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## Choosing Between the Advice of Counsel Defense to Willful Patent Infringement or the Effective Assistance of Trial Counsel: A Bridge or the Troubled Waters

Christopher A. Harkins

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*Christopher A. Harkins*



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# Choosing Between the Advice of Counsel Defense to Willful Patent Infringement or the Effective Assistance of Trial Counsel:

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Christopher A. Harkins

### Abstract

Trouble is brewing for patent infringement defendants who use lawyers from one law firm to act as trial counsel and other lawyers from the same or different firm (albeit perfectly screened off from the trial team) to prepare a non-infringement opinion as an advice of counsel defense to allegations of willful infringement. The 2006 Federal Circuit decision in *EchoStar* has set off a veritable feeding frenzy of attacks by patentees' counsel on the most sacred of attorney client communications and work product: that of *trial* counsel. In a case of first impression, one federal court has even granted a motion to disqualify the trial counsel shortly before the jury trial was to begin, when a member of that firm had given the client an opinion relevant to non-willfulness, thereby turning the advice of counsel defense to willfulness on its head. Consequently, the potential for grave abuses of, and misguided extensions of, the *EchoStar* decision is rife with confusion and threatens to invade and destroy a defendant's ability not only to rely on the defense but to deny it effective assistance of trial counsel if it does. Was the motion to disqualify the law firm mandated by ethics or merely motivated by gamesmanship? Is this a case of first impression from a renegade court or a prescient avant-garde likely to trigger cascading decisions that follow suit? The current state of flux in the law forecasts dire consequences if an opinion of counsel may be used as fodder for declaring open season on trial counsel, thereby morphing the defense into the troubled water instead of a "bridge over troubled water" as intended. The article proposes a coherent and equitable balancing test that will bring clarity and fairness to the potentially chilling effect on discussions between trial counsel and its client in the wake of *EchoStar*.

# Choosing Between the Advice of Counsel Defense to Willful Patent Infringement or the Effective Assistance of Trial Counsel:

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CHRISTOPHER A. HARKINS

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# Choosing Between the Advice of Counsel Defense to Willful Patent Infringement or the Effective Assistance of Trial Counsel:

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Christopher A. Harkins\*

### I. INTRODUCTION

¶1 You've got mail. It is a nasty-gram naming you a patent infringer and threatening you with a federal lawsuit, or it is a complaint for patent infringement.

¶2 After consulting with your patent attorney, you are told that the complaint (or the letter) has put you on notice of the infringement allegations. Under either scenario, the patentee may later, if it has not already, allege willful infringement if you continue selling the accused product. In patent law, willfulness may well be the pot of gold at the end of the patentee's rainbow, because it could subject the defendant<sup>1</sup> to treble damages and attorneys' fees. If the accused product is one of your primary moneymakers, then a business decision might well militate in favor of continuing sales as opposed to pulling the product off the market, but that strategy translates into the possibility that you may be required to pay up to three times any damages the plaintiff proves at trial, and patent damages have been known to reach millions and hundreds of millions.

¶3 What do you do?

¶4 Get an opinion. Although it has been estimated that opinions can cost \$40,000 each and possibly as much as \$100,000 apiece,<sup>2</sup> if the product is found to have infringed

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<sup>1</sup> For simplicity, the term "plaintiff" refers to patent owners suing for patent infringement or defending against a declaratory judgment action based on their cease and desist letter. The term "defendant" refers to a party accused of patent infringement and who is either being sued for patent infringement or is bringing a declaratory judgment action for non-infringement.

<sup>2</sup> BD. ON SCI., TECH., & ECON. POLICY, POLICY & GLOBAL AFFAIRS DIV., NAT'L RESEARCH COUNCIL OF THE NAT'L ACADS., A PATENT SYSTEM FOR THE 21ST CENTURY: COMMITTEE ON INTELLECTUAL PROPERTY RIGHTS IN THE KNOWLEDGE-BASED ECONOMY 119 (Steven A. Merrill et al. eds., 2004), available at <http://books.nap.edu/html/patentsystem/0309089107.pdf> ("[Lawyers] provid[e] such opinions at a cost ranging from \$10,000 to \$100,000 per opinion."); *Patent Quality Improvement: Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property, Before the H. Comm. on the Judiciary*, 108th Cong. 58 (2003) (statement of David M. Simon, Chief Patent Counsel, Intel Corporation), available at [http://commdocs.house.gov/committees/judiciary/hju88545.000/hju88545\\_0.htm](http://commdocs.house.gov/committees/judiciary/hju88545.000/hju88545_0.htm) ("Paying \$40,000 per patent for an opinion of counsel to be used to rebut the charge of willful infringement is not cost effective given the volume of such notices.").

any valid claim of the patent, the opinion has the potential of staving off treble damages – like buying insurance against an otherwise staggering amount of damages stemming from a finding of willfulness. Even if the opinion is ultimately wrong and the fact finder concludes that the product infringed any patent claim, the opinion (if competent and sufficient) goes to the defendant’s state of mind and could possibly vitiate a finding of willfulness and bad faith.

¶15 One such opinion might be that the accused product does not infringe any valid claim. Although there are also opinions that the asserted patent is invalid, the non-infringement opinion tends to be the most expedient given that patents are presumed to be valid as a matter of law,<sup>3</sup> and it is a defendant’s burden<sup>4</sup> to overcome that presumption by the hefty weight of clear and convincing evidence.<sup>5</sup>

¶16 Who should give the opinion? Many potential defendants elect to engage the same law firm to both write the opinion and serve as trial counsel, perhaps thinking the matter will never go to trial. Or perhaps they have a longtime relationship with the law firm, feel comfortable with a group of attorneys there, and those attorneys have over the years become intimately familiar with the client’s business and products such that there is a real comparative advantage, savings, and fewer interruptions from using the same law firm. Other potential infringers use two law firms, one for the trial team and the other for the opinion of counsel. Either way, the potential infringer follows the rules and intentionally keeps the opinion counsel and trial counsel completely separate and independent such that trial counsel plays no role in, makes no contribution to, and does not influence the drafting of the opinion or otherwise breach the screening wall between itself and opining counsel.

¶17 The doctrine of attorney-client privilege is ubiquitous in law. Every client, attorney, and law student knows of it, and it is protected by the Federal Rules of Civil Procedure.<sup>6</sup> Seemingly every communication between client and lawyer for the purpose of rendering legal advice will be covered by the privilege. Clearly, the opinion letter

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<sup>3</sup> “A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim.” 35 U.S.C. § 282 (2006).

<sup>4</sup> The plaintiff asserting a patent in a patent infringement lawsuit need not show that the patent is valid and enforceable. “The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” *Id.*

<sup>5</sup> *SRAM Corp. v. AD-II Eng’g, Inc.*, 465 F.3d 1351, 1357 (Fed. Cir. 2006); *Nystrom v. Trex Co.*, 424 F.3d 1136, 1149 (Fed. Cir. 2005) (“A party seeking to establish that particular claims are invalid must overcome the presumption of validity in 35 U.S.C. § 282 by clear and convincing evidence.”(citation omitted)).

<sup>6</sup> The Federal Rules of Civil Procedure prohibit discovery of “privileged” matter. FED. R. CIV. P. 26(b)(1); (“Parties may obtain discovery regarding any matter, not privileged.”). The discovery rules did not codify, however, a definition of “privileged” matter. *See* FED. R. EVID. 501; *United States v. Weber Aircraft Corp.*, 465 U.S. 792, 804 & n.25 (1984) (“Rule 501 was adopted precisely because Congress wished to leave privilege questions to the courts rather than attempt to codify them.”). Instead, Congress looked to the courts for guidance in supplying definitions. *Jaffee v. Redmond*, 518 U.S. 1, 9 (1996) (holding that Rule 501 “did not freeze the law governing the privileges of witnesses in federal trials at a particular point in our history, but rather directed federal courts to continue the evolutionary development of testimonial privileges”). Nevertheless, it is beyond cavil that the attorney-client privilege has been long recognized by the Supreme Court, federal, and state courts of the United States. *Upjohn v. United States*, 449 U.S. 383, 389 (1981) (“The attorney-client privilege is the oldest of the privileges for confidential communications known to the common law.”).

from patent counsel to the client discussing the issue of non-infringement meets the definition of the privilege.

¶8 But a defendant is at crossroads when willful infringement becomes an issue: risk treble damages by exercising the attorney-client privilege on the one hand or assert the opinion in defense of willfulness allegations and thereby waive the privilege on the other. In response to a defendant's asserting the opinion letter, a plaintiff commonly serves discovery requests seeking production of all legal advice given by all opining attorneys to the client that relates to the subject matter of the legal advice no matter how tenuous, and files motions to compel production if necessary. Moreover, the Federal Circuit's recent *EchoStar*<sup>7</sup> decision might give fodder to extending those discovery requests and that motion to compel to all work product of the *trial* counsel, including depositions and document requests served upon the trial team. What's next?

¶9 The next invasion into and abrogation of the attorney-client privilege—one of great importance and stark consequences to law firms and their clients—could very well be to disqualify the trial counsel from participating at trial once a defendant asserts the opinion letter as a defense to willful infringement. In such circumstances, the plaintiff stands to gain much leverage in negotiations or at trial by removing the defendant's trial counsel of choice and by forcing new counsel to learn the case at the later stages of complex patent litigation. Under this novel theory of disqualification, the trial counsel might be removed from the trial of the case even when there is a perfect screening wall between the opining counsel and the trial counsel. Critics who argue that non-infringement opinions are just self-serving get-out-of-jail free cards should be cheering this decision as foretelling a day when those opinions will be “plutoed.”

¶10 The possibility that a patentee may obtain full discovery of all communications between the trial team and the client, or even disqualification of the trial team if they comment on the opinion of counsel, has stunning implications. Out of fear that their attorney-client communications will need to be revealed to the opposing party, trial counsel will stop communicating with the client regarding the litigation, views on the issues in the cases, or even the evaluations of the case for settlement. But those communications about the case form the very fabric of what trial attorneys do. This will result in the trial team never consulting with the client and thereby depriving the client of the effective assistance of counsel, or it will result in the preclusion of any defendant ever receiving or relying on advice of counsel as a defense to willful infringement. Either result is untenable.

¶11 Now, for those defense attorneys who are not already burning the author in effigy, let's all just exhale, put down those pitchforks, and listen. This article is not wedded to the novel disqualification theory or the open season on trial counsel's communications with the client, and takes no credit or blame for it, depending on which side of the aisle one finds oneself in enforcing patents or defending against them. But an ostrich with its head in the sand does not see the device to be used in the attack or how to defend against it. Simply put, attorneys need to be forewarned of this novel theory and to advise their clients appropriately of the risks that a court might strictly prohibit all members of the testifying lawyer's firm from serving as trial counsel.

¶12 Specifically, Part II provides a background discussion on the law of willful infringement. Part III explores the “advice of counsel” defense to willful infringement

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<sup>7</sup> *In re EchoStar Commc'ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006).

and the Hobson's choice that some courts are placing on the accused infringers. Part IV constructs an analysis that might prove useful in bringing clarity, balance, and fairness to case law that has the potential of turning the defense of advice of counsel on its head.

## II. BACKGROUND

¶13 In order to understand the risk of treble damages and attorneys' fees that may be awarded based on a finding of willfulness, one must first understand how courts struggle to interpret patents and then how the fact finder applies that interpretation to the accused product. Accordingly, the discussion begins with an overview of the elements of patent infringement.

### A. Patent Infringement Analysis

¶14 A patent infringement analysis involves two steps: the threshold construction of the meaning and scope of the claims, and then the determination of whether the product or method in question infringes the properly construed claim.<sup>8</sup>

#### 1. The Law of Claim Construction

¶15 The Patent Act of 1952,<sup>9</sup> as amended, requires that every patent "shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention."<sup>10</sup> The claims, however, do not stand alone, but are part of "a fully integrated written instrument."<sup>11</sup>

¶16 At first blush, then, some may analogize the patent, as a written instrument, to a contract, and interpret it to the same extent. They would be wrong.<sup>12</sup> The law of interpreting a patent involves intricate sets of its own technical rules,<sup>13</sup> and therefore it is wholly inappropriate to think that one may simply borrow from traditional notions of contract law.<sup>14</sup>

¶17 Given the complexity of claim construction, the Supreme Court in 1996 put to rest the issue of who decides the meaning of a claimed invention: "We hold that the construction of a patent, including terms of art within its claim, is exclusively within the province of the court."<sup>15</sup> The object of claim construction is to determine what is meant

<sup>8</sup> *Vitronics Corp. v. Conceptor, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir. 1996); *Athletic Alternatives, Inc., v. Prince Mfg., Inc.*, 73 F.3d 1573, 1578 (Fed. Cir. 1996).

<sup>9</sup> Patent Act of 1952, ch. 950, 66 Stat. 792 (current version at 35 U.S.C. § 1-376 (2006)).

<sup>10</sup> 35 U.S.C. § 112 para. 2 (2006); *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) ("It is a 'bedrock principle' of patent law that 'the claims of a patent define the invention to which the patentee is entitled the right to exclude.'") (citations omitted).

<sup>11</sup> *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 978 (Fed. Cir. 1995).

<sup>12</sup> *Id.* at 985 n.14 ("A patent, however, is not a contract.").

<sup>13</sup> *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 389 (1996).

<sup>14</sup> *Markman*, 52 F.3d at 985 ("The analogy of a patent to a contract is not useful, however, in the context of a patent infringement suit. Patents are not contracts per se and patent infringement actions have never been viewed as breach of contract actions.").

<sup>15</sup> *Markman*, 517 U.S. at 372; *see also Phillips*, 415 F.3d at 1303 *passim* (restating the basic principles of claim construction for courts to apply); *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1454 (Fed. Cir. 1998) ("[T]he court determines the scope and meaning of the patent claims," especially given "the view that claim construction, as a form of 'document construction,' is solely a question of law." (citation omitted)); *Markman*, 52 F.3d at 979 ("We therefore settle inconsistencies in our precedent and hold that in

by the terms used in the patent claims,<sup>16</sup> and the end result is the court's "statement of what is and is not covered by the technical terms and other words of the claims."<sup>17</sup>

¶18 Claim construction is a little like building lasagna when there are too many cooks in the kitchen – all cooks trying to add their own pasta, cheeses, and topping it off with their own sauce. The combinations are almost limitless and constrained only by the cooks' imaginations, from a variety of choices for noodles to a wide range of cheeses and, of course, to the sauce that may be meat or vegetarian and may have different spices as well as many other ingredients. Similarly, the court's recipe for claim construction is extremely complicated by the parties' battles over what goes into the final dish, and how everything is argued and spun one way or the other. To make its determination, the court considers intrinsic evidence and, sometimes, extrinsic evidence. Three sources of intrinsic evidence are the claim language, the specification and, if in evidence, the prosecution history.<sup>18</sup>

¶19 It is not an easy task for courts to construe the claims, because "the claims of patents have become highly technical in many respects as the result of special doctrines relating to the proper form and scope of claims that have been developed by the courts and the Patent Office."<sup>19</sup> In theory, the terms used in a claim are given the ordinary and customary meaning that the terms would have had to a person of ordinary skill in the art in question at the time of the invention.<sup>20</sup> In practice, courts must be particularly nimble as they juggle evidence submitted by the parties of what the mythical person of ordinary skill in the art would have known as of the effective filing date of the patent application (a date that sometimes is as much as twenty years before the time when the court is supposed to construe the claim), and who is deemed to have read the term not only in the context of the claim in which it appears but also in the context of the entire patent specification.<sup>21</sup>

¶20 The specification "is always highly relevant to the claim construction analysis"<sup>22</sup> as the best tool for determining the meaning of a claim term. The specification's

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a case tried to a jury, the court has the power and obligation to construe as a matter of law the meaning of language used in the patent claim. As such, "[a] patent covers the invention or inventions which the court, in construing its provisions, decides that it describes and claims." (citation omitted).

<sup>16</sup> *Gart v. Logitech, Inc.*, 254 F.3d 1334, 1339 (Fed. Cir. 2001); *Markman*, 52 F.3d at 979.

<sup>17</sup> *Netword, L.L.C. v. Central Corp.*, 242 F.3d 1347, 1352 (Fed. Cir. 2001); *see also* *Burke, Inc. v. Bruno Indep. Living Aids, Inc.*, 183 F.3d 1334, 1340 (Fed. Cir. 1999) ("A claim in a patent provides the metes and bounds of the right which the patent confers on the patentee to exclude others from making, using or selling the protected invention.").

<sup>18</sup> *Gart*, 254 F.3d at 1340; *Vitronics Corp. v. Conceptoronic, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir. 1996); *Markman*, 52 F.3d at 979.

<sup>19</sup> *Markman*, 517 U.S. at 389.

<sup>20</sup> *Phillips*, 415 F.3d at 1313.

