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Intellectual Property Litigation

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This Issue: Privilege and Work Product

Avoiding Patent Traps Through Claw-Back Provisions

By Audra A. Dial

The frequent use of computers and electronic devices has greatly increased the scope of potentially relevant data that must be exchanged during discovery. As a result, discovery in patent litigation has become more complex and voluminous, and with the substantial increase in the number of documents to be produced during discovery, the risks of inadvertently producing privileged materials have grown. In a case involving allegations of willful patent

infringement, these risks are even more acute. If a party inadvertently produces an opinion of counsel that it did not intend to produce, the other side might argue that the party waived the privilege to defend against the willfulness allegations. To protect against such arguments, parties should negotiate a claw-back agreement as described in Rule 26(b)(5)(B) of the Federal Rules of Civil Procedure at the outset of discovery and should exercise

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Post-Seagate: Advice of Counsel in Patent Defense

By Brett Williamson and Edgar Martinez

In *Knorr-Bremse Systeme Fuer Natzfahrzeuge GmbH v. Dana Corp.*,¹ the Federal Circuit held that “failure to obtain an exculpatory opinion of counsel shall no longer provide an adverse inference or evidentiary presumption that such an opinion would have been unfavorable,” overturning 20 years of contrary authority central to the determination of willful patent infringement. Last year, in *In re Seagate Technology, LLC*,² the court went a step further and expressly held that there is no affirmative obligation on the part of the accused infringer to obtain an opinion of counsel. But neither case spec-

ified what, if anything, a plaintiff could say about a defendant’s failure to obtain an opinion in the context of the “totality of circumstances” test that still governs the determination of willfulness.

Shortly after *Seagate*, the district court in *Broadcom Corp. v. Qualcomm, Inc.*³ evaluated a motion to reconsider its posttrial rulings in light of the *Seagate* holdings. The court ordered a new trial on willfulness, noting that its instructions to the jury did not properly embody *Seagate*’s “objective recklessness” standard.⁴ But the court let stand a finding on

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Message from the Chairs

Season openers are usually a time of great anticipation in sports, whether it's baseball, college football, or your kid's high school soccer season. By the time you read this, the Section of Litigation will have had its 2008–2009 season opener at the ABA Annual Meeting in New York City in August. Bob Rothman will have assumed the chair of the Section, taking over from Judith Miller, whose term saw the commencement of a number of fundamental changes in how the Section operates and delivers benefits to its members. We anticipate that

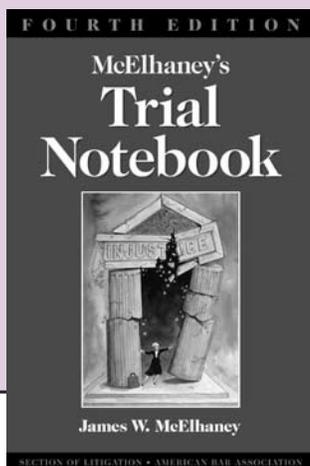
Bob's term will see substantial further movement along that road, setting the stage for a Section that will have significantly modernized and improved its value to its members. For those of you who wish to become active in our committee or elsewhere within the Section, this is a great time to do so.

One member benefit we're happy to continue to sing the praises of is our award-winning newsletter. Our newsletter consistently delivers interesting and practical articles that improve our members' practices. This issue is no exception,

focusing on privilege, discovery, and related issues in intellectual property litigation. Indeed, having access to advance copies of the articles is proving fortunate for at least one of us, as two of the articles deal with issues we're facing right now in one of our cases! We think you, too, will find the articles helpful.

Please contact us if you want to become involved or simply have questions, comments, or criticisms. We strive to improve our committee for your benefit, and your feedback is invaluable. ●

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Pitfalls in Disclosing Prefiling Investigations and Ways to Lessen Them

By Allen F. Gardner

Filing a lawsuit imposes investigatory burdens on clients and their lawyers. In addition to the dangers of failing to comply with Federal Rule of Civil Procedure 11 and the sanctions that might result from a frivolous or meritless pleading, a hastily filed and poorly investigated, losing case is arguably an exceptional one and might subject the loser to enhanced damages. Good, presuit investigatory work is a great practice not only to avoid sanctions or exceptionality findings, but it also might be the difference in picking a winning case and avoiding a losing one.

