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Opinion piece: in-house considerations in advice of counsel defenses

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INTRODUCTION

In patent litigation, a finding of willful infringement may treble damages under 35 U.S.C. § 284. A common defense to willful infringement involves retaining third-party "opinion counsel" to opine on whether an activity or product infringes a patent and/or whether the patent is valid and enforceable. In the wake of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, which lowered the bar for establishing willfulness, such "advice of counsel" defenses have become more prevalent.[1]

This defense, however, is not without drawbacks: relying on an opinion of counsel triggers waiver of attorney-client and work product privileges as to the "subject matter" of the opinion letter.[2]

> When obtaining an opinion, every effort should be made to keep opinion counsel truly independent.

Given the subject matter of the opinion letter — e.g., infringement, validity, claim construction — overlaps significantly with the substantive aspects of patent litigation, asserting an advice of counsel defense can result in sweeping discovery requirements, including disclosure of post-complaint communications, strategy discussions with third parties, and deposition of in-house counsel.

Unsurprisingly, the exact contours of this waiver is oft disputed in cases involving allegations of willful infringement.

In the mid-2000's, the Federal Circuit's *Echostar* and *Seagate* somewhat clarified the scope of the waiver: privilege is waived for opinion counsel, but absent "unique circumstances" trial counsel retains its ability to assert attorney-client and work product privileges.

Still, these decisions gave trial courts little guidance on how waiver applies to in-house counsel and explicitly eschewed establishing an absolute rule. This paper examines recent treatment of waiver in advice of counsel defenses and provides best practices for obtaining and relying on opinion letters.

BACKGROUND

In 2007, *Seagate* established a two prong test for willful infringement: patent holders had to (1) show by clear and convincing evidence that the defendant acted despite an *objectively* high likelihood that the accused acts would infringe and (2) that this objective risk "was either known or so obvious that it should have been known to the accused infringer."[3]

In 2016, however, the Supreme Court's decision in *Halo* loosened *Seagate's* "unduly rigid" test and shifted the willfulness inquiry to the infringer's *subjective* intent. While revisiting the willfulness standard, the High Court noted that the infringer's knowledge at the time of the challenged conduct determines culpability.

Thus, by lowering the bar for willfulness and refocusing the inquiry on pre-litigation conduct, *Halo* led to a renewed reliance on the advice of counsel defense. But while *Halo* changed the substantive aspects of willfulness, it did little to disturb the law regarding attorney-client and work product privileges.

Indeed, recent decisions from the Federal Circuit and district courts demonstrate that, with regard to waiver, *Echostar* and *Seagate* remain influential.

In *Echostar*, the defendant relied on an opinion from in-house counsel obtained prior to suit and then obtained a second opinion from a third party, but did not actually rely on the second opinion. The district court ordered discovery of communications of all work product except for those related to trial preparation or unrelated to infringement.

On appeal, the Federal Circuit affirmed the broad waiver, holding that assertion of an advice of counsel defense requires surrender of privilege as to *any* attorney-client communications relating to the same subject matter.

Less than a year later, however, an *en banc* Federal Circuit clarified this liberal waiver standard in *Seagate*. There, the district court held that defendant Seagate waived privilege to all communications between Seagate and *all* outside counsel — including trial counsel — concerning the subject matter of the opinions.

Seagate petitioned for writ of mandamus, which the Federal Circuit granted. In doing so, the court recognized that the "significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel" and "[b]ecause willful infringement in the main must find its basis in prelitigation conduct, communications of trial counsel have little, if any, relevance warranting their disclosure."[4]

The *Seagate* court concluded that, "as a general proposition," reliance on advice of counsel does not waive attorney-client privilege for trial counsel, but stressed that this is not an absolute rule; rather, "trial courts remain free to exercise their discretion in unique circumstances to extend waiver to trial counsel, such as if a party or counsel engages in chicanery."[5] Moreover, the court explicitly stated that it did not address the discovery orders related to Seagate's in-house counsel.

RECENT DEVELOPMENTS

Unique circumstances

Seagate clarified that waiver generally would not apply to trial counsel but left unclear which "unique circumstances" or what "chicanery" would warrant exception, and what, if any, effect the opinion would have on waiver as to in-house counsel. In 2016, *Krausz Industries Ltd. v. Smith-Blair, Inc.* provided some guidance.

