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Trade-Offs in Defending **Willful** Infringement Charge

*When advice of counsel is asserted,
how far does waiver of attorney-client privilege go?*

BY IRAH H. DONNER

IN *In re Seagate Technology, LLC*,¹ the U.S. Court of Appeals for the Federal Circuit decided on Jan. 26, 2007, sua sponte to hear en banc the following questions relating to assertion of the advice-of-counsel defense to a charge of willful infringement:

- (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?
- (2) What is the effect of any such waiver on work-product immunity?
- (3) Given the impact of the statutory duty of care standard on the issue of waiver of attorney-client privilege, should this court reconsider the duty of care standard itself?

Before discussing the potential impact of *In re Seagate Technology, LLC*, a little background information is in order.

A patent opinion is a letter drafted by a registered patent attorney to an inventor or other entity who plans to make or use a given device or process. In the typical circumstance of a patent opinion, a party has a product or process that may possibly be infringing a previously filed patent. When the party becomes aware of the

prior patent, he or she should enlist patent counsel to analyze the party's product or process in light of this prior patent. Patent counsel may then render a written opinion in defense of the party's product or process, which states either that: (1) the party's product or process does not infringe the existing patent (a "noninfringement opinion") or (2) the prior patent is invalid and therefore is incapable of being infringed (an "invalidity opinion").

The primary purpose of a patent opinion for a proposed device or process is to provide sound legal advice and to document a party's good faith in making or using its device based on that advice. If a party makes or uses a device and that device is later found to infringe on an earlier patent, the court will consider whether the party's infringement was willful or nonwillful, or in bad faith or good faith.² The federal courts have held that patent opinions are highly relevant and material to a court's consideration of a party's willfulness and good faith,³ as well as in determining various other issues such as attorney's fees⁴ and multiplication of damages.⁵

In the early history of U.S. patent law, increased damages were imposed upon all patent infringers. Both the Patent Act of 1793 and the Patent Act of 1800 required mandatory treble damages for all patent infringements, regardless of whether the infringement was willful. Over time, however, this blanket approach to punishing patent infringement came to be seen as unfair, particularly to those who infringed "in ignorance or good

faith."⁶ The U.S. Supreme Court subsequently held that punitive damages were to be imposed upon willful infringers but not those infringing in good faith.⁷ This interpretation was later codified in the Patent Act of 1952 as 35 U.S.C. §284. With this new increase in damages for willful infringers, parties sought a way to protect themselves by documenting their good faith in filing patent applications. Beginning in 1952, patent opinions began to be introduced in federal courts as a defense to willful infringement.

In 1982 the U.S. Court of Appeals for the Federal Circuit was created. Within a year of its creation, the court decided a landmark case regarding patent opinions and willfulness that increased the importance of patent opinions and established an affirmative duty of care for potential infringers. In *Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc.*⁸ the court held that the duty of care requires a party "to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity," such as using a patented invention, preferably expressed in a written opinion. According to the Federal Circuit:

Where, as here, 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. Such an affirmative duty includes, inter alia, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.⁹

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Federal Circuit case law has continued to develop the duty of care concept and has arrived at a general standard, or test, for determining willfulness, stated as “whether a prudent person would have had sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated.”¹⁰ The Federal Circuit has clarified that this duty applies to the “totality of the circumstances” surrounding the infringement.¹¹ The factors to be weighed in the “totality of the circumstances” willfulness test are whether the infringer received a competent opinion,¹² whether there is a good faith belief on the part of the infringer that the patent is invalid or not infringed,¹³ whether the infringer had actual knowledge of an existing patent,¹⁴ whether the infringer made a good faith attempt to design around the patent,¹⁵ and whether the infringer’s behavior and tactics at trial are consistent with an overall finding of good faith.¹⁶

Although the presence or absence of a patent opinion is not dispositive in the willfulness determination,¹⁷ an opinion of counsel is the “normal” way for an infringer to show that it acted prudently.¹⁸ As a result, defendants often produce opinions of counsel during a patent litigation, effectively waiving the attorney-client privilege. The defendant that chooses to assert a defense to willful infringement based on the advice of counsel faces a difficult decision in regard to maintaining attorney-client privilege. By producing the opinion, the defendant waives the attorney-client privilege and, potentially, work-product immunity.¹⁹