<sup>21</sup> *Id.* Because claim construction is purely a matter of law, courts have wide discretion to hear extrinsic evidence in determining questions of what the person of ordinary skill in the art would have known. *Id.* at 1318 ("We have also held that extrinsic evidence in the form of expert testimony can be useful to a court for a variety of purposes, such as to provide background on the technology at issue, to explain how an invention works, to ensure that the court's understanding of the technical aspects of the patent is consistent with that of a person of skill in the art, or to establish that a particular term in the patent or the prior art has a particular meaning in the pertinent field."); *see also* *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1455 (Fed. Cir. 1998) (en banc) ("Nothing in the Supreme Court's [*Markman*] opinion supports the view that the Court endorsed a silent, third option – that claim construction may involve subsidiary or underlying questions of fact. To the contrary, the Court expressly stated that 'treating interpretive issues as *purely legal* will promote (though not guarantee) intrajurisdictional certainty . . . ." (emphasis in original)).

<sup>22</sup> *Vitronics*, 90 F.3d at 1582.

statements of what a term means are less likely to be litigation-inspired because they were made when the application was filed, before the patent issued and, thus, before there could have been alleged patent infringement. But while the specification may act as a sort of dictionary<sup>23</sup> in explaining the invention and in defining the claim terms, the specification too often lacks clarity and provides only a nebulous description of the scope<sup>24</sup> of a claimed invention that almost always has changed during prosecution.<sup>25</sup>

¶21 The prosecution history also plays an important role in claim interpretation. The prosecution history helps to demonstrate how the inventor and the PTO understood the patent.<sup>26</sup> As part of the intrinsic record, the prosecution history is relevant to determining how the inventor understood the invention and whether the inventor limited the invention by narrowing the claim scope.<sup>27</sup> Also, an applicant who distinguishes the claimed invention over the prior art necessarily indicates what the claims do not cover.<sup>28</sup> Moreover, an applicant's statements during prosecution are relevant to claim interpretation regardless of whether the examiner relied upon them.<sup>29</sup> Furthermore, arguments made by the applicant in the prosecution history are given the same weight as claim amendments.<sup>30</sup>

¶22 In addition to arguments relating to intrinsic evidence and what that evidence shows and does not show, the court can expect one or both parties to argue extrinsic evidence in support of the party's proffered claim construction. Extrinsic evidence consists of any evidence external to the patent and its file history, such as technical articles, inventor testimony, expert testimony, and, when relevant, statements made in the prosecution of a related foreign application.<sup>31</sup>

<sup>23</sup> *Markman*, 52 F.3d at 979.

<sup>24</sup> *Watts v. XL Sys., Inc.*, 232 F.3d 877, 882 (Fed. Cir. 2000) ("One purpose for examining the specification is to determine if the patentee has limited the scope of the claims.").

<sup>25</sup> *Markman*, 52 F.3d at 985 ("[I]t is not unusual for there to be a significant difference between what an inventor thinks his patented invention is and what the ultimate scope of the claims is after allowance by the PTO.").

<sup>26</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303, 1317 (Fed. Cir. 2005); *see also* *Netword, L.L.C. v. Central Corp.*, 242 F.3d 1347, 1351-52 (Fed. Cir. 2001) ("[Claims] do not have meaning removed from the context from which they arose.").

<sup>27</sup> *Chimie v. PPG Indus., Inc.*, 402 F.3d 1371, 1384 (Fed. Cir. 2005) ("The purpose of consulting the prosecution history in construing a claim is to 'exclude any interpretation that was disclaimed during prosecution.'" (citation omitted)); *Rheox, Inc. v. Entact, Inc.*, 276 F.3d 1319, 1325 (Fed. Cir. 2002) ("The prosecution history limits the interpretation of claim terms so as to exclude any interpretation that was disclaimed during prosecution."); *Southwall Techs., Inc. v. Cardinal IG Co.*, 54 F.3d 1570, 1576 (Fed. Cir. 1995) ("Claims may not be construed one way in order to obtain their allowance and in a different way against accused infringers.").

<sup>28</sup> *Spectrum Int'l, Inc. v. Sterilite Corp.*, 164 F.3d 1372, 1378-79 (Fed. Cir. 1998).

<sup>29</sup> *Microsoft Corp. v. Multi-Tech Sys., Inc.*, 357 F.3d 1340, 1350 (Fed. Cir. 2004).

<sup>30</sup> *Hakim v. Cannon Avent Group, PLC*, No. 05-1398, 2007 WL 542697, at \*3 (Fed. Cir. Feb. 23, 2007) ("[An applicant may refile an application with broader claim scope than the parent application that matured into a patent, but] an applicant cannot recapture claim scope that was surrendered or disclaimed. The district court did not err in holding that the examiner's action in allowing the continuation claims without further prosecution was based on the prosecution argument in the parent."); *Elkay Mfg. Co. v. Ebco Mfg. Co.*, 192 F.3d 973, 979 (Fed. Cir. 1999).

<sup>31</sup> *N. Telecom Ltd. v. Samsung Elecs. Co.*, 215 F.3d 1281, 1295-96 (Fed. Cir. 2000); *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1584 (Fed. Cir. 1996). Extrinsic evidence cannot be used to construe the claims unless analysis of the intrinsic evidence leaves the disputed claim term unclear. *Id.* Even if extrinsic evidence is used, it cannot be used to arrive at a definition that contradicts either the claim language or the teachings of the specification. Indeed, where the intrinsic evidence is clear, extrinsic evidence is entitled to no weight.

## 2. The Law of Infringement

¶23 A patent gives the patentee the right to exclude for twenty years<sup>32</sup> all others from practicing the claimed invention.<sup>33</sup> A defendant “directly” infringes a patent by making, using, offering to sell, selling, or importing into the United States any product that embodies the patented invention.<sup>34</sup> That is not, however, the only way to infringe a patent. A defendant might be found liable for “indirect” infringement, such as by “inducement of infringement”<sup>35</sup> or by “contributory infringement.”<sup>36</sup> Both theories of indirect infringement depend on a preliminary finding of direct infringement, such that there can be no liability of active inducement of infringement or contributory infringement without the existence of direct infringement.<sup>37</sup> The plaintiff need only prove patent infringement by a preponderance of the evidence (more likely than not).<sup>38</sup>

¶24 For literal infringement, every element and limitation<sup>39</sup> set forth in a claim must be found in the product or process in question – “exactly.”<sup>40</sup> Any deviation from the claim precludes a finding of literal infringement.<sup>41</sup>

<sup>32</sup> U.S. CONST. art. I, § 8, cl. 8 (“securing for limited Times to Authors and Inventors the exclusive Right to their Respective Writings and Discoveries”). The patent term is 20 years from the date on which the application was filed. 35 U.S.C. § 154(a)(2) (2006).

<sup>33</sup> 35 U.S.C. § 154(a)(1) (2006) (granting a patentee the “right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States”). A patent is a “negative” right to the extent that the patentee may exclude others from practicing the patentee’s invention, but this does not give the patentee a right to practice its own invention because by doing so the patentee might be infringing another’s patent.

<sup>34</sup> 35 U.S.C. § 271(a) (2006) (“Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent.”). Commentators debate whether there may ever be extraterritorial enforcement of intellectual property laws under Article I, Section 8, Clause 8 of the U.S. Constitution. Compare John W. Osborne, *A Rational Analytical Boundary for Determination of Infringement by Extraterritorially-Distributed Systems*, 46 IDEA 587 (2006) (arguing that, under 35 U.S.C. § 271(c), (f), (g) (2006), a foreign defendant of an extraterritorially-distributed telecommunications system cannot infringe the patent if its activities relating to the patentably distinctive aspect of the claimed invention did not take place in the United States), with Christopher A. Harkins, *Overcoming the Extraterritorial Bar to Bringing Copyright Actions: On Pleading Copyright Infringement to Protect Copyrighted Works from the Defendant that Ships Overseas for Distribution Abroad*, 17 INTELL. PROP. & TECH. L.J. 1, 7 (2005) (noting the extraterritorial bar to bringing copyright infringement suits but arguing for an exception to that rule, because “[w]hen defendants have committed at least one primary act of copyright infringement in the United States, the presumption against extraterritoriality ought not to defeat a court’s subject matter jurisdiction”).

<sup>35</sup> 35 U.S.C. § 271(b) (2006) (“Whoever actively induces infringement of a patent shall be liable as an infringer.”).

<sup>36</sup> 35 U.S.C. § 271(c) (2006) (“Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.”).

<sup>37</sup> *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1372 (Fed. Cir. 2006); *Zenith Labs., Inc. v. Bristol-Myers Squib Co.*, 19 F.3d 1418, 1423 n.5 (Fed. Cir. 1994); *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993).

<sup>38</sup> *Warner-Lambert Co. v. Teva Pharm. USA, Inc.*, 418 F.3d 1326, 1341 n.15 (Fed. Cir. 2005). Direct and indirect infringement may be proven by circumstantial evidence. *Liquid Dynamics Corp. v. Vaughan Co.*, 449 F.3d 1209, 1219 (Fed. Cir. 2006); *Golden Blount*, 438 F.3d at 1362.

<sup>39</sup> *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1014 n.1 (Fed. Cir. 1994) (“The statute refers to claim ‘elements,’ but this court has moved toward the custom of referring to claim ‘limitations,’ reserving the word ‘elements’ for describing the parts of the accused device, though the court on occasion

¶25 While claim construction is a matter of law, infringement is a question of fact,<sup>42</sup> although factual questions of infringement are frequently resolved by a court’s construction of the claims because “to decide what the claims mean is nearly always to decide the case.”<sup>43</sup> Yet, any differences between the claim construction and the accused product might seem subtle to the casual observer. Moreover, as the uncertainties increase, the patentee may be more likely to enforce the patent and the defendant may be less likely to settle, thereby leading the parties to trial. This uncertainty is exacerbated by the second method by which infringement may be proven.

¶26 When there is no literal infringement, infringement can only be found under the doctrine of equivalents, which is an objective inquiry applied to individual elements or limitations of the claim, not to the invention as a whole.<sup>44</sup> Whether an element of the accused device is equivalent to a claim limitation depends on whether the substitute element performs substantially the same function, in substantially the same way, and achieves substantially the same result as the claim limitation.<sup>45</sup> The jury will be asked to return a verdict of infringement if any difference between a claim limitation and the accused product is insubstantial, such as when persons of ordinary skill in the art would consider that element of the product to be interchangeable with the corresponding claim requirement.<sup>46</sup>

¶27 The doctrine of equivalents is the “exception, however, not the rule,” or else the public will come to believe that it cannot rely on the language of patent claims.<sup>47</sup> Indeed, the patentee is prevented by prosecution history estoppel from relying on the doctrine when the patentee relinquished subject matter during the prosecution “by amendment or argument.”<sup>48</sup> Under the “all elements rule,” the doctrine of equivalents may not be applied so broadly as to effectively eliminate a claim limitation in its entirety, such as when the limitation is missing from the accused product and is not replaced with an

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continues to use the words interchangeably.”).

<sup>40</sup> *DeMarini Sports, Inc. v. Worth, Inc.*, 239 F.3d 1314, 1331 (Fed. Cir. 2001) (“Literal infringement of a claim occurs when every limitation in the claim appears in the accused device, i.e., when ‘the properly construed claim reads on the accused device exactly.’”(citations omitted)).

<sup>41</sup> *Lantech, Inc. v. Keip Mach. Co.*, 32 F.3d 542, 547 (Fed. Cir. 1994).

<sup>42</sup> *PPG Indus., Inc. v. Guardian Indus. Corp.*, 156 F.3d 1351, 1354-55 (Fed. Cir. 1998) (“[A]fter a court has defined the claim with whatever specificity and precision is warranted by the language of the claim and the evidence bearing on the proper construction, the task of determining whether the construed claim reads on the accused product is for the finder of fact.”).

<sup>43</sup> *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 989 (Fed. Cir. 1995) (Mayer, J., concurring); *see also Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1476 (Fed. Cir. 1998) (“On occasion the issue of literal infringement may be resolved with the step of claim construction, for upon correct claim construction it may be apparent whether the accused device is within the claims.”). But not every infringement question can be resolved by claim interpretation, especially when there is a dispute over whether the structure and function of the accused product meets the claim construction. *Int’l Rectifier Corp. v. IXYS Corp.*, 361 F.3d 1363, 1374-75 (Fed. Cir. 2004); *see also PPG Indus.*, 156 F.3d at 1354-55.

<sup>44</sup> *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 29 (1997).

<sup>45</sup> *Tronzo v. Biomet, Inc.*, 156 F.3d 1154, 1160 (Fed. Cir. 1998).

<sup>46</sup> *Multiform Desiccants*, 133 F.3d at 1480-81.

<sup>47</sup> *London v. Carson Pirie Scott & Co.*, 945 F.2d 1534, 1538 (Fed. Cir. 1991); *see also Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996); *Vitronics Corp. v. Conception, Inc.*, 930 F.3d 1576, 1583 (Fed. Cir. 1996).

<sup>48</sup> *DeMarini Sports, Inc. v. Worth, Inc.*, 239 F.3d 1314, 1332 (Fed. Cir. 2001); *see also Seachange Int’l, Inc. v. C-Cor Inc.*, 413 F.3d 1361, 1378 (Fed. Cir. 2005).

equivalent substitute.<sup>49</sup> The application of prosecution history estoppel and the all elements rule is a question of law.<sup>50</sup>

¶28 Moreover, when a claim amendment is an amendment related to patentability, there arises a presumption of estoppel against the doctrine of equivalents, which presumption may only be overcome in a few “narrow ways.”<sup>51</sup> The burden of rebutting the presumption lies with the patentee and is a question of law for the court.<sup>52</sup> First, the patentee may attempt to show that the equivalent was unforeseeable as of the date of the claim amendment.<sup>53</sup> Under this first criterion, the patentee generally tries to show that allegedly invalidating technology was “after-arising.”<sup>54</sup> Second, the patentee may demonstrate that the amendment was merely tangential to the alleged equivalent.<sup>55</sup> If the prior art that the patentee sought to overcome contained the alleged equivalent, then the amendment was not merely tangential.<sup>56</sup> Third, the patentee might establish another reason why it could not have reasonably been expected to have described the alleged equivalent at the time of the amendment.<sup>57</sup> The Federal Circuit has suggested that “the third criterion may be satisfied when there was some reason, such as the shortcomings of language, why the patentee was prevented from describing the alleged equivalent when it narrowed the claim.”<sup>58</sup>

¶29 Whether under literal infringement or the doctrine of equivalents, if the independent claims are not infringed, then any claims that depend from those independent claims also are not infringed.<sup>59</sup> The accused product may not avoid infringement, however, by including additional features and components.<sup>60</sup>

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<sup>49</sup> *Warner-Jenkinson*, 520 U.S. at 29; *Tronzo*, 156 F.3d at 1160 (“If a theory of equivalence would vitiate a claim limitation, however, then there can be no infringement under the doctrine of equivalents as a matter of law.”); *Seachange Int’l*, 413 F.3d at 1378; *DeMarini Sports*, 239 F.3d at 1332; *Gen. Elec. Co. v. Nintendo Co., Ltd.*, 179 F.3d 1350, 1363 (Fed. Cir. 1999); *Zygo Corp. v. Wyko Corp.*, 79 F.3d 1563, 1568 (Fed. Cir. 1996); *Dolly, Inc. v. Spaulding & Evenflo Cos.*, 16 F.3d 394, 397 (Fed. Cir. 1994); *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 935 (Fed. Cir. 1987) (en banc).

<sup>50</sup> *Seachange Int’l*, 413 F.3d at 1378.

<sup>51</sup> *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 457 F.3d 1293, 1310 (Fed. Cir. 2006) (citing *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 740-41 (2002)).

<sup>52</sup> *Amgen*, 457 F.3d at 1312; *see also* *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 344 F.3d 1359, 1372 (Fed. Cir. 2003) (en banc) (offering some guidance as to what must be shown in rebutting the *Festo* presumption under the three showings enumerated by the Supreme Court).

<sup>53</sup> *Amgen*, 457 F.3d at 1310.

<sup>54</sup> *Id.* at 1313 (But that “if the alleged equivalent were known in the prior art in the field of the invention, it certainly should have been foreseeable at the time of the amendment.”) (citation omitted).

<sup>55</sup> *Id.* at 1310.

<sup>56</sup> *Id.* at 1313.

<sup>57</sup> *Id.* at 1310-11.

<sup>58</sup> *Id.* at 1313.

<sup>59</sup> *Jeneric/Pentron, Inc. v. Dillon Co.*, 205 F.3d 1377, 1383 (Fed. Cir. 2000); *Wolverine World Wide, Inc. v. Nike, Inc.*, 38 F.3d 1192, 1199 (Fed. Cir. 1994); *Wahpeton Canvas Co. v. Frontier, Inc.*, 870 F.2d 1546, 1552 n.9 & 1553 (Fed. Cir. 1989).

<sup>60</sup> *Suntiger, Inc. v. Scientific Research Group*, 189 F.3d 1327, 1336 (Fed. Cir. 1999) (“It is fundamental that one cannot avoid infringement merely by adding elements if each element recited in the claim is found in the accused device.”); *Vivid Techs, Inc. v. Am. Sci.*, 200 F.3d 795, 811 (Fed. Cir. 1999) (“[I]nfringement is not avoided by the presence of elements or steps in addition to those specifically recited in the claim.”).

### B. Willful Infringement and Patent Damages

¶30 Even innocent parties may be liable for patent infringement,<sup>61</sup> because while culpability of the infringer may come into play in determining the amount of damages owed to the patent owner, an innocent infringer is no less liable than a willful infringer.<sup>62</sup> Rather, there must be a finding of actual infringement, and then a separate determination of whether the defendant's infringement was willful, as explained below.