Historically, prefiling investigative materials have been assumed to be work-product protected materials. They may also be part of or otherwise encompassed in attorney-client privileged communications. So if the need to disclose such materials ever arises, what are the issues that should be considered? And is there any way to make such disclosure without waiving privileges as to other documents? As a practical matter, there is a risk to disclosing prefiling investigative materials, but if you or your client are in the situation of needing to do so, there are several ways to minimize the risk.

Issues to Consider in Disclosing Prefiling Investigative Materials

The primary two issues to consider in disclosing prefiling investigative materials are (1) whether any evidentiary privileges are waived by doing so and (2) to what extent that waiver may affect other documents or communications. Because prefiling investigations are usually confidential investigations made in preparation of litigation involving clients and their lawyers, the attorney-client privilege and/or the work-product doctrine are usually asserted in response to any attempt to obtain such materials. Once the attorney-client privilege and/or work-product doctrine are asserted, however, intentionally disclosing these materials can be quite problematic.

The attorney-client privilege protects disclosure of communications between a client and his or her attorney.¹ Waiver of

the attorney-client privilege is almost universally found to waive the attorney-client privilege regarding any attorney-client communications relating to the same subject matter.²

Unlike the broad, subject-matter waiver found when the attorney-client privilege is waived, waiver of the work-product doctrine is more narrow in most jurisdictions.³ Usually the waiver of work-product protection is found to be limited to the items actually disclosed.⁴ “The purposes of the work-product privilege are more complex, and they are not inconsistent with selective disclosure—even in some circumstances to an adversary.”⁵

Bottom line: The consequences of waiving the attorney-client privilege are potentially much more severe than the consequences of waiving work-product protection. And depending upon your jurisdiction, both may be equally problematic.

Ways to Minimize the Risks

In many jurisdictions, the scope of waiver of privilege is a matter of discretion vested in the district court.⁶ So the more efforts that a plaintiff takes to minimize its risk before disclosure occurs, the less likely that disclosure will result in any unintended consequences. There are four of them.

Draft the Documents Intending That They Have No Privilege

Even if confidential, privileges do not apply when disclosure is intended.⁷ You can use that principle to your advantage in two ways.

First, if you are considering a patent case in a district where patent rules require the disclosure of infringement contentions, prepare the infringement contentions prior to filing suit. Certainly non-public information can presumably later be used, postfiling, to supplement where needed (consistent with the deadline to provide infringement contentions in the case), but a good, presuit investigation reflected in a draft infringement contention can hardly be classified as a confiden-

tial, privileged document. It is a document that both you and your client intended to be produced anyway, and it is not privileged unless you and your client assert it.

Second, if you have another type of case or a patent case in a district that does not require infringement contentions, hire an expert to conduct an analysis and objectively opine upon liability. Ask the expert to prepare a preliminary liability expert report based upon his or her analysis. If your expert prepares a “pre-opinion” based solely on publicly available information with appropriate caveats for later-produced information and you and your clients rely upon it, you potentially kill at least two birds with one stone without risking broad subject-matter waiver. If you do not like the opinion reached by such expert, do not designate him or her as a testifying expert (and do not disclose the report to a testifying expert). Maybe the expert showed you some problems in your case that you need to address prior to filing suit, or maybe the expert was not qualified to do the work. Either way, though, you either confirm your suspicions or you determine where you may need to improve. Assuming the expert’s preliminary report confirms your suspicions, as expert-report deadlines (and the accompanying identification of documents prepared, reviewed, etc.) often fall in the latter stages of discovery, you might have a good basis to retain such document until the expert report deadline unless circumstances or the rules in your jurisdiction require otherwise.

