

# Willful Infringement Litigation Waiver & Work Product Protection

BY ROY SIMON

**W**hen your client in willful infringement litigation raises an advice of counsel defense and waives the attorney-client privilege, has your client also automatically waived work product protection? Courts have been sharply divided on this difficult question for years. This article will explore the question in two parts. This month's article (Part I) traces the history of the issue up through 1998. Next month's article (Part II) will look at more recent cases and evaluate the competing approaches.

## **Background: Adverse Inferences and Forced Waivers**

In last month's article, I discussed the dilemma faced by defendants accused of willful patent infringement. (See *Privilege And Adverse Inferences In Patent Litigation*, NYPRR, June 2004.) Currently, a defendant who has obtained an opinion from counsel regarding the alleged infringement must either waive the attorney-client privilege regarding that opinion or suffer a devastating adverse inference that counsel's opinion was unfavorable. If the defendant refuses to waive the privilege and the court instructs the jury to infer that counsel's opinion was unfavorable to the defendant, then a finding of willful infringement and liability for up to treble damages plus attorney fees is a high risk.

The adverse inference doctrine is currently under review by the Federal Circuit; see *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 344 F.3d 1336, 68 U.S.P.Q.2d 1383 (Fed. Cir. 2003) (announcing *sua sponte* that the court, *en banc*, would "reconsider its precedent concerning the drawing of adverse inferences"). But unless and until the Federal Circuit overturns the existing precedent, patent infringement defendants will be virtually forced to waive the attorney-client privilege and to offer counsel's opinion letter into evidence in order to have any hope of prevailing on the issue of willfulness. And even if the Federal Circuit abandons the adverse inference doctrine, many defendants who obtained favorable opinions from counsel before commencing the allegedly infringing activity will still decide to waive the attorney-client privilege and to put counsel's favorable opinion into evidence to show lack of willfulness.

All of this requires patent infringement lawyers to face another troubling question: if the defendant does waive the attorney-client privilege in order to combat a charge of willfulness, will that automatically waive work product protection for documents and information related to counsel's opinion? This question is of great interest to both plaintiffs and defendants, because work product materials may contain the kinds of dirt and grime (e.g., preliminary opinions and harmful facts) that seldom are allowed to blemish a "sanitized" opinion of counsel. After all, in the current climate of adverse inferences, opinions of counsel are prepared with the full expectation that they will later be used in litigation, and will thus have to be produced in discovery if the patent holder files a suit alleging willful infringement. Indeed, one of the most serious criticisms of the existing adverse inference precedents is that opinions of counsel under the current regime of adverse inferences are designed more to persuade a jury than to

advise a client, and are thus not serving their primary purpose of giving full and frank advice to clients who are about to embark on a potentially infringing course of conduct.

The waiver of work product protection, therefore, is likely to be much more damaging than waiver of the attorney-client privilege. Work product materials may undermine counsel's opinion and punch huge holes in the alleged infringer's defense. They may also contain litigation strategies that the defendant would never want plaintiff to know. Yet despite these potentially devastating consequences, some courts have held that waiving the attorney-client privilege also waives work product protection. I now turn to the divided and unsettled case law on this question.

### **Early cases find a waiver**

The first case that squarely addressed the issue at hand was *Handgards, Inc., v. Johnson & Johnson*, 413 F. Supp. 926 (N.D. Cal. 1976) (Orrick, J.), an antitrust action with patent overtones. Plaintiff accused defendants of instituting a series of patent infringement suits against plaintiff in bad faith as part of a conspiracy to restrain trade and monopolize the disposable plastic glove industry. Specifically, plaintiff alleged that defendants had accumulated a number of patents in the disposable plastic glove field knowing that the patents were invalid or of doubtful validity, and had then sued plaintiff for infringement of these dubious patents. In their defense, defendants announced that they intended to prove their good faith by presenting testimony from the lawyers who had prosecuted the patent infringement suits. The plaintiff then noticed the depositions of these lawyers and sought "all relevant records, opinion letters, interviews of witnesses, internal files, memoranda, and notes" from their files. These documents were plainly protected as work product, but plaintiff argued that this underlying documentation "was essential to proper cross-examination or possible impeachment of the opinions expressed by these attorneys at trial."

