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# INTELLECTUAL PROPERTY

## KNORR-BREMSE: AN OPPORTUNITY TO MODIFY THE OPINION OF COUNSEL DEFENSE IN PATENT LAW

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It is not uncommon for one's client to learn that another's patent might implicate its product or process. This knowledge, under current patent law, triggers a duty to exercise due care to avoid patent infringement. Failure to exercise the requisite due care can be disastrous: if one is found to have infringed the patent, that infringement may be deemed willful and the patent owner may be awarded treble damages.

To rebut a charge of willful infringement, the accused infringer must demonstrate that – under the given circumstances – it satisfactorily discharged its affirmative duty of exercising due care to avoid infringing the asserted patent.<sup>1</sup> The U.S. Court of Appeals for the Federal Circuit (hereinafter Federal Circuit) has suggested that advice of counsel, usually in the form of a written opinion letter,<sup>2</sup> is necessary to rebut a charge of willful infringement.<sup>3</sup> In fact, not only must the infringer obtain and rely on an opinion of counsel, the Federal Circuit has suggested that it must produce its opinion letter to the adversary.<sup>4</sup> Worse yet, reliance on counsel's opinion as a defense to willful infringement results in a waiver of attorney-client privilege and work product immunity with respect to all privileged communications relating to the asserted patent, sometimes including advice and strategy of trial counsel.<sup>5</sup>

Patent law is peculiar in this regard. In most other areas of law, there is rarely a duty to seek opinion of counsel prior to an actual litigation. Where one does obtain advice of counsel, there is no requirement that it be produced to the adversary in litigation,<sup>6</sup> unless the advice of counsel is voluntarily put at issue. To address this conflict, the Federal Circuit has granted *en banc* review in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*<sup>7</sup>

### Brief Overview of the Current Law

Under current patent law, federal district courts are permitted to “increase the damages [resulting from patent infringement] up to three times the amount found or assessed.”<sup>8</sup> Willful infringement is one basis for increasing damages.<sup>9</sup> Patent infringement is willful if, at the time of the infringing activity, the accused infringer had no reasonable basis for believing that it had a right to practice the patented invention.<sup>10</sup> The basic test is “whether, under all the circumstances, a reasonable person would prudently conduct himself with any confidence that a court might hold the patent invalid or not infringed.”<sup>11</sup>

The Federal Circuit has enunciated a number of fac-

tors to evaluate whether an infringement is willful.<sup>12</sup> These factors include, *inter alia*, deliberate copying by the accused infringer, infringer's investigation and good-faith belief of invalidity or non-infringement, litigation conduct by the accused infringer, duration of the infringer's misconduct, the extent of any remedial actions taken by the infringer, infringer's motivation for harm, and the infringer's attempt to conceal its misconduct.<sup>13</sup> Despite these factors, courts often concentrate on whether the accused infringer exercised due care “by seeking the advice of competent and objective counsel, and receiving exculpatory advice.”<sup>14</sup> Generally, the exculpatory opinion must establish that either the issued patent is invalid or unenforceable, or the product or process at issue is non-infringing. While the Federal Circuit has noted that it is not necessary to rely solely on an opinion letter to show good faith in practicing the claimed invention,<sup>15</sup> the court's pronouncements have, nevertheless, created an impression that such an opinion letter is very important.<sup>16</sup>

One must obtain and rely on an exculpatory opinion letter blessing the use of the product or process at issue. And, this opinion letter must be produced to the adversary if there is a patent infringement litigation involving that patent. The Federal Circuit has noted that a failure to produce the opinion letter may result in a negative inference:

Where the infringer fails to introduce an exculpatory opinion of counsel at trial, a court must be free to infer that either no opinion was obtained or, if an opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention.<sup>17</sup>

To preempt the negative inference, the accused infringer must assert an advice of counsel defense and produce an exculpatory opinion letter to its adversary. This, however, waives attorney-client privilege and work product immunity with respect to the opinion and other related communications.<sup>18</sup> The waiver may involve all privileged information related to the opinion – not just the opinion letter.<sup>19</sup> For example, courts have found a waiver to include communications relating to unasserted (but related) patents,<sup>20</sup> as well as to all defenses for which the accused infringer sought to rely on advice of counsel.<sup>21</sup> In some cases, the scope of the waiver has extended to any and all conversations between the infringer and its counsel.<sup>22</sup>

