 442-43 (S.D.N.Y. 1995). Yet the *Seagate* court's dictum clearly suggests that trial counsel's unilateral action could result in waiver of the litigation counsel privilege.

Some recommendations

The *Seagate* court's waiver-by-chicanery dictum may well meet the same early fate as the suggestion from the court's *EchoStar* footnote. Until then, counsel and litigants will need to consider their conduct in light of this new doctrine.

To begin with, accused infringers must remember that *Seagate*'s preservation of the attorney-client privilege applies only to "independent" trial counsel. Parties that use the same firm to provide both opinion and litigation counsel will likely risk the privilege. And, absent a future shortage of competent counsel, it is hard to justify the need to use the same firm for both roles.

Finally, if litigants see a surge in claims of waiver by chicanery, it will behoove them and counsel to separate claims directed to isolated events and documents from those that would justify a complete vitiation of the litigation privilege. Even under the most hardened of views, it is difficult to envision the circumstances that should result in a compulsory waiver of the litigation privilege. Finally, in the case of serious claims directed to counsel, chicanery may also require litigants to retain separate counsel to represent their interests in the challenge to the privilege.

While the *Seagate* opinion provided a long-awaited revision to the law of willful infringement, its effort to "fix" the unbroken law of litigation counsel privilege will likely inject a new degree of uncertainty into patent litigation. NLJ