

The Attorney-Client Privilege Often Plays A Key Role In Patent Litigation

by

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The challenge of maintaining the confidentiality of certain documents and other communications is especially difficult for in-house corporate counsel. Their dual role as both the attorney for and an employee of the corporation only complicates their efforts. In a technologically innovative company, the uniqueness of the practice of patent law adds to the difficulty.

The attorney-client privilege often plays a key role in patent litigation. In-house counsel may be able to protect the confidentiality of corporate confidences by relying on this privilege.¹

The attorney-client privilege protects from disclosure communications between a client and his or her attorney. The U.S. Supreme Court has referred to it as the "oldest of the privileges for confidential communications known to the common law."² The privilege protects communications both to and from the attorney so long as the communication is related to the giving or receiving of legal advice.

For many years, some lower courts endorsed the notion that the work of patent lawyers was not legal in nature and thus it was outside the scope of the attorney-client privilege.³ That view was rejected in 1963 by the U.S. Supreme Court, which characterized the work of patent attorneys as the practice of law, thereby extending the protections of the attorney-client privilege to patent attorneys.⁴ Thus, it is by now well recognized that the privilege protects communications between an inventor and its patent counsel.⁵

Technical Information

However, because much of the information conveyed from an inventor to a patent attorney is technical, courts have been divided as to whether this information should be protected under the attorney-client privilege. Indeed, there are two approaches courts use to determine whether a privilege exists. The first is known as the "Jack Winter" approach, and the second is the "Knogo" test.

In *Jack Winter, Inc. v. Koratron Co.*,⁶ a federal district court in California held that technical information relayed from a client to a patent attorney is not privileged. The court concluded that because the attorney must convey all of this information to the Patent Office under 35 U.S.C. §112, the attorney only "acts as a conduit between [the] client and the Patent Office." As such, the court concluded, the information is not meant to be confidential and cannot be protected by the attorney-client privilege.⁷

The court of claims reached a different result in *Knogo Corp. v. United States et al.*⁸ There, the court held that the privilege can extend to technical information conveyed between a client and a patent lawyer. The *Knogo* court reasoned that two factors determine the invocation of the privilege: (1) the intent of the client to keep the information confidential, and (2) the reasonable expectation that the confidence would be maintained.⁹ In this court's view, the test for determining whether the client

intended the communication to be confidential was "whether the communication was made without the presence of strangers."/10 As for the expectation of confidentiality, the *Knogo* court stated that the *Jack Winter* court's view of patent prosecution was over-simplified, holding that a patent attorney is not a mere conduit./11 The court said that the fact that much of the technical information "finds its way into the patent application, to be made public when the patent issues, should not preclude the assertion of the privilege over the communication in which that information was disclosed to the attorney."/12

Recently, the U.S. Court of Appeals for the Federal Circuit issued a ruling in which it adopted the *Knogo* doctrine in the context of deciding whether the attorney-client privilege applies to an invention record submitted for patent evaluation. The court's opinion, in *In re Spalding Sports Worldwide Inc.*,/13 demonstrates the differences between the *Jack Winter* test and the *Knogo* standard, and the obvious practical benefits to in-house counsel seeking to rely on the attorney-client privilege to prevent disclosure of patent information to third parties.

The Spalding Decision

The case involved Spalding Sports Worldwide, Inc., the assignee of U.S. Patent 5,310,178, which issued on May 10, 1994, and is directed to a basketball with a polyurethane cover. Spalding sued the Wilson Sporting Goods Co. for infringement of the patent in the United States District Court for the District of Massachusetts. During discovery, Wilson filed a motion to compel the production of the invention record submitted to Spalding's corporate legal department on Feb. 28, 1992 by Alan Walker and Joseph Baltronis, the two inventors named on the patent.

In response, Spalding argued that the invention record constituted a confidential attorney-client communication because it was prepared for the purpose of securing legal advice. Spalding contended that even though the invention record may have contained technical information, it nonetheless was protected by the attorney-client privilege because it requested legal advice concerning the patentability of the invention and served as an aid in completing the patent application. Spalding emphasized that its invention record was sent to the corporate legal department.

Wilson countered by asserting that Spalding failed to prove that its invention record was made for the purpose of obtaining legal advice, and therefore failed to establish the applicability of the attorney-client privilege. Wilson argued that even if the invention record was in fact submitted to Spalding's "patent committee," there was no evidence that the patent committee "acted as a lawyer" by rendering legal advice, as opposed to making business decisions. Wilson also contended that even if a portion of the invention record was submitted for the purpose of obtaining legal advice, the section that listed prior art should nevertheless be disclosed, because it did not ask for legal advice.