Not only can one end up waiving attorney-client privilege, but also work product immunity by relying on an advice of counsel defense. While some courts have held that work product protection is waived only with respect to work product communicated to the client,<sup>23</sup> others have gone further and held that the protection is waived for *all* work product – regardless of whether it is communicated to the client.<sup>24</sup>

In many cases, courts find a waiver of immunity over trial counsel's – not just opinion counsel's – communications with the accused infringer, and require that work product shared with the client be produced to the other side, if it is inconsistent with the opinion.<sup>25</sup> Some courts have gone further and held that *all* attorney work product from the trial counsel must be produced to the other side.<sup>26</sup>

### Problems with the Current Law

The current Federal Circuit law on willful infringement is most problematic because it requires an exculpatory opinion of counsel upon learning of another's patent that could potentially cover its product or process. Such a coerced duty to obtain an opinion of counsel appears to ignore economic realities. For example, a business may have legitimate reasons for not seeking an opinion of counsel, such as when the business' (non-legal) staff genuinely makes a determination that an existing patent does not cover the product or operative process at issue. Alternately, a business may not have expendable resources to seek advice of counsel every time a patentee provides notice of a patent that may be related to its line of business.<sup>27</sup> Of course, forcing businesses to seek opinion letters every time they receive notice of an issued patent adds costs, sometimes unnecessarily, which are ultimately passed on to the consumers, resulting in market inefficiency.

One's predicament does not end with seeking advice of counsel. Should the accused infringer be hauled into court for patent infringement, it must face a Hobson's choice regarding claiming an advice of counsel defense: either rely on advice of counsel and waive attorney-client privilege as well as work product immunity, or not rely on advice of counsel but face a negative inference. The Federal Circuit has recognized this quandary:

[A]n accused infringer...must choose between the lawful assertion of the attorney-client privilege and avoidance of a willfulness finding if infringement is found...An accused infringer [may] be forced to choose between waiving the privilege in order to protect itself from a willfulness finding, in which case it may risk prejudicing itself on the question of liability, and maintaining the privilege, in which case it may risk being found to be a willful infringer if liability is found.<sup>28</sup>

The waivers required by those asserting the advice of counsel defense are quite expansive, and often cover confidential documents relating to litigation strategies.<sup>29</sup> In such instances, damage suffered by the waiver of attorney-client privilege and work product immunity is severe – not just to the accused infringer but to the legal system:

In performing his various duties,...it is essential that a lawyer work with a certain degree of privacy, free from unnecessary intrusion by opposing parties and their counsel. Proper preparation of a client's case demands that he assemble information, sift what he considers to be the relevant from the irrelevant facts, prepare his legal theories and plan his strategy without undue and needless interference. That is the historical and the necessary way in which lawyers act within the framework of our system of jurisprudence to promote justice and to protect their clients' interests. This work is reflected, of course, in interviews, statements, memoranda, correspondence, briefs, mental impressions, personal beliefs, and countless other tangible and intangible ways – aptly though roughly termed by the Circuit Court of Appeals in this case as the “work product of the lawyer.” Were such materials open to opposing counsel on mere demand, much of what is now put down in writing would remain unwritten. An attorney's thoughts, heretofore inviolate, would not be his own. Inefficiency, unfairness and sharp practices would inevitably develop in the giving of legal advice and in the preparation of cases for trial. The effect on the legal profession would be demoralizing. And the interests of the clients and the cause of justice would be poorly served.<sup>30</sup>

Attorney-client privilege is “one of the pillars that supports the edifice that is our adversary system”<sup>31</sup> by encouraging clients to seek legal counsel without fearing public disclosure. Similarly, work product doctrine is another pillar supporting our adversary system, because “[a]bsent such protection, attorneys would fear their work product will be used against their clients, and may become overly circumspect in preparing for litigation thereby reducing their effectiveness as advocates.”<sup>32</sup> Clearly, any rule that collides with attorney-client privilege or work product doctrine is antithetical to the American legal system, and must be restrained.

### Conclusion

As a result of the current Federal Circuit law on the advice of counsel defense, an accused infringer must choose between either relying on an exculpatory opinion letter to protect itself from a charge of willfulness but waive attorney-client privilege and work product immunity, or suffer a negative inference while retaining attor-

ney-client privilege and work product immunity. In light of the importance given to an exculpatory opinion letter in fighting a charge of willful infringement, the two choices available to the accused infringer really amount to either effectively waiving its defense against a charge of willfulness – not just suffering a negative inference – or waiving its attorney-client privilege and work product immunity.