The court readily found that the "deliberate injection of the advice of counsel into a case waives the attorney-client privilege as to communications and documents relating to the advice." But did the waiver of the attorney-client privilege also waive work product protection? The court analyzed this question at length.

The court began by noting that "work product doctrine is an independent source of immunity from discovery, separate and distinct from the attorney-client privilege," and buttressed by different policies and purposes. The purpose of the attorney-client privilege, the court said, is "to encourage the complete disclosure of information between an attorney and his client," whereas the work product doctrine is aimed at "protecting the effectiveness of a lawyer's trial preparations by immunizing such materials from discovery." Here, defendants argued, the work product doctrine protected their former counsel's litigation files from discovery because (a) plaintiff had failed to demonstrate the "substantial need" and "undue hardship" required under Rule 26 for the production of ordinary work product, and (b) Rule 26 granted "absolute immunity from discovery for those portions of an attorney's work product containing mental impressions, conclusions, opinions, and legal theories" (i.e. "opinion work product").

The court disagreed. In the particular circumstances, the court found that plaintiff had made a sufficient showing of substantial need and undue hardship to overcome the qualified immunity from discovery for ordinary work product. Moreover, the court found that "Rule 26(b)(3) of the Federal Rules of Civil Procedure does not create an absolute immunity from discovery for opinion work product ...." The

principal issue in the case at bar was the good faith of the defendants in instituting and maintaining the prior patent litigation against plaintiff. Plaintiff could succeed only by showing that defendants pursued the prior suits knowing they would be unsuccessful on the merits. Therefore:

Since the lawyers who managed and supervised the former litigation for the defendants are being called as witnesses to express their opinions as to the merits of the prior suits and the validity of the underlying patents, plaintiff has a particularized and compelling need for the production of the relevant work product of these attorneys. Without discovery of the work product, plaintiff will be unable to ascertain the basis and facts upon which the opinions of these witnesses are based. This will undoubtedly impair plaintiff's ability for effective cross-examination on a crucial issue.

The court also agreed with Professor Moore's civil procedure treatise that "when the activities of counsel are inquired into because they are at issue in the action before the court, there is cause for production of documents that deal with such activities, though they are 'work product.'" Thus, even though Rule 26(b)(3) says without qualification that a court "shall protect" opinion work product from disclosure, such protection "should not screen information directly at issue in the case." The *Handgards* court then distinguished cases granting absolutely immunity to opinion work product, saying: "While an attorney's private thoughts are most certainly deserving of special protections, I believe that the concern for a lawyer's privacy must give way when the advice of counsel is directly at issue." In a case like *Handgards*, where defendants were asserting reliance on their attorneys' advice and were even calling the attorneys as witnesses in their behalf, disclosure of relevant work product was necessary "to avoid obvious unfairness in such a case."

Accordingly, the court held that "an attorney's opinion work product is discoverable where such information is directly at issue and the need for production is compelling." The court appreciated the harm that could result from the "invasion" into an attorney's work product, but determined that plaintiff's subpoenas had been drafted in "a sufficiently narrow and precise fashion" to require production of only those documents relevant to the issues of defendants' good faith in pursuing the prior litigation. The court therefore ordered production of the work product responsive to those subpoenas.

Although the *Handgards* case involved patents, good faith, and work product, it was not a willful infringement case. The first willful infringement case to address whether waiver of the attorney-client privilege automatically waived work product protection was *RCA Corp. v. Data General Corp.*, 1986 WL 15693 (D. Del. 1986) (Farnan, J.). Defendant Data General raised advice of counsel as a defense and thus waived the attorney-client privilege regarding that advice. But had Data General also waived work product protection for related documents? Judge Farnan did not engage in any longwinded analysis.

Waiver principles, he said, applied to work product immunity as well as to the attorney-client privilege, and "where a party asserts the advice of counsel as an essential element of its defense, work product immunity, like attorney-client privilege, is waived with respect to the subject of that advice." Accordingly, to the extent that work product documents related in any way to the opinions of counsel on the infringement or validity of the patent at issue, "any work product immunity of those documents has been waived." That was the whole analysis.

