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COMPUTER LAW

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Pitfalls and Perils of the Opinion of Counsel Defense

A RECENT COMPUTER patent infringement action in the U.S. District Court for the Southern District of New York, *Plasmanet, Inc. v. Apax Partners, Inc.*,[1] illustrates a familiar dilemma facing many defendants accused of willful patent infringement: Assert an "opinion of counsel" defense to rebut the allegation of willful infringement and you risk waiving the attorney-client privilege and work-product protection as to the subject matter of that opinion. If you forgo this defense in order to maintain the privilege, you risk being adjudged a willful infringer if liability is found.

In *Plasmanet*, the plaintiff alleged that the defendant willfully infringed its patent for a computer gaming system. The defendant, who had previously obtained from its patent attorneys a written legal opinion addressing whether its Web site infringed the plaintiff's patent, was thus faced with what the court described as a "Hobson's choice" regarding its decision to assert reliance on this advice as a defense to the willfulness charge. In order to avoid forcing the defendant into this Hobson's choice, the magistrate judge granted the defendant's motion to postpone discovery on its advice of counsel defense to willfulness, while proceeding with pretrial discovery on other issues relating to liability and damages. Such a procedure allowed the defendant to avoid disclosure of its attorney's thinking, strategy and opinions during the initial phase of discovery, though preserving the defendant's ability to invoke the opinion of counsel defense at a later stage. The magistrate judge noted that the defendant's motion for bifurcation of the trial (a procedure discussed later in the article) would be addressed separately by the district judge.

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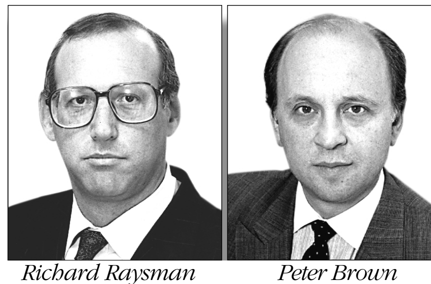
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The situation faced by the defendant in *Plasmanet* is a common one in patent litigation. A potential patent infringer that obtains and relies on competent legal advice after being put on notice of another's patent rights usually has a strong basis for a defense against charges of willful infringement and the enhanced damages that such a finding may entail. The "opinion of counsel" defense is thus a very important tactic for many defendants in patent infringement disputes, but it is not without its pitfalls and perils: There are implications in the requirement that the opinion of counsel be "competent." There is also the possibility that asserting the defense will result in at least some waiver of the attorney-client privilege or work product protection.

A 'Competent Legal Opinion'?

Once an 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. According to the U.S. Court of Appeals for the Federal Circuit, a competent legal opinion of noninfringement or invalidity qualifies as "due care." The "competency" requirement applies to both the qualifications of the person giving the opinion and to the content of the opinion itself[2] and cannot be disregarded. The following specific guidance emerges from the Federal Circuit case law:[3]

- Opinion should be obtained from an outside patent attorney — not an in-house attorney.
- Opinion should be based upon the best information available to the alleged infringer, and material information should not be intentionally withheld from counsel.
- Opinion should include an analysis of the file history of the patent in suit.
- Opinion should include a thorough review of the cited prior art.
- Opinion should be authoritative and objective — not conclusory.
- Opinion should not discuss claims as a group, but should separately analyze all claims.
- Opinion need not be unequivocal, as an honest opinion is more likely to speak of probabilities than certainties.
- Opinion need not be legally correct; rather, it must be thorough enough to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable.

If an infringer does not produce an opinion at all, the Federal Circuit has held that an inference is warranted that either the infringer did not obtain an opinion or, if an opinion was obtained, it was unfavorable.[4]

Waiver of Privilege

Even if the foregoing guidelines are followed and the opinion of counsel defense offers complete insulation against charges of willful infringement, there is some peril in

embarking on this course during litigation. In particular, assertion of the opinion of counsel defense waives the attorney-client privilege with respect to the subject matter of that opinion, potentially opening up advice received during the entire course of the alleged infringement to inspection by an adversary. The decision faced by an alleged infringer often becomes whether to claim the defense or claim the privilege.

Adding to the predicament faced by parties is the uncertainty surrounding the scope of the attorney-client and/or work product waiver that results from an opinion of counsel defense, as this issue has not yet reached the Federal Circuit. A broad view espoused by some trial courts is that the waiver applies to all communications and documents relating to the subject matter of the opinion letter, even if these communications were not shared with the client.[5] Under this broad view of waiver, an alleged infringer asserting the advice of counsel defense waives work product protection — even as to the work product of the alleged infringer's patent counsel. The rationale of these courts is that knowing what an alleged infringer's patent counsel thought about infringement bears directly on the defendant's advice of counsel defense. These courts thus view the willfulness inquiry as an "objective" inquiry into the competence of patent counsel's opinion.