The Federal Circuit should make the advice of counsel defense optional in rebutting a charge of willfulness. Failure to obtain or disclose the opinion of counsel to the adversary should not result in an adverse inference. If, however, the accused infringer chooses to rely on the advice of counsel defense for rebutting a charge of willfulness, then it must disclose that opinion as well as waive attorney-client privilege and work product immunity over the subject matter of the opinion.<sup>33</sup> This change would conform the Federal Circuit law on the advice of counsel defense with that of the other circuits' laws on this defense.

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## Footnotes

<sup>1</sup> See *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1351 (Fed. Cir. 2001).

<sup>2</sup> See *Minnesota Min. and Mfg. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992) (noting that defendant had no reasonable basis to rely on oral opinion because it was oral and not objective, and because oral opinions “carry less weight, for example, because they have to be proved perhaps years after the event, based only on testimony which may be affected by faded memories and the forces of contemporaneous litigation.”).

<sup>3</sup> See *Vulcan Eng'g Co., Inc. v. FATA Aluminum, Inc.*, 278 F.3d 1366, 1378 (Fed. Cir. 2002) (“The tort of willful infringement arises upon deliberate disregard for the property rights of the patentee. Thus the focus is generally on whether the infringer exercised due care to avoid infringement, usually by seeking the advice of competent and objective counsel, and receiving exculpatory advice.”).

<sup>4</sup> See *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988).

<sup>5</sup> See *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643-44 (Fed. Cir. 1991).

<sup>6</sup> See *Rudy-Glanzer ex rel Doe v. Glanzer*, 232 F.3d 1258, 1265 (9th Cir. 2000); see also *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 225-26 (2d Cir. 1999); *Lucent Information Management, Inc. v. Lucent Technologies, Inc.*, 186 F.3d 311, 318 (3rd Cir. 1999); *In re Tudor Assocs., Ltd., II*, 20 F.3d 115, 120 (4th Cir. 1994); *Parker v. Prudential Ins. Co.*, 900 F.2d 772, 775 (4th Cir. 1990).

<sup>7</sup> 344 F.3d 1336 (Fed. Cir. 2003).

<sup>8</sup> 35 U.S.C. § 284.

<sup>9</sup> See, e.g., *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1581-82 (Fed. Cir. 1989).

<sup>10</sup> See *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1665 (Fed. Cir. 1983).

<sup>11</sup> *State Indus.*, 883 F.2d at 1581 (citation omitted).

<sup>12</sup> *Read Corp. v. Portec Inc.*, 970 F.2d 816, 826-28 (Fed. Cir. 1992).

<sup>13</sup> *Id.* at 826-27.

<sup>14</sup> *Vulcan*, 278 F.3d at 1378.

<sup>15</sup> See *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1579 (Fed. Cir. 1986) (“[N]ot every failure to seek an opinion of competent counsel will mandate an ultimate finding of willfulness.”).

<sup>16</sup> See *Spindelfabrik Suessen-Schurr Stahlecker & Grill, GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1084 (Fed. Cir. 1987) (noting that “affirmative duty [to exercise due care] will normally entail the obtaining of competent legal advice before engaging in any potentially infringing activity or continuing such activity”); see also *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-1390 (Fed. Cir. 1983) (“[A]n affirmative duty [to exercise due care] includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.”).

<sup>17</sup> *Fromson*, 853 F.2d at 1572-73.

<sup>18</sup> See *Quantum*, 940 F.2d at 643-44 (discussing waiver of attorney-client privilege stemming from assertion of an opinion of counsel defense).

<sup>19</sup> See *Chiron Corp. v. Genentech, Inc.*, 179 F. Supp. 2d 1182, 1187 (E.D. Cal. 2001); *Thorn EMI N. Am. v. Micron Tech., Inc.*, 837 F. Supp. 616, 621 (D. Del. 1993).

<sup>20</sup> See *Steelcase Inc. v. Haworth, Inc.*, 954 F. Supp. 1195, 1200 (W.D. Mich. 1997).

<sup>21</sup> See *id.* at 1198 (“[A] defendant asserting an advice-of-counsel defense must be deemed to have waived the privilege as to all communications between counsel and client concerning the subject matter of the opinion.”).

<sup>22</sup> See *Novartis Pharms. Corp. v. Eon Labs Mfg., Inc.*, 206 F.R.D. 396, 399 (D. Del. 2002) (holding that the waiver of the attorney-client privilege applies “broadly to any and all materials available to the attorneys rendering the legal advice.”); *Mushroom Associates v. Monterey Mushrooms, Inc.*, 24 U.S.P.Q.2d 1767, 1770-71 (N.D. Cal. 1992) (holding the attorney-client privilege waived with respect to all documents pertaining to the patent in suit and requiring production of all documents containing work product relevant to the infringement issue, whether or not communicated to client).