The magistrate judge granted Wilson's motion, holding that Spalding had not met its burden of demonstrating the applicability of the attorney-client privilege. In the magistrate judge's view, Spalding's invention record did not appear to be primarily legal in nature and it revealed discoverable technical information, not an attorney-client communication. The magistrate judge further noted that it did not appear that Spalding's legal department addressed the product's patentability at a patent committee meeting or took any action on the information contained in the document itself, and concluded that the document may have been intended primarily as an aid in completing the patent application, rendering Spalding's in-house counsel a mere "conduit" to the patent office.

The district court denied Spalding's motion for reconsideration, holding that the magistrate judge's ruling was neither clearly erroneous, nor contrary to law. The case reached the Federal Circuit.

In its decision, the circuit court stated that the central inquiry was whether the communication was one that was made by a client to an attorney for the purpose of obtaining legal advice or services. The court then found that Spalding's invention record constituted a communication to an attorney. It said that, as confirmed by the district court's own review, the invention record was submitted by the

inventors of the patent to Spalding's corporate legal department. Furthermore, the circuit court continued, the communication was made for the purpose of obtaining legal advice. The Federal Circuit cited the declaration of Spalding's house patent counsel, who stated that "[i]t was, and is, the policy at Spalding for Spalding's patent counsel, and/or outside patent counsel to whom the invention is delegated for evaluation, to refer to the INVENTION RECORD for the purpose of making patentability determinations." The court therefore held that an invention record constituted a privileged communication, as long as it was provided to an attorney "for the purpose of securing primarily legal opinion, or legal services, or assistance in a legal proceeding."/14 In the circuit court's view, Spalding's invention record met that test.

The court also rejected Wilson's contention that the portion of Spalding's invention record that listed prior art, should be disclosed because it did not ask for legal advice. In the court's view, it did not consider it necessary "to dissect the document to separately evaluate each of its components." Instead, the court continued, it was enough that the overall tenor of the document indicated that it was a request for legal advice or services. Moreover, the court added, it was not necessary to expressly request confidential legal assistance when that request was implied.

Finally, the court concluded, to the extent that Spalding's invention record might contain technical information, or refer to prior art, the inclusion of such information did not render the document discoverable, because requests for legal advice on patentability or for legal services in preparing a patent application "necessarily require the evaluation of technical information such as prior art."/15

In any event, the Federal Circuit pointed out, an attorney cannot evaluate patentability or prepare a competent patent application without knowing the prior art and obtaining relevant technical information from the inventors. Accordingly, it ruled, because Spalding's invention record was prepared and submitted primarily for the purpose of obtaining legal advice on patentability and legal services in preparing a patent application, it was privileged in its entirety.

Losing the Attorney-Client Privilege

There are a number of ways that the attorney-client privilege may be lost.

For example, because patent prosecution and litigation involves numerous documents, the risk of inadvertent disclosure is high. There are three approaches that courts have taken in these situations.

Some use a strict liability approach under which any inadvertent disclosure of a document waives the privilege as to that document. Courts endorsing this approach have argued that the privilege interferes with the court's ability to determine the truth, and so must be construed narrowly. Although the oldest of the various approaches, it is still applied in several jurisdictions./16

Under the middle-of-the-road approach, followed by most courts, courts consider whether reasonable steps were taken to insure and maintain the confidentiality of the communications, and examine the following factors in determining whether the privilege was waived:

- the reasonableness of the precautions to prevent inadvertent disclosure;
- the time taken to rectify the error;
- the scope of the discovery;
- the extent of the disclosure of the discovery; and
- overriding issue of fairness./17

The least strict approach provides that inadvertent or accidental disclosure of privileged communications does not waive the privilege. Courts applying this approach reason that a waiver does not occur unless a known right is intentionally and deliberately relinquished by the client./18

In the particular instance of patent opinions, courts generally espouse the rule that the disclosure of one opinion relating to a narrow subject matter waives all materials and opinions on the same subject

matter./19 This rule prevents a party from disclosing only favorable patent opinions and from withholding unfavorable opinions.

The attorney-client privilege also may be waived when a party discloses a patent opinion letter addressing the validity, enforceability, or infringement of a patent to a third party./20

Moreover, if a patent attorney sends a copy of an opinion letter, which advises his or her client that its patent is being infringed, to the potential patent infringer, then the privilege is waived for that document and all materials relating to the infringement. If a party relies upon a patent opinion letter in court, then the privilege is waived for that document and all related materials.