Another short opinion, *Abbott Laboratories v. Baxter Travenol Laboratories*, 676 F. Supp. 831 (N.D. Ill. 1987) (Zagel, J.), also rejected a claim of work product immunity. By producing three opinions regarding infringement, the court said, the defendant had waived his privilege as to any other such opinions of counsel on the same subject matter. The court's reasoning was pragmatic and cynical: "A party claiming good faith reliance upon legal advice could produce three opinions of counsel approving conduct at issue in a law suit and withhold a dozen more expressing grave reservations over its legality. Preservation of privilege in such a case is simply not worth the damage done to truth."

An equally cursory analysis appears in *W.L. Gore & Associates, Inc. v. Tetratec Corp.*, 1989 WL 144178 (E.D. Pa. 1989) (Naythons, Magistrate Judge). Plaintiffs sought all opinions from counsel and "all documents referring to or embodying opinions from counsel relating to infringement and/or non-infringement and/or validity and/or invalidity" of the patents in dispute. Defendant objected to this broad request on grounds of attorney-client privilege and work product. Plaintiffs countered that if defendant did not produce these documents including work product then defendant should not be permitted to use those documents at trial. The court sided with the plaintiffs, stating:

The "waiver" principle applies to work product immunity as well as to the attorney-client privilege. Thus, where a party asserts the advice of counsel as an essential element of its defense, work product immunity, like attorney-client privilege, is waived with respect to the subject of that advice.

Accordingly, the court held that defendant must elect "whether to disclose the information or be precluded from introducing the privileged evidence at trial." Defendant remained free to stand behind its attorney-client privilege and work product immunity, but if defendant intended to use privileged material at trial, "the plaintiffs must be allowed to examine the privileged documents in order to conduct pretrial discovery."

The court engaged in a far more thoughtful analysis in *Mushroom Associates v. Monterey Mushrooms, Inc.*, 1992 WL 442892 (N.D. Cal. 1992) (Hamilton, Magistrate Judge), but-never-the-less reached the same conclusion. The *Mushroom* court began by noting the holding in *W.L. Gore & Associates, supra*, that invocation of the advice-of-counsel defense by a willful-infringement defendant waives both the attorney-client privilege and work product immunity. The *Mushroom* court also agreed with *Gore* that "principles of fairness ... seem just as applicable to the work product immunity" as to attorney-client privilege, and the *Mushroom* court observed that if a party is going to attack another party's reliance on advice of counsel, "information covered by the work product immunity would aid in that attack." But the *Mushroom* court did not accept the *Gore* holding uncritically. Rather, the *Mushroom* court noted that work product immunity "is distinct from the attorney client privilege and merits its own analysis." Citing the *Handgards* opinion, the *Mushroom* court stated that a party's waiver of the attorney-client privilege "does not necessarily mean that the protection afforded by the work product doctrine is also breached."

Moreover, the *Mushroom* court recognized that work product immunity unlike the attorney-client privilege is largely codified in Fed. R. Civ. P. 26(b), and that Rule 26(b)(3) distinguishes between ordinary work product, on one hand, and the mental impressions of the attorney, on the other hand. Specifically, most work product is discoverable under Rule 26(b)(3) upon a showing of substantial need and inability without undue hardship to obtain substantially equivalent materials, whereas opinion work product is given much stronger protection. Yet even an attorney's mental impressions "are not absolutely protected

by the work product immunity," the *Mushroom* court said. Rather, like the *Handgards* court, the *Mushroom* court said that "when an attorney's opinion work product is directly at issue and the need for production is compelling, the opinion work product is discoverable."

In most instances in which defendant has raised an advice-of-counsel defense, the *Mushroom* court continued, the plaintiff will be able to meet the standard imposed by Rule 26(b)(3). The plaintiff usually has a "substantial need" for the work product so that it can adequately address the advice-of-counsel defense, and the plaintiff cannot obtain substantially equivalent materials elsewhere because "the specific work product is directly at issue." For instance, the court said, "although the discovering party could obtain its own test results concerning a patent, the tests results known to counsel at the time advice is given are what is relevant when a party asserts the advice of counsel defense." Consequently, the court found it "difficult to imagine" circumstances where the plaintiff could not meet the standard for discovering "the vast majority of work product" in an advice-of-counsel case.