#### 1. Hear No Evil, See No Evil, and the Duty of Due Care

¶31 When a person becomes aware that a patent may be relevant to a product it sells, a duty arises to exercise due care and to investigate whether or not the product infringes any valid, enforceable claim of the patent.<sup>63</sup> In other words, a defendant who intentionally blinds itself to the facts and law, and then continues to infringe, may be found to be a willful infringer.<sup>64</sup>

¶32 When is the duty triggered? As a general rule, as soon as there is "actual notice of another's patent," there is an affirmative duty to investigate whether it is being infringed.<sup>65</sup> Sometimes, that notice comes in the form of the complaint. Oftentimes, however, it might come in the form of a cease and desist letter to the would-be defendant, or in a letter offering to license the patent in a way that ostensibly seeks to avoid giving rise to jurisdiction under the Declaratory Judgment Act's requirement of an "actual controversy."<sup>66</sup> When a case arises under patent law, courts apply the substantive law of the Federal Circuit.<sup>67</sup> Notably, the Federal Circuit in 2005 had made it more difficult to establish an actual controversy by demanding that the declaratory judgment plaintiff "demonstrate that it has a reasonable apprehension of *imminent* suit."<sup>68</sup> Although the

<sup>61</sup> An innocent end user who purchases infringing product from the patent owner under certain circumstances might be immune from suit under the "first sale/exhaustion" doctrine. *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1335-36 (Fed. Cir. 2006). For a thoughtful analysis of the "first sale/exhaustion" doctrine, see generally John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 643 (2004).

<sup>62</sup> "[I]ntent is not an element of direct infringement, whether literal or by equivalents . . . . Infringement is, and should remain, a strict liability offense." *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1527 (Fed. Cir. 1995) (en banc). Indeed, patent law in this respect is comparable to copyright law, where innocent infringement is no defense to liability, although it may be relevant to willfulness. See Christopher A. Harkins, *Tattoos and Copyright Infringement: Celebrities, Marketers, and Businesses Beware of the Ink*, 10 LEWIS & CLARK L. REV. 313, 314 & n.2 (2006).

<sup>63</sup> *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1368 (Fed. Cir. 2006) ("There continues to be 'an affirmative duty of due care to avoid infringement of the known patent rights of others.'") (citation omitted).

<sup>64</sup> *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1572 (Fed. Cir. 1996).

<sup>65</sup> *nCube Corp. v. Seachange Int'l, Inc.*, 436 F.3d 1317, 1324 (Fed. Cir. 2006).

<sup>66</sup> Federal jurisdiction is limited to cases of "actual controversy." 28 U.S.C. § 2201 (2006) (Declaratory Judgment Act requires "a case of actual controversy"); *Arizonans for Official English v. Arizona*, 520 U.S. 43, 67 (1997). This requirement, which the Declaratory Judgment Act explicitly acknowledges, has its roots in Article III of the Constitution. U.S. CONST. art. III, § 2, cl. 1.

<sup>67</sup> *Vanguard Research, Inc. v. PEAT, Inc.*, 304 F.3d 1249, 1254 (Fed. Cir. 2002).

<sup>68</sup> *Teva Pharms. USA, Inc. v. Pfizer, Inc.*, 395 F.3d 1324, 1333 (Fed. Cir. 2005). Until recently (March 26, 2007, to be precise), in patent cases the Federal Circuit had held that courts were to apply a two-part test to determine whether there is an actual controversy in suits requesting a declaration of patent non-infringement or invalidity. *Id.* at 1330 (the two-part test mandated "both (1) an explicit threat or other action by the patentee which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement suit, and (2) present activity by the declaratory judgment plaintiff

Supreme Court in its 2007 decision in *Medimmune, Inc. v. Genentech, Inc.*<sup>69</sup> found there to be an actual controversy based on a letter that made a clear threat to enforce a newly issued patent and the belief that the patent covered the licensee's product,<sup>70</sup> the Supreme Court signaled that the Federal Circuit's heightened test had a limited future life expectancy. In footnote 11 to the *Medimmune* decision, the Supreme Court strongly hinted that it was calling into question the continued viability of "the Federal Circuit's 'reasonable apprehension of suit' test (or in its evolved form, the 'reasonable apprehension of imminent suit test [of *Teva*])."<sup>71</sup> The impact of footnote 11 from *Medimmune* would likely make district courts reluctant to employ the Federal Circuit's "reasonable apprehension of imminent suit" test in patent declaratory judgment actions. Stated another way, declaratory judgment plaintiffs would be more likely to overcome a motion to dismiss<sup>72</sup> that tests the federal subject matter jurisdiction of a patent declaratory judgment complaint. If there was any doubt as to the impact footnote 11 might have, the Federal Circuit removed all doubt on March 26, 2007 when it put the reasonable apprehension of suit test to rest.<sup>73</sup>

¶33

Any safe haven once afforded to patentees, who could engage in scare-and-run tactics of threatening a patent infringement suit and expensive litigation under the guise of offering a patent license with a so-called promise not to sue in order to avoid creating declaratory judgment jurisdiction, was dealt a fatal blow by the Federal Circuit's recent decision in *SanDisk Corporation v. STMicroelectronics, Inc.*<sup>74</sup> The district court had found that SanDisk lacked a reasonable apprehension of being sued by ST for patent infringement given ST's statement that it "has absolutely no plan whatsoever to sue SanDisk"<sup>75</sup> and ST's failure to make "express charges of infringement carrying with them the threat of enforcement."<sup>76</sup> In view of footnote 11 of the Supreme Court's decision in

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which could constitute infringement, or concrete steps taken by the declaratory judgment plaintiff with the intent to conduct such activity."); *Windsurfing Int'l, Inc. v. AMF, Inc.*, 828 F.2d 755, 757 (Fed. Cir. 1987) (setting forth a similar two-part test of when there would be an actual controversy); *Hanes Corp. v. Millard*, 531 F.2d 585, 592 (D.C. Cir. 1976) (holding that the presentation of defenses cannot bestow the independent jurisdiction necessary to create "case of actual controversy" within the meaning of the Declaratory Judgment Act).

<sup>69</sup> *Medimmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

<sup>70</sup> *Id.* In reaching its decision, the Supreme Court examined in some modest detail its declaratory judgment jurisprudence.

<sup>71</sup> *Medimmune*, 127 S. Ct. at 774 n.11.

<sup>72</sup> FED. R. CIV. P. 12(b)(1). Consequently, to the extent that a defendant's motion to dismiss is based on the argument that a court lacks subject matter jurisdiction over a patent declaratory judgment action on account of there being no actual controversy, the defendant's motion will have a lesser chance of success at the pleading stage. *Medimmune*, 127 S. Ct. at 771 ("[T]he facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.").

<sup>73</sup> *SanDisk Corp. v. STMicroelectronics, Inc.*, No. 05-1300, 2007 WL 881008, at \*6 (Fed. Cir. Mar. 26, 2007) ("The Supreme Court, in *MedImmune*, addressed the 'reasonable apprehension of suit' aspect of this court's two-part test and concluded that it conflicts [with the case or controversy principle that is rooted in Article III of the Constitution]."); see also *Teva Pharms. USA, Inc. v. Novartis Pharms. Corp.*, No. 06-1181, 2007 WL 942201, at \*12 (Fed. Cir. Mar. 30, 2007) (Friedman, J., concurring) ("Although these footnote statements were dicta, the Court apparently was telling us that it rejected our 'reasonable apprehension of imminent suit' test for determining declaratory judgment in patent cases . . .").

<sup>74</sup> *SanDisk*, 2007 WL 881008, at \*9.

<sup>75</sup> *Id.* at \*2.

<sup>76</sup> *Id.* at \*3 (internal brackets omitted).

*MedImmune*, the Federal Circuit scrapped the reasonable apprehension of suit prong<sup>77</sup> in favor of an adverse positions test: “We hold only that where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights.”<sup>78</sup> Before the ink was dry on the *SanDisk* decision, another panel of the Federal Circuit, in *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*, reaffirmed that its reasonable apprehension test had been overruled.<sup>79</sup> The *Novartis* decision further shaped the adverse positions test by emphasizing an “all circumstances” analysis as the standard by which the adverse legal interests ought to be weighed in determining whether there was sufficient evidence of standing and ripeness to make the controversy justiciable under Article III of the Constitution.<sup>80</sup>

¶34

To the extent that the test in patent declaratory judgment actions is a moving current, under a state of flux and to undergo further morphing until there in an en banc decision, the present flow of current may have been reflected in the concurring opinion in *SanDisk* by Judge Bryson, who expressed reservations about the new standard. According to Judge Bryson, “virtually any invitation to take a paid license relating to the prospective licensee’s activities would give rise to an Article III case or controversy if the prospective licensee elects to assert that its conduct does not fall within the scope of the patent.”<sup>81</sup> Therefore, unless circumscribed to facts where a patentee identifies specific products or activities by the would-be licensee together with specifying particular patent claims and an explanation of how those claims cover the accused products or activities, the adverse positions test will usher in sweeping changes to declaratory judgment actions involving patents. As a result, an unbounded adverse positions test has the potential of making declaratory relief virtually limitless in its availability to parties who are merely approached by patentees seeking to license their patents.<sup>82</sup>

<sup>77</sup> The court in *SanDisk* expressly avoided the second prong of the Federal Circuit’s declaratory judgment test for patent infringement actions: “In this case, we address only the first prong of this court’s two-part test. There is no dispute that the second prong is met. We therefore leave to another day the effect of *MedImmune*, if any, on the second prong.” *SanDisk*, 2007 WL 881008, at \*7 n.2.

<sup>78</sup> *Id.* at \*7. The court suggested that a patentee can avoid the risk of a declaratory judgment action by entering into a confidentiality agreement with the prospective licensee, instead of simply marking any documents exchanged between the parties as protected under Federal Rule of Evidence 408 relating to the restriction on use of offers to settle a claim. *Id.* at \*2 n.1. In practice, parties often enter into confidential non-disclosure agreements when the parties consider exploring patent licensing as being in their mutual interest. When negotiations do not start with such a friendly handshake, the parties in practice usually endorse their documents “Under Fed. R. Evid. 408,” as when negotiations begin with the cease and desist letter or similar communication by which the patentee in essence hints at or otherwise overtly threatens to commence a consuming and costly patent infringement litigation unless the prospective licensee enters into a license.

<sup>79</sup> *Teva Pharms. USA, Inc. v. Novartis Pharms. Corp.*, No. 06-1181, 2007 WL 942201, at \*12 (Fed. Cir. Mar. 30, 2007).

<sup>80</sup> *Id.* at \*3, \*11.

<sup>81</sup> *Id.* at \*11.

<sup>82</sup> The Federal Circuit and Supreme Court were attempting to address the problem with the reasonable apprehension test where the would-be licensee is faced with a decision of betting the farm in the face of threatened patent infringement charges and risking treble damages by continuing with its current or planned activities on the one hand, or effectively being coerced to abandon its otherwise lawful activities by giving up what it had a right to do and thereby through its own action (or inaction) eliminating the imminent threat or reasonable apprehension of suit. *Id.* at \*5-9. While stating that it “need not define the outer boundaries

¶35 At a minimum, whatever circumstances satisfy the Federal Circuit’s lower standard for finding patent declaratory judgment jurisdiction will in turn directly impact the advice of counsel defense. Put differently, the court’s standard would necessarily trigger a would-be defendant’s duty to exercise due care and to investigate whether or not the product infringes any valid, enforceable claim of the patent.<sup>83</sup>

¶36 The “actual notice” of another’s patent is arguably a still lower standard, however, than the “actual controversy” requirement for Declaratory Judgment Action. Stated another way, an affirmative duty to investigate another’s patent might arise even when the patent owner has not asserted the patent against the would-be infringer. Indeed, at least one court held that notice had occurred when in-house counsel saw a patent that had been referenced in the Official Gazette of the United States Patent and Trademark Office.<sup>84</sup> While the defendant argued that it did not recognize the infringement issue, the Federal Circuit gave weight to the fact that in-house counsel associated the patent with the accused product in the capacity as counsel for the potential infringer.<sup>85</sup> One district court had found the potential infringer to be on notice, however, when the asserted patent appeared among prior art references cited by the defendant in its own patent applications,<sup>86</sup> even though the defendant’s patents had no direct relationship with the allegedly infringing product.<sup>87</sup> That district court rejected the defendant’s argument that actual notice “requires both knowledge of the patents and knowledge of a problem of infringement.”<sup>88</sup> These cases seem to be wrongly decided to the extent they convert the standard of what the potential infringer “had known” into a standard more resembling what the defendant “should have known,” especially given Federal Circuit precedent that “constructive notice” is not tantamount to actual notice and shall not trigger the duty of care.<sup>89</sup>

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of declaratory judgment jurisdiction, which will depend on the application of the principles of declaratory judgment jurisdiction to the facts and circumstances of each case,” *id.* at \*7, the Federal Circuit cited many cases in contexts outside of patent licensing that should provide guidance for district courts in applying the adverse positions test. *Id.* at \*8. Specifically, courts will be called on to decide whether the patentee has taken a position that, when juxtaposed against a prospective licensee’s asserted rights, informs the court that the parties have adverse legal interests of sufficient immediacy and reality in view of specific identified ongoing or planned activity so as to warrant the issuance of a declaratory judgment.

<sup>83</sup> *SRI Int’l v. Advanced Tech. Labs.*, 127 F.3d 1462, 1470 (Fed. Cir. 1997) (noting that, in the context of damages, the criteria for filing a declaratory judgment action is not coextensive with the criteria for actual notice, which is lower and may be proven without creating an actual controversy under the Declaratory Judgment Act).

<sup>84</sup> *Stryker Corp. v. Intermedics Orthopedics, Inc.*, 96 F.3d 1409, 1415 (Fed. Cir. 1996).

<sup>85</sup> *Id.* at 1415-16.

<sup>86</sup> Patent applicants are under a duty of candor and good faith, when prosecuting the patent application before the US Patent and Trademark Office, and thereby encouraged to cite prior art “known” to the applicant. 37 C.F.R. § 1.56(a) (2000). Prior art is cited in a document known as an “information disclosure statement” (IDS), but the IDS “shall not be construed to be an admission that the information cited in the statement is, or is considered to be, material to the patentability as defined in § 1.56(b).” 37 C.F.R. § 1.98(h) (2000).

<sup>87</sup> *Honeywell Int’l, Inc. v. Hamilton Sundstrand Corp.*, 166 F. Supp. 2d 1008, 1037-38 (D. Del. 2001).

<sup>88</sup> *Id.* at 1037 (the court found notice was sufficient to send the issue to the jury, because there was a memorandum in the defendant’s files making reference of the patent in order to cite that patent to the PTO in one application that in-house counsel was prosecuting).

<sup>89</sup> *Imonex Servs., Inc., v. Munzprufer Dietmar Trenner GMBH*, 408 F.3d 1374, 1377 (Fed. Cir. 2005) (“Constructive notice, as by marking a product with a patent number, is insufficient to trigger this duty.”); *but see* Christopher A. Harkins, *A Budding Theory of Willful Patent Infringement: Orange Books, Colored Pills, and Greener Verdicts*, 2007 DUKE L. & TECH. REV. (forthcoming 2007) (introducing a theory whereby the Food and Drug Administration’s “Orange Book,” which is published pursuant the Hatch-

¶37 Also, any lowering of the standard of actual knowledge is especially problematic given that the potential infringer’s duty arguably may be triggered by notice received by any corporate employee, including engineers.<sup>90</sup> Moreover, imputing any corporate employee’s knowledge of the patent to the corporation itself would encourage a policy of corporate ignorance in order to avoid the notice requirement of willful infringement and thereby “impede rather than ‘promote the Progress of Science and useful Arts,’ the constitutional objective of patent and copyright protection.”<sup>91</sup>

## 2. The Totality of Circumstances Test of Willfulness

¶38 Even when the accused had knowledge of the asserted patent, willful infringement does not lie based on “the simple fact of infringement.”<sup>92</sup> Rather, a finding of actual infringement is necessary but not sufficient for willfulness, which is a question of fact.<sup>93</sup>

¶39 To establish willful infringement, the Federal Circuit has adopted a two-part test. The first step asks the fact finder to consider the “totality of circumstances”<sup>94</sup> in making its determination of whether the plaintiff met its burden of proving willfulness, which totality of circumstances include the following non-exclusive factors:

- (1) whether the infringer deliberately copied the ideas or design of another;
- (2) whether the infringer, when he knew of the other’s patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; . . .
- (3) the infringer’s behavior as a party to the litigation;
- (4) defendant’s size and financial condition;
- (5) closeness of the case;
- (6) duration of defendant’s misconduct;
- (7) remedial action by the defendant;
- (8) defendant’s motivation for harm; and
- (9) whether defendant attempted to conceal its misconduct.<sup>95</sup>

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Waxman Act, would provide actual notice to a defendant who produces a generic version of a brand-name patented drug).

<sup>90</sup> *SRI Int’l v. Advanced Tech. Labs.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997) (finding that the potential infringer had actual notice of the asserted patent when it employed “engineers [who had] expressed their concerns” over the patent in a memorandum).