<sup>23</sup> See, e.g., *Nitinol Medical Technologies, Inc. v. AGA Medical Corp.*, 135 F. Supp. 2d 212, 218 (D. Mass. 2000); *Micron Separations, Inc. v. Pall Corp.*, 159 F.R.D. 361, 363-64 (D. Mass. 1995); *Thorn EMI*, 837 F. Supp. at 621-22.

<sup>24</sup> See *Novartis*, 206 F.R.D. 396; see also *Dunhall Pharmaceuticals, Inc. v. Discus Dental, Inc.*, 994 F. Supp. 1202, 1209 n.3 (C.D. Cal. 1998) (waiver of all work product that “refer[s] or reflect[s] ... rejection or intentional disregard of the original opinion, including but not limited to contrary opinions from different counsel.”); *Kelsey-Hayes Co. v. Motor Wheel Corp.*, 155 F.R.D. 170, 172 (W.D. Mich. 1991) (requiring that infringer produce any attorney opinions that “support, contradict or weaken” the relied upon opinion, and any other evidence that would go to the defendant’s “good faith reliance” on the opinion); *Mushroom Associates*, 24 U.S.P.Q.2d at 1770-71.

<sup>25</sup> *Beneficial Franchise Co., Inc. v. Bank One, N.A.*, 205 F.R.D. 212, 218 (N.D. Ill. 2001) (holding that attorney work product that casts doubt or contradicts attorney opinions can be accessed “even if prepared by trial counsel after suit was commenced.”); see also *Micron Separations*, 159 F.R.D. at 364.

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<sup>26</sup> See *Akeva L.L.C. v. Mizuno Corp.*, 243 F. Supp. 2d 418, 424-25 (M.D.N.C. 2003).

<sup>27</sup> This problem is not an abstract hypothetical situation. Large corporations often receive letters from patentees advising them of issued patents. Such notices require them to seek opinion of counsel. Though an opinion letter may not always be necessary, since some of the issued patents may not implicate their business, a company must play it safe and get advice of counsel. Because a written opinion of counsel can be expensive, see Matthew D. Powers & Steven C. Carlson, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 SYR. L. REV. 53, 102 (2001), the corporation's legal costs in obtaining opinion letters may be quite high.

<sup>28</sup> *Quantum*, 940 F.2d at 643-44.

<sup>29</sup> See *Hickman v. Taylor*, 329 U.S. 495, 510-11 (1947).

<sup>30</sup> See *id.*; see also *Hunt v. Blackburn*, 128 U.S. 464, 470 (1888) ("The rule which places the seal of secrecy upon communications between client and attorney is founded upon the necessity, in the interest and administration of justice, of the aid of persons having knowledge of the law and skilled in its practice, which assistance can only be safely and readily availed of when free from the consequences or the apprehension of disclosure."); *Parker*, 900 F.2d at 775 ("An individual in a free society should be encouraged to consult with his attorney whose function is to counsel and advise him and he should be free from apprehension of compelled disclosures by his legal advisor. To protect that interest, a client asserting the privilege should not face a negative inference about the substance of the information sought").

<sup>31</sup> *In re Ford Motor Co.*, 110 F.3d 954, 962 (3d Cir. 1997).

<sup>32</sup> *Id.* (citations omitted).

<sup>33</sup> See *Baker v. General Motors Corp.*, 209 F.3d 1051, 1055 (8th Cir. 2000) (noting that there is a privilege waiver "when a client uses reliance on legal advice as a defense."); see also *Livingstone v. North Belle Vernon Borough*, 91 F.3d 515, 537 (3d Cir. 1996) (assertion of defense directly implicating advice of counsel waives attorney-client privilege as to that issue); *Rhone-Poulenc Rorer, Inc. v. Home Indem. Co.*, 32 F.3d 851, 863 (3d Cir. 1994) ("There is authority for the proposition that a party can waive the attorney-client privilege by asserting claims or defenses that put his or her attorney's advice in issue in the litigation."); *Panter v. Marshall Field & Co.*, 80 F.R.D. 718, 721 (N.D. Ill. 1978) ("Where ... a party asserts as an essential element of his defense reliance upon the advice of counsel, we believe the party waives the attorney-client privilege with respect to all communications, whether written or oral, to or from counsel concerning the transactions for which counsel's advice was sought.").