Other courts have limited the scope of the waiver to those documents relied upon by patent counsel and shared or communicated with the alleged infringer.[6] The rationale of these courts is that the facts of consequence to the determination of a claim of willful infringement relate to the infringer's state of mind. Patent 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. Therefore, these courts limit the waiver to patent counsel's work product that was shared with the client. Under this narrower view of waiver, the willfulness inquiry is a "subjective" inquiry into the "state of mind" of the alleged infringer.

Bifurcation

One procedure that may be available to defendants to alleviate the waiver issues implicated by an opinion of counsel defense is bifurcation. Courts have recognized that an accused infringer should not be forced to choose between waiving the privilege in order to protect himself from a willfulness finding — possibly prejudicing itself on the question of liability — and maintaining the privilege, with the risk of being found a willful infringer if liability is found.[7] Thus, the alleged infringer may seek bifurcation of the willfulness issue, a procedure governed generally by Federal Rule of Civil Procedure 42(b), and subject to the wide discretion of the court.

In a "true" bifurcation, the issue of willfulness is treated separately for both discovery purposes and trial.

As one district court has described the scenario:

> The current convention in patent litigation strategy is as follows: the patent owner opens with a claim for willful infringement; the alleged infringer answers by denying willful infringement and asserts good faith reliance on advice of counsel as an affirmative defense; then the owner serves contention interrogatories and document requests seeking the factual basis for that good faith reliance defense and the production of documents relating to counsel's opinion; the alleged infringer responds by seeking to defer responses and a decision on disclosure of the opinion; the owner counters by moving to compel; and the alleged infringer moves to stay discovery and for separate trials. In this case, the parties have played out their moves. Now it is the court's turn to join in.[8]

Although bifurcation is more common in patent disputes than in many other types of litigation, bifurcation of the willfulness issue is not automatic. A court confronting a bifurcation decision actually faces several separate decisions. As a preliminary matter before making a determination on bifurcation, most courts have required in camera review of the opinion in question and related documents that may pose privilege issues. After the in camera review, several options exist. The court may "phase" discovery so that the alleged infringer does not need to make a final decision about whether to assert the advice of counsel defense until nearly all discovery is complete. Or, the court may phase the trial, ordering the issue of willfulness tried separately from liability (and possibly separately from damages as well), but in sequence and to the same jury. Another option is to order a "true" bifurcation, where the issue of willfulness is treated separately for both discovery purposes and trial.

Courts have set forth a variety of factors they consider in ruling on a motion for bifurcation of the willfulness issue. These factors include the separability of issues, the complexity of the case, whether a stay of discovery is uneconomical and a waste of judicial resources, whether a needless delay will be created, potential juror confusion, the stage of the litigation at which the request is made, whether any delay in filing the motion was a tactical strategy, the overlap of evidence and witnesses between liability and willfulness, the prejudice to the patent owner by delaying the ultimate conclusion of the case, the risk of prejudice to the liability issues which may result from disclosure, the prejudice that may result if opinion counsel must be disqualified as trial counsel, and the effect of bifurcation on settlement.[9]

Alleged infringers seeking bifurcation in conjunction with the opinion of counsel defense should be aware that the court's determination will necessarily be fact-specific and should be prepared with arguments relating to the above factors and others that may pertain as the circumstances dictate.

(1) No. 02 Civ. 9290, 2003 U.S. Dist. LEXIS 13533 (SDNY Aug. 5, 2003).

(2) *Jurgens v. CBK Ltd.*, 80 F3d 1566, 1573 (Fed. Cir. 1996).

(3) See, e.g, *Comark Communications, Inc. v. Harris Corp.*, 156 F3d 1182 (Fed. Cir. 1998); *Underwater Devices Inc. v. Morrison-Knudsen Co., Inc.*, 717 F2d 1380 (Fed. Cir. 1983).

(4) See, e.g., *Electro Medical Systems, S.A. v. Cooper Life Sciences, Inc.*, 34 F3d 1048, 1056 (Fed. Cir. 1994).

(5) See, e.g., *Michlin v. Canon Inc.*, 208 FRD 172 (EDMich 2002).

(6) See, e.g., *Thorn EMI North America, Inc. v. Micron Technology, Inc.*, 837 FSupp 616 (D. Del. 1993).

(7) *Quantum Corp. v. Tandon Corp.*, 940 F2d 642 (Fed. Cir. 1991).

(8) *Johns Hopkins University v. CellPro*, 160 FRD 30, 34 (D. Del. 1995).

(9) See *Kimberly-Clark Corp. v. James River Corp. of Virginia*, 131 FRD 607, 608-09 (NDGa 1989).

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