Scope of Waiver

In *In re EchoStar Communications Corporation*,²⁰ the Federal Circuit attempted to clarify the uncertainty involved in asserting the advice-of-counsel defense, and held that when an alleged infringer asserts its advice-of-counsel defense regarding willful infringement of a particular patent, it waives its immunity for any document or opinion that embodies or discusses a communication to or from it concerning whether that patent is valid, enforceable, and infringed by the accused. This waiver of both the attorney-client privilege and the work-product immunity includes not only any letters, memorandum, conversation, or the like between the attorney and his or her client, but also includes, when appropriate, any documents referencing a communication between attorney and client.

The Federal Circuit observed that the general standard for determining the scope of a waiver of attorney-client privilege is that the waiver applies to all other communications relating to the same subject matter.²¹ The Federal Circuit

explained, “when EchoStar chose to rely on the advice of in-house counsel, it waived the attorney-client privilege with regard to any attorney-client communications relating to the same subject matter, including communications with counsel other than in-house counsel.”²²

EchoStar also asserted that the district court’s order cast too wide a net by including within the waiver’s scope documents that were never communicated from Merchant & Gould (the attorney) to EchoStar (the client). The Federal Circuit agreed, and recognized that the line between factual work product and opinion work product is not always distinct, especially when an attorney’s opinion may itself be factual work product. The Federal Circuit explained:

The Federal Circuit has agreed to hear en banc major issues regarding waiver of attorney-client privilege and duty of care in ‘In re Seagate Technology, LLC.’

we recognize at least three categories of work product that are potentially relevant to the advice-of-counsel defense here. They include: (1) documents that embody a communication between the attorney and client concerning the subject matter of the case, such as a traditional opinion letter; (2) documents analyzing the law, facts, trial strategy, and so forth that reflect the attorney’s mental impressions but were not given to the client; and (3) documents that discuss a communication between attorney and client concerning the subject matter of the case but are not themselves communications to or from the client. As to the first category, . . . when a party relies on the advice-of-counsel as a defense to willful infringement the party waives its attorney-client privilege for all communications between the attorney and client, including any documentary communications such as opinion letters and memoranda. . . . As to the other two categories, scholars have noted that our prior opinions do not clearly define the scope of the work-product waiver. . . . As we discuss in more detail below, we conclude that waiver extends to the third category but does not extend so far as the second.²³

By asserting the advice-of-counsel defense to a charge of willful infringement, the Federal Circuit

reasoned that the accused infringer and his or her attorney do not give their opponent unfettered discretion to rummage through all of their files and pillage all of their litigation strategies. Work-product waiver extends only so far as to inform the court of the infringer’s state of mind.²⁴

The second category of work product, which is never communicated to the client, is not discoverable. The Federal Circuit explained, if a legal opinion or mental impression was never communicated to the client, then it provides little if any assistance in determining whether the accused knew it was infringing, and any relative value is outweighed by the policies supporting the work-product doctrine.

The third category of work-product material falls somewhere between the first and second. According to the Federal Circuit, in some instances there may be documents in the attorney’s file that reference and/or describe a communication between the attorney and client, but were not themselves actually communicated to the client. The Federal Circuit, however, emphasized that such communications may contain work product of the second kind—legal analysis that was not communicated. In those situations, the parties should take special care to redact such information.

In sum, the Federal Circuit reasoned, the advice-of-counsel defense to willfulness requires the court to decide whether counsel’s opinion was thorough enough to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable.

Questions Left Open

In re EchoStar Communications Corporation left open at least the following questions:

1. Whether the waiver extends to all communications with any counsel on the subject of the opinion—even litigation counsel—when the accused infringer only attempted to rely upon in-house counsel’s investigation.
2. Whether the waiver extends to all defenses (noninfringement, validity, and unenforceability), even though the opinion itself (apparently) related only to noninfringement.
3. Whether the waiver extends to work product that was never communicated to the client.