> In-house counsel should diligently monitor what — and with whom — they are communicating potentially sensitive information, even where an opinion letter has been obtained well in advance of a suit being filed.

In *Krausz*, defendant Smith-Blair obtained an opinion letter from opinion counsel prior to the lawsuit. After the complaint was filed, Smith-Blair reached out to opinion counsel again regarding a non-infringement defense and discussed with trial counsel conversations it engaged in with opinion counsel.

Krausz moved to compel, asserting that (1) waiver applied to a wide variety of topics regardless of when the communications occurred and (2) waiver should be applied to communications between all parties — Smith Blair, Smith-Blair's in-house counsel, trial counsel, and opinion counsel.

As to the temporal scope, the court, relying on *Echostar*, held that the assertion of ongoing infringement resulted in waiver of all communications, including those that occurred after the suit was filed. With respect to the subject matter, however, the court sided with Smith-Blair.

Despite the fact that Smith-Blair discussed reexamination and initiating litigation with opinion counsel, the court held that waiver was limited to the subject matter for which opinion counsel actually offered an opinion — infringement of the asserted patent.

Having decided the scope of waiver, the court proceeded to determine whether privilege had been waived as to communications between opinion counsel, trial counsel, Smith-Blair, and Smith-Blair's in-house counsel.

As to opinion and trial counsel, the court held that opinion counsel's "ongoing involvement in material aspects of this case presents unique circumstances that justify discovery into certain communications with trial counsel."[6]

Specifically, the court pointed to opinion counsel's legal advice regarding Smith-Blair's patents; responses to discovery requests; claim construction disclosures; contention disclosures required by local rules; and service of process from both trial counsel and Smith-Blair.

The court also found that Smith-Blair waived privilege as to communications amongst opinion counsel and Smith Blair, Smith Blair's in-house counsel, and trial counsel. While recognizing that communications between these parties would usually be privileged, the court again pointed to the "unique circumstances" of the case — reasoning that opinion counsel's active and on-going involvement in the litigation necessitated waiver of privilege.

Broad discretion

Given the extensive overlap in responsibilities between trial, opinion, and in-house counsel, *Krausz* fits [relatively] neatly into Seagate's "unique circumstances" standard. A recent non-precedential opinion from the Federal Circuit, *In re Alcon Laboratories, Inc.*, however, suggests that trial courts' discretion in deciding issues of waiver may extend well beyond *Krausz's* exceptional circumstances.[7]

In *Alcon*, Johns Hopkins University filed suit in 2015 asserting willful infringement and Alcon responded by producing two non-infringement opinions; notably, Alcon also designated its in-house counsel as its only trial witness as to defendant's state of mind.

Following a motion to compel, the trial court denied a narrow grant of waiver from the magistrate, explaining that "in this specific area of patent law, there is a broad subject-matter waiver that is not subject to fairness balancing as applied elsewhere in the rules" and that *Seagate* calls for "broad subject-matter waiver."[8]

The court ordered Alcon to produce all documents and communications related to validity or infringement, other than those involving trial counsel, regardless of whether they were listed on defendant's privilege log.

Alcon filed a writ of mandamus, arguing, *inter alia*, that post-complaint privilege and work product protections for in-house counsel was a matter of first impression. The Federal Circuit denied Alcon's writ, explaining that while *Seagate* counsels

against waiver for trial counsel, *Seagate* did not establish an "absolute rule" and that trial courts have discretion in extending waiver to trial counsel.

In a brief opinion, the Federal Circuit specifically noted that Alcon designated its former in-house counsel as the only trial witness as to its state of mind, suggesting that the court viewed this as the "unique circumstance" contemplated by *Seagate*.

Still, while Alcon's designation of its in-house counsel as a trial witness *may* have been dispositive as to the waiver of privilege, a literal reading of the opinion sweeps much broader. Unlike the defendant in *Krausz*, Alcon did not involve opinion counsel in the development of litigation strategy — indeed, the opinions were obtained nine years before the complaint was filed, there was no communication with opinion counsel in the intervening period, and opinion counsel did not participate in the litigation.

