

In re EchoStar: The Federal Circuit Clarifies the Law Regarding Waiver of Attorney-Client and Work-Product Privileges in the Context of an Advice-of-Counsel Defense to an Allegation of Willful Infringement

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Until recently, a party accused of willful patent infringement that wanted to rely on an exculpatory opinion of counsel had to take its chances on whether producing the opinion would expose to discovery all of opinion counsel's workproduct. District courts have consistently held that when a party produces an opinion of counsel, it waives the attorney-client privilege as to other communications with counsel on the same subject matter. But they have been sharply divided over whether the waiver reaches opinion counsel's workproduct not communicated to the client — internal drafts, notes, and memoranda that the client itself had never seen.

On May 1, 2006, the Federal Circuit resolved this division in the district courts, granting writs sought by EchoStar Communications Corporation and its opinion counsel, Merchant & Gould P.C., to prevent discovery of uncommunicated workproduct. The Federal Circuit directed the district court to vacate orders compelling production of opinion counsel's workproduct, except to the extent the documents had been communicated to the client or referred to communications with the client. Otherwise, the Court held, the internal notes, drafts, and memoranda containing counsel's opinions and impressions are not discoverable.

In a footnote, the Federal Circuit also held that waiver of the attorney-client privilege extends to advice given after litigation begins. Although the case before the Court did not involve any attempt to discover trial counsel's communications with the client, this language cautions litigation counsel to be careful in communicating regarding its assessment of validity, enforceability and infringement, at least in cases where the client may choose to rely on an opinion of counsel.

BACKGROUND

TiVo sued EchoStar in the U.S. District Court for the Eastern District of Texas, asserting willful infringement of a patent for a multimedia timewarping system. EchoStar defended on the grounds that, before the litigation, EchoStar's in-house counsel and a team of engineers found that the patent was not infringed. After TiVo filed its complaint, EchoStar obtained a non-infringement opinion from the law firm Merchant & Gould P.C., but elected to rely on its in-house advice rather than waive the attorney-client privilege with regard to the advice of outside opinion counsel.

Believing EchoStar was not entitled to draw this line, TiVo brought a motion to compel production of documents in the possession of EchoStar or Merchant & Gould relating to Merchant & Gould's opinion work. Judge David Folsom granted the motion, and EchoStar produced two opinion letters from Merchant & Gould and all of its other communications with the law firm. It did not produce Merchant & Gould's workproduct related to the opinions. The district court then held that EchoStar was obligated to produce all of Merchant & Gould's workproduct related to the opinions, regardless of whether the documents or their contents were ever communicated to EchoStar. The district court reasoned that such documents could be relevant, or could lead to the discovery of admissible evidence, because they might contain information that was communicated to EchoStar. Seeking to protect the workproduct it had never received, EchoStar filed a writ petition in the Federal Circuit. Because its workproduct documents were at issue, Merchant & Gould moved to intervene in EchoStar's petition and also filed its own writ petition.

THE FEDERAL CIRCUIT OPINION

The Federal Circuit first determined that a writ of mandamus was appropriate because the challenged order related to a question of privilege. It then held that

Federal Circuit law applied to the issues presented in the petition. The Court reasoned that willfulness is provided for by the Patent Act, so that questions of privilege and discoverability that arise from the advice-of-counsel defense "necessarily involve issues of substantive patent law."

The Federal Circuit then addressed the major substantive issue: workproduct. The district court had acknowledged the lower court split over whether the waiver of workproduct protection covered workproduct not disclosed to the client." It had joined those courts holding that uncommunicated workproduct was discoverable because "accused infringers could easily shield themselves from disclosing any unfavorable analysis by simply requesting that their opinion counsel not send it," which it thought would be unfair. The Federal Circuit disagreed.

The Court first surveyed the differences between the attorney-client privilege and the workproduct doctrine, observing that waiver of one does not necessarily waive the other. The Court noted that the attorney-client privilege can be waived when a party asserts an advice of counsel defense, and that to avoid a party using the privilege as both a "sword and a shield" such waivers encompass all communications regarding the same subject matter.

Although the workproduct doctrine is animated by different considerations, it too can be waived. "However, work product waiver is not a broad waiver of all work product related to the same subject matter like the attorney-client privilege." Rather, workproduct waiver extends only to "factual" or "non-opinion" workproduct concerning the same subject matter as the disclosed workproduct, a line the Court recognized was "not always distinct." Courts have traditionally provided "nearly absolute immunity" to "opinion" workproduct, allowing it to "be discovered only in very rare and extraordinary circumstances."² In the willfulness context, the line between "factual" and "opinion" workproduct is particularly indistinct, as an infringer's reliance on a competent "opinion" of counsel is a "fact" in ascertaining the infringer's state of mind. The Court concluded that in deciding where the line between "factual" and "opinion" workproduct lies, "a district court should balance the policies to prevent sword-and-

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shield litigation tactics with the policy to protect work product."