District court decisions subsequent to *In re EchoStar Communications Corporation* have been inconsistent. For example, one district court limited the waiver of the attorney-client privilege to communications between the accused infringer

and its counsel directly related to the non-infringement analysis relied upon by the accused infringer, but did not extend it to the subject of invalidity, nor did it extend the privilege waiver to litigation counsel or communications post filing of the lawsuit.²⁵ On the other hand, another district court concluded that it was irrelevant whether trial counsel was the same person who gave the opinion, or even whether trial counsel was in the same firm as opinion counsel. The district court also explained that privilege had been waived with respect to pertinent communications and work product of all counsel in the case.²⁶

To provide some level of consistency and stability, the Federal Circuit has agreed to hear en banc major issues regarding waiver of attorney-client privilege and duty of care in *In re Seagate Technology, LLC*.²⁷ The Federal Circuit decided sua sponte to hear en banc 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, 78 USPQ2d 1676 (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, 219 USPQ 569 (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 Federal Circuit indicated that scheduling of oral argument, if any, would be resolved at a later date. To date, 20 amicus briefs have been filed, including 11 amicus briefs from legal organizations; five briefs from industry-related organizations; and four briefs from companies, including Microsoft, Apple, Dell and Intel.

The American Intellectual Property Law Association (AIPLA) argued in its amicus brief that the standards for finding willful infringement should be reserved for infringers guilty of truly "reprehensible" conduct. The willfulness determination, according to the AIPLA brief, should focus on subjective bad faith of accused infringers and apply the same criteria used for imposing punitive sanctions in other areas of tort law.

The Association of the Bar of the City of New York (New York City Bar) argued in its brief that producing an opinion of counsel to defend against a charge of willful infringement should not result

in an incursion into privileged communications between a party and its trial counsel, except to the extent that those communications concern the formulation of the opinion itself, or of an opinion on which the party chose not to rely. Moreover, uncommunicated work product of trial counsel should never be disclosed. The New York City Bar also argued that the duty of care standard should be modified to an analysis that focuses on the blameworthiness of the conduct of those who made and/or marketed the product that was later adjudged to infringe patent rights.

The American Bar Association (ABA) argued that the advice-of-counsel defense should not waive the attorney-client privilege with respect to communications with trial counsel so long as trial counsel is not the same counsel who provided the opinion upon which the accused infringer relies. In addition, the assertion of the advice-of-counsel defense should not waive work-product immunity for materials prepared by trial counsel so long as trial counsel is not the same counsel who provided the opinion upon which the accused infringer relies. In addition, the ABA argued that the affirmative duty of due care standard should be replaced with the standard of reprehensible conduct used in punitive damages cases.

The Federal Circuit Bar Association (FCBA) urged in its brief that the waiver of the attorney-client privilege with respect to advice of counsel obtained prior to or at the outset of litigation should not be automatically extended to the advice of counsel obtained during litigation. In addition, work-product records created by an attorney, for the benefit of the attorney, and not shown to the client, should not be subject to waiver of work-product immunity. Finally, the FCBA argued that the affirmative duty of care standard should be met by prudent conduct that is reasonable in the totality of the circumstances, which would depend on factors such as the content of the notice, the complexity of the patent and the technology, and the knowledge and sophistication of the entity receiving the notice.

With all these divergent views on whether the affirmative duty of care standard should be maintained, and the different recommendations for what standard should replace it, it will be interesting to see what happens at the Federal Circuit.



1. *In re Seagate Technology, LLC*, Miscellaneous Docket No. 830, 2007 WL 196403 (Fed. Cir. Jan. 26, 2007).

2. *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268, 277, 227 USPQ 352, 358 (Fed. Cir. 1985); *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 199, 228 USPQ 367, 368 (Fed. Cir. 1986).

3. See *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268, 277, 227 USPQ 352, 358 (Fed. Cir. 1985); *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 199, 228 USPQ 367, 368 (Fed. Cir. 1986).