Be Wary of Claiming Attorney-Client Privilege

It is often difficult to know what may become an issue in a case. So perhaps you and your client would prefer not to prepare certain investigative materials intending that they be disclosed. Because the consequences for waiving the attorney-client privilege are potentially much more dire (depending upon your jurisdiction), if there is a chance that you may decide to voluntarily waive privilege as to prefiling

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The Dangers That Await the Purchaser of Patents

By John A. Lee

Owners of purchased patents must be wary of the dangers triggered by a third party's actions. Dangers await a subsequent patent owner when the authority to assert or waive attorney-client privilege (privilege power) remains with the seller. Privilege power passes to a subsequent patent owner if the subsequent patent owner controls the former patent owner's company. A subsequent patent owner without privilege power may face the danger of litigating against the former patent owner's law firm (law firm danger) or danger from documents that contradict a subsequent patent owner's positions on issues such as validity, claim construction, or infringement as a result of a former patent owner's privilege waiver document production (damning documents danger). These dangers can turn the tide in a subsequent patent owner's patent infringement suit in favor of its adversary, the accused infringer. Thus, a purchased patent risks substantial devaluation, including a complete loss in value if a court or a jury invalidates the patent or renders the patent unenforceable.

Consequently, a subsequent patent owner, and those considering purchasing a patent, should proceed with caution, conduct a due diligence investigation, value the patent accordingly, and deploy defensive strategies to minimize the risk and magnitude of harm.

The U.S. Supreme Court established the well-followed rule in *Commodity Futures Trading Commission v. Weintraub* that privilege power transfers when new management controls the corporation.¹ *Weintraub* keeps privilege power with the former patent owner unless the subsequent patent owner acquires or controls the former patent owner. For example, in a recent patent infringement action, a trial court applied *Weintraub* to formulate the following test: "[I]f the practical consequences of the transaction result in the transfer of control of the business and the continuation of the business under new management," then privilege power transfers.² *Weintraub*

creates a minefield of dangers for a subsequent patent owner such as the law firm danger and damning documents danger.

The law firm danger is triggered when a subsequent patent owner's adversary retains the law firm that represented the former patent owner in prosecuting and/or litigating the patent. The adversary benefits from the law firm's expertise and knowledge of the patents, the prior art, information about the inventors, and the strengths and weaknesses of legal arguments for and against the patent. Subsequent patent owner Medtronic dealt with this danger in *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*, when adversary Telectronics initiated suit to seek a declaratory judgment that Medtronic's patents were invalid, unenforceable, and not infringed. Medtronic moved to disqualify two of the attorneys representing Telectronics.³ One of Telectronics' attorneys prosecuted one of the patents-in-suit while employed by the former patent owner as in-house counsel. The other attorney, as former patent owner's outside counsel for seven years, prosecuted one of the patents-in-suit and matters relating to the disputed technology. The trial court rejected Medtronic's argument that it was the former client of the two attorneys. The court reasoned that patent assignments alone do not transfer an attorney-client relationship and thus no conflict arose to warrant disqualification.

On the other hand, a subsequent patent owner with privilege power will succeed in disqualifying the adversary's law firm if the firm provided significant representation to the former patent owner for the purchased patents. For example, the subsequent patent owner in *Graco Children's Products, Inc. v. Regalo International LLC*⁴ disqualified the opposing counsel who previously represented the former patent owner on the same patent-in-suit against a third-party accused infringer. The court in *Graco*, applying *Weintraub*, ruled that the right to assert attorney-client privilege passed on to the subsequent patent owner because it also acquired and

continued the business operations of the former patent owner.

The damning documents danger is triggered when the former patent owner waives privilege and produces documents that contradict the subsequent patent owner's positions on infringement, claim construction, invalidity, or patent prosecution strategy (raising the possibility that the patent is unenforceable due to inequitable conduct). A former patent owner may waive privilege and produce documents for several reasons: (1) indifference because the patent owner is no longer in the business involving the patents, (2) an intent to harm the subsequent patent owner for competitive reasons, and (3) inadvertent disclosure.

A former patent owner's waiver marks the start of a subsequent patent owner's troubles. Attorney-client privilege waiver extends to all communications relating to the same subject matter.⁵ There is no bright-line rule for determining what constitutes the subject matter of waiver. Courts weigh the circumstances of disclosure, the nature of the legal advice sought, and the prejudice to parties of permitting or prohibiting further disclosures in determining the magnitude of the waiver (subject matter of the waiver and the scope of the waiver).⁶ Consider the former patent owner's privilege waiver of a document that discusses anticipation under 35 U.S.C. § 102(a). Were a court to define subject matter broadly as validity, the former patent owner's privileged communications concerning obviousness, obviousness-type double patenting, failure to disclose best mode, inadequate description, and lack of enablement will be pierced. However, a narrower definition of subject matter limited to anticipation will pierce the privilege of communications only for anticipation. Thus, a court's ruling on the magnitude of a waiver dictates whether a subsequent patent owner's adversary will get more documents in addition to documents from the initial waiver production.