Turning specifically to discovery of opinion work product, the *Mushroom* court said that "the heightened standard suggested by *Handgards* is met in an advice of counsel case" because "work product is directly at issue." For example, "knowing what the attorney thought about infringement bears directly on the defendants' advice of counsel defense in this case." In addition:

[T]he plaintiff's need for this information is compelling. The only way plaintiff can attack the defendants' advice of counsel defense is by having access to circumstances and factors surrounding the advice. Discovery of mental impression work product may be the only way to have access to the circumstances and factors surrounding the advice.

Therefore, the court said, by asserting the advice-of-counsel defense, the defendants had waived their attorney work product immunity. However, the *Mushroom* court recognized the "importance" of the work product immunity and stated that a waiver regarding opinion work product "must be strictly construed." Accordingly, the court gave permission for defendant to redact "any documents that contain opinion work product pertinent to issues beyond the infringement issue ...."

### **The tide begins to turn: the Thorn opinion**

In *Thorn EMI North America, Inc. v. Micron Technology, Inc.*, 837 F. Supp. 616 (D. Del. 1993) (McKelvie, J.), the court looked more deeply beneath the surface. Thorn had sued Micron and a Micron affiliate (collectively "Micron") for willful infringement. Micron responded that it had relied in good faith on the opinions of counsel that Thorn's patents were either invalid or not infringed. In discovery, Micron willingly produced the written opinions their attorneys had issued regarding the invalidity or non-infringement of the patents-in-suit, but Micron raised a work product objection to Thorn's request for "all documents that evidence mental impressions of the attorneys preparing the opinions, such as internal memoranda and drafts of the opinions." Thorn moved to compel.

Thorn conceded that the documents it sought were work product, but argued that the work product was relevant both to the competence of the opinions and to whether Micron's alleged good faith reliance on them was reasonable or justified. If the court granted its motion to compel, Thorn said, it could explore such questions as: (a) why counsel analyzed the validity of only one of the four patents-in-issue;

(b) why a doctrine of equivalents analysis was missing in some of the opinions; (c) why counsel did not consult an independent technical person with respect to the patents at issue; and (d) whether inexperienced attorneys were being trained through the preparation of these opinions.

The court asked two questions. First, were the internal work product papers relevant to a claim of willful infringement? Second, if so, had the defendant waived work product protection by asserting its good faith reliance on the advice of counsel?

As to relevance, the key question in a willful infringement case is whether the infringer had acted in "wanton disregard" of the patentee's rights. The answer rests on a determination of the infringer's state of mind, which depends partly on whether the infringer "justifiably relied on legal advice from counsel." To determine whether the alleged infringer's justifiably relied, Judge McKelvie said, courts have found it relevant to examine factors such as:

- "when the infringer sought counsel's advice (before or after commencing the infringing activities);"
- "the infringer's knowledge of the attorney's independence, skill and competence;"
- "the infringer's knowledge of the nature and extent of analysis performed by counsel in providing the opinion;" and
- "whether the opinion contains sufficient internal indicia of credibility, including a validity analysis predicated on a review of the file histories, and an infringement analysis that compares and contrasts the potentially infringing method or apparatus with the patented inventions."

The court considered documents and testimony relating to counsel's advice relevant because they were "probative of the alleged infringer's intent."

Since relevance had been established, the court proceeded to the second question: waiver. On this question, Thorn relied heavily on *RCA v. Data General Corp.*, *supra*, but Judge McKelvie was not persuaded because he thought the RCA case stated the waiver rule too broadly. When work product is at issue, Judge McKelvie said, "courts generally find a waiver only if facts relevant to a particular, narrow subject matter are at issue and have been disclosed under circumstances where it would be unfair to deny the other party an opportunity to discover other facts relevant to that subject matter." Thorn advanced two reasons why it would be unfair for Micron to withhold work product. First, Thorn said it needed the work product information to test and examine the mental impressions and legal theories expressed by Micron's opinion counsel. Second, Thorn said it needed the work product "to review and evaluate the competence of the firm's work and the opinions."