4. "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. §285 (2000).

5. "[T]he court may increase the damages up to three times the amount found or assessed." 35 U.S.C. §284 (2004). A finding of willful infringement has been found to make the case exceptional under §285. See *Avia Group Int'l Inc. v. L.A. Gear Cal., Inc.*, 853 F.2d 1557, 1566, 7 USPQ2d 1548, 1555 (Fed. Cir. 1988); *Bott v. Four Star Corp.*, 807 F.2d 1567, 1574, 1 USPQ2d 1210, 1215 (Fed. Cir. 1986).

6. *Seymour v. McCormick*, 57 U.S. 480, 488 (1854).

7. See *Seymour v. McCormick*, 57 U.S. 480, 488 (1854).

8. *Underwater Devices Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380, 219 USPQ 569 (Fed. Cir. 1983).

9. *Underwater Devices Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380, 1389-90, 219 USPQ 569, 576 (Fed. Cir. 1983) (emphasis in original) (internal citations omitted).

10. *SRI Int'l, Inc. v. Advanced Tech. Lab., Inc.*, 127 F.3d 1462, 1465, 44 USPQ2d 1422, 1424 (Fed. Cir. 1997).

11. *Gustafson, Inc. v. Intersystems Indus. Prods.*, 897 F.2d 508, 510, 13 USPQ2d 1972, 1974 (Fed. Cir. 1990); *Johns Hopkins Univ. v. Cellpro, Inc.*, 152 F.3d 1342, 1362, 47 USPQ2d 1705, 1720 (Fed. Cir. 1998).

12. See *Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1428, 8 USPQ2d 1323, 1332 (Fed. Cir. 1988).

13. See *Radio Steel & Mfg. Co. v. MTD Prods.*, 788 F.2d 1554, 1558-59, 229 USPQ 431, 434 (Fed. Cir. 1986).

14. See *Power Lift, Inc. v. Lang Tools*, 774 F.2d 478, 482, 227 USPQ 435, 438 (Fed. Cir. 1985).

15. See *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1546-47, 3 USPQ2d 1412, 1418-19 (Fed. Cir. 1987).

16. See *Bott v. Four Star Corp.*, 807 F.2d 1567, 1572, 1 USPQ2d 1210, 1213 (Fed. Cir. 1986).

17. See *Hall v. Aqua Queen Mfg.*, 93 F.3d 1548, 1555, 39 USPQ2d 1925, 1930 (Fed. Cir. 1996); *Biotec Biologische Natorverpackungen GmbH & Co. v. Biocorp, Inc.*, 4 Fed. Appx. 815 (Fed. Cir. 2001).

18. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828-29, 23 USPQ2d 1426, 1437 (Fed. Cir. 1992).

19. See *Micron Separations, Inc. v. Pall Corp.*, 159 F.R.D. 361, 363-65 (D. Mass. 1995); *Michlin v. Canon, Inc.*, 208 F.R.D. 172, 173 (D. Mass. 2002).

20. *In re EchoStar Communications Corporation*, 448 F.3d 1294, 78 USPQ2d 1676 (Fed. Cir. 2006) (Unpublished), cert. denied, 127 S.Ct. 846 (2006).

21. *Id.*, 78 USPQ2d at 1679.

22. *Id.*, 78 USPQ2d at 1679.

23. *Id.*, 78 USPQ2d at 1682.

24. *Id.*, 78 USPQ2d at 1682.

25. *Indiana Mills & Manufacturing, Inc. v. Dorel Industries, Inc.*, Civil Action No. 1:04CV01102-LJM-WTL, 2006 WL 1749413 (S.D. Ind. May 26, 2006).

26. *Informatica Corp. v. Bus. Objects Data Integration, Inc.*, Civil Action No. C 02-3378 JSW (JL), 454 F.Supp. 957, 2006 WL 2038461 (N.D. Cal. July 14, 2006).

27. *In re Seagate Technology, LLC*, Miscellaneous Docket No. 830, 2007 WL 196403 (Fed. Cir. Jan. 26, 2007).