Several other events may trigger the damning documents danger. A former

patent owner's disclosure of privileged documents to the subsequent patent owner during the purchase-sale period may have resulted in a waiver. Some jurisdictions preserve the privilege status of documents that a privilege holder shares in the course of business dealings with a third party under the "common-interest exception," while in other jurisdictions such a disclosure waives privilege.⁷

A former patent owner's bankruptcy and dissolution triggers the damning documents danger too. Triggering events include the purchase of a patent from an auction following the former patent owner's dissolution and when a former patent owner that was solvent at the time of the patent sale later dissolves. Under the Supreme Court's decision in *Swidler v. Berlin*, attorney-client privilege survives the death of a natural client,⁸ but the issue is unsettled whether *Swidler* applies to legal entities.⁹ An adversary seeking to gain access to the privileged communication of a defunct former patent owner may argue that, with the dissolution of the former patent owner, its privilege dissolved as well.¹⁰

With these dangers in mind, prospective patent purchasers and subsequent patent owners should take action to minimize the risk and magnitude of the danger. Subsequent patent owners should resist the temptation to use a "privilege transfer" contractual provision whereby the former patent owner agrees to transfer privilege power to the purchaser. Others have tried this solution but without success. Courts refuse to allow parties to run around *Weintraub*.¹¹

The following strategies recognize that privilege power remains with the former patent owner and do not conflict with *Weintraub* because the strategies do not seek to transfer privilege to the subsequent patent owner. To neutralize the law firm danger, a subsequent patent owner may hire the former patent owner's law firm. Even though privilege power remains with the former patent owner, this strategy creates a disqualifying conflict if an adversary attempts to retain the former patent owner's law firm, under ABA Model Rules 1-7 (a disqualifying conflict occurs when a law firm's later representation of the adversary is adverse to the subsequent patent owner) or 1-9 (a disqualifying conflict occurs when a law firm's representation of the adversary in

the same or substantially related matter as its representation of the former client, the subsequent patent owner).

A "will not waive" provision minimizes the damning documents danger. In such a provision, a seller agrees (1) to exercise reasonable and due care in maintaining its attorney-client privilege for documents and information concerning the patents of interest, and (2) not to waive attorney-client privilege concerning the patents unless ordered by a court to produce documents or disclose information. A former patent owner has the incentive not to waive privilege to avoid a breach of contract action. This decreases the chance that a former patent owner will waive privilege. Further, facing the possibility that the former patent owner will waive privilege, a subsequent patent owner should file suit seeking equitable relief from a court to enforce the "will not

of the patent. This guards against later arguments by an adversary that a former patent owner waived privilege when it showed privileged documents to the subsequent patent owner during negotiations for the purchase-sale of the patent.

The common-interest exception applies to prevent the waiver of a privileged communication shared with a third party that has a common legal interest with respect to the subject matter of the communication.¹² The "nature of the interest [must] be identical, not similar, and be legal, not solely commercial."¹³ For example, in one case, a patentee's disclosure, during negotiations, of an opinion letter to a third party (interested in purchasing one of its divisions) was not deemed a waiver of the attorney-client privilege.¹⁴ Although the potential buyer did not purchase the division, the court found that the common-interest exception nevertheless applied,

A former patent owner's dissolution triggers the damning documents danger.

waive" provision and also seek a preliminary injunction enjoining the former patent owner from waiving privilege pending adjudication of the enforcement suit.

For situations in which an adversary argues that the privilege dissolved when the former patent owner dissolved, the subsequent patent owner should argue that *Swidler* applies. The policy concerns of *Swidler*—the knowledge that privilege remains after death encourages full and frank communications, while fear of disclosure when privilege terminates after death encourages a party to withhold information—apply to privileged disclosures for legal entities.