<sup>91</sup> *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 126 S. Ct. 2921, 2922 (2006) (Breyer, J., dissenting) (Dissenting to the Supreme Court’s per curiam opinion dismissing a writ of certiorari as improvidently granted); *see also* U.S. CONST. art. I, § 8, cl. 8 (“to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their Respective Writings and Discoveries”); *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998) (The patent system represents a “bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time.”).

<sup>92</sup> *Norian Corp. v. Stryker Corp.*, 363 F.3d 1321, 1332 (Fed. Cir. 2004) (“There is no evidentiary presumption that every infringement is willful.”).

<sup>93</sup> *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1372 (Fed. Cir. 2006).

<sup>94</sup> *Liquid Dynamics Corp. v. Vaughan Co.*, 449 F.3d 1209, 1225 (Fed. Cir. 2006); *see also* *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1379 (Fed. Cir. 2005); *Comark Commc’ns., Inc. v. Harris Corp.*, 156 F.3d 1182, 1190 (Fed. Cir. 1998) (“In determining whether willfulness has been shown, we look to the totality of circumstances, understanding that willfulness, ‘as in life, is not an all-or-nothing trait, but one of degree. It recognizes that infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of the patentee’s legal rights.’”(citation omitted)).

<sup>95</sup> *Liquid Dynamics*, 449 F.3d at 1225 (citations and internal quotation marks omitted).

¶40 If the plaintiff proves by clear and convincing evidence<sup>96</sup> that the defendant did not meet this duty of due care, then a jury may find that the infringement was willful. The plaintiff bears both burdens of persuasion and production.<sup>97</sup> The burden of production shifts to the accused to put on evidence that it acted with due care only after the plaintiff meets its initial burden of production.<sup>98</sup> An express finding of willfulness is necessary before the second step.<sup>99</sup>

¶41 In the second step, the court may exercise its discretion in determining whether to increase the damage award based on the jury's finding of willfulness.<sup>100</sup> A jury's finding that the defendant willfully infringed the patent merely authorizes – it does not mandate – treble damages and attorneys' fees,<sup>101</sup> “even when there is an express finding of willful infringement.”<sup>102</sup> The paramount determination in deciding to grant enhancement and the amount of those enhanced damages is the defendant's culpable conduct or bad faith.<sup>103</sup>

¶42 Indeed, the failure of the infringer to avoid infringement by not attempting to design around the patent, or by otherwise failing to take remedial measures, may justify enhanced damages.<sup>104</sup> Another important factor in determining whether a potential infringer lacked a good faith belief that it did not infringe a patent is whether or not the infringer obtained an opinion of counsel, as discussed next.<sup>105</sup>

### 3. Look Before You Leap, and other Lessons for an Opinion of Counsel

¶43 Oftentimes, a defendant to a patent infringement lawsuit expects to rely on the advice of counsel in order to avoid a finding of willful infringement. That opinion can

<sup>96</sup> nCube Corp. v. Seachange Int'l, Inc., 436 F.3d 1317, 1319 (Fed. Cir. 2006) (“A jury verdict of willfulness requires a finding ‘by clear and convincing evidence in view of the totality of the circumstances that [the defendant] acted in disregard of the . . . patent and lacked a reasonable basis for believing it had a right to do what it did.’”(citation omitted)); see also *Liquid Dynamics* 449 F.3d at 1225.

<sup>97</sup> *Comark Commc'ns.*, 156 F.3d at 1190.

<sup>98</sup> *Norian Corp. v. Stryker Corp.*, 363 F.3d 1321, 1332 (Fed. Cir. 2004) (“[A]bsent an initial presentation of evidence . . . this burden of coming forward in defense [does] not arise.”).

<sup>99</sup> *Group One, Ltd. v. Hallmark Cards, Inc.*, 407 F.3d 1297, 1308 (Fed. Cir. 2005). An express finding of willful infringement is necessary before the court awards enhanced damages. *Id.* When the court exercises its discretion in denying willfulness damages, it must explain why. *Id.*

<sup>100</sup> *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1371 (Fed. Cir. 2006) (“Any trebling of damages based on a finding of willfulness is reviewed for abuse of discretion.”); *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 183 (Fed. Cir. 1994) (“[T]he district court did not abuse its discretion in trebling [the patentee's damages] because, inter alia, the infringer deliberately copied the patented invention, the jury found willful infringement, and the infringer lacked a good faith belief the patent was invalid.”).

<sup>101</sup> *Group One*, 407 F.3d at 1309 (“On a jury finding of willful patent infringement, a court may award attorney fees and not enhanced damages, or vice versa.”).

<sup>102</sup> *Id.* at 1308. When the court exercises its discretion in denying willfulness damages, it must explain why. *Id.*

<sup>103</sup> *Liquid Dynamics Corp. v. Vaughan Co.*, 449 F.3d 1209, 1225 (Fed. Cir. 2006) (“Courts consider [the totality of circumstances] when determining whether an infringer has acted in bad faith.”); see also *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996); *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992); *Beatrice Foods Co. v. New England Printing & Lithography Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991). For example, using the “copying” factor as an example, the fact finder need not find “slavish copying,” *Stryker Corp. v. Intermedics Orthopedics, Inc.*, 96 F.3d at 1414, if copying the ideas or design was made “deliberately.” *Read*, 970 F.2d at 827 n.7 (Stating that the test is “whether the infringer deliberately copied the ideas or design of another.”).

<sup>104</sup> *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1371 (Fed. Cir. 2004).

<sup>105</sup> *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992).

take the form of a non-infringement opinion or an invalidity opinion.<sup>106</sup> But before expecting to parade the opinion in front of the jury to vitiate willfulness and to show a good faith belief that it did not infringe the patent or that the patent was invalid, the defendant must show that the belief in the opinion was reasonable under all the circumstances.<sup>107</sup>

¶44 Indeed, willfulness may still be found despite the presence of an opinion of counsel in those cases when it is shown that the opinion was “either ignored or found to be incompetent.”<sup>108</sup> It must be incompetent in at least two respects.

¶45 First, the opinion must be given by a “competent” attorney. The Model Rules of Professional Conduct promulgated by the American Bar Association and followed in some version by forty-seven states<sup>109</sup> requires that the lawyer possess the required “legal knowledge, skill, thoroughness, and preparation reasonably necessary for the representation.”<sup>110</sup> The attorney ought to be registered to practice<sup>111</sup> before the United States Patent and Trademark Office.<sup>112</sup>

¶46 Second, the opinion itself must be independent and competent.<sup>113</sup> Generally, this requires that the opining attorney has analyzed the patent, its prosecution history, relevant prior art, and the accused product.<sup>114</sup> Indeed, an oral opinion given without analyzing the accused device, the patent’s file wrapper, or any prior art may not be relied upon to show

<sup>106</sup> An invalid claim cannot be infringed. *Abbott Labs. v. Baxter Pharm. Prods., Inc.*, 471 F.3d 1363, 1369 (Fed. Cir. 2006) (“Since all asserted claims are invalid, we do not reach questions of infringement or inequitable conduct.”).

<sup>107</sup> *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 181 (Fed. Cir. 1994).

<sup>108</sup> *Comark Commc’ns., Inc. v. Harris Corp.*, 156 F.3d 1182, 1191 (Fed. Cir. 1998); *Read*, 970 F.2d at 829.

<sup>109</sup> THOMAS D. MORGAN & RONALD D. ROTUNDA, 2007 SELECTED STANDARDS ON PROFESSIONAL RESPONSIBILITY 165-67 (2006) (The District of Columbia and forty-seven states have enacted some version of the ABA’s Model Rules of Professional Conduct. Only Maine, New York, and Ohio follow the ABA’s Model Code of Professional Responsibility.).

<sup>110</sup> MODEL RULES OF PROF’L CONDUCT R. 1.1 (1983).

<sup>111</sup> *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed.Cir.1983) (“M-K knew or should have known that . . . [appellant’s attorney] . . . was not a patent attorney. Again, this fact alone is not controlling, but does bear on the question whether M-K, when it sought advice, did so in good faith.”), *overruled by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed.Cir.2004) (en banc).

<sup>112</sup> Registered patent attorneys have passed a registration examination to establish to the Director of the U.S. Patent and Trademark Office that they possess the requisite legal, scientific, and technical qualifications, knowledge, and competence in the patent laws and procedures of the Patent Office to present and prosecute applications before the Office. 37 C.F.R. § 11.7(a)(2), (b)(1)(i).

<sup>113</sup> *Underwater Devices*, 717 F.2d at 1390 (“Although M-K might have demonstrated to the district court that despite any inference arising from these circumstances, it was in fact justified in believing [the opining attorney] was capable of rendering an independent and competent opinion because he did take the steps normally considered to be necessary and proper in preparing an opinion, it failed to do so.”); *see also Mallinckrodt, Inc. v. Masimo Corp.*, 147 Fed. App’x. 158, 184, Nos. 04-1495, 04-1540, 2005 WL 2139867, at \*26 (Fed. Cir. Sept. 7, 2005) (“Any competent attorney registered to practice before the PTO should have known that the *Masimo I* litigation was material.”) (pursuant to Fed. Cir. R. 47.6, the Federal Circuit’s Order was non-precedential but is intended to be part of the public record); *Yeu v. Kim*, Nos. 91-1034, 91-1035, 1991 WL 142608, at \*4 (Fed. Cir. July 31, 1991) (“Our cases establish that good-faith reliance on competent advice of counsel is a defense to a charge of willful infringement.”) (emphasis in original) (designated pursuant to Fed. Cir. R. 47.6). According to the Federal Circuit Rules, an order designated non-precedential was “determined by the panel issuing it as not adding significantly to the body of law.” FED. CIR. R. 47.6(b) (2006). The Federal Circuit’s precedential and nonprecedential opinions, rules, and other information are also available on the Federal Circuit web site. *See* United States Court of Appeals for the Federal Circuit, Rules and Forms, <http://www.fedcir.gov/contents.html> (last visited Apr. 6, 2007).

<sup>114</sup> *Underwater Devices*, 717 F.2d at 1390.

a good faith belief in non-infringement.<sup>115</sup> Moreover, the potential infringer must be sure to give its opining counsel all of the important technical documents and the best information available or else “the opinion can no longer serve its prophylactic purpose of negating a finding of willful infringement.”<sup>116</sup>

¶47 Until 2004, a plaintiff’s burden of production was satisfied by a defendant’s assertion of the attorney-client privilege to withhold an opinion of counsel. Consequently, the jury received an instruction allowing it to infer that the defendant either did not seek an opinion of counsel (thereby failing to exercise due care) or that the opinion was incompetent or unfavorable. Either way, the jury could find that the defendant did not hold a reasonable, good-faith belief that it did not infringe the patent. In *Knorr-Bremse*, the Federal Circuit held that “[t]he adverse inference that an opinion was or would have been unfavorable, flowing from the infringer’s failure to obtain or produce an exculpatory opinion of counsel, is no longer warranted.”<sup>117</sup>

¶48 Therefore, when the opinion is open to attack, such as by challenging or discrediting it as a mere oral opinion or a conclusory written opinion that did not review the best information available and all documents that a reasonable opining attorney can be expected to rely upon in forming the opinion, then according to one Federal Circuit decision it might be better strategy to assert the attorney-client privilege and forsake the advice-of-counsel defense.<sup>118</sup> Because there is no longer an adverse inference that a legal opinion was or would have been unfavorable when the defendant invokes the attorney-client and/or work-product privileges,<sup>119</sup> nor an adverse inference from such defendant’s failure to consult with counsel,<sup>120</sup> the defendant effectively keeps the plaintiff from using an otherwise shaky opinion against the defendant by invoking these privileges. Otherwise, the incompetent opinions, taken together with other evidence under the totality of circumstances, might support the finding of willfulness.<sup>121</sup>

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<sup>115</sup> *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1365-69 (Fed. Cir. 2006) (Because the opining attorney did not timely possess and analyze the accused device, the file wrapper, or any prior art in rendering oral opinions, the legal infirmities of the competence of those opinions were relevant in deciding that the infringement was willful).

<sup>116</sup> *nCube Corp. v. Seachange Int’l, Inc.*, 436 F.3d 1317, 1324 (Fed. Cir. 2006).

<sup>117</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344 (Fed. Cir. 2004) (en banc); *see also Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GMBH*, 408 F.3d 1374, 1378 (Fed. Cir. 2005) (“In that case, the affirmative duty of due care to avoid infringement was reiterated, but it was found no longer appropriate to draw an adverse inference with respect to willful infringement from failure to obtain legal advice.” (citing *Knorr-Bremse*, 383 F.3d at 1345-46)); *Insituform Techs., Inc. v. CAT Contracting, Inc.*, 385 F.3d 1360, 1377 (Fed. Cir. 2004) (“[T]he failure to obtain an exculpatory opinion of counsel shall no longer provide an adverse inference or presumption that such an opinion would have been unfavorable.” (quoting *Knorr-Bremse*, 383 F.3d at 1346)).

<sup>118</sup> *Golden Blount*, 438 F.3d at 1367-69.

<sup>119</sup> *Knorr-Bremse*, 383 F.3d at 1344 (“When the attorney-client privilege and/or work-product privilege is invoked by a defendant in an infringement suit, is it appropriate for the trier of fact to draw an adverse inference with respect to willful infringement? The answer is ‘no.’ . . . [N]o adverse inference shall arise from invocation of the attorney-client and/or work-product privilege.”).

<sup>120</sup> *Id.* at 1345 (“When the defendant had not obtained legal advice, is it appropriate to draw an adverse inference with respect to willful infringement? The answer, again, is ‘no.’”).

<sup>121</sup> *Golden Blount*, 438 F.3d at 1368 (“On the other hand, if the privilege is not asserted, the patentee in making its threshold showing of culpable conduct is free to introduce as evidence whatever opinions were obtained and to challenge the competence of those opinions in satisfaction of the patentee’s burden on willfulness. Nothing in *Knorr-Bremse* precludes a patentee from attempting to make such a showing.”).

4. Treble Damages and Attorneys' Fees

¶49 When the defendant both knows of the patent and fails to carry out its duty of care by avoiding the infringement of a valid and enforceable patent, then there might be a verdict of willful infringement. As a result, the plaintiff may be entitled to treble damages<sup>122</sup> as well as its attorneys' fees.<sup>123</sup> And those attorneys' fees in patent litigation can really sting.<sup>124</sup>

¶50 The trebling is of all actual damages. By statute, a plaintiff may recover only actual damages accruing after the date it placed the alleged infringer on "notice of infringement."<sup>125</sup> Here, the notice for purposes of willfulness and the notice for actual damages deviate.

¶51 Willfulness is a more lenient notice and focuses on when the potential infringer had knowledge of the patent, while the purpose of the notice statute for actual damages focuses on the patentee and is designed to ensure that the plaintiff gave the defendant knowledge of the adverse patent and alleged infringement.<sup>126</sup> Consequently, for actual damages to accrue, mere "notice of the patent's existence or ownership" is not "notice of infringement" and is not an "affirmative communication [to the potential infringer] of a specific charge of infringement by a specific accused product or device."<sup>127</sup> The plaintiff may meet its burden by giving the potential defendant "constructive" notice,<sup>128</sup> as when the plaintiff and its licensees mark with the patent number substantially all products covered by the patent.<sup>129</sup> Absent marking, however, actual damages may be recovered

<sup>122</sup> 35 U.S.C. § 284 (2006) (A "court may increase the damages up to three times the amount found or assessed.").

<sup>123</sup> 35 U.S.C. § 285 (2006) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.").

<sup>124</sup> For an analysis of the rising costs of patent litigation, see Christopher A. Harkins, *Fending Off Paper Patents and Patent Trolls: A Novel "Cold Fusion" Defense Because Changing Times Demand It*, 17 ALB. L.J. SCI. & TECH. (forthcoming 2007) (attorneys' fees could top \$650 thousand when plaintiff claims up to \$1 million at the disposition of the case while those fees could top \$2 million and even top \$4.5 million when the damages at issue are in excess of \$1 million and \$25 million respectively); see also AIPLA, REPORT OF THE ECONOMIC SURVEY 22-23 (2005).

<sup>125</sup> See, e.g., *Am. Med. Sys. v. Med. Eng'g Corp.*, 6 F.3d 1523, 1537 n.18 (Fed. Cir. 1993) ("Section 287(a) requires a party asserting infringement to either provide constructive notice (through marking) or actual notice in order to avail itself of damages. The notice of infringement must therefore come from the patentee, not the infringer."); see also *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed. Cir. 1994) ("For purposes of section 287(a), notice must be of 'the infringement,' not merely notice of the patent's existence or ownership."); 35 U.S.C. § 287(a) (2006) ("In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continues to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.").

<sup>126</sup> *Gart v. Logitech, Inc.*, 254 F.3d 1334, 1345 (Fed. Cir. 2001); see also *Amsted Indus. Inc.*, 24 F.3d at 187 ("The correct approach to determining notice under section 287 must focus on the action of the patentee, not the knowledge of the infringer.").

<sup>127</sup> *Amsted Indus.*, 24 F.3d at 187.