The Court then provided clear guidance to lower courts undertaking that balancing. It identified "at least three categories of work-product" as potentially relevant to the analysis:

(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.

The court acknowledged that not "all work product in every case will fit into one of these three categories."³ Documents in the first and third categories are discoverable, the Court held, but documents in the second category are not.

COMMUNICATED WORK-PRODUCT IS DISCOVERABLE.

Documents in the Court's first category of work-product — those exchanged between attorney and client — are discoverable whenever the attorney-client privilege has been waived because

communications with the client may shed light on the alleged infringer's state of mind.⁴ Here, the Court held that EchoStar waived the attorney-client privilege when it relied on its in-house analysis of the TiVo patent because, although the distinction between in-house and outside counsel may impact the strength the advice of counsel defense, it does not affect the legal nature of the advice. The Court relied on "the widely applied standard for determining the scope of a waiver of attorney-client privilege," to conclude that EchoStar waived the privilege with respect to communications with Merchant & Gould "relating to the same subject matter."

In a footnote, the Court rejected EchoStar's argument that the waiver does not extend to attorney-client communications *after* the litigation began. Those communications remain discoverable, as long as "ongoing willful infringement is at issue in the litigation."

UNCOMMUNICATED WORK-PRODUCT IS GENERALLY NOT DISCOVERABLE.

Documents in the Court's second category of work-product — those reflecting the attorney's mental impressions that were not given to the client — are not discoverable, except to the extent the documents also fit into the Court's third category. "By asserting the advice-of-counsel defense to a charge of willful infringement, the accused infringer and his or her attorney do not give

their opponent unfettered discretion to rummage through all of their files and pilage all of their litigation strategies." Rather, the waiver extends only as far as to inform the court of the infringer's state of mind — it is what the alleged infringer knew, not what "counsel may have prepared but did not communicate to the client."

The overarching goal, according to the Court, is to prevent a party from using advice as both a sword and a shield, selectively waiving only favorable advice. Thus, upon waiver, an accused infringer must produce the opinion letters and memoranda it receives, but not outside counsel's own analysis and internal debate over what advice will be given. The Court reasoned:

if a legal opinion or mental impression was never communicated to the client, then it provides little if any assistance to the court in determining whether the accused knew it was infringing, and any relative value is outweighed by the policies supporting the work-product doctrine.⁵

Mental impressions not communicated to the client do not acquire "factual characteristics," and thus do not lose the nearly absolute protection afforded opinion work-product.⁶

In holding that uncommunicated workproduct is generally not discoverable, the Federal Circuit reached the same conclusion that the Fifth and Eleventh Circuits

have — in contexts other than patent willfulness — that reliance on an advice-of-counsel defense does not waive the immunity protecting outside counsel’s uncommunicated work-product.⁷ The Federal Circuit, however, went on to create an exception to this general rule.

UNCOMMUNICATED WORK-PRODUCT REFERENCING CLIENT COMMUNICATIONS IS DISCOVERABLE.

On the third category of work-product material — documents that discuss a communication with the client but are not themselves a communication — the court crafted an exception to the rule protecting uncommunicated workproduct. Observing that category three “falls admittedly somewhere interstitially between the first and second” categories, the Court held that documents referencing a specific communication with a client are discoverable. “Though it is not a communication to the client directly nor does it contain a substantive reference to what was communicated, it will aid the parties in determining what communications were made to the client and protect against intentional or unintentional withholding of attorney-client communications from the court.” However, because these documents may contain opinion workproduct that retains the vigorous protection of category two, the parties should take special care to redact such information or, if necessary, the district court may conduct an *in camera* review.

The Court rejected TiVo’s argument that uncommunicated work-product should be discoverable because otherwise parties might communicate a draft opinion letter or its contents confidentially in order to avoid disclosing the communication during potential discovery. The Federal Circuit stated that it would not “eviscerate the legitimate policies of the work-product doctrine and chill the principles of our adversary system as a whole on account of the possibility that, from time to time, there may be occurrences of ethical transgressions.”

Because the district court had ordered EchoStar to produce all uncommunicated workproduct without first determining whether the documents reference any communication between Merchant & Gould and EchoStar, the Federal Circuit determined that the district court had abused its

discretion. The Federal Circuit granted the writ and vacated the district court’s orders.

