

PATENT LITIGATION COMMITTEE

CHAIR: JEFFREY I.D. LEWIS

SUBJECT: THE NEGATIVE INFERENCE ASSOCIATED WITH ASSERTION OF ATTORNEY-CLIENT PRIVILEGE IN DEFENSE OF A WILLFUL INFRINGEMENT CLAIM

RESOLVED, that the American Intellectual Property Law Association (AIPLA) favors the elimination of the negative inference associated with the assertion of the attorney-client privilege by an accused infringer in connection with defending against a charge of willful infringement due to: (1) the adverse effect such inference has on the ability of individuals and businesses to engage in free and frank discussion of their freedom to operate with their attorneys; and (2) the high litigation costs and inefficiencies associated with the waiver of the attorney-client privilege during the course of an infringement action.

Specifically, the AIPLA supports the amendment of 35 U.S.C. § 284 to add the following language: “For purposes of determining whether an infringement was willful, a negative inference shall not attach to the refusal of the infringer to waive the attorney-client privilege.”

Past Action. None.

Discussion. The proposed amendment to 35 U.S.C. § 284 introduces a change to the judicially-created doctrine referred to as “the negative inference.” The Committee believes that the proposed legislation is an appropriate response to the serious problems associated with the assertion of the attorney-client privilege by an accused infringer in defense of a willful infringement charge.

Although Title 35 provides for increased damages up to three times the amount adequate to compensate for the infringement found, it does not articulate any criteria by which courts should award increased damages. Prior to the creation of the Court of Appeals for the Federal Circuit, courts generally limited increased damages awards to those instances when the patentee proved by clear and convincing evidence that the defendant consciously and deliberately copied the patented invention. Matthew D. Powers and Steven C. Carlson, *The Evolution and Impact of the Doctrine of Willful Infringement*, at 51 Syracuse L. Rev. 53, 68-69 (2001) citing *Union Carbide Corp. v. Graver Tank & Manufacturing Co.*, 282 F.2d 653 (7th Cir. 1960). Increased

damages were sometimes awarded to punish infringers for engaging in bad-faith business tactics. Powers and Carlson, *supra*, at 70.

In the 1983 decision of *Underwater Devices Inc. v. Morrison-Knudesen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), the Federal Circuit held that, to avoid willfully infringing the claims of a valid patent, an accused infringer with actual notice of another's patent rights has an affirmative duty to exercise due care to determine whether or not he is infringing. Although the Court referred to a totality of circumstances analysis to determine willfulness, the Court stated that this affirmative duty includes obtaining a written opinion of counsel. *Id.* at 1390.

Subsequent case law continued to emphasize the importance of seeking the advice of counsel. The Federal Circuit has ruled that "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." *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988); *see American Medical Systems, Inc. v. Medical Engineering Corp.*, 6 F.3d 1523 (Fed. Cir. 1993) (affirming trial court's drawing of negative inference in light of accused infringer's refusal to produce prior art searches and other documentary evidence of outside counsel opinions). An accused infringer who fails to produce an opinion letter in an infringement action risks having a court instruct the jury that it may infer that the infringement was willful or wanton. As a result of the case law development in the past twenty years, most defendants in patent infringement actions inevitably choose to disclose opinions of counsel. Indeed, as one federal district court has noted, the affirmative duty rule, combined with the negative inference, "all but force" accused infringers to make this choice. *See Johns Hopkins Univ. v. CellPro*, 160 F.R.D. 30, 34 (D. Del. 1995).

Because a willfulness charge is made in most patent infringement cases, this trend toward the disclosure of written opinions has substantially undermined the fundamental principles underlying the attorney-client privilege. The long-recognized purpose of the attorney-client privilege "is to encourage the full and frank communication between attorneys and their clients and thereby promote broader interests in the observance of law and administration of justice." *Upjohn Co. et al. v. United States et al.*, 449 U.S. 383, 389 (1981). The privilege recognizes that this interest can only be served when legal assistance sought can only be safely and readily obtained "free from the consequences or the apprehension of disclosure." *Id. citing Hunt v. Blackburn*, 128 U.S. 464, 470 (1888). These principles are particularly applicable in the highly technical context of "freedom to operate" opinions which require interpretation of often ambiguous patent claims and application of them to complex technology, as well as analysis of patent file histories and prior art. The negative inference rule may actually have the effect of discouraging sophisticated individuals and companies from obtaining complete and candid written opinions, thus defeating the policy in the patent law of encouraging accused infringers to thoroughly analyze the patent. Indeed, opinions of counsel have become tactical tools of litigation rather than an opportunity for full and complete analysis of the scope of valid patents in a given field. This is contrary to the fundamental policies of patent law. *See, e.g., Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000) (patent law should and does encourage individuals and business entities to design around patents).

