THE NATIONAL
LAW JOURNAL
WWW.NLJ.COM THE WEEKLY NEWSPAPER FOR THE LEGAL PROFESSION MONDAY, FEBRUARY 21, 2005 ALM

PATENT LAW

Waiver of Privilege

By Lewis R. Clayton

THE U.S. COURT OF Appeals for the Federal Circuit's decision last September in ***Knorr-Bremse Systeme Für Nutzfahrzeuge GmbH v. Dana Corp.***, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), radically changed the rules governing claims of willful patent infringement. Reversing long-standing precedent, ***Knorr-Bremse*** held that the failure to introduce evidence of an exculpatory opinion of counsel will no longer give rise to an adverse inference that an opinion was, or would have been, unfavorable.

Under the old law, accused infringers often had little choice but to seek opinions and introduce them into evidence, thereby waiving the attorney-client privilege and exposing opinion counsel and others to discovery. After ***Knorr-Bremse***, waiver is much more likely to be by choice, rather than compulsion. That choice will focus increasing attention on the issue of the scope of the privilege waiver, as clients consider how much they will have to give up in otherwise privileged discovery in return for proffering an opinion of counsel.

Lewis R. Clayton *is a litigation partner in the New York office of Paul, Weiss, Rifkind, Wharton & Garrison LLP, and co-chairman of the firm's intellectual property litigation group. He can be reached at lclayton@paulweiss.com. Kerry Quinn, a litigation associate with the firm, assisted in the preparation of this article.*

'Knorr-Bremse' left several key issues unresolved

Unfortunately, as one court recently put it, issues concerning the scope of the waiver "have not been resolved" by the Federal Circuit, and "have produced sometimes sharply divided views in federal trial courts." ***Sharper Image Corp. v. Honeywell Int'l Inc.***, 222 F.R.D. 621, 624 (N.D. Calif. 2004). Nearly all courts would agree with the basic principles that waiver must be considered on a case-by-case basis, that waiver ordinarily will be limited to the issues discussed in the opinion, that litigation counsel's opinion work product ordinarily should be protected, and that the touchstone is fairness—having revealed a privileged opinion, the defendant must allow a fair degree of inquiry concerning it. Nevertheless, there remain basic issues that split the courts—sometimes producing different results within the same district.

■ ***Does the waiver extend to post-litigation communications?*** For example, the courts are in disagreement over whether the waiver will encompass communications through the time of trial, or instead only until litigation is initiated.

In *Convolve Inc. v. Compaq Computer Corp.*, 224 F.R.D. 98 (S.D.N.Y. 2004), the court ruled that the privilege waiver "should extend from the time [the defendant] became aware of the plaintiffs' patents until such time in the future that [the defendant] ceases its alleged infringement." Id. at 104. Courts taking this view reason that when "infringement is a continuing activity, the requirement to exercise due care and seek and receive advice is a continuing duty. Therefore, once a party asserts the defense of advice of counsel, this opens to inspection the advice received during the entire course of the alleged infringement," a period potentially extending "up through trial." ***AKEVA LLC v. Mizuno Corp.***, 243 F. Supp. 2d 418, 423 (M.D.N.C. 2003).

Other courts have cut off discovery once the complaint is filed, at least with respect to communications with trial counsel, fearing that such discovery could compromise trial preparation and give plaintiffs an unfair advantage. As a California court put it, "[o]nce the lawsuit is filed, the waiver of work product protection ends. This temporal limitation follows from the enhanced interest in protecting against disclosure of trial strategy and planning." ***Dunhall Pharms. Inc. v. Discus Dental Inc.***, 994 F. Supp. 1202, 1206 (C.D. Calif. 1998). After a suit is filed, "defense counsel is engaged in critical trial preparation, often including analysis of the weaknesses of their client's case. Such analysis, while likely related to the subject matter of the asserted defense, is fundamentally different from a similar pre-litigation analysis." Id; accord, ***Collaboration Props. Inc. v. Polycom Inc.***, 224 F.R.D. 473, 476 (N.D. Calif. 2004).

■ ***Does the waiver extend to attorney***

work product that is not communicated to the client? As one court noted, "An important factor in determining whether a defendant willfully infringed upon another's patent is the defendant's reasonable reliance upon a competent opinion of counsel. However, the alleged infringer's intent—not that of counsel—remains the relevant issue." ***Simmons Inc. v. Bombardier Inc.***, 221 F.R.D. 4, 9 (D.D.C. 2004) (citation omitted).

On that basis, a number of courts have refused discovery of work-product materials—including memoranda, notes and drafts of opinions—that were never sent to the client. See ***Simmons***, supra; ***Nitinol Med. Techs. Inc. v. AGA Med. Corp.***, 135 F. Supp. 2d 212, 218-19 (D. Mass. 2000). As one court said, the "issue is whether the client honestly and reasonably relied on advice of counsel, not whether the attorney giving the advice was competent or even intellectually honest." ***Eco Mfg. LLC v. Honeywell Int'l Inc.***, No. 1:03-CV-0170, 2003 WL 1888988, at *5 (S.D. Ind. April 11, 2003).