A "state of mind" waiver of the attorney-client privilege also can occur. The state of mind of a party in a patent litigation can arise under three types of claims: (1) willful infringement; (2) patent abuse and (3) estoppel. The waiver of the attorney-client privilege varies for each of these.

A plaintiff patent holder alleging willful infringement of its patent need only prove that the defendant knew of the patent and that the defendant's allegedly infringing activities were related to the patent. It is the defendant who has the burden of proving that he or she did not exercise bad faith in allegedly infringing upon the patent. This is true because a potential infringer has "an affirmative duty to exercise due care to determine whether or not he is infringing."/21 The defendant therefore is faced with a difficult choice. The defendant can introduce opinion letters into evidence to demonstrate its good faith and waive the attorney-client privilege or it can forego this evidence and maintain the privilege./22

However, a district court can infer from the failure of a defendant to introduce a patent opinion that the defendant either did not obtain an opinion or received an unfavorable opinion./23 Moreover, a favorable patent opinion will not always exculpate a defendant in a willful infringement action./24

Under a claim of patent abuse, the accused patent infringer must show that the patent holder believed its patent to be invalid or unenforceable. To rebut such a claim, the holder must show a good faith belief in the validity or enforceability of its patent. When the patent holder relies on the evidence of its attorney's patent opinions as rebuttal evidence, the holder waives the attorney-client privilege./25

An accused patent infringer also may waive any privileges and protections when it introduces into evidence any materials that demonstrate that the accused infringer detrimentally relied upon the actions of the patent holder./26

Protecting Communications

There are a number of steps that in-house counsel may take to maintain the attorney-client privilege for communications. For instance, they should:

- clearly mark all patent opinions and other privileged documents "Attorney-Client Privileged";
- limit the instances in which non-legal corporate personnel make legal conclusions or judgments in communications or work product;
- draft opinion letters as if they were to be interpreted by a jury;
- retain outside counsel when possible to analyze the validity and enforceability of patents and to draft opinion letters rather than leaving these tasks to in-house counsel;
- use one law firm counsel for patent litigation and another for patent prosecution and patent infringement analysis; and
- use communications that contain legal conclusions only when necessary.

In addition, when defending against claims that involve proof of state of mind (i.e., willful patent infringement or patent abuse claims, or estoppel), a party can request that the trial be bifurcated into two separate trials, one on liability and one on damages. See Fed. R. Civ. P. 42(b). Under this regime, any evidence pertaining to the willfulness and state of mind of the defendant will not be introduced during the trial on the issue of liability./27 A party can also ask the court to address the admissibility of any

evidence relating to state of mind and willfulness which the party may deem privileged or protected in an *in camera* proceeding./28

Conclusion

In-house counsel who handle patent matters should be familiar with the law relating to the attorney-client privilege. The privilege can play an important role in patent litigation, and should be protected to the extent possible before a situation reaches that stage.

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NOTES:

1. Although some materials prepared with a patent application may be protected by the work product doctrine, the work product doctrine generally does not apply to materials prepared for the application of a patent. The work product doctrine only applies to material "prepared in anticipation of litigation." Fed. R. Civ. P. 26(b)(3). Therefore, because the prosecution of patents is considered an *ex parte* proceeding, the materials prepared in a patent application are not generally protected. See *Hercules Inc. v. Exxon Corp.*, 434 F. Supp. 136, 152 (D. Del. 1977).
2. *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981).
3. See e.g., *United States v. United Shoe Machinery Corp.*, 89 F. Supp. 357, 359 (D. Mass. 1950) (holding that patent validity opinions were not protected by attorney-client privilege because they did not constitute practice of law); see also *Zenith Radio v. Radio Corp. of America*, 121 F. Supp. 792, 794 (D. Del. 1954) (holding that technical information conveyed during patent prosecution was not privileged).
4. *Sperry v. State of Florida ex rel Florida Bar*, 373 U.S. 379, 383 (1963).
5. The attorney-client privilege extends to patent agents and employees of the patent attorney assisting patent attorneys. See *Hercules Inc. v. Exxon Corp.*, 434 F. Supp. 136, 146-47 (D. Del. 1977) (privilege applies to patent agents); see also *Zenith Radio v. Radio Corp. of America*, 121 F. Supp. 792, 794 (D. Del. 1954) (communications to employees of patent attorneys privileged to same extent as thought made to patent attorneys).
6. 50 F.R.D. 225, 228 (N.D. Cal. 1970).
7. *Id.*
8. 213 U.S.P.Q. 936, 938-941 (Ct. Cl. 1980).
9. *Id.* at 940-41.
10. *Id.* at 941.
11. *Id.* at 940.
12. *Id.* at 941.
13. 203 F.3d 800 (Fed. Cir. 2000).
14. *Knogo Corp.*, supra, 213 U.S.P.Q. at 940.
15. The Knogo court reached the same conclusion, explaining that the "fact that much of the technical information in one form or another finds its way into the patent application, to be made public when the patent issues, should not preclude the assertion of the privilege over the communication in which that information was disclosed to the attorney. If an attorney-client communication could be discovered if it contained information known to others, then it would be the rare communication that