<sup>128</sup> Harkins, *supra* note 89 (arguing that the Food and Drug Administration's "Orange Book," which is published pursuant to the Hatch-Waxman Act, serves the purpose of notifying potential infringers who produce generic versions of brand-name patented drugs).

<sup>129</sup> *Syngenta Seeds, Inc. v. Delta Cotton Coop., Inc.*, 457 F.3d 1269, 1276 (Fed. Cir. 2006) ("This court has held that, in order to recover damages for patent infringement, a patentee bears the burden of pleading and proving either actual or constructive notice that the article is patented."); *Sentry Prot. Prods., Inc. v. Eagle Mfg. Co.*, 400 F.3d 910, 918 (Fed. Cir. 2005) ("Constructive notice is provided when the patentee consistently marks substantially all of its patented products.") (citation, internal quotations, and brackets

only after actual notice is given by the plaintiff<sup>130</sup> to the defendant, such as with the filing of the lawsuit or with a letter that accuses the defendant's product of infringing the plaintiff's patent.<sup>131</sup>

¶52

For its actual damages, the plaintiff may seek to recover lost profit damages, which are the profits the plaintiff lost because of the infringement.<sup>132</sup> Lost profit damages are not based on defendant's profits but instead are based on the profits the plaintiff would have realized if the defendant had not taken away those sales with the infringing product.<sup>133</sup> The plaintiff must show that it would have made the sales "but for" the defendant's infringing product.<sup>134</sup> Moreover, the lost profits test mandates proof of demand for the product, ability to manufacture and market to the demand, the absence of non-infringing alternatives, and the profit it would have made on the lost sales.<sup>135</sup> In lieu of the greater standard of proving lost profits, the Patent Act guarantees the patent owner (even if it never commercializes a single product) a minimum royalty on all of defendant's sales.<sup>136</sup> The plaintiff need not even prove an established royalty (i.e., where the value of a patent had been set through a series of existing licenses), and may in that case still recover a reasonable royalty from the defendant if the royalty means that the defendant would be selling the product at a significant loss.<sup>137</sup>

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omitted); *Gart*, 254 F.3d at 1345 ("The statute permits either constructive notice, which is accomplished by marking the article with the patent number, or actual notice."); *SRI Int'l v. Advanced Tech. Labs.*, 127 F.3d 1462, 1469-70 (Fed. Cir. 1997) ("Section 287(a) relates to informing the interested public of the patent status of an article in commerce, and permits either constructive notice by marking the article with the patent number, or actual notice to the infringer."); *see also* 35 U.S.C. § 287(a) (2006) ("Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word 'patent' or the abbreviation 'pat.,' together with the number of the patent, or when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein on or more of them is contained, a label containing a like notice.").

<sup>130</sup> *Lans v. Digital Equip. Corp.*, 252 F.3d 1320, 1327 (Fed. Cir. 2001) ("[N]otice from someone close to the patentee does not satisfy [section] 287(a)").

<sup>131</sup> *SRI Int'l.*, 127 F.3d at 1469-70. "Actual notice may be achieved without creating a case of actual controversy in terms of 28 U.S.C. § 2201. . . [such as] when the recipient is informed of the identity of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether by license . . . [or by a demand for] cessation of activity." *Id.* at 1470.

<sup>132</sup> *Zygo Corp. v. Wyko Corp.*, 79 F.3d 1563, 1571 (Fed. Cir. 1996); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc); *State Indus. Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1576-77 (Fed. Cir. 1989); *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

<sup>133</sup> In order to establish lost profits as the measure of damages, a plaintiff must prove by a "reasonable probability" that, "but for" the infringement, the plaintiff "would have made the sales that were made by the infringer." *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1371 (Fed. Cir. 2006) (citation omitted).

<sup>134</sup> *Crystal Semiconductor v. Tritech Microelectronics*, 246 F.3d 1336, 1355 (Fed. Cir. 2001); *Grain Processing Corp. v. Am. Maize-Prods.*, 185 F.3d 1341, 1349-50 (Fed. Cir. 1999).

<sup>135</sup> *Rite-Hite*, 56 F.3d at 1545. The plaintiff may rely on the following factors to prove entitlement to lost profits damages: (1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) manufacturing and marketing capacity to exploit the demand; and (4) the amount of profit it would have made. *Id.* (citing *Panduit*, 575 F.2d at 1156).

<sup>136</sup> 35 U.S.C. § 284 (2006) (establishing that compensation for infringement can be "in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."); *Rite-Hite*, 56 F.3d at 1544 (interpreting the statutory mandate that a damage award shall be "in no event less than a reasonable royalty" as setting "a floor below which damage awards may not fall").

<sup>137</sup> *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1361 (Fed. Cir. 2006) (arriving at reasonable royalties in the absence of an established royalty); *Golight, Inc. v. Wal-Mart Stores, Inc.*, 355 F.3d 1327, 1338 (Fed. Cir. 2004) (rejecting Wal-Mart's contention that the reasonable royalty should not be

### III. A HOBSON'S CHOICE AND THE ADVICE OF COUNSEL DEFENSE

¶53 The intersection of a defendant's right to rely on the advice of counsel defense and the plaintiff's right to all discovery relating to that defense is in a critical state of flux. On the one hand, by offering up the opinion of counsel, the defendant might successfully defend against the charges of willful infringement and avoid the treble damages and attorneys' fees that might follow a finding of willfulness. On the other hand, by offering up the opinion, the defendant waives any attorney-client privileged communications concerning the opinion,<sup>138</sup> and the Federal Circuit held in 2006 that the defendant may also relinquish attorney work product.<sup>139</sup> But the bad news for defendants does not end there. At least one court has held that the defendant might have to give up its trial counsel.<sup>140</sup>

#### A. From *Knorr-Bremse* to *EchoStar* and Beyond

¶54 Until 2004, the Federal Circuit's precedent on proving willful infringement had aided the plaintiff in making its case on willfulness by permitting the trier of fact to infer from an alleged infringer's failure to produce an opinion letter that such an opinion, if rendered, was or would have been unfavorable to the alleged infringer.<sup>141</sup> In its 2004 *Knorr-Bremse* decision, the Federal Circuit specifically addressed the question of whether it is appropriate to draw an adverse inference with respect to willfulness when an accused infringer had not obtained legal advice.<sup>142</sup> The court answered that question in the negative.<sup>143</sup> In that case, while early receipt of legal advice would have strengthened

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so high as to mean the defendant sells the product at a significant loss). Arguably, a court could disregard an established royalty if the defendant demonstrates that such royalties were inflated, such as in a case where the royalty rate in those preexisting licenses reflected more that of business decisions in avoiding the expenses of litigation as opposed to being indicative of the true value of what had been licensed.

<sup>138</sup> *Verizon Cal., Inc. v. Ronald A. Katz Tech. Licensing, L.P.*, 266 F. Supp. 2d 1144, 1148-49 (C.D. Cal. 2003) (holding that both the attorney-client privilege and attorney work product were waived for "the entire course of the alleged infringement," namely, "all points of time, including up through trial."); *Novartis Pharms. Corp. v. Eon Labs. Mfg., Inc.*, 206 F.R.D. 396, 399 (D. Del. 2002) (compelling the accused infringer to produce "all legal advice it received from any member of the Cohen, Pontani law firm with regard to the subject matter of Pontani's opinion" because the accused infringer "elected to engage in the unconventional and risky practice of having opinion and trial counsel from the same law firm.>").

<sup>139</sup> The Federal Circuit has found two categories of work product waived when the defendant relies on the advice of counsel defense. *In re EchoStar Commc'ns. Corp.*, 448 F.3d 1294 (Fed. Cir. 2006). First, the defendant had waived "documents that embody a communication between the attorney and client concerning the subject matter of the case, such as the traditional opinion letter." *Id.* at 1302. Second, the defendant had waived "immunity for any document or opinion that embodies or discusses a communication to or from it concerning whether that patent is valid, enforceable, and infringed by the accused. *Id.* at 1304 (noting that this waiver includes "not only any letters, memorandum, conversation, or the like between the attorney and his or her client, but also includes, when appropriate, any documents referencing a communication between attorney and client.>").

<sup>140</sup> *Crossroads Sys. (Tex.), Inc. v. Dot Hill Sys. Corp.*, No. 03-754, 2006 WL 1544621, at \*12 (W.D. Tex. May 31, 2006) (granting Plaintiff's Motion to Disqualify Trial Counsel for Dot Hill, and holding that no member of trial counsel's firm may assist in the presentation of this case at trial).

<sup>141</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1343 (Fed. Cir. 2004) (en banc).

<sup>142</sup> *Id.* at 1345.

<sup>143</sup> *Id.*

the defendants' argument that they had not willfully infringed, failure to have solicited such advice does not give rise to an inference of willfulness.<sup>144</sup>

¶155 In other words, there would be no adverse inference drawn against a potential infringer who fails to obtain legal advice or who in fact obtains a counsel's opinion but refuses to produce it based on invoking the attorney-client privilege. *Knorr-Bremse* does not address, however, the scope of the waiver that results from a party waiving privilege and asserting the advice of counsel defense. The starting point in resolving such disputes is the Federal Circuit's recent decision of *In re EchoStar*.<sup>145</sup>

¶156 In 2006, the Federal Circuit addressed, in *EchoStar*, the documents<sup>146</sup> that a plaintiff may obtain in discovery that are relevant to the critical inquiry of the defendant's "state of mind"<sup>147</sup> at the time of infringement so that there can be a determination of whether the defendant has willfully infringed the patent in suit. To adequately make that determination, the *EchoStar* court held that all communications relating to the subject matter of the opinion must be disclosed. In that case, the defendant had produced an opinion from in-house counsel, but withheld an opinion from outside counsel on which EchoStar chose not to rely.

¶157 First, the court held that "when EchoStar chose to rely on the advice of in-house counsel, it waived the attorney-client privilege with regard to any attorney-client communications relating to the same subject matter, including communications with counsel other than in-house counsel."<sup>148</sup> The court reasoned that "selective waiver of the privilege may lead to the inequitable result that the waiving party could waive its privilege for favorable advice while asserting its privilege on unfavorable advice."<sup>149</sup> To prevent such abuse, the court held that "when a party defends its action by disclosing an attorney-client communication, it waives the attorney-client privilege as to all such communications regarding the same subject matter."<sup>150</sup>

¶158 Second, regarding the work-product immunity, the Federal Circuit held that reliance on the advice-of-counsel defense resulted in a waiver of (1) documents that comprise traditional written communications exchanged between attorney and client concerning the subject matter of the opinion, and (2) documents that reflect or memorialize any oral communication of work product that the attorney conveyed to the client concerning the subject matter of the opinion whether or not those documents were forwarded to the client.<sup>151</sup> The court held, however, that waiver did not reach attorney

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<sup>144</sup> *Id.* at 1345-46.

<sup>145</sup> *In re EchoStar Commc'ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006).

<sup>146</sup> The term "documents" includes "documents that embody a communication," "documentary communications such as opinion letters and memoranda," and "work-product material" such as "if an attorney writes a memorandum or an e-mail to his associate referencing a phone call with the client, in which he indicates that he discussed the client's potential infringement, then such a memorandum is discoverable." *Id.* at 1302, 1304. Presumably, the scope of the term "document" as used by the Federal Circuit is coterminous with the scope of the term "document" under Rule 34(a) of the Federal Rules of Civil Procedure. FED. R. CIV. P. 34(a) ("[D]ocuments or electronically stored information – including writings, drawings, graphs, charts, photographs, sound recordings, images, and other data or data compilations stored in any medium from which the information can be obtained.").

<sup>147</sup> "Work-product waiver extends only so far as to inform the court of the *infringer's* state of mind." *In re EchoStar*, 448 F.3d at 1303.

<sup>148</sup> *Id.* at 1299.

<sup>149</sup> *Id.* at 1301.

<sup>150</sup> *Id.*

<sup>151</sup> *Id.* at 1302.

work-product documents analyzing the law, facts, trial strategy, and so forth that reflect the attorney’s mental impressions but that were not communicated to the client, because “[i]t is what the alleged infringer knew or believed, and by contradistinction not what other items counsel may have prepared but did not communicate to the client, that informs the court of an infringer’s willfulness.”<sup>152</sup> In arriving at this conclusion, the court commented 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.”<sup>153</sup>

¶159 In addition, in discussing the work-product privilege, the Federal Circuit addressed the temporal limits to waiver. Specifically, the court rejected such limits, stating that, while it “may be true” that waiver “does not extend to advice and work product given after litigation began . . . when the work product is never communicated to the client, it is not the case when the advice is relevant to ongoing willful infringement, so long as that ongoing infringement is at issue in the litigation.”<sup>154</sup>

¶160 The court in *EchoStar* did not directly address whether the same subject matter waiver extends beyond the specific defense at issue to include all defenses. And, predictably, the courts that have reviewed this issue post-*EchoStar* are split.<sup>155</sup> Moreover, *EchoStar* did not involve trial counsel.

¶161 In the wake of *EchoStar*, however, some courts have concluded that any *EchoStar* waiver ought to extend to *trial counsel*, other courts have disagreed, and still others have found waiver but only on a limited basis. In short, courts that have considered the issue of waiver with respect to trial counsel have not arrived at any consistent rulings.<sup>156</sup> Still,

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<sup>152</sup> *Id.* at 1303.

<sup>153</sup> *Id.*

<sup>154</sup> *Id.* at 1303 n.4.

<sup>155</sup> See *Informatica Corp. v. Bus. Objects Data Integration, Inc.*, No. C-02-3378, 2006 WL 2329460, at \*1 (N.D. Cal. Aug. 9, 2006) (waiver extends to the opinion which the defendant relies upon); *Beck Sys., Inc. v. Managesoft Corp.*, No. 05-C-2036, 2006 WL 2037356, at \*1 (N.D. Ill. July 14, 2006) (limiting waiver to “attorney-client communications and work-product material on the same subject matter as the legal opinions on which it relies”); *Intex Recreation Corp. v. Team Worldwide Corp.*, 439 F. Supp. 2d 46, 49 (D.D.C. 2006) (holding that the subject matter waiver scope is expanded to include all defenses-infringement, validity, and enforceability); *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F. Supp. 2d 354, 356 (D. Del. 2006) (holding that the advice-of-counsel privilege waiver applied to any defense to infringement).

<sup>156</sup> See *Computer Assocs. Int’l, Inc. v. Simple.com, Inc.*, No. C-02-2748, 2006 WL 3050883, at \*4 (E.D.N.Y. Oct. 23, 2006) (“holding that the waiver extends to trial counsel is consistent with *EchoStar*”); *Autobytel, Inc. v. Dealix Corp.*, 455 F. Supp. 2d 569, 576 (E.D. Tex. 2006) (finding that plaintiff not entitled to discovery of communications and work product between trial counsel and defendant’s employees where in-house counsel was mere conduit); *Affinion Net Patents*, 440 F. Supp. 2d at 356 (“When a defendant asserts the advice-of-counsel defense, the attorney-client privilege is waived as to communications with all counsel related to the same subject matter.”); *Ampex Corp. v. Eastman Kodak Co.*, No. C-04-1373, 2006 WL 1995140, at \*3 (D. Del. July 17, 2006) (rejecting argument that waiver should extend to trial counsel as that would “demolish[ ] the practical significance of the attorney-client privilege, a result obviously at odds with other comments in *EchoStar*”); *Beck Sys.*, 2006 WL 2037356, at \*5 (“*EchoStar* did not disturb the approach we adopted in [a previous case] which extends the waiver to attorney-client privilege and certain work-product material involving trial counsel.”); *Informatica*, 2006 WL 2038461, at \*8 (finding that “BODI waived privilege for both pre- and post-filing pertinent attorney-client communications and work product” and that “it is immaterial whether BODI’s opinion counsel and trial counsel are from the same firms, different firms or are even the same person”); *Indiana Mills & Mfg., Inc. v. Dorel Indus., Inc.*, No. C-04-01102, 2006 WL 1749413, at \*7 (S.D. Ind. May 26, 2006) (“There is no indication that the *EchoStar* court intended to extend this waiver to communication of trial counsel or to

others have adopted a “middle ground” approach under which “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.”<sup>157</sup>

*B. At a Crossroads Between Choosing Trial Counsel or the Advice of Counsel Defense*

¶162 Underscoring the assault on the effective assistance of trial counsel when a defendant dares rely on an advice of counsel defense is the district court decision of *Crossroads Systems (Texas), Inc. v. Dot Hill Systems Corp.*<sup>158</sup> In that case, the court disqualified the defendant’s trial firm and ordered that no member of the firm “may assist in the presentation of this case at trial.”<sup>159</sup>

¶163 In *Crossroads*, some members of the law firm, although not acting as the trial team, provided the opinions of counsel that the defendant relied on to defend against a charge of willful infringement. The plaintiff brought a motion to disqualify the defendant’s trial law firm. In granting that motion, the district court relied on ethical canons and rules<sup>160</sup> that an attorney shall not serve as trial counsel when it becomes clear that “he or she will be a necessary witness in the trial of the case.”<sup>161</sup> Under the circumstances presented to the court, the court extended those canons and rules to the entire firm, holding that “a strict prohibition on all members of the testifying lawyer’s firm serving as trial counsel is appropriate.”<sup>162</sup> The court specifically found that the scenario would invite “jury confusion” if the law firm’s trial team “were permitted to serve as trial counsel when their partners will be taking the stand as witnesses.”<sup>163</sup>

¶164 Moreover, the *Crossroads* court found the absence of any “prejudice” to the defendant based on several factors. First, the trial attorneys knew, for almost two years, that the court would not permit them to act as trial counsel if the opinions of other members of the firm were offered in support of the defense to plaintiff’s willfulness

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work product of trial counsel.”), *withdrawn*, No. 1:04-CV-1102-LJM-WTL, 2006 WL 1993420 (S.D. Ind. July 14, 2006) (withdrawing opinion because court “had been under the impression that Dorel had never sought additional opinions of counsel post-filing”).