Other courts have mandated production of uncommunicated material, arguing that discovery is necessary to test what the client was actually told by opinion counsel. See ***Aspex Eyewear Inc. v. E'Lite Optik Inc.***, 276 F. Supp. 2d 1084, 1092-93 (D. Nev. 2003). A Delaware court wrote: "it is critical for the patentee to have a full opportunity to probe, not only the state of mind of the infringer, but also the mind of the infringer's lawyer upon which the infringer so firmly relied." ***Novartis Pharms. Corp. v. EON Labs Mfg. Inc.***, 206 F.R.D. 396, 399 (D. Del. 2002). Another court remarked: "[I]f negative information was important enough to reduce to a memorandum, there is a reasonable possibility that the information was conveyed in some form or fashion to the client." ***Beneficial Franchise Co. Inc. v. Bank One N.A.***, 205 F.R.D. 212, 218 (N.D. Ill. 2001).

The ***Novartis*** court saw this approach as a tool to limit perceived abuse in the opinion process: A broad waiver, the court believed, would make it more likely that an advice of counsel defense will "only be invoked by infringers who prudently and sincerely sought competent advice from competent counsel. Moreover, focusing on the infringer's waiver rather than state of mind may reduce the chances of legal gamesmanship creeping into the practice of rendering infringement and validity opinions." 206 F.R.D. at 399.

A different Delaware judge, however, firmly rejected the rationale of ***Novartis***, and limited waiver to communicated material. That court refused to adopt "a general rule of waiver that assumes deceit and gives lawyers an incentive to keep incomplete or misleading files." ***Chimie v. PPG Indus. Inc.***, 218 F.R.D. 416, 420 (D. Del. 2003).

Yet a different approach was suggested by a Michigan court: "[B]efore assuming that all patent counsel have been less than forthcoming,...courts should require some additional showing—a 'plus factor'—before adopting the broadest reaches of waiver of work product, particularly with trial counsel." ***K.W. Muth Co. v. Bing-Lear Mfg. Group LLC***, 219 F.R.D. 554, 576 (E.D. Mich. 2003).

Issues over the scope of the waiver were not resolved by the Federal Circuit and have produced divided views in trial courts.

■ ***Protection for trial counsel.*** Several courts acknowledge that a waiver of the privilege may permit discovery of opinions received from trial counsel, as well as counsel retained specifically to render an opinion, even when trial counsel's opinions are informal or oral. Those courts also note, however, a strong policy interest in preventing discovery of a defendant's trial and litigation strategy. In some cases, trial counsel work product is shielded, as discussed above, by cutting off discovery as of the date litigation is filed and/or prohibiting discovery of material never communicated to the client.

Another approach is to limit discovery from trial counsel to opinions that are inconsistent with the advice of opinion counsel. The court in ***BASF A.G. v. Reilly Indus. Inc.***, 283 F. Supp. 2d 1000 (S.D. Ind. 2003), found that the "waiver extended to trial counsel only to the extent documents were communicated to defendants and contained conclusions or advice that contradict or cast doubt on the earlier opinions." Id. at 1006; see also ***Micron Separations Inc. v. Pall Corp.***, 159 F.R.D. 361, 365 (D. Mass. 1995).

In ***Convolve***, supra, the court directed defense counsel to attempt to separate out material that bears on reasonable reliance on opinions of counsel from material discussing pure trial strategy. "[T]rial counsel's advice that undermines the reasonableness of the client's reliance on advice of opinion counsel must be disclosed even if it is communicated in the context of trial preparation. But... trial counsel will surely address with the client trial strategy concerning validity, infringement and enforcement in ways that do not implicate the advice-of-counsel defense." 224 F.R.D. at 105. The court directed that documents redacted according to these guidelines be submitted for in camera review.

Safest approach is to use separate law firms

Where do these differing opinions and approaches leave clients and their opinion and litigation counsel? The most cautious posture is for opinion counsel to assume that their notes, files and drafts—even if never shared with the client—may well be open to discovery. Litigation and opinion counsel should ordinarily be different firms, and the separation between their roles ought to be maintained—litigation counsel should be in charge of trial strategy, and should not take on the role of providing opinions that go to willfulness.

In ***Knorr-Bremse***, the Federal Circuit stressed the "public interest in encouraging open and confident relationships between client and attorney" in patent matters. 383 F.3d at 1344. Clear and consistent rules on waiver in patent cases—which can only be promulgated by the Federal Circuit—plainly would serve that goal. Unfortunately, very few waiver decisions will present an appealable issue. Until one does, the bench and bar will continue to live with uncertainty. NLJ