Standard Patent Defense Jeopardizes Attorney-Client Privilege

By Charles Barquist and Alison Tucher

Suppose your company learns of a patent that claims as its invention something your products may already do. Perhaps the patent arrives on your desk accompanied by a demand letter from the patent holder's lawyer, accusing you of infringement. What do you do?

Conventional practice calls for hiring a patent lawyer to prepare a formal opinion advising whether you are infringing the patent, or whether the patent is valid. You will need this letter, not so much to assess the chances of being successfully sued, but to provide your company cover against an allegation that if it has infringed, the infringement has been willful.

Willfulness is an important issue in patent litigation because where infringement has been willful, damages may be trebled. With so much money at stake, more than 90 percent of all patent cases include an allegation of willfulness. Moreover, liberal pleading standards make it easy for a plaintiff to allege willfulness, and the factual nature of the claim makes it difficult to resolve by motion before trial. Thus, it is commonplace for patent defendants to find themselves producing an exculpatory letter they have commissioned from outside opinion counsel in pre-trial discovery.

Problems arise as a result of what happens next. Courts have long held that by relying on the advice of counsel and producing an opinion letter to rebut allegations that infringement was willful, a company waives the attorney-client privilege as to the subject matter of that advice.

The exact scope of that waiver, however, has been hotly debated. Recently, some district courts have held that the waiver extends to communications with trial counsel. This means that a party defending against allegations that it willfully infringes a patent may have to expose the conversations it has with its trial lawyers.

Spurred by this prospect, the Federal Circuit – the court that hears all patent appeals – recently indicated its intent to revisit this area of the law. Regardless of how it decides the pending case – In re Seagate Technology, LLC – the Federal Circuit's decision will have a significant impact on patent litigation.

COSTLY MISTAKE

Since the early 1980s, the law has imposed an affirmative duty on companies that learn of another company's patent to exercise "due

care" to determine whether or not it is infringing the patent. This duty of due care generally requires obtaining competent legal advice before engaging in any potentially infringing activity. If a product accused of infringement is already on the market, a company is well-advised to seek an opinion immediately. Informed by technically competent employees at the company, an outside patent attorney can assess whether the accused product infringes the patent and the patent is valid.

Commissioning such an opinion promptly and having reputable counsel prepare it carefully can avoid treble damages and an award of attorneys' fees. But procuring these opinions for every patent that warrants a second look can also be expensive. Depending on the complexity of the technology and the prosecution history of the patent, an opinion may cost $20,000, up to $100,000 or more.

Litigants have learned over the last couple of decades another difficulty inherent in this approach. Under current law, the consequence of defending against allegations of willful infringement by disclosing the opinion may be that a litigant has waived the attorney-client privilege protecting its communications with trial counsel on the issues at the heart of the litigation. That was the holding of the district court in In re Seagate Technology.

There is a certain logic that leads to this unfortunate conclusion. As a practical matter a party that learns of a patent must seek legal advice about whether it is infringing. But the only way to show that you have met this obligation is to produce the letter from patent counsel. Producing the letter, in turn, acts to waive the attorney-client privilege that otherwise would allow keeping the letter confidential.

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One of the oldest privileges recognized in the law, the attorney-client privilege prevents your adversaries from learning what you tell your lawyer, and what your lawyer tells you, about the issues in your case.

The privilege is vital to the legal system because it enables both attorney and client to be frank. But under long-standing legal principles, a party cannot use the attorney-client privilege as both a sword and a shield. Once a party discloses the advice of counsel, for example by producing an exculpatory opinion upon which it has relied, it has used the privilege as a sword. It cannot then shield, or refuse to disclose, other privileged communications on the same subject matter with the same or other lawyers.

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If the law requires a waiver broad enough to reach communications with trial counsel, the result seriously undermines the ability of parties accused of willful infringement to defend their cases. Disclosed communications would undoubtedly reveal counsel's thought processes and litigation strategy. Discovery might not be limited to questioning the accused infringer, but could extend to depositions of trial counsel as well. Defense lawyers in a patent infringement case involving the advice of counsel could even face the prospect that they would be called as a witness at trial.

If trial lawyers start becoming witnesses and have to defend discovery motions directed at their own files, it will drive a wedge between attorney and client, thus fracturing a relationship at the core of the judicial system. An accused infringer and its counsel would both be reluctant to share strategy or concerns with each other. That would impact an accused infringer's ability to participate in its own representation.

Repelled by this notion, there are district courts that have refused to extend waiver of the attorney-client privilege to trial counsel. But the fact that different trial courts take different approaches to determining the scope of the waiver causes a different set of problems.

First, patent defendants must usually decide whether to produce in discovery an opinion of counsel before they know how broadly a particular judge will construe the waiver. Making the decision in the face of such uncertainty requires that litigants plan for the worst. Second, because the rules are not fixed, expensive satellite litigation over privilege issues ensues,

distracting counsel and diverting resources from the central question of whether a valid patent has been infringed.

POSSIBLE RESOLUTION

The Federal Circuit's decision in Seagate may help eliminate the current uncertainty in the law. The Court has expressed its intention to address three questions: (1) whether a party relying on the advice of counsel waives the attorney-client privilege as it to its communications with trial counsel; (2) if the attorney-client privilege is waived, what effect that has on the discoverability of counsel's work product; and (3) whether the all lawyers on the same subject matter. The Federal Circuit could affirm the trial court in Seagate, reasoning that this principle compels disclosure of communications with trial counsel. We think that the Federal Circuit recognizes the problems inherent in this outcome, and therefore believe it is the less likely of the two, except if it occurs in concert with a new rule on the duty to exercise due care and consult counsel.

In deciding Seagate, the Federal Circuit may overturn its precedent from the early 1980s imposing an affirmative duty of due care, including the duty to consult competent counsel about

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Court should reconsider the twenty-four-year-old precedent that imposes the affirmative duty of due care in the first place.

With these issues at stake, the decision will be important no matter how it turns out. One possible outcome would build on recent Federal Circuit case law protecting from discovery the work product of opinion counsel to the extent those papers reveal trial strategy. In deciding Seagate, the Federal Circuit could use this principle to draw a bright line around the client's communications with trial counsel. The court could protect all such communications on the grounds that they inherently involve trial strategy.

A different outcome might expand on another theme – that disclosing communications with one lawyer waives the privilege protecting communications with any patent that may be infringed. We hope the Federal Circuit will take this step. The current duty to seek the advice of counsel and the concomitant pressure to disclose it is an anomaly in the patent law.

Abolishing this duty would not do away with the practice of companies hiring patent attorneys to evaluate potentially troublesome patents. But it could return opinion counsel to the task of providing nuanced risk assessments and frank advice, rather than opinions designed primarily for litigation purposes.

We also hope that a decision in Seagate will provide clarity in an area where the district courts have taken widely divergent approaches. A well-crafted decision could curb unnecessary litigation over peripheral privilege issues by resolving the uncertainty regarding the scope of the waiver of the attorney-client privilege, thus returning attention to the central question of whether a valid patent is infringed.

The decision could also lift the cloud that threatens to inhibit open communication between a party accused of willful patent infringement and its trial counsel.

Stay tuned.. Briefing in Seagate is scheduled to be completed later in May, so an opinion could be announced this summer or fall.

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The authors wrote an amicus brief urging the Federal Circuit to hear In re Seagate.