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PATENTS

Involvement of Opinion Counsel in Trial Strategy Results in a Broad, Subject Matter Waiver that Extends to Trial Counsel



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In a Dec. 13, 2016, order (made publicly available in redacted form on Jan. 5, 2017), the U.S. District Court for the Eastern District of North Carolina enunciated a broad waiver of the attorney-client privilege for a party relying on the advice-of-counsel defense to an allegation of willful patent infringement. *Krausz Industries Ltd. v. Smith-Blair, Inc.*, No. 5:12-CV-00570, Doc. No. 215 (E.D.N.C. Dec. 13, 2016) (Order).

The court's order, relying on the Supreme Court's 2016 decision in *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 118 U.S.P.Q.2d 1761 (2016), allowed discovery of post-complaint communications with opin-

ion counsel, as well as certain communications between and among the defendant, its in-house counsel, opinion counsel and trial counsel. The decision has significant ramifications for parties seeking to rely on noninfringement or invalidity opinions to counter willful infringement claims.

Smith-Blair, the defendant in the infringement lawsuit, learned about the asserted patent three years before it launched its allegedly infringing product. Smith-Blair received two noninfringement opinions from outside counsel before the lawsuit, but after the lawsuit was filed both Smith-Blair and its trial counsel continued to consult opinion counsel concerning the noninfringement defense. During litigation, pursuant to local rule, Smith-Blair asserted reliance on opinions of counsel concerning noninfringement and disclosed the written opinions and related documents. After that disclosure, plaintiff Krausz Industries sought discovery into a broad array of additional communications between and among Smith-Blair, Smith-Blair's in-house counsel, opinion counsel, and trial counsel. Smith-Blair objected on grounds of attorney-client privilege. Krausz moved to compel.

First, the court made the temporal ruling that Smith-Blair had waived the attorney-client privilege with respect to communications concerning noninfringement both before and after the lawsuit was filed. The court reasoned that because the allegation of willful infringement was ongoing and "culpability is generally measured against the knowledge of the actor at the time of the challenged conduct," Smith-Blair's post-complaint conduct "will be relevant to the question of whether it has engaged in the kind of egregious behavior that justifies an award of enhanced damages" under *Halo*. Order at 11.

Second, the court granted discovery into communications between opinion counsel and trial counsel concerning noninfringement, and communications between trial counsel and Smith-Blair concerning those conversations. The court held that opinion counsel's ongoing involvement in the litigation erased the distinction between objective advisor and partisan advocate:

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By allowing opinion counsel to take an active role in ongoing litigation, the alleged infringer eliminates the safeguards justifying the omission of trial counsel from the broad waiver of both attorney-client privilege and work product immunity that results from asserting the advice of counsel defense.

Order at 19.

Prohibiting such discovery would allow Smith-Blair to obtain the benefits of the advice-of-counsel defense while simultaneously allowing it to shield communications potentially demonstrating flaws in the prior non-infringement opinions that would be probative of Smith-Blair's reasonable reliance.

Third, the court held that attorney-client privilege had also been waived for communications between trial counsel and defendants (or defendants' in-house counsel) concerning conversations that either had with opinion counsel concerning noninfringement. Although the court declined to find a general waiver for all communications with trial counsel, the court held that this limited waiver was required to prevent trial counsel from acting as a shield to prevent the discovery of communications between opinion counsel and Smith-Blair.

And finally, the court granted discovery into all communications between Smith-Blair and its in-house counsel concerning noninfringement. Although Smith-Blair did not rely on an in-house noninfringement opinion, the court found that the decision of the U.S. Court of Appeals for the Federal Circuit in *In re EchoStar Communications Corp.*, 448 F.3d 1294, 78 U.S.P.Q.2d 1676 (Fed. Cir. 2006), extended the waiver of attorney-client privilege to communications with attorneys other than opinion counsel concerning the same subject matter, as such communications were relevant to the alleged infringer's reasonable reliance on such opinions.

If the Eastern District of North Carolina's reasoning is adopted by other courts, this holding will have significant implications for defendants relying upon the advice of counsel as a defense to willful infringement. Although more expansive discovery may be unavoidable, keeping opinion counsel completely separate from trial counsel and the litigation itself should limit the scope of the waiver of privilege.

Text of the order available at <http://src.bna.com/nig>.