Another strategy is to include a "common-interest" provision in the purchase-sale agreement to memorialize that a former patent owner and a subsequent patent owner share identical legal interests in maintaining the validity and enforceability

because the potential buyer and the corporation shared a common legal interest. The court reasoned that, had the buyer purchased the division, it would have been defending the same product against the same patent as the corporation for the years following the sale.¹⁵

Having addressed the dangers and strategies above, the next issue is whether Federal Circuit law should apply to allow the previous patent owner's privilege to pass to the subsequent patent owner. The Federal Circuit has reiterated on many occasions that Federal Circuit law applies to substantive patent issues. *In re Echostar* applied Federal Circuit law to the issue of the extent of the attorney-client privilege waiver resulting from an advice-of-counsel defense.¹⁶ The court reasoned that the advice-of-counsel defense "necessarily involve[d] issues of

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Protecting Attorney-Client and Work-Product Privileges While Working with Experts

By Jill Robb Ackerman

Experts routinely provide critical elements of proof for both plaintiffs and defendants. Experts help guide lawyers through unfamiliar disciplines, and they serve the adjudicatory process by analyzing relevant facts from the perspective of their field of expertise. Experts are expected to tell the truth and apply their skills within their field of expertise to assist the trier of fact to determine the truth.

Efficiently preparing testifying experts to help prove your client's case, without waiving attorney-client privilege¹ or work-product privilege² is a challenge. These privileges can easily be waived. For example, these privileges are waived if the litigator shares internal memos or witness statements with the expert, exchanges emails with the expert and client as the expert formulates his or her opinions, or sits down with both the client and expert and has frank discussions about the theories and strategies of the case.³

Federal Rule of Civil Procedure 26(a)(2)(A) provides that the identity of experts who may be used at trial must be disclosed to the other parties. In addition, the rule provides that

unless otherwise stipulated or ordered by the court, this disclosure must be accompanied by a written report—prepared and signed by the witness—if the witness is one retained or specially employed to provide expert testimony in the case or one whose duties as the party's employee regularly involve giving expert testimony.

The report among other things must contain: "(i) a complete statement of all opinions the witness will express and the basis and reasons for them; [and] (ii) the data or other information considered by the witness in forming them."

The majority rule is that communications between a lawyer and the testifying expert are not privileged but must be disclosed to the other side as information relied on to formulate his or her opinion.⁴

Disclosure of the information affords the other party a basis to test the opinions and challenge their foundation. All oral statements, notes, scraps of paper, and drafts of a report related to the case are fair game for discovery.

Tension is created by the need for a litigator to communicate relevant information to the expert and the need to do so in a manner that does not waive privileges or create the impression that the opinion of the expert is the opinion of the attorney rather than of the expert.

Experts are not effective if they use sloppy language that does not express their true intent. Experts can be dangerous if they use language that has specific meaning in the legal world that is contrary to necessary proofs in the case. Experts lose credibility if notes or earlier drafts of reports reflect opinions that are less favorable to the retaining party than the opinions expressed in later drafts.

Most, if not all, of these issues can be avoided if the litigator takes an active approach when working with the expert while being ever vigilant to protect the attorney-client and work-product privileges. The following steps can help reduce the risk of waiving such privileges, while ensuring that the expert's report and testimony will help prove your client's case.

Twenty Practice Pointers

1. Do your research in advance. Have a good idea of what the expert will say before retaining the expert to testify. Test theories in complicated cases with consulting experts before retaining the testifying expert. This takes preplanning. Be careful that you do not taint your best testifying expert by allowing him or her to perform tests that have unknown results that may create evidence negative to your case. Start early. Because of the tight time frames in many federal courts, you can end up disclosing experts whom you will have to withdraw if you do not know their opinions before the time for disclosure.
2. Do not permit the experts to take notes in introductory discussions while you are exploring whether to retain them as testifying experts. Impose this rule whether the discussions are face-to-face or over the telephone. While oral communications are discoverable, as a practical matter, an expert's memory of the details of oral conversations will fade.
3. Explain to the expert that every note taken, every document reviewed, and every draft of his or her report will have to be saved and produced. Many preliminary thoughts can and will be misconstrued. Explain that any conversations about the case, any information reviewed, and any documents created can and will be used against the expert.
4. Discuss the extent and terms of the engagement thoroughly before committing the terms to paper. Discuss the issues that the expert will be asked to address in his or her opinions. Then clearly, succinctly, and objectively set forth the points in a letter. That letter will serve as the basis for the expert to correctly answer the question "What were you asked to do in the case?"
5. Out of caution, even if you have vetted the expert's potential opinions, retain the expert as a consulting expert. Then, if his or her opinions will assist in proving your case, change the expert's status to that of a testifying expert. Make this change only after you have reviewed prior writings and testimony of the expert to ensure that the expert has not expressed inconsistent and unexplainable opinions in other forums.
6. Control what is provided to the expert. Provide a copy of the complaint, answers, responses to interrogatories, or requests for production to explain the theories of the case. This use of unprivileged documents will help guide your explanation of the theory of the case to the expert.

