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Opinions of Counsel and the Scope of Waiver: Examining *EchoStar* and *Seagate*

More than 90% of patent cases involve allegations of willful infringement because damages may be trebled where the infringement is found to be willful.[1] A primary defense to a charge of willful infringement is the reliance on advice of counsel. When accused infringers rely on advice of counsel in defense to a claim of willful infringement, however, such reliance results in the waiver of the attorney-client privilege and work-product immunity. Over the past several years, courts have been split over what exactly is waived when companies attempt to rely upon advice of counsel in defense of a charge of willful infringement in patent cases. This problem is compounded when there is a charge of ongoing willful infringement after suit has been filed because waiver issues regarding litigation counsel may need to be addressed.

Last year the United States Court of Appeals for the Federal Circuit clarified to some degree the scope of the waiver of the attorney-client privilege and work-product immunity that results from the assertion of the advice-of-counsel defense. *In re EchoStar Commc'n Corp*., 448 F.3d 1294 (Fed. Cir. 2006). The panel consisting of Judges Schall, Gajarsa, and Prost held that when an accused infringer chooses to rely on the advice-of-counsel defense, it waives the attorney-client privilege and work-product immunity relating to the same subject matter of the waived opinion, but that the waiver does not extend to work product that was never communicated to the client. The court also determined that the waiver extends to opinions of counsel, including opinions rendered after the filing of the litigation. The court noted, however, that "[b]y 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 pillage all of their litigation strategies."

Since *EchoStar*, district courts have split on a number of waiver-related issues: (1) whether the waiver extends to litigation counsel, and if so, how to provide the patentee with the discovery it is entitled to under *EchoStar* while also protecting against a rummaging through the litigation strategies of the accused infringer; (2) whether the waiver extends to documents and communications dated before and after the filing date of the litigation; and (3) whether waiver of an opinion on one defense (*e.g.*, non-infringement) also means waiver of an opinion on other defenses (*e.g.*, invalidity and unenforceability).

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[1] *See* Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227, 232 (2004-2005).

On January 26, 2007, the Federal Circuit announced that it will give an *en banc* review of a writ of *mandamus* filed by Seagate Technology, Inc. that will revisit the important issue of exactly what is waived when an accused infringer elects to rely on the advice of counsel defense. In particular, the court invited briefing on the following issues:

- Should a party's assertion of the advice-of-counsel defense to willful infringement extend waiver of the attorney-client privilege to communications with that party's litigation counsel?

- What is the effect of any such waiver on work-product immunity?

- Given the impact of the statutory duty of care standard announced in *Underwater Devices, Inc. v. Morrison-Knudsen Co*., 717 F.2d 1380 (Fed. Cir. 1983), on the issue of waiver of attorney-client privilege, whether the court should reconsider the decision in *Underwater Devices* and the duty of care standard itself?

1. Summary of *In re EchoStar Commc'n Corp*., 448 F.3d 1294 (Fed. Cir. 2006)

In response to the allegation of ongoing willful patent infringement, the defendants, referred to herein as "EchoStar," asserted the advice-of-counsel defense based on advice that EchoStar received from its in-house counsel. Prior to the filing of the action, EchoStar relied on that advice. After the action was filed, however, EchoStar obtained additional legal advice from outside opinion counsel (who was different from EchoStar's litigation counsel) but chose not to rely on it.

The plaintiff, referred herein as "TiVo," moved to compel the production of documents in the possession of EchoStar and its outside opinion counsel (but not EchoStar's litigation counsel) relating to opinions of non-litigation counsel on the basis that EchoStar waived all attorney-client and work-product immunity privileges. The district court held that, by relying on its in-house counsel's advice, EchoStar waived its attorney-client privilege and attorney work-product immunity relating to advice of any counsel regarding infringement, including its outside opinion counsel. The district court also determined that the scope of waiver included attorney-client communications and attorney work product made either before or after the filing of the complaint, regardless of whether or not the work product was communicated to EchoStar.