<sup>157</sup> *Intex Recreation*, 439 F. Supp. 2d at 52.

<sup>158</sup> No. 03-754, 2006 WL 1544621 (W.D. Tex. May 31, 2006).

<sup>159</sup> *Id.* at \*11; *see also* *Dynasty Apparel Indus., Inc. v. Rentz*, 206 F.R.D. 596, 599 (S.D. Ohio 2001) (“[W]hen one lawyer is disqualified under DR 5-101(B), because he will testify as a witness, his entire law firm and all other lawyers in it must also be disqualified.”); *but see* *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, No. 95 Civ. 8833 RPP, 2000 WL 1006235 (S.D.N.Y. July 19, 2000) (denying plaintiff’s motion to disqualify the accused infringer’s trial attorney and firm because that trial counsel’s testimony was irrelevant to the willfulness inquiry when the accused infringer’s management witnesses should be the ones who are examined on the accused infringer’s state of mind); *Ragdoll Prods. (UK) Ltd. v. Wal-Mart Stores, Inc.*, No. 99 Civ. 2101 DLC, 1999 WL 760209, at \*2 (S.D. N.Y. Aug. 26, 1999) (refusing to disqualify opinion counsel from assisting the accused infringer with pretrial proceedings, and stating “the fact that Mr. Alstadt will be a witness at trial, by itself, is insufficient to require his disqualification” from pretrial matters”).

<sup>160</sup> W.D. TEX. R. AT-4; TEX. DISCIPLINARY RULES OF PROF’L CONDUCT R. 3.08(a)-(c) (1989); MODEL RULES OF PROF’L CONDUCT R. 3.7(b) (1983); MODEL CODE OF PROF’L RESPONSIBILITY DR 5-101, DR 5-102 (1980).

<sup>161</sup> *Crossroads Sys. (Tex.), Inc. v. Dot Hill Sys. Corp.*, No. 03-754, 2006 WL 1544621 (W.D. Tex. May 31, 2006) at \*9; *see also id.* at \*10.

<sup>162</sup> *Id.* at \*10.

<sup>163</sup> *Id.* at \*11 (According to the court, because it would need to “adopt a set of cumbersome procedures to prevent the jury from being unduly influenced by [one law firm] acting in dual roles, each of which may or may not be effective, the safer and more appropriate course is to require [that law firm] to refrain from participation as trial counsel in this case.”).

allegations.<sup>164</sup> Second, the trial attorneys assured the court that they would not serve as trial counsel for the defendant if the firm’s opining attorneys were called to testify.<sup>165</sup> That the trial counsel later “disavowed” that commitment obviously concerned the court. Third, the court relied on the trial counsel’s earlier statement that, in the event the opining attorney were called to testify and trial counsel would not participate, the defendant would still be “ably represented by several competent attorneys from two law firms besides”<sup>166</sup> trial counsel, which other firms had been involved with the case for some time.

¶165 On the heels of the disqualification of trial counsel, the case settled soon thereafter for over ten million dollars.<sup>167</sup>

#### IV. “A BRIDGE OVER TROUBLED WATER”:<sup>168</sup> PROPOSING A COHERENT AND EQUITABLE BALANCING TEST

¶166 Each of the district courts that addressed the issue of whether the waiver should extend to trial counsel had read and parsed the same *EchoStar* decision. Each considered its ruling consistent with *EchoStar*. Yet, reading the same opinion and the same exact words from the opinion, they came to flatly diverging conclusions of what is and is not off limits. Because the repercussions affect virtually every patent case, a patent defendant faces the stark reality of being forced to decide between giving up a critical defense to charges of willful infringement or preserving its privilege with trial counsel.

¶167 Courts, counsel, and parties need a coherent and equitable balancing test that will offer them clarity and predictability without compromising equity and fairness to either side. The proposed test weighs the competing policy against selective disclosure of opinions of counsel (sword-and-shield litigation tactics) and policy for protecting trial counsel’s work product, weighs any prejudice that might befall the accused infringer, weighs any irreparable harm to the patentee, and weighs the objective need for the evidence.

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<sup>164</sup> *Id.* (“Dot Hill has been aware of the Court’s position on this issue since September of 2004, and to the extent it has failed to prepare for this eventuality, the responsibility for this failure falls squarely on its shoulders.”).

<sup>165</sup> *Id.* at \*9 (“At the time of the hearing, Dot Hill’s counsel took the position that it was possible that none of [its] attorneys would be called to testify at the trial, but in the event that they were, [it] would not serve as trial counsel since there were two other firms representing Dot Hill. Since the September 2004 hearing, Dot Hill has disavowed its initial statements on the subject.”) (citation to the record omitted).

<sup>166</sup> *Id.* at \*11.

<sup>167</sup> See Press Release, Dot Hill Sys. Corp., Dot Hill Systems Settles Patent Infringement Lawsuit With Crossroads Systems (June 28, 2006), <http://investors.dothill.com/releasedetail.cfm?ReleaseID=205287>.

<sup>168</sup> PAUL SIMON & ART GARFUNKEL, *BRIDGE OVER TROUBLED WATER* (Columbia Records 1970). The song is the title track to *Bridge Over Troubled Water* by Paul Simon and Art Garfunkel. The song is about unity; the proposed test is a coherent view that unifies the law on a defendant’s right to the advice of counsel defense and a plaintiff’s right to the scope of the ensuing privilege waiver as it applies to trial counsel communications.

A. *Weighing the Policy Against Sword-and-Shield Opinions of Counsel and the Policy for Protecting Attorney Work Product*

¶168 The post-*EchoStar* district court decisions that interpreted *EchoStar* to extend the waiver to trial counsel had applied what in effect was a bright-line rule or an automatic waiver. That simplistic interpretation of *EchoStar* sacrifices equity and fairness.

¶169 Any “bright-line rule” or “automatic waiver” that exposes an accused infringer to treble damages and attorneys’ fees aimed at deterrence and retribution while vitiating that party’s right to the effective assistance of trial counsel directly conflicts with the teachings of *Knorr-Bremse*,<sup>169</sup> *EchoStar*,<sup>170</sup> procedural and substantive due process under the Due Process Clause of the Fourteenth Amendment to the Constitution of the United States,<sup>171</sup> the Seventh Amendment<sup>172</sup> right to a fair trial, and fundamental fairness. The bright-line approach or automatic waiver has the effect of forcing an accused infringer into choosing between the advice of counsel defense to charges of willful infringement on the one hand, and effective assistance of trial counsel on the other. That choice is unacceptable.

¶170 While straightforward in its application, a bright-line rule is rife with potential abuses that counter, rather than further, the truth-finding function of patent trials, the goal of judicial integrity, and the hope to bring “civil” back to civil litigation. In the slippery slope of an absolute waiver, it is wholly foreseeable (indeed, probable) that, upon a defendant’s exercising its right to defend itself based on the advice of counsel, the defendant’s trial counsel will be deluged with an onslaught of discovery intended to harass and to pressure the defendant into a quick settlement. Seemingly there would be no stopping a plaintiff from immediately bombarding the defendant’s trial counsel with document requests directed to the trial counsel’s own litigation files, and no doubt the plaintiff will barrage trial counsel with demands for depositions of every attorney on the trial team.

¶171 Plaintiff’s frenzied attempts at invasive discovery of *trial* counsel will utterly destroy the work-product immunity and attorney-client privilege that is essential and fundamentally necessary to carrying out its representation of a client that is innocent until proven liable. Indeed, the dire situation can predict a scenario where plaintiff’s counsel will be entitled to sit in on any face-to-face meetings or join any telephone conference between trial counsel and its client just in case the conversation might utter the words “non-infringement,” “invalidity,” “unenforceability,” or “opinion.” Simply put, this is tantamount to denying the accused infringer’s right to effective assistance of trial counsel. It is an unconstitutional, unacceptable, and misguided extension of Federal Circuit precedent.

¶172 A bright line in the context of punitive damages – which in reality is what treble damages and attorneys’ fees amount to in today’s rising costs of patent litigation – exacts

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<sup>169</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

<sup>170</sup> *In re EchoStar Commc’ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006).

<sup>171</sup> U.S. CONST. amend. XIV; *see also* *Philip Morris USA v. Williams*, 127 S. Ct. 1057, 1063 (2007) (“The Due Process Clause prohibits a State from punishing an individual without first providing that individual with ‘an opportunity to present every available defense.’”) (quoting *Lindsey v. Normet*, 405 U.S. 56, 66 (1972)); *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 416-18 (2003); *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 568, 575 (1996); *Pacific Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 18-19 (1991).

<sup>172</sup> U.S. CONST. amend. VII.

too much from the accused infringer and furthers no legitimate end. Treble damages and attorneys' fees can literally exceed tens of millions and hundreds of millions of dollars thereby leading a defendant directly into bankruptcy. What can be more punitive than that?

¶73 Plainly stated, too much is at stake in patent cases for a bright-line rule or automatic waiver that gives an opposing party unfettered carte blanche access (without exception) to all of trial counsel's communications with the accused infringer in preparing for trial, discussing the merits of litigation strategy, or evaluating settlement. Either there would be a chilling effect on any and all communications between the defendant and its trial counsel, or the bright line would effectively eradicate the advice of counsel defense if it can only be used in exchange forfeiture of any further communications with trial counsel, which will likely result from a district court order that automatically trumps the work-product protection of trial counsel.

¶74 The bright-line rule radically hinders an accused infringer from working with its trial counsel in order to defend itself and, consequently, deprives the accused infringer from its "day in court," forcing coercive settlement where it is held hostage to the automatic waiver, and forfeiting any notion of fair play, fundamental fairness, and the right to participate fully in its defense. And when it becomes open season by patent trolls on any would-be defendants, there will be great social costs that actually cripple legitimate research and development, stymie innovation, and chill healthy competition.<sup>173</sup> Nor does the bright-line rule comport with – in fact, it is at odds with – both *Knorr-Bremse* and *EchoStar*.

¶75 Simply put, the Federal Circuit never intended an all-or-nothing, everything is fair game, wholesale invasion of all communications between trial counsel and client concerning infringement, validity, and enforceability issues in the case as soon as the accused infringer asserts the opinion of counsel.<sup>174</sup> It is inconceivable that the same court that would do away with the adverse inference<sup>175</sup> instruction – which posed a threat to the attorney-client privilege and work-product immunity if a defendant exercised them in lieu of asserting the advice of counsel defense – would then nullify those privileges by substituting an equally perilous consequence to all who assert that very defense. There must be a counterbalance.

¶76 A balancing test would adequately take into account the longstanding right to rely on the opinion of counsel in defense of willfulness charges on the one side of the scale, and factors sufficient to find that a defendant waived the most sacrosanct of attorney client communications (that of *trial* counsel) on the other side of the scale. A balancing

<sup>173</sup> See Harkins, *supra* note 124 (arguing that costs of litigation create a carrot that patent trolls asserting paper patents may dangle in front of would-be defendants in order to extort a nuisance settlement, that there is a social harm caused by the crippling effect paper patent and patent troll litigation has on innovation, and that public interest would be served by introducing a defense to ensure an inventor had a functioning, operative device commensurate with the utility of the claimed invention).

<sup>174</sup> The *EchoStar* decision does not even involve the issue of *trial* counsel. *In re EchoStar*, 448 F.3d 1294. Nor does *Knorr-Bremse* address the scope of the waiver that results from a party asserting the advice of counsel defense; if anything, *Knorr-Bremse* did away with the Damoclean repercussions of the "adverse inference." See *Knorr-Bremse*, 383 F.3d 1337.

<sup>175</sup> *Knorr-Bremse*, 383 F.3d 1337 at 1341 ("We now hold that no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer's failure to obtain or produce an exculpatory opinion of counsel."); see also *id.* at 1344 ("[N]o adverse inference shall arise from invocation of the attorney-client and/or work-product privilege.").

test is consistent with the teachings of *EchoStar* and *Knorr-Bremse*, which emphasized the public interest in protecting the attorney-client privilege<sup>176</sup> and work-product immunity.<sup>177</sup> Under *EchoStar*, therefore, a district court should “balance” two competing policies:

We recognize that the line between “factual” work product and “opinion” work product is not always distinct, especially when, as here, an attorney’s opinion may itself be “factual” work product. When faced with the distinction between where that line lies, however, *a district court should balance the policies* to prevent sword-and-shield litigation tactics with the policy to protect work product.<sup>178</sup>

¶77 In contrast, an automatic waiver and bright-line rule abdicates the district court’s obligation (and responsibility) of weighing the evidence in order to determine whether there had been any sword-and-shield tactics at play as shown by, for example, a defendant’s selective disclosure of opinions of counsel. Furthermore, the automatic waiver and bright line rule ignore the policy in favor of the time-honored<sup>179</sup> protection of attorney-client privilege and work-product immunity of trial counsel.

¶78 A balancing test is also faithful to the Federal Circuit’s approach to willful infringement, which itself is a balancing test. In fact, the *en banc* decision in *Knorr-Bremse* reaffirmed that willfulness depends on the trier of fact considering the “totality of the circumstances”<sup>180</sup> and held that failure to obtain an opinion of counsel “shall no longer provide an adverse inference or evidentiary presumption that such an opinion would have been unfavorable.”<sup>181</sup> Moreover, the balancing test applies to district courts, because it is a bedrock principle of patent law that Federal Circuit precedent governs the issue of privilege and discoverability arising from assertion of the advice-of-counsel defense in response to charges of willful infringement.<sup>182</sup>

<sup>176</sup> *In re EchoStar*, 448 F.3d at 1300-01. (“We recognize the privilege in order to promote full and frank communication between a client and his attorney so that the client can make well-informed legal decisions and conform his activities to the law.”); *Knorr-Bremse*, 383 F.3d at 1344 (“There should be no risk of liability in disclosures to and from counsel in patent matters; such risk can intrude upon full communication and ultimately the public interest in encouraging open and confident relationships between client and attorney.”).

<sup>177</sup> *In re EchoStar*, 448 F.3d at 1301 (“We recognize work-product immunity because it promotes a fair and efficient adversarial system by protecting ‘the attorney’s thought processes and legal recommendations’ from the prying eyes of his or her opponent.”) (citing *Genentech, Inc. v. Int’l Trade Comm’n*, 122 F.3d 1409, 1415 (Fed. Cir. 1997)).

<sup>178</sup> *Id.* at 1302 (emphasis added).

<sup>179</sup> The U.S. Supreme Court’s concern for protecting attorney-client communications as an essential means to effective representation is well settled, harkening back to at least as early as 1888. *Hunt v. Blackburn*, 128 U.S. 464, 470 (1888) (The privilege is “founded upon the necessity, in the interest and administration of justice,” that a client and attorney ought to be able to communicate for the purpose of seeking and rendering legal services “free from the consequences or the apprehension of disclosure.”).

<sup>180</sup> *Knorr-Bremse*, 383 F.3d at 1342.

<sup>181</sup> *Id.* at 1346; *see also id.* at 1344 (“The adverse inference that an opinion was or would have been unfavorable, flowing from the infringer’s failure to obtain or produce an exculpatory opinion of counsel, is no longer warranted. Precedent authorizing such inference is overruled.”).

<sup>182</sup> *In re EchoStar*, 448 F.3d at 1298 (“[W]e apply our own law, rather than the law of the regional circuit. This case involves the extent to which a party waives its attorney-client privilege and work-product immunity when it asserts the advice-of-counsel defense in response to a charge of willful patent infringement. ‘Federal Circuit law applies when deciding whether particular written or other materials are

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And a plaintiff should not back-door an absolute privilege waiver by resorting to the accused infringer's ongoing duty of care. True, the Federal Circuit in *Knorr-Bremse* reaffirmed that "there continues to be 'an affirmative duty of due care to avoid infringement of the known patent rights of others.'"<sup>183</sup> The Federal Circuit got it right, but a plaintiff should not take that "duty" out of context. In its proper context, the duty stems from the Federal Circuit's decision in *Underwater Devices*<sup>184</sup> where the infringer's attorney, without first reviewing the PTO records<sup>185</sup> relating to the patents at issue, had advised the client to "continue to refuse to even discuss the payment of a royalty."<sup>186</sup> Under those facts, the court stressed the legal obligation to respect patents when the court pronounced the duty of care.<sup>187</sup> But *Underwater Devices* neither raised nor addressed the attorney-client privilege.