The court rejected these reasons, saying that "neither the basis for the opinions nor their actual competence is a matter of consequence to the determination of the action." Rather, the "matter of consequence" was the alleged infringer's state of mind. Thorn was free to explore facts relating to whether or not the reliance of Micron's management on the opinions of counsel was reasonable, and Thorn was thus entitled to discover facts relating to matters such as "what Micron knew about the law firm's independence, skill and competence to provide the opinions, what Micron knew about the nature and extent of analysis performed by the firm, and what Micron knew and had concluded about the credibility, value and reasonableness of the opinions." However, in contrast to the RCA court, the Thorn court simply did not believe that a party's assertion of good faith reliance on advice of counsel

"necessarily puts counsel's work product at issue." The facts of consequence to determining a willful infringement claim, the court reiterated, relate to the infringer's state of mind. Counsel's mental impressions, conclusions, opinions or legal theories "are not probative of that state of mind unless they have been communicated to that client." Accordingly, unless the mental impressions and opinions developed by counsel while preparing infringement opinions were communicated to Micron's management, "they are not relevant and are not discoverable."

*Thorn* immediately proved influential. It virtually set the agenda for the debate over the work product issue, and according to Westlaw's Key Cite it has been cited in at least thirty-seven other opinions (not to mention dozens of secondary sources). But the opinions citing *Thorn* are divided on the merits of *Thorn's* view that work product materials in a willful infringement case are irrelevant unless they were communicated to the alleged infringer. Some courts have embraced *Thorn*, but other courts have rejected it. I will now look at the early opinions following *Thorn*.

### **Courts following *Thorn***

In *Steelcase Inc. v. Haworth, Inc.*, 954 F. Supp. 1195 (W.D. Mich. 1997) (Scovill, Magistrate Judge), expressly endorsing *Thorne*, the court concluded that the advice-of-counsel defense waived the attorney-client privilege for (a) communications between attorney and client concerning the subject matter, (b) all documents referring to counsel's opinions, and (c) all documents in defendant's possession bearing upon its state of mind. But the court held that the waiver "does not extend to attorney work product or documents upon which the attorney relied, unless they were somehow disclosed" to the alleged infringer.

Also endorsing *Thorn* is *Dunhall Pharmaceuticals, Inc. v. Discus Dental, Inc.*, 994 F. Supp. 1202 (C.D. Cal. 1998) (Keller, J.). The court agreed that a defendant who raises an advice-of-counsel defense to a claim of willful infringement waives the attorney client privilege as to (a) all communications between counsel and client regarding the advice actually given, and (b) materials beyond the opinions themselves, including "otherwise privileged documents in the client's files that refer or relate to counsel's opinion, e.g., that refer or reflect an absence of reliance by the Defendants on the advice provided by counsel," and (c) "all materials or communications by the Defendants to the attorney that was used or considered in preparing the opinion." But the *Dunhall* court agreed with *Thorn* that the waiver does not extend to "attorney work product or documents upon which the attorney relied that were not disclosed or otherwise communicated to the client." In so holding, the *Dunhall* court expressly rejected the holding and rationale of *Mushroom, supra*, stating:

The court's statement in *Mushroom Associates* that "[t]he *only* way plaintiff can attack the defendant's advice of counsel defense is by having access to circumstances and factors surrounding the advice" ignores the large number of Federal Circuit decision where plaintiffs defeated an infringer's opinion letter without violating the protections of privileged communications (emphasis added). Without the benefit of a sweeping waiver, plaintiffs have successfully attacked the "advice of counsel" defense by presenting evidence that counsel's advice had no effect on defendant's decision to continue its course of conduct.

The sweeping scope of the waiver created in *Mushroom Associates* requires a defendant to choose often at the earliest stage possible in the case between surrendering its litigation files or sacrificing a fair defense to exceptional damages. Requiring such an election is neither equitable

nor fair, and can be easily avoided by tailoring the scope of the waiver in a way that accommodates the relevant inquiry posed by the defense without further incursion into otherwise protected materials.

Next month, I will continue this article by looking at various cases that rejected *Thorn* and held instead that waiving the attorney-client privilege in willful infringement litigation also waives work product protection for both ordinary work product and opinion work product. I will also examine some recent cases that have tried to reach a middle ground, or that have lined up behind *Thorn*. This is a continuing saga that has no easy answers and has not produced any consensus.

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