The stifling effect of possible disclosure of an opinion at some point in future litigation on the attorney-client privilege is compounded by the uncertainty as to the scope of the waiver associated with disclosure of an opinion letter. Federal district court decisions have varied widely by district -- and even by judge -- leaving those seeking legal advice regarding their

freedom to operate without any guidance as to what communications with counsel protected from discovery. The waiver may be a narrow one requiring disclosure of the opinion letter itself, documents considered by opinion counsel in formulating the opinion, and communications between opinion counsel and the client concerning the subject matter disclosed in the opinion. *See, e.g., VLT, Inc. v. Artesyn Technologies, Inc.* 198 F. Supp. 2d 56 (D. Mass. 2002). However, at the other end of the spectrum, the waiver may include not only the opinion and communications between opinion counsel and the client on the subject matter of the opinion but also work-product materials including all legal advice received from trial counsel relating to the subject matter of the opinion. *See Novartis Pharmaceuticals Corp. v. Eon Labs Manufacturing, Inc.*, 206 F.R.D. 396 (D. Del. 2002). This uncertainty is not likely to be resolved soon. The Federal Circuit has not ruled on the proper scope of the waiver, and is not likely to do so in the near future. Direct appellate review of the issue would be difficult to obtain, since prudent counsel will advise her client not to risk the negative inference instruction. A petition for writ of mandamus is not a satisfactory alternative vehicle to the Federal Circuit due to the general unavailability of the writ. *See In re Pioneer Hi-Bred Int'l. Inc.*, 238 F.3d 1370, 1373 (Fed. Cir. 2001) (the remedy of a writ of mandamus is only available to correct clear abuses of discretion or usurpation of judicial power).

Nor can those seeking advice of counsel be assured that the disclosure of an opinion letter and related discovery be limited to any damages phase of the patent infringement action, thereby limiting any prejudice associated with disclosure of attorney-client communications prior to a determination of liability for infringement. Phasing of discovery and bifurcation are within the sound discretion of the trial court and vary by district or even by judge and are often the subject of extensive motion practice. Patentees seek early disclosure of opinions of counsel in order to discover inconsistent claim construction arguments, abandoned invalidity defenses, concessions concerning the practice of certain elements of the claimed invention, or a possible roadmap of the accused infringer's trial defense. Some courts have been willing to bifurcate willfulness and damages from the liability phase. While bifurcation of willfulness may minimize the prejudice caused to accused infringers, bifurcation is a complicated and expensive procedure particularly in light of the increased number of jury trials in patent litigation in the recent years. Much of the evidence on liability is also relevant to damages. For example, evidence on the nature of the invention, novelty of the invention, long-felt need for the invention, commercial success, the absence of non-infringing alternatives is relevant to liability issues as well as the damages issues of a reasonable royalty and lost profits. *See Johns Hopkins*, 160 F.R.D. at 32.

Another issue that may weigh against the disclosure of a written opinion is the potential disqualification of the accused infringer's trial counsel on the basis of the advocate-witness rule, namely that trial counsel or a member of trial counsel's firm will be called to testify as a witness in connection with that attorney's issuance of the written opinion. Kenneth R. Adamo, *Attorney Disqualification in Patent Litigation*, 1 Alb. L.J.Sci. & Tech. 177 (1991). There are no simple rules for avoiding witness-advocate problems, and as a result, the safest course is for the attorney or firm that issued the written opinion to not undertake litigation on behalf of a client, particularly since the scope of waiver of privilege in this area is unsettled. Depending upon the jurisdiction, it may be of paramount importance that an accused infringer's trial counsel and opinion letter counsel be independent from one another. Although such action is not demanded by the Model Code of Professional Conduct or the ABA's similar canons, in order to avoid potential disqualification issues, it is wise that an accused infringer retain trial counsel that is independent from the attorney/firm that issued the written opinion to be relied upon. Doing so,

however, inevitably increases litigation costs, as a client who has established a relationship with its opinion counsel, would be forced to seek out new counsel to act as trial counsel.

The Committee’s proposal contemplates that, with the statutory elimination of the negative inference, courts would continue to apply a totality of circumstances analysis to assess whether increased damages should be awarded to a patentee, placing less emphasis of whether an opinion of counsel was obtained. Factors to be considered would include: (1) whether the infringer intentionally copied the patented invention; (2) whether the infringer conducted an investigation as to the scope of the patent claims and had a good-faith basis for the belief that it was not infringing a valid patent; (3) the behavior of the infringer as a party to the litigation; (4) the infringer’s size and financial condition; (5) the closeness of the case; (6) the duration of the misconduct; (7) remedial action by the infringer; (8) the infringer’s motivation for harm; and (9) whether the defendant attempted to conceal its misconduct. *See, e.g., Read v. Portec, Inc.*, 970 F.2d 816, 827-28 (Fed. Cir. 1992) (internal citations omitted). An accused infringer who seeks to maintain the privilege while defending against a willfulness charge is entitled to present evidence related to the totality of circumstances analysis, including its good-faith beliefs as to non-infringement and validity. However, if the accused infringer places its communications with counsel at issue, *i.e.* by selective disclosure of communications which support a defense, the client would risk complete subject-matter waiver under the well-developed law of attorney-client privilege.

The implementation of this statutory amendment would minimize the nearly inevitable disclosure of opinions of counsel in patent infringement litigation. It would thereby encourage individuals and business entities to engage in full and frank discussion of their freedom to operate with knowledgeable and skilled counsel. This would, in turn, encourage designing around of valid patents and the practice of inventions claimed in invalid or unenforceable patents, thereby limiting the patent monopoly to those patents which meet all the requirements of the Patent Code. To the extent that disclosure of written opinions is minimized, the extensive (and expensive) motion practice associated the scope of the waiver of attorney-client privilege, disqualification motions when trial counsel was also acting as opinion counsel, and the phasing of discovery and bifurcation would also be minimized, thereby streamlining the already complex and costly process of litigating a patent infringement action.

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