¶80

The Federal Circuit's decision in *Knorr-Bremse* trumpeted the attorney-client privilege and work-product immunity by overruling any adverse inference to be drawn from a defendant's exercising those privileges. In other words, Federal Circuit precedent militates against an outcome whereby the duty of care overrides an accused infringer's privilege the moment it asserts the advice of counsel defense to willful infringement that might subject that party to treble damages and attorneys' fees.<sup>188</sup> Such an outcome would render the privilege hollow and thereby inevitably relegate the advice of counsel defense

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discoverable in a patent case, if those materials relate to an issue of substantive patent law.") (quoting *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) (applying Federal Circuit law to question of attorney-client privilege between patent attorney and patentee).

<sup>183</sup> *Knorr-Bremse*, 383 F.3d at 1345 (quoting *L.A. Gear Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993)).

<sup>184</sup> *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983).

<sup>185</sup> The PTO records relating to an issued patent are usually called a "file history" or "prosecution history" in today's parlance, and historically were called a "file wrapper." *MANUAL OF PATENT EXAMINING PROCEDURE* § 719, at 700-281 (8th ed. 2001, rev. Oct. 2005) [hereinafter *MPEP*] ("The folder in which the U.S. Patent and Trademark Office maintains the application papers is referred to as a file wrapper."). Regardless of the nomenclature, these include all publicly accessible and non-expunged documents made of record in the folder that relate to the issued patent: all papers submitted by the applicant to the PTO (e.g., the application as filed, powers of attorney, oaths/declarations of inventorship, invention disclosure statements), all correspondence from the PTO to the applicant relating to the examination of the application for patentability ("office actions" that reject patent claims or object to aspects of the specification, and prior art cited by the PTO as relevant to the claimed invention), all responses by the applicant to the PTO (such as amending the claims, making arguments, submitting declarations in support of patentability), and correspondence from the PTO in reply to the applicant, and so on until the patent is allowed and issued. The foregoing examples may be referred to as "pre-grant" papers, but there may also be "post-grant" papers such as post-grant amendments and oppositions.

<sup>186</sup> *Underwater Devices*, 717 F.2d at 1385.

<sup>187</sup> *Id.* at 1389-90 ("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," including "the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity." (citations omitted)).

<sup>188</sup> *Cf. Knorr-Bremse*, 383 F.3d at 1348 (Dyk, J., dissenting in part). Circuit Judge Dyk refused to join the majority's decision on the continuing duty of care, because that duty raised a constitutional issue of whether treble damages for willful infringement (based on breaching the duty of care) was more akin to punitive damages, which the Supreme Court recently held could "only be awarded in situations where the conduct is reprehensible." *Id.* (citations omitted). In contrast, a mere failure to engage in "due care" is not tantamount to reprehensible conduct, the plaintiff recovers what is tantamount to punitive damages based on the breach of due care. *Id.* at 1351 ("When an infringer merely fails to exercise his supposed duty of care, there are 'none of the circumstances ordinarily associated with egregiously improper conduct' that could be sufficiently reprehensible to warrant imposition of punitive damages.") (quoting *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 580 (1996)).

so perilous as to be foisted into the annals of bygone times. A precarious privilege, or one that becomes null and void the moment a defendant asserts the advice of counsel defense, is little better than no privilege at all. But if the purposes of the attorney-client privilege, the advice of counsel defense, and the duty of care are to be served, then the defendant should not face such ominous consequences unless the district court first engages in a balancing test in order to determine whether the accused infringer had played fast-and-loose with its opinion of counsel, had embarked on opinion shopping, or had engaged in selective production of opinions of counsel that it received in carrying out its duty to seek and obtain competent legal advice from counsel.

¶81 Should it matter whether patent infringement defendants use lawyers from one law firm to act as trial counsel and other lawyers from the same firm to prepare a non-infringement opinion as a defense to allegations of willful infringement? According to the balancing test, that factor may be considered but would not be dispositive without weighing the evidence and making a finding based on underlying factors discussed below. The rationale for the balancing test applies equally to all trial counsel, because if there is a bright-line rule or automatic waiver as to one trial counsel then the waiver could not be cured even if the defendant were to hire new trial counsel. Otherwise stated, once the privilege is destroyed between the former trial counsel and the client, the opposing party would be free to comb through the files of, and take depositions of, former trial counsel over such broad topics as the strengths and weaknesses of the accused defendant's positions on non-infringement, invalidity, and unenforceability. That is too much.

¶82 The balancing test requires that the district court consider the extent to which the trial counsel and the lawyers from the same or different firm were screened off from each other. The proper balance would give the plaintiff sufficient leeway to pursue discovery from both the defendant and the counsel who rendered the opinion on which the accused infringer is relying in support of the advice of counsel defense, but the plaintiff cannot pursue discovery of the trial counsel without more. For instance, if the potential infringer follows the rules and intentionally keeps the opinion counsel and trial counsel completely separate and independent such that trial counsel plays no role in, makes no contribution to, and does not influence the drafting of the opinion or otherwise breach the screening wall between itself and opining counsel, and the accused infringer did not engage in "opinion shopping," then the discovery door leading to trial counsel ought to be closed to a plaintiff. If plaintiff is in fact able to "pierce" the privilege, however, by showing through this discovery that trial counsel and opining counsel were not screened off from each other, that they collaborated, that the defendant engaged in opinion shopping, or that trial counsel contributed to or influenced the opinion either during preliminary drafts or with supplemental opinions after the initial formal opinion, then the district court may find that the work-product immunity and the attorney-client privilege have been waived as to trial counsel.

### *B. Prejudice to the Accused Infringer*

¶83 Looking at another aspect of the scale, this factor of the coherent and equitable balancing test asks the district court to determine whether the defendant has been unfairly prejudiced. As with the other factors, district courts are particularly suited for this factor of the balancing test. For instance, district courts are regularly asked to decide

preliminary questions of the existence (or waiver) of a privilege.<sup>189</sup> Similarly, district courts are called on to decide the metes and bounds of discovery, from the scope of permissible discovery that is not privileged,<sup>190</sup> to claims of privilege or protection of trial preparation materials,<sup>191</sup> to limits on the scope and manner of discovery in order to preserve a privilege.<sup>192</sup> Likewise, district courts are adept at ruling on issues of whether or not evidence is sufficiently prejudicial to be excluded.<sup>193</sup>

¶84

The district court can weigh and consider the plaintiff's discovery tactics and make a judgment of whether the discovery hints at abuses. Here, the court should be skeptical of a plaintiff whose initial discovery propounds document requests and deposition notices of trial counsel before the plaintiff has any reliable basis for piercing the privilege. But the court might view the plaintiff's attempted discovery differently if the plaintiff has first deposed opinion counsel or the defendant's witnesses, and based on that discovery the plaintiff can show that the trial counsel played a role in, made contributions to, and influenced the drafting of the opinion, or that there was a breach of the screening wall between trial and opining counsel.

¶85

Also, the time that has elapsed between the date when the accused infringer received the opinion (on which it is relying) and the date on which it was served with the complaint might give rise to prejudice based on the defendant's detrimental reliance. For instance, if a defendant relies on an opinion of counsel prepared promptly after receiving a cease and desist letter, but the plaintiff sits on its rights for some time before suing the defendant, then there has been sufficient time to cause a break between the opinion of counsel and the trial counsel. In weighing the evidence, the court can "borrow" from familiar common law principles of laches and estoppel.<sup>194</sup>

<sup>189</sup> FED. R. EVID. 104(a) ("Preliminary questions concerning the qualification of a person to be a witness, the existence of a privilege, or the admissibility of evidence shall be determined by the court.").

<sup>190</sup> FED. R. CIV. P. 26(b)(1) ("Unless otherwise limited by order of the court in accordance with these rules, the scope of discovery is [that parties] may obtain discovery regarding any matter, not privileged.").

<sup>191</sup> FED. R. CIV. P. 26(b)(5)(A) ("When a party withholds information otherwise discoverable under these rules by claiming that it is privileged or subject to protection as trial-preparation material, the party shall make the claim expressly and shall describe the nature of the documents, communications, or things not produced or disclosed in a manner that, without revealing information itself privileged or protected, will enable other parties [and the court upon a motion to compel] to assess the applicability of the privilege or protection.").

<sup>192</sup> FED. R. CIV. P. 26(c) ("Upon motion by a party or by the person from whom discovery is sought . . . and for good cause shown, the court in which the action is pending . . . may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden [including] that the disclosure or discovery not be had . . ."); FED. R. CIV. P. 30(d)(1) ("A person may instruct a deponent not to answer only when necessary to preserve a privilege, to enforce a limitation directed by the court, or to present a motion under Rule 30(d)(4).").

<sup>193</sup> FED. R. EVID. 403 ("Although relevant, evidence may be excluded if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury, or by considerations of undue delay, waste of time, or needless presentation of cumulative evidence."); *Montana v. Egelhoff*, 518 U.S. 37, 41-43 (1996) (Due Process does not guarantee a plaintiff's right to introduce all relevant evidence and, therefore, the district court may exclude evidence without necessarily running afoul of plaintiff's Due Process.).

<sup>194</sup> *See, e.g.,* *Pruitt v. City of Chicago*, 472 F.3d 925, 929 (7th Cir. 2006) (discussing laches); *Blue Cross & Blue Shield Ass'n v. Am. Express Co.*, 467 F.3d 634, 640-41 (7th Cir. 2006) (discussing laches); *Hollander v. Brown*, 457 F.3d 688, 694 (7th Cir. 2006) (discussing equitable estoppel); *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020 *passim* (Fed. Cir. 1992) (laches and estoppel in the patent context relating to damages).

¶186 As another example, a defendant who first receives actual notice of plaintiff's patent rights at the time it received the patent infringement complaint and promptly receives an opinion of counsel, might assert the opinion of counsel. How entrenched is trial counsel in the case? The longer plaintiff waits, the more prejudice to the accused infringer. In the foregoing scenario of a post-litigation opinion, if the plaintiff relied on (or possessed) purported privilege piercing evidence, then the plaintiff must not wait months or years into the case before requesting the court to decide whether to allow discovery into trial counsel communications. Given that plaintiff seeks to invade trial counsel communications, the integrity of the patent litigation system can brook no delay. There should be no signs of ambush or gamesmanship.<sup>195</sup>

¶187 Furthermore, the district court is in the best position to decide how much weight to give to the defendant's relationship to the trial counsel. If trial counsel is the national patent counsel for the defendant, the only patent counsel to have appeared in the case, and has a comparative advantage to new counsel based on previous trials over the accused products or intimate knowledge of the defendant's business, then the court ought to be allowed to weigh these factors in the prejudice calculus, and of course the plaintiff's counsel should be heard in response.<sup>196</sup>

¶188 A plaintiff may be expected to counter with arguments that a waiver (or even disqualification of trial counsel) is mandated by ethical canons. Those are misplaced. Federal Circuit law controls the issue of advice of counsel defense and its impact on any waiver of attorney-client privilege or attorney work product.<sup>197</sup>

¶189 In *Crossroads*,<sup>198</sup> for example, no prejudice was argued by the defendant, no prejudice was shown, and no prejudice was found. Rather, the court found the "absence of any colorable argument for prejudice"<sup>199</sup> for at least two reasons. First, the defendant had known relatively early in the case (and long before the disqualification motion) the court's position that it would not allow trial counsel to present the defendant's case to the jury when opining counsel was a member of trial counsel's firm.<sup>200</sup> Second, the defendant's trial counsel admitted there would be no prejudice if they were disqualified,

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<sup>195</sup> Plaintiff's mere conclusory, unsubstantiated letter that it will seek trial counsel communications is inadequate to allow defendant to make an informed decision of whether or not to assert the advice of counsel and risk privileged communications with trial counsel. Otherwise, it would be pro forma for plaintiff to send such "notice" in every case, thereby rendering the prejudice factor null and void. While plaintiff need not show its hand in other aspects of the case, when it comes to the important matter of advice of counsel versus adequate assistance of counsel, the plaintiff should come clean. After all, the Federal Rules require a party to certify (before bringing a discovery motion) that "the movant has in good faith conferred or attempted to confer with other affected parties in an effort to resolve the dispute without court action." FED. R. CIV. P. 26(c); see also FED. R. CIV. P. 37(a).

<sup>196</sup> Plaintiff might argue the relevance of trial counsel's view of the evidence. Even if relevant (which it is not), trial counsel's view of the evidence must not become a focal point of the trial. That would lead to a "trial within a trial," and might lure the fact finder into a finding of willfulness on a ground different from proof specific to the defendant's state of mind.

<sup>197</sup> See *supra* note 182.

<sup>198</sup> *Crossroads Sys. (Tex.), Inc. v. Dot Hill Sys. Corp.*, No. 03-754, 2006 WL 1544621 (W.D. Tex. May 31, 2006).

<sup>199</sup> *Id.* at \*11.

<sup>200</sup> Plaintiff filed its case on October 17, 2003. The district court granted the disqualification motion on May 31, 2006. The defendant had "been aware of the Court's position on this issue since September of 2004, and to the extent it has failed to prepare for this eventuality, the responsibility for this failure falls squarely on its shoulders." *Id.*

because there were two other patent firms that had sufficient knowledge of the case and had been intimately involved from the beginning.<sup>201</sup>

¶90 Having found no prejudice resulting from disqualifying only one of the defendant's three trial counsel, the court granted the plaintiff's motion to disqualify because the court believed such a result was mandated by ethical canons. Not so.

¶91 To the contrary, proper reliance on the applicable ethical canons in *Crossroads* would not have required disqualification. Of the Model Code,<sup>202</sup> the Model Rules,<sup>203</sup> and the Texas Rules,<sup>204</sup> only the Model Code prohibits a lawyer, or the lawyer's "firm," from serving as trial counsel when another lawyer in the "firm" may be a witness. In contrast, the Model Rules (which Texas follows) firmly rejected this strict provision of the Model Code and, by doing so, gave greater weight to the client's interest, thereby concluding that a client should be allowed to consent to be represented by the law "firm."<sup>205</sup> This distinction, and the fact that the Texas Rules follow the Model Rules, thereby rejecting the Model Code, does not appear to have been made by the defendants. As a result, the court never considered this argument, and thereby placed its reliance on the Model Code, as opposed to the Model Rules upon which the Texas Rules are based. Indeed, the *Crossroads* decision held that "under these circumstances" all members of the "firm" would be disqualified. But the court cited for its support neither the Texas Rules nor the Model Rules. Instead, it cited a case that was based on the Model Code.<sup>206</sup>

### C. An Objectively Reasonable Need for the Evidence

¶92 All "helpful" evidence to a plaintiff's cause will naturally be "needed" by a plaintiff. The objectively reasonable need for the evidence factor of the proposed coherent and equitable balancing test as put forth in this article, however, speaks to the question of whether some concededly relevant evidence can only be obtained by compelling production of *trial* counsel communications, which has the potential of leading to unfairness to the defendant, discovery abuses, and gamesmanship. This "objectively reasonable need" factor is no more or less than what district courts presently

<sup>201</sup> *Id.* ("In any event, as Dot Hill's own [trial] counsel noted at the hearing when this issue first arose, Dot Hill is being ably represented by several competent attorneys from two law firms besides [trial counsel].").

<sup>202</sup> See MODEL CODE OF PROF'L RESPONSIBILITY DR 5-101(b) (1980) ("[a] lawyer shall not accept or continue employment as an advocate before a tribunal in a contemplated or pending adjudicatory proceeding if the lawyer knows or believes that the lawyer is or may be a witness necessary to establish an essential fact on behalf of the lawyer's client [unless certain enumerated exceptions apply].").

<sup>203</sup> See MODEL RULES OF PROF'L CONDUCT R. 3.7(b) (1983) [hereinafter MODEL RULES] ("A lawyer may act as advocate in a trial in which another lawyer in the lawyer's firm is likely to be called as a witness . . .").

<sup>204</sup> See W.D. TEX. R. AT-4; TEXAS DISCIPLINARY RULES OF PROF'L CONDUCT 3.08(c) (1989) ("Without the client's informed consent, a lawyer may not act as advocate in an adjudicatory proceeding in which another lawyer in the lawyer's firm is prohibited . . . from serving as advocate.").

<sup>205</sup> See MODEL RULES, *supra* note 203. Only about three states follow the more stringent Model Code, whereas about forty-seven states (including Texas) follow the Model Rules. See MORGAN & ROTUNDA, *supra* note 109, at 165-67.

<sup>206</sup> *Crossroads Sys. (Texas), Inc. v. Dot Hill Sys. Corp.*, No. 03-754, 2006 WL 1544621, at \*10 (W.D. Tex. May 31, 2006) ("[A] strict prohibition on all members of the testifying lawyer's firm serving as trial counsel is appropriate.") (citing *Dynasty Apparel Indus., Inc. v. Rentz*, 206 F.R.D. 596, 599 (S.D. Ohio 2001) ("[W]hen one lawyer is disqualified under DR 5-101(B), because he will testify as a witness, his entire law firm and all other lawyers in it must also be disqualified.")).

do when deciding, by court order, whether to limit discovery under the Federal Rules of Civil Procedure:

The frequency or extent of use of the discovery methods otherwise permitted under these rules and by any local rule shall be limited by the court if it determines that: (i) the discovery sought is unreasonably cumulative or duplicative, or is obtainable from some other source that is more convenient, less burdensome, or less expensive; (ii) the party seeking discovery has had ample opportunity by discovery in the action to obtain the information sought; or (iii) the burden or expense of the proposed discovery outweighs its likely benefit, taking into account the needs of the case, the amount in controversy, the parties' resources, the importance of the issues at stake in the litigation, and the importance of the proposed discovery in resolving the issues. The court may act upon its own initiative after reasonable notice or pursuant to a motion under Rule 26(c).<sup>207</sup>

¶193 Therefore, one virtue of this “objectively reasonable need” factor is that it depends from familiar concepts and well-established principles in law. This need factor is essential, because violation of trial counsel’s work-product immunity and attorney-client privilege is a drastic measure to be avoided unless absolutely necessary. Some guidelines for courts to weigh in making that judgment are discussed next.