On petition for writ of mandamus, the Federal Circuit agreed with the district court that when EchoStar chose to rely on the advice of its in-house counsel, it waived the attorney-client privilege and work-product immunity regarding documents and communications relating to the same subject matter, including communications with EchoStar's outside opinion counsel. The court, however, disagreed that the scope of the waiver extends to attorney work product that was never communicated from counsel to EchoStar. The court recognized at least three categories of work product that are relevant to the advice-of-counsel defense:

- documents that embody a communication between the attorney and client relating to the subject matter of the case;

- documents that reflect that attorney's mental impression regarding the subject matter but were not given to the client; and

- documents that discuss a communication between the attorney and client relating to the subject matter, but are not themselves communications to or from the client.

The court determined that the first and third categories of work product are waived and therefore discoverable when the accused infringer elects to rely on the advice of counsel. The court held that the waiver extends to any document or opinion that embodies or discusses a communication to or from client concerning whether the patent is valid, enforceable, and infringed by the accused. The court clarified that the wavier extends not only to letters, memoranda, conversations, or the like between the attorney and client, but also, when appropriate, documents referencing or reflecting a communication between the attorney and the client that were not provided to the client.

The court determined, however, that the second category of work product material, which is never communicated to the client, is not discoverable. The court rationalized that work product waiver extends only so far as to inform the court of the infringer's state of mind. The court recognized that it is what the alleged infringer knew or believed, and not what other material counsel may have prepared but did not communicate to the client, that informs the court of infringer's willfulness. Thus, 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 infringer knew it was infringing.

2. Summary of *Underwater Devices, Inc. v. Morrison-Knudsen Co*., 717 F.2d 1380 (Fed. Cir. 1983)

In 1983, the Federal Circuit determined that when a potential infringer has notice of another's patent rights, the potential infringer has an affirmative duty of due care to determine whether or not its activities infringe those patent rights. *Underwater Devices, Inc. v. Morrison-Knudsen Co*., 717 F.2d 1380, 1390-91 (Fed. Cir. 1983). The court held that the duty of due care generally requires obtaining a competent opinion of counsel before engaging in or continuing in the potentially infringing activity. Said the court:

> Where, as here, a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. *See Milgo Electronic Corp. v. United Business Communications, Inc.,* 623 F.2d 645, 666, 206 USPQ 481, 497 (10th Cir.1980), *cert. denied,* 449 U.S. 1066, 101 S.Ct. 794, 66 L.Ed.2d 611 (1980). Such an affirmative duty includes, *inter alia,* the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity. *See General Electric, supra,* at 1073-74, 163 USPQ at 261; *Marvel Specialty Co. v. Bell Hosiery Mills, Inc.,* 386 F.2d 287, 155 USPQ 545 (4th Cir.1967), *cert. denied,* 390 U.S. 1030, 88 S.Ct. 1409, 20 L.Ed.2d 286 (1968). In this case, M-K obtained its counsel's advice *after* it commenced its infringing activities. Although Mr. Schlanger did order a patent search and received the results of that search in late 1973, he did not evaluate the

validity or infringement of the Robley patents before M-K began the infringing activities. Such an evaluation would generally include an analysis of the file history of the patent. Mr. Schlanger, however, did not order the file histories of the Robley patents until September 5, 1974, well after the infringement had begun. Moreover, M-K did not receive the opinion of its patent counsel until November 30, 1974, long after infringement had commenced and even after the complaint for the instant case was filed.

As result of the court's holding in *Underwater Devices*, at trial an alleged infringer typically discloses the fact that it obtained an opinion of counsel to show that it satisfied this duty of care and relies on the opinion as a defense to the charge of willful infringement. In doing so, however, the alleged infringer waives the attorney-client privilege and certain work-product immunity with respect to the same subject matter of the opinion.

3. Survey of District Court Cases since *EchoStar*

Since the Federal Circuit's decision in *Echostar*, several district courts have addressed:

- whether the waiver resulting from reliance on the advice of counsel extends to *all* counsel, including litigation counsel;
- whether the waiver extends to pre-filing *and* post-filing communications; and
- whether the waiver extends only to the specific issue addressed in the opinion of counsel, or whether the waiver extends more broadly to all opinions concerning other defenses, which could include noninfringement, invalidity, or unenforceability.

a. Whether the Waiver Extends to Only Opinion Counsel or All Counsel?