would be protected and, in turn, it would be the rare client who would freely communicate to an attorney." 213 U.S.P.Q. at 941.

16. See, e.g., *Wichita Land & Cattle Co. v. American Fed. Bank*, 148 F.R.D. 456, 457 (D.D.C. 1992); *F.D.I.C. v. Marine Midland Realty Credit Corp.*, 138 F.R.D. 479 (E.D. Va. 1991); *Golden Valley Microwave Foods, Inc. v. Weaver Popcorn Co.*, 132 F.R.D. 204 (N.D. Ind. 1990); *Int'l Digital Sys. Corp. v. Digital Equip. Corp.*, 120 F.R.D. 445 (D. Mass. 1988); *Suburban Sew 'N Sweep, Inc. v. Swiss-Bernina, Inc.*, 91 F.R.D. 254 (N.D. Ill. 1981).

17. See, e.g., *Lois Sportswear U.S.A. Inc. v. Levi Strauss & Co.*, 104 F.R.D. 103, 105 (S.D.N.Y. 1985) (no inadvertent waiver where only 22 documents out of 16,000 pages inspected were later claimed to be privileged); see also, *McCaferty's, Inc. v. The Bank of Glen Burnie*, 179 F.R.D. 163, 169 (D. Md. 1998) (no inadvertent waiver where client disposed of the privileged document by tearing it to pieces, then depositing the document into trash of her office); but see *S.E.C. v. Cassano*, 189 F.R.D. 83 (S.D.N.Y. 1999) (privilege waived where the specific document was called to counsel's attention, and a deliberate decision was made to produce without looking at it); *Eigenheim Bank v. Halpern & NPS Corp.*, 598 F. Supp. 988 (S.D.N.Y. 1984) (where document was inadvertently produced on two separate occasions, in later instance as one of only 30 documents, court held the privilege waived due to careless and inadequate procedures).

18. See, e.g., *Trilogy Communication, Inc. v. Excom Realty, Inc.*, 652 A.2d 1273 (N.J. Super Ct. Law Div. 1994) (if disclosure was not voluntary or intended, then no waiver); *Mendenhall v. Barber-Greene Co.*, 531 F. Supp. 951, 955 (N.D. Ill. 1988).

19. See *Hercules Inc. v. Exxon Corp.*, 434 F. Supp. 136, 156 (D. Del. 1977) (holding that privilege is waived "if facts relevant to a particular, narrow subject matter have been disclosed in circumstances in which it would be unfair to deny the other party an opportunity to discover other relevant facts with respect to that subject matter").

20. See, e.g., *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 1997 WL 801454 (S.D.N.Y. Dec. 31, 1997).

21. See *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983).

22. See *United States v. Exxon Corp.*, 94 F.R.D. 246, 248-249 (D.D.C. 1981).

23. See *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988); *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565 (Fed. Cir. 1986), cert. denied, 479 U.S. 1034 (1987).

24. See *Underwater Devices, Inc. v. Morrison-Knudsen Co, Inc.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983).

25. See *Handguards, Inc. v. Johnson & Johnson*, 413 F. Supp. 926 (N.D. Cal. 1976), cert. denied, 444 U.S. 1025 (1980).

26. See, e.g., *Southwire Co. v. Essex Group Inc.*, 570 F. Supp. 643, 646 (N.D. Ill. 1983).

27. See, e.g., *Rohm and Haas Co. v. Mobil Oil Corp.*, 654 F. Supp. 82, 85 (D. Del. 1987); but see *Kimberly-Clark Corp. v. James River Corp. of Virginia*, 131 F.R.D. 607, 608 (N.D. Ga. 1989) (refusing to bifurcate trial on issues of willfulness and liability).

28. See, e.g., *Beckman Instruments, Inc. v. Technical Development Corp.*, 172 U.S.P.Q. 642, 644 (N.D. Ill. 1972).