#### 1. Willfulness Hinges on the Accused Infringer’s State of Mind, not of Trial Counsel

¶194 The accused infringer’s “intent and reasonable beliefs are the primary focus of the willfulness inquiry.”<sup>208</sup> Because the willfulness inquiry centers on the “infringer’s state of mind,”<sup>209</sup> the opinion counsel generally would not be competent to give an opinion of what was in another’s mind.<sup>210</sup> Rather, the focus is on whether the opinion, on which the accused infringer relies in support of the advice of counsel defense, was sufficient to “instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable.”<sup>211</sup>

¶195 Consequently, the critical component of the defense is the effect of the opinion on the defendant, and whether it was reasonable for the defendant to rely on that opinion.<sup>212</sup> Therefore, the pivotal focus should be on evaluating the nature of the opinion itself and the effect it had on the defendant’s action.<sup>213</sup> The plaintiff who seeks trial counsel communications should first take the deposition of the defendant and then be required to

<sup>207</sup> FED. R. CIV. P. 26(b)(2).

<sup>208</sup> *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992).

<sup>209</sup> “Work-product waiver extends only so far as to inform the court of the *infringer’s* state of mind.” *In re EchoStar Commc’ns Corp.*, 448 F.3d 1294, 1303 (Fed. Cir. 2006).

<sup>210</sup> FED. R. EVID. 602 (“A witness may not testify to a matter unless evidence is introduced sufficient to support a finding that the witness has personal knowledge of the matter.”). Preliminary questions “concerning the qualification of a person to be a witness” are determined by the court. FED. R. EVID. 104(a).

<sup>211</sup> *Ortho Pharm.*, 959 F.2d at 944.

<sup>212</sup> *SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997).

<sup>213</sup> *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 182 (Fed. Cir. 1994).

show a nexus between its action and trial counsel's breach of the screening wall,<sup>214</sup> giving serious consideration to the question of whether the defendant relied primarily<sup>215</sup> on the asserted opinion of counsel.

## 2. Opinion Counsel Generally Is Not a Necessary Witness

¶196 Opinion of counsel letters on which the defendant is relying generally must be examined by the four corners<sup>216</sup> of those letters. *EchoStar*<sup>217</sup> expressed concern over a defendant who produces only favorable letters while withholding unfavorable letters that might have led to opinion shopping. Assuming all such opinion letters from opinion counsel have been produced, then opinion counsel may be deposed as to the letter and as to what counsel told the client. Because opinion counsel tends to give testimony favorable to the defendant, plaintiffs rarely call the defendant's opinion counsel at trial, and given Federal Circuit precedent that it is the client's state of mind that matters, opinion counsel cannot give competent testimony to establish another's state of mind. But, nonetheless, plaintiff should be given the opportunity to show competency of opinion counsel and a legitimate expectation of calling that counsel at trial.<sup>218</sup>

## 3. Whether There Is A Substantial Need for the Trial Counsel's Testimony?

¶197 If opinion counsel is not a necessary party, then it is doubtful that trial counsel's testimony would be needed. Indeed, the Federal Circuit has held that the importance of an opinion of counsel "does not depend on its legal correctness."<sup>219</sup> Because the inquiry ought to be the four corners of the opinion and the accused infringer's reasonable reliance on that opinion,<sup>220</sup> mere comments by trial counsel should be excluded as little more than cumulative evidence of the written opinion or otherwise obtainable from some other source such as testimony from the client or documents exchanged between opinion

<sup>214</sup> In every case, the trial counsel's litigation strategy, expertise, and competence as attorneys can be said to have an "effect" on the defendant's action, but that is not the type of evidence for demonstrating a breach or that trial counsel played a role in, made contributions to, or influenced the drafting of the opinion.

<sup>215</sup> To the extent that trial counsel's communications related to the opinion, that evidence arguably would be merely cumulative of the opinion, FED. R. EVID. 403, and therefore should be held insufficient to implicate the stark consequences of destroying the trial counsel's privilege.

<sup>216</sup> *Studiengesellschaft Kohle v. Dart Indus., Inc.*, 862 F.2d 1564, 1578 (Fed. Cir. 1988) (quoting *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983)); *Steelcase Inc. v. Haworth, Inc.*, 954 F. Supp. 1195, 1200 (W.D. Mich. 1997) ("the issue is the opinion's reasonableness within its four corners").

<sup>217</sup> *In re EchoStar Commc'ns Corp.*, 448 F.3d 1294, 1301 (Fed. Cir. 2006) ("However, selective waiver of the privilege may lead to the inequitable result that the waiving party could waive its privilege for favorable advice while asserting its privilege on unfavorable advice.").

<sup>218</sup> The court may consider whether plaintiff's threat to call opinion counsel is merely a trial tactic to disqualify trial counsel under a *Crossroads* analysis, or whether counsel is truly a necessary witness. *Liz Claiborne, Inc. v. Consumer Prod. Recovery*, No. 04-819, 2004 WL 1496537, at \*3-4 (N.D. Tex. June 30, 2004); *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, No. 95-8833, 2000 WL 1006235, at \*5 (S.D. N.Y. July 19, 2000) ("Thus, as this Court has pointed out, the issues are limited to whether the [counsel's] opinion letter is a competent opinion and what Bristol's state of mind was when it decided to rely on it. In other words, was there reasonable reliance by Bristol? Bristol's management witnesses are the proper parties to be examined on that subject, not [counsel].").

<sup>219</sup> *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992).

<sup>220</sup> See *supra* Parts IV.C.1 and IV.C.2.

counsel and the client.<sup>221</sup> Therefore, trial counsel's agreement or disagreement with the opinion would not justify the wholesale invasion of trial counsel's privilege.

¶98 While willful infringement should not be trivialized, something more must be shown before a defendant faces a decision of whether to give up a key defense to charges of willful infringement or to choose the effective assistance of counsel. Nevertheless, under the Federal Rules of Evidence, district courts are accustomed to deciding important issues of whether there has been a "showing that the party seeking discovery has substantial need of the materials in the preparation of the party's case and that the party is unable without undue hardship to obtain the substantial equivalent of the materials by other means."<sup>222</sup> Therefore, this factor has the virtue of placing district courts on familiar territory.

#### *D. Irreparable Harm to the Plaintiff*

¶99 The plaintiff should be expected to shoulder the initial burden of showing irreparable harm to it if denied trial counsel communications. Here, district courts may borrow traditional common law notions of irreparable harm as they have done in other contexts, such as with injunctive relief.<sup>223</sup>

¶100 Logistically, therefore, a defendant would assert the advice of counsel defense to willful infringement.<sup>224</sup> The plaintiff would take traditional discovery of opinion counsel and defendant's witnesses on conventional issues relating to the advice of counsel defense. If there is evidence that trial counsel wore two hats – if any member of the trial team also played a role in, contributed to, influenced the opinion on which the defendant relies, or breached the screening wall – then the defendant would have an opportunity to withdraw the advice of counsel defense. Withdrawal would be with prejudice, defendant could not be heard to disavow the decision later in the case, and there would be presumptive irreparable harm to the plaintiff if defendant should attempt to recant its informed decision to give up the advice of counsel defense to charges of willful infringement.

¶101 Here, however, the policy against sword-and-shield litigation tactics works both ways. The plaintiff might not be able to show irreparable harm if it amends the complaint to assert additional patents that were not at issue at the time of the hearing and for which the screening wall has been perfectly maintained. In granting leave to allow

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<sup>221</sup> FED. R. CIV. P. 26(b)(2) (The court has discretion to limit discovery when "the discovery sought is unreasonably cumulative or duplicative, or is obtainable from some other source that is more convenient, less burdensome, or less expensive."); FED. R. EVID. 403 ("Although relevant, evidence may be excluded if its probative value is substantially outweighed by . . . considerations of undue delay, waste of time, or needless presentation of cumulative evidence.").

<sup>222</sup> FED. R. CIV. P. 26(b)(3).

<sup>223</sup> See, e.g., *Christian Legal Soc'y v. Walker*, 453 F.3d 853, 859 (7th Cir. 2006); *Belgium v. United States*, 452 F.3d 1289, 1292 (Fed. Cir. 2006).

<sup>224</sup> Defendant's assertion would automatically stay any attempted discovery. The rationale for the automatic stay is that a bell cannot be un-rung. Such automatic stays are becoming more common among district court local rules, gaining in acceptance by counsel, and appearing with increasing frequency in parties' stipulated protective orders that are intended to protect highly confidential information. See, e.g., D.C. COLO. L. CIV. R. 30.2 ("Pending resolution of any motion under Fed. R. Civ. P. 26(c) or 30(d), no party, attorney, or witness is required to appear at the deposition to which the motion is directed until the motion has been resolved. The filing of a motion under either of these rules shall stay the discovery to which the motion is directed until further order of the court.").

the plaintiff to amend the complaint,<sup>225</sup> a district court can tie its decision to granting defendant's motion to assert the advice of counsel defense to the newly added patent.<sup>226</sup> Alternatively, the district court may sever<sup>227</sup> plaintiff's infringement claim on the new patent, or may bifurcate willfulness<sup>228</sup> for that patent.

¶102 Only if the defendant maintains the advice of counsel defense would the court need to hear a motion on whether to pierce the trial counsel privilege. Thus, the timing of the hearing promotes judicial efficiency and avoids unnecessary motion practice should the defendant assert but then withdraw its defense based on revelations of discovery through traditional methods associated with proving and rebutting that defense.

¶103 The burden of production and burden of persuasion<sup>229</sup> of proving willful infringement remains with the plaintiff and, given that the advice of counsel defense is a "defense,"<sup>230</sup> the burden of choosing to give up this key defense or preserve the privilege with trial counsel would shift to the defendant only after plaintiff's initial showing that the privilege was pierced, the screen wall breached, or anyone from the trial team wore two hats.<sup>231</sup> Moreover, this shifting burden would dovetail with Federal Circuit precedent on the parties' respective burdens:

The patentee bears the burden of persuasion and must prove willful infringement by clear and convincing evidence. . . . "The patentee must present threshold evidence of culpable behavior' before the burden of production shifts to the accused to put on evidence that it acted with due care. . . . 'Absent an initial presentation of evidence this burden of coming forward in defense does not arise.' That threshold showing cannot be satisfied merely by proof that the accused is asserting the attorney-client privilege to withhold an opinion of counsel."<sup>232</sup>

<sup>225</sup> FED. R. CIV. P. 15(a) ("Otherwise a party may amend the party's pleading only by leave of court or by written consent of the adverse party; and leave shall be freely given when justice so requires.").

<sup>226</sup> *Id.* ("A party shall plead in response to an amended pleading within the time remaining for response to the original pleading or within 10 days after service of the amended pleading, which period may be the longer, unless the court otherwise orders.").

<sup>227</sup> FED. R. CIV. P. 42(b) ("The court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial of any claim, cross-claim, counterclaim, or third-party claim, or of any separate issue or of any number of claims, cross-claims, counterclaims, third-party claims, or issues, always preserving inviolate the right of trial by jury as declared by the Seventh Amendment to the Constitution or as given by a statute of the United States.").

<sup>228</sup> *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 644 (Fed. Cir. 1990) (district courts may give "serious consideration" to holding a separate trial on the willfulness issue when attorney-client communications may be revealed).

<sup>229</sup> FLEMING JAMES, JR., GEOFFREY C. HAZARD, JR. & JOHN LEUBSDORF, *CIVIL PROCEDURE* § 7.12 at 414 (5th ed. 2001) (Embodied in the term "burden of proof," "[t]he two distinct concepts may be referred to as (1) the risk of nonpersuasion, sometimes called the 'burden of persuasion,' and (2) the duty of producing evidence (or the burden of production), sometimes called the burden of going forward with the evidence.").

These two concepts can be distinguished by the fact that the burden of production can shift back and forth between parties during the trial, unlike the burden of persuasion.

<sup>230</sup> *Id.* (Often, "courts have confused the ideas of affirmative defense and negation by affirmative proof.").

For a discussion of the differences between an affirmative defense and a defense, see *id.*, § 4.5, at 247-50.

<sup>231</sup> Consequently, plaintiff's bald face, conclusory argument or allegation of willfulness in its initial pleading (without more) would ring hollow and be entitled to no weight, even though it compels the defendant to assert the advice of counsel defense for fear of waiving that defense if not timely pled.

<sup>232</sup> *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1368 (Fed. Cir. 2006) (internal citations,

¶104 If the court should find that the factors of the coherent and equitable balancing test militate in plaintiff's favor, then the court may order limited discovery of defendant's trial counsel communications.<sup>233</sup>

## V. CONCLUSION

¶105 As a defense to pro forma, template allegations of willfulness, a patent infringement defendant oftentimes obtains an opinion of counsel. Trouble is brewing, however, for the defendant as the 2006 Federal Circuit decision in *EchoStar*<sup>234</sup> has set off a veritable feeding frenzy of attacks by plaintiffs' counsel on the most sacred of attorney client communications and work product: that of *trial* counsel.

¶106 Plaintiffs pretend that the *EchoStar* decision creates a bright-line rule of absolute waiver of all attorney-client privileges and work-product immunities. Such an approach forecasts ominous consequences where a plaintiff may foist document requests and deposition notices on the trial team, and justify its discovery tactics with the bold assertion that *EchoStar* has empowered plaintiffs to listen in on the defendant's communications with trial counsel whenever a defendant asserts the advice of counsel defense and may be discussing non-infringement of the patent or any other issue that is the subject of the opinion of counsel on which the defendant relies. The upshot will be a defendant and its trial team that cease communications critical to preparing the case for trial or even evaluating the case for settlement. Such invasive discovery abuses are rabid attempts to place the accused infringer between Scylla and Charybdis: choosing between the advice of counsel defense to willful patent infringement on the one hand, or the effective assistance of trial counsel on the other.

¶107 This article argues that any reliance on *EchoStar* for a bright-line, automatic, absolute waiver of trial counsel communications is misplaced, inconsistent with, and contradictory to the language, tenor, and overriding policies set forth in *EchoStar*, *Knorr-Bremse*,<sup>235</sup> and other Federal Circuit precedent. This article argues that the Federal Circuit would not do away with the adverse inference instruction – which had posed a threat to the attorney-client privilege and work-product immunity if a defendant exercised them in lieu of asserting the advice of counsel defense – only to nullify those privileges and protections to all who assert that very defense for which the adverse inference was overruled. Indeed, given the Federal Circuit's view on the necessity of full and frank

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ellipses, and brackets omitted); *see also id.* (“As we explained in *Knorr-Bremse*, this court's precedent had (until that point) aided the patentee in making its case on willfulness by permitting the trier of fact to infer from an alleged infringer's failure to produce an opinion letter that such an opinion, if rendered, was or would have been unfavorable to the alleged infringer. We overruled this precedent and held that “[t]he adverse inference that an opinion was or would have been unfavorable, flowing from the infringer's failure to obtain or produce an exculpatory opinion of counsel, is no longer warranted.”) (citation omitted).

<sup>233</sup> Given the need for a proper balance between plaintiff's right to prove willfulness and the time-honored attorney-client privilege and work-product immunity, the district court or magistrate should limit the discovery so that the pierced privilege exception does not swallow the attorney-client privilege and work-product immunity. *See, e.g.*, FED. R. CIV. P. 26(c) (The district court “may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden.”). Limits on discovery are also advisable because unfair and irreparable prejudice to the defendant cannot be undone.

<sup>234</sup> *In re EchoStar Commc'ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006).

<sup>235</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

communications between an attorney and client, and its overruling an adverse inference when a defendant exercises the attorney-client privilege, this precedent militates against an argument that, based on *Underwater Devices*,<sup>236</sup> the duty of care trumps an accused infringer's attorney-client privilege or work-product immunity the moment when an accused infringer should assert the advice of counsel defense to willful infringement.

¶108 In place of the all-or-nothing, wholesale destruction of the attorney-client privilege or work-product immunity propounded by plaintiff and some district courts, this article has proposed a coherent and equitable balancing test that will bring clarity and fairness to the potentially chilling effect on discussions between the defendant and its trial team in the wake of *EchoStar*. The Federal Circuit precedent clearly demands a balancing test and forsakes a bright-line rule where a district court abdicates an obligation to weigh the evidence. One virtue of the "balancing" test proposed in this article is that it depends from familiar concepts and well-established principles of patent law, rules of evidence, and rules of civil procedure. Another virtue is that the balancing test will not complicate the case to any appreciable extent given what is at stake: the time-honored trial counsel's privilege and a defendant's right, when facing punitive treble damages, to effective assistance of trial counsel.

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<sup>236</sup> *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983).