Given the "subject matter" of the opinions concerned invalidity and infringement, the waiver afforded by the trial court could sweep in myriad communications from in-house counsel — both before the asserted patent issued and after the complaint was filed — regarding settlement and litigation strategy.[9]

Moreover, the Federal Circuit made no mention of the "chicanery" that *Seagate* noted could justify waiver to trial counsel, instead relying primarily on the trial court's discretion.

Deposition of in-house counsel

Waiver of privilege is not limited to emails; plaintiffs often press for deposition of in-house counsel involved with an opinion of counsel. A pair of district court decisions, *Wisconsin Alumni Research Foundation* and *Soundview*, demonstrate some of the issues that can arise in deposing in-house counsel.

In *Wisconsin Alumni Research Foundation*, WARF moved to compel the deposition of Apple's in-house counsel.[10] The court granted the motion, but limited the deposition to the substance of in-house counsel's communications with opinion counsel, including topics they did not discuss (i.e. written down, but not talked about).

The Court further excluded WARF from inquiring into why in-house counsel "chose to discuss or not discuss certain topics to the extent protected by Apple's larger attorney-client and work privileges, nor what was in his mind more generally, and certainly not what privileged communications he had with Apple's prosecution, *inter partes* review or litigation counsel."[11]

Still, the court held that all "actual communications" between in-house counsel and opinion counsel were on the table for the deposition, including topics that in-house counsel *did not discuss*. Thus, the court permitted Sound View to depose in-house counsel on notes made while conversing with the third-party opinion counsel.

More recently, in *Sound View Innovations v. Hulu*, Hulu asserted the advice of counsel defense based on non-infringement opinions from outside counsel, David Yang.[12] Sound View moved to compel the deposition of Hulu's in-house counsel Erin Mehta; Hulu responded that a party's lawyer should never be called to testify and offered its head of litigation, Karen Huoth, as a witness instead of Mehta.

The magistrate granted deposition of Mehta, reasoning that her personal knowledge was relevant and proportional to the needs of the case, but limited it to Mehta's knowledge of the subject matter of the legal opinions.

In granting the deposition, the magistrate focused on the fact that no other means existed to obtain the information,[13] rejecting Hulu's argument that other means existed because Huoth possessed the same relevant knowledge as Mehta.

The court pointed out that Mehta had "unique knowledge" regarding Yang's non-infringement positions, that Huoth spoke to Mehta prior to Huoth's deposition to refresh Huoth's memory, and that Mehta was the primary point of contact with Yang.

Strategies to avoid advice of counsel defense pitfalls

As the above cases demonstrate, the most important point to remember when obtaining an opinion letter is there are no bright-line rules with respect to in-house counsel.

While courts have generally tried to place some limitation on "subject matter," this can become difficult to parse and enforce, especially where opinions address all of the substantive aspects of the case (e.g., infringement, invalidity, claim construction, unenforceability).[14]

With that in mind, there are a number of best-practices that in-house counsel should observe when obtaining and relying on an opinion of counsel.

Compartmentalize.

When obtaining an opinion, every effort should be made to keep opinion counsel truly independent. *Krausz* provides the clearest example of the consequences of this failure to separate the proverbial church and state, but other district courts have relied on similar comingling as grounds for broad waiver.[15]

Opinion counsel should not be in contact with trial counsel whatsoever — while it is often useful to keep everyone in the loop, in the context of advice of counsel defenses, liberal use of the CC function in emails should be avoided. In-house counsel should not seek the advice of opinion counsel concerning litigation strategy, licensing, or other settlement negotiations.

Finally, as *Sound View* highlights, even within the in-house legal department itself, it is best to limit contact with opinion

counsel to a limited set of attorneys. This avoids unnecessarily creating additional targets for deposition because in-house counsel who only have knowledge of trial strategy are unlikely to be deposed or lose privilege of their communications.

Limit communication with "other" counsel.

In the same vein, in-house counsel should limit discussion of trial strategy to communications with trial counsel. As the district court in *Alcon* emphasized, Echostar requires waiver of privilege as to *any* non-trial counsel.

Even where in-house counsel has limited its communications with opinion counsel, waiving privilege could result inadvertent disclosure of more tangential discussions with regulatory counsel, company employees, and/or other third parties.

Be cognizant of potential on-going infringement.