CONCLUSION

This opinion is the first from the Federal Circuit to analyze the scope of the waiver of the attorney-client privilege and the attorney work-product doctrine in cases where an accused infringer relies on an advice of counsel defense to an allegation of willful infringement. The decision resolves a clear split within the district courts regarding the discoverability of uncommunicated work-product, and its three-part categorization of work-product documents is a new analytical framework.

Because cases on this subject matter are rare in the Federal Circuit, it seems likely that this decision will become the leading precedent in this important area of the law. Along with the Court’s decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), which dispensed with the adverse inference when an infringer failed to obtain or produce an exculpatory opinion of counsel, this decision suggests that the Federal Circuit may believe that district courts have sometimes encroached too far on the attorney-client privilege and the work-product doctrine. **IPT**

ENDNOTES

1. Alison M. Tucher is a partner and Jason A. Crotty is an associate in the San Francisco office of Morrison & Foerster LLP. Morrison & Foerster represented EchoStar in both the district court and the Federal Circuit.
2. See *In re EchoStar Comm. Corp., et al.*, Nos. 803, 805, 2006 U.S. App. LEXIS 11162 (Fed. Cir. May 1, 2006) (“EchoStar”). The panel consisted of Judges Schall, Gajarsa, and Prost, and the opinion was written by Judge Gajarsa.
3. *Id.* at *4 (citing *In re Regents of the Univ. of California*, 101 F.3d 1386, 1387 (Fed. Cir. 1996); *In re Pioneer Hi-Bred Int’l, Inc.*, 238 F.3d 1370, 1374 (Fed. Cir. 2001)).
4. *Id.* at *7 (citing *Advanced Cardiovascular Sys. v. Medtronic, Inc.*, 265 F.3d 1294, 1307 (Fed. Cir. 2001); *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 803-04 (Fed. Cir. 2000)). In certain other contexts, the Federal Circuit has applied the law of the regional circuit with respect to questions of attorney-client privilege and waiver of attorney-client privilege. See *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1346 (Fed. Cir. 2005); *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1272 (Fed. Cir. 2001).
5. *EchoStar*, at *10.
6. *Id.* at *12.
7. *Id.* at *13-15 (citing cases).
8. *Id.* at *18.

9. 2 See, e.g., *Cox v. Administrator U.S. Steel & Carnegie*, 17 F.3d 1386, 1422 (11th Cir. 1994) (quoting *In re Murphy*, 560 F.2d 326, 336 (8th Cir. 1977); see also *Hickman v. Taylor*, 329 U.S. 495, 510 (1947); *In re Sealed Case*, 676 F.2d 793, 809-10 (D.C. Cir. 1982); *Duplan Corp. v. Moulinage et Retorderie de Chavanoz*, 509 F.2d 730, 735-36 (4th Cir. 1974).
10. *EchoStar*, at *18. In a footnote, the Court observed that scholars had noted that the Federal Circuit has not clearly defined the scope of the work-product waiver. *Id.* at *19 & *21 n.5.
11. *Id.* at *18-19.
12. 3 *Id.* at *20 n.3.
13. *Id.* at *20.
14. 4 *Id.* at *21.
15. *Id.* at *8 (quoting *Fort James*, 412 F.3d at 1349).
16. *Id.* at *20 n.4.
17. *Id.*; see also *Crystal Semiconductor Corp. v. Tritech Microelectronics Int’l, Inc.*, 246 F.3d 1336, 1351-53 (Fed. Cir. 2001).
18. *Id.* at *21.
19. *Id.* at *22.
20. *Id.* at *23.
21. 5 *Id.* at *24.
22. 6 *Id.* at *23.
23. 7 See *Cox*, 17 F.3d at 1422-23; *Conkling v. Turner*, 883 F.2d 431, 434-35 (5th Cir. 1989). [Although the court must have known of these cases, it chose not to discuss them. See Petition for Writ of Mandamus 18 n.2; Protective Petition for Writ of Mandamus 19. In contrast, it cited liberally to non-patent cases in *Knorr-Bremse SystemeFuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345 (Fed. Cir. 2004), when it decided to do away with the adverse inference drawn from assertion of the attorney-client privilege.]
24. *Id.* at *25.
25. *Id.*
26. *Id.* at *27.
27. *Id.* at *12. The Court reviewed the district court’s decision regarding waiver underlying a writ petition for an abuse of discretion, consistent with other circuits. *Id.* (citing *In re Pioneer*, 238 F.3d at 1373 n.2).