At least the following district courts (organized by date of decision) determined the waiver extends to all counsel, including litigation counsel:

- *Beck Sys., Inc. v. Managesoft Corp.*, No. 05 C 2036, 2006 WL 2037356, at *6 (N.D. Ill. July 14, 2006) ("*EchoStar* cannot be read as disturbing this Court's approach in *Beneficial* that extends the waiver (at least in a case involving claims of ongoing infringement) to trial counsel.").
- *Informatica Corp. v. Bus. Object Data Integration, Inc.,* 454 F.Supp.2d 957, 959 (N.D. Cal. 2006) ("Under the analysis in *EchoStar*, it is immaterial whether BODI's opinion counsel are from the same firm, different firms, or are even the same person.").
- *Intex Rec. Corp. v. Team Worldwide Corp.*, 439 F.Supp.2d 46, 52 (D.D.C. 2006) ("waiver extends only to those trial counsel work product materials that have been communicated to the client and 'contained conclusions or advice that contradict or cast doubt on the earlier opinions.'").

- *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F. Supp. 2d 354, 356 (D. Del. 2006) ("Defendant has waived the attorney-client privilege as to communications with 'litigation counsel'").

- *Genentech, Inc. v. Insmed Corp.*, 442 F.Supp.2d 838, 847 (N.D. Cal. 2006) ("Waiver of trial counsel communication with the client should apply to documents and communications that are most akin to that which opinion counsel normally renders – *i.e.*, documents and communications that contain opinions (formal or informal) and advice central and highly material to the ultimate questions of infringement and invalidity (the subject matter of the advice given by Foley opinion counsel).").

- *Convolve, Inc. v. Compaq Computer Corp.*, No. 00 Civ. 5141 (GBD), 2006 WL 2788234, at *1 (S.D.N.Y. Sept. 27, 2006) (waiver extends "to all communications not only with [opinion counsel], but also with its other attorneys, including trial counsel").

- *Outside the Box Innovations, LLC v. Travel Caddy, Inc.*, 455 F.Supp.2d 1374, 1378 (N.D. Ga. 2006) ("Travel Caddy is correct that the *EchoStar* decision held that if a defendant relies on the advice-of-counsel defense with respect to advice rendered from in-house counsel, then the waiver of attorney-client privilege applies to advice 'relating to the same subject matter' received from other counsel.").

- *Computer Assoc. Int'l, Inc. v. Simple.com, Inc.*, No. 02 Civ 2748 (DRM) (MLQ), 2006 WL 3050883 (E.D.N.Y. Oct. 23, 2006) ("the Federal Circuit would extend the waiver to all attorneys who provided advice, including, in the case of ongoing infringement, trial counsel.").

- *Iridex Corp. v. Synergetics, Inc.*, 2007 WL 445275, at *1 (E.D. Mo. Feb. 2, 2007) ("This waiver applies to advice from trial counsel as well as formal opinion letters obtained from other lawyers.").

In contrast, at least two district courts determined that the waiver does not extend to trial counsel:

- *Indiana Mills & Mfg., Inc. v. Dorel Indus. Inc.*, No. 1:04CV01102-LJM-WTL, 2006 WL 1749413, at *4 (S.D. Ind. May 26, 2006), ("There is no indication that the *EchoStar* court intended to extend this waiver to communications of trial counsel or to work product of trial counsel. In fact, that issue was not before the Court."); *withdrawn on other grounds*, 2006 WL 1993420 (S.D. Ind. July 14, 2006).

- *Ampex Corp. v. Eastman Kodak Co.*, No. Civ. A. 04-1373-KAJ, 2006 WL 1995140, at *3 (D. Del. July 17, 2006) (declining to extend waiver to trial counsel).

b. What is the Temporal Scope of the Waiver?

At least the following district courts determined that the waiver extends to pre-suit *and* post-suit communications:

- *Beck Sys., Inc. v. Managesoft Corp.*, No. 05 C 2036, 2006 WL 2037356, at *6 (N.D. Ill. July 14, 2006) ("we read the *EchoStar* approach to attorney-client waiver as being consistent with the *Beneficial* opinion extending such a waiver to post-suit communications").