Allegations of on-going infringement are near-obligatory in modern complaints and, post-*Halo*, asserting ongoing infringement need not be accompanied by a request for injunction. Indeed, *Alcon* suggests that even a boiler plate assertion in the complaint may result in waiver of privilege as to post-suit communications.

In-house counsel should diligently monitor what — and with whom — they are communicating potentially sensitive information, even where an opinion letter has been obtained well in advance of a suit being filed.

Prepare for the worst.

Given the lack of clear guidance from the Federal Circuit and the difficulty of parsing "subject matter" in patent litigation, in-house counsel should be act as if they will eventually be deposed.

When discussing an opinion of counsel, be careful of the notes you type or write during the conversation — those notes may be fair game during the deposition, even if they were never discussed with the person providing the legal opinion.

CONCLUSION

The advice of counsel defense is a critical tool for in-house counsel but is saddled with a few drawbacks that can have dramatic consequences for the unwary advocate. In-house counsel should be cognizant of the lack of bright line rules in this area of law and take appropriate measures to guard against inadvertent waiver of sensitive communications.

Notes

[1] *See generally Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016); *see also* Lionel Lavenue et al., *Differing Pleading Standards for Willful Infringement After* Halo, IP Litigator (May/June 2017), https://bit.ly/3bSuP5z.

[2] *In re EchoStar Comms. Corp.*, 448 F.3d 1294, 1300 (Fed. Cir. 2006).

[3] *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371.

[4] *Seagate*, 497 F.3d at 1373-74.

[5] *Id.* at 1374-75.

[6] *Krausz Indus. Ltd. v. Smith-Blair, Inc.*, No. 5:12-CV-00570-FL, 2016 WL 10538004, at *9 (E.D.N.C. Dec. 13, 2016).

[7] *In re Alcon Lab'ys, Inc.*, 2018-115, 2018 WL 7485446 (Fed. Cir. Feb. 14, 2018).

[8] *Johns Hopkins Univ. v. Alcon Lab'ys, Inc.*, No. CV 15-525-SLR/SRF, 2017 WL 3013249, at *3 (D. Del. July 14, 2017).

[9] The Federal Circuit did note that Alcon failed to produce any such documents to the district court or this court for in camera review. *In re Alcon Lab'ys, Inc.*, at *2.

[10] *See generally Wisconsin Alumni Rsch. Found. v. Apple, Inc.*, No. 14-cv-062-wmc, 2015 WL 5009880 (W.D. Wis. Aug. 20, 2015).

[11] *Id.* at *1.

[12] *See Sound View Innovations, LLC v. Hulu, LLC*, Case No. LA CV17-04146 JAK (PLAx), 2019 WL 9047211, at *6 (C.D. Cal. Nov. 18, 2019).

[13] The court looked to a three prong test from *Shelton v. American Motors Corp.*, which considers whether (1) No other means exists to obtain the information (2) the information sought is relevant and non-privileged, and (3) the information is crucial to the case. *Shelton v. American Motors Corp.*, 805 F.2d 1323, 1327 (8th Cir. 1986), *Nationwide Mut. Ins. Co. v. Home Ins. Co.*, 278 F.3d 621, 628 (6th Cir. 2002). Similar tests have been adopted by other courts. *See, e.g. CTB, Inc. v. Hog Slat, Inc.*, No. 7:14-CV-157-D, 2016 WL 1244998 (E.D.N.C. Mar. 23, 2016), *N.F.A. Corp. v. Riverview Narrow Fabrics, Inc.*, 117 F.R.D. 83, 85–86 (M.D.N.C. 1987)).

[14] *See, e.g. Sound View*, at *1 (allowing plaintiff to call defendant's in-house counsel to testify at trial since plaintiff did not intend to inquire about privileged communications with trial counsel).

[15] *See, e.g. LifeNet, Inc. v. Musculoskeletal Transplant Foundation, Inc.*, 490 F. Supp. 2d 681, 688 ("[i]f trial counsel opined to MTF regarding its continuing alleged infringement of LifeNet's patents, then such an opinion is discoverable under EchoStar.").

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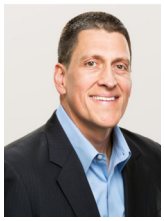

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