- *Informatica Corp. v. Bus. Object Data Integration, Inc.,* 454 F.Supp.2d 957, 964 (N.D. Cal. 2006) ("both pre- and post-filing work product is potentially relevant to the alleged infringer's intent where there is an allegation of continuing infringement and are therefore also subject to waiver.").

- *Intex Rec. Corp. v. Team Worldwide Corp.*, 439 F.Supp.2d 46, 52 (D.D.C. 2006) (determining that the waiver extends to post-filing documents and communications).

- *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F. Supp. 2d 354, 356 (D. Del. 2006) ("to the extent Defendant relies upon an opinion of counsel as a defense to willful infringement, information related to the opinion is discoverable, despite being generated after the commencement of litigation.").

- *Outside the Box Innovations, LLC v. Travel Caddy, Inc.*, 455 F.Supp.2d 1374, 1379 (N.D. Ga. 2006) (determining that the waiver extends to "any opinion or document" discussing validity, infringement, or enforceability, "regardless of the date.").

- *Computer Assoc. Int'l, Inc. v. Simple.com, Inc.*, No. 02 Civ 2748 (DRM) (MLQ), 2006 WL 3050883, at *5 (E.D.N.Y. Oct. 23, 2006) ("on-going infringement is at issue here and therefore CA's state of mind throughout this litigation remains relevant").

- *Iridex Corp. v. Synergetics, Inc.*, 2007 WL 445275, at *1 (E.D. Mo. Feb. 2, 2007) ("Although the timing of opinions might provide a limit of what is discoverable, in this case Synergetics is still selling the accused devices, so it appears that all opinions would be relevant to the willfulness inquiry.").

c. What Subject Matter does the Waiver Extend To?

Several district courts have held that the waiver extends to all opinions concerning infringement, invalidity, or unenforceability, not just to the specific issues addressed in the opinion of counsel:

- *Intex Rec. Corp. v. Team Worldwide Corp.*, 439 F.Supp.2d 46, 51 (D.D.C. 2006) (determining that the waiver extends to "any document or opinion that embodies

or discusses a communication to or from [the client] concerning whether [the patent-in-suit] is valid, enforceable, and infringed.").

- *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F. Supp. 2d 354, 356 (D. Del. 2006) ("Defendant has waived the attorney-client privilege as to all communications relating to non-infringement, invalidity, and unenforceability.").

- *Outside the Box Innovations, LLC v. Travel Caddy, Inc.*, 455 F.Supp.2d 1374, 1379 (N.D. Ga. 2006) (determining that the waiver extends to "any opinion or document" discussing validity, infringement, or enforceability).

- *CCC Information Services v. Mitchell Int'l., Inc*., No. 03 C 2695, 2006 U.S. Dist. LEXIS 87255, at *17-18 (N.D. Ill. Dec. 1, 2006) (determining that the waiver extends "to all communications and documents that bear on the issue of the competency of the opinion and the reasonableness of the accused infringer's reliance on the opinion," but allowing disputed redactions because they did not relate to the same subject matter (*i.e*., validity) of the legal opinion at issue, but to potential damages.).

In contrast, at least the following district courts have held that the waiver extends only to the issues specifically addressed in the advice of counsel opinion:

- *Indiana Mills & Mfg., Inc. v. Dorel Indus. Inc.*, No. 1:04CV01102-LJM-WTL, 2006 WL 1749413, at *6 (S.D. Ind. May 26, 2006) (determining that the waiver extended to the only defense addressed in the opinion of counsel); *withdrawn on other grounds*, 2006 WL 1993420 (S.D. Ind. July 14, 2006).

- *Informatica Corp. v. Bus. Object Data Integration, Inc.,* 454 F.Supp.2d 957, 964 (N.D. Cal. 2006) (Attorney legal opinions, impressions and trial strategy unrelated to the opinion on which BODI relies may be redacted from documents to be produced to Informatica. The Federal Circuit in *EchoStar* cautioned that the parties should protect such information.").

- *Autobytel, Inc. v. Dealix Corp.*, 455 F. Supp.2d 569, 575 (E.D. Tex. 2006) ("The Court is not persuaded that *EchoStar* mandates waiver as to unenforceability, validity, and non-infringement when an advice-of-counsel defense of non-infringement only is asserted.").