Do not let the expert take notes during these discussions.

7. Do not share privileged internal memoranda or other confidential documents that have been prepared to assist in trial, or you will waive the privileged nature of these documents. Do not share witness statements with the expert. Do not provide summaries of testimony or documents with the expert. If this information is shared, it will be subject to discovery.
8. Do not create a paper trail for the opposing party. Use the telephone, not emails or letters. Do not allow emails back and forth unless it is simply a transmittal of electronic data or documents necessary for the opinion. Even emails confirming meetings and phone calls will be a road map for the other party to use to raise inferences that the expert is simply a paid mouthpiece for the attorney. Emails only serve as another vehicle for the opposing party to create doubts about the expert's work. It is simply too easy for the expert to note "Ms. Litigator told me

that . . ." Similarly, do not allow letters back and forth.

9. Caution the expert not to disclose the information provided him or her to anyone else. Do not allow the expert to email other colleagues about the matter. This rule should apply even if the email is to communicate to someone with whom the expert is working.
10. Discuss the expert's usual method of working. What notes does he or she usually take? Forbid note taking in your discussions with the expert. If the expert must take notes when interviewing people or inspecting premises, be sure to caution the expert to think before writing the notes. Again, these will be subject to close scrutiny by the opposing party.
11. Discuss whether the expert generally creates versions of reports. The preference is for the expert to create only one version. Due to the requirement to preserve documents, if the expert generates electronic versions of reports, or prints out drafts of the report, the expert will likely have to produce each marked-up draft or be

subject to allegations that he or she destroyed relevant evidence. Tell the expert to use one version and make all changes on that version. Warn the expert that he or she will be grilled on every single change made in the document even though some thoughts may be subject to change as he or she finalizes his or her thoughts. Then, if the expert is asked if he or she was instructed to create one version, the expert can give the exact answer and reason.

12. If the expert insists on creating versions of the report, be sure the expert expressly marks the document "Draft Only—Subject to Significant Revisions." Explain to the expert that he or she will be subject to being questioned on every single difference between any drafts and the final report.
13. Do not let the expert create an electronic trail. Many experts today simply create one version of the report and keep it on a thumb drive. If the expert travels with a laptop, have the expert create and keep only one version of the report on the laptop.

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THE BENEFITS OF MEMBERSHIP

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Fraud on the USPTO—Attorney Advice Is No Defense

By Donell R. Grubbs

Oh, attorney advice is still very important. Now more than ever, trademark owners desiring the protections offered by national and international registration of their marks should seek competent legal counsel to avoid the many pitfalls and land mines that the registration process entails. But the trademark owner—and its lawyers—must avoid the temptation to turn the matter entirely over to the lawyers. Unlike the realm of patent and trademark infringement, “advice of counsel” provides no defense to the cancellation of a trademark registration for fraud and other willful misconduct before the U.S. Patent and Trademark Office (USPTO).

Practitioners advising their clients about their trademark applications and maintenance must be ever more aware of the decision of the Trademark Trial and Appeal Board (TTAB) in *Medinol Ltd. v. Neuro Vasx, Inc.*¹ and its lasting requirement of due diligence, accuracy, and candor in representations to the USPTO about the actual use of their trademarks in commerce.

This article explores the continued vitality of the *Medinol* decision disallowing trademark registrations procured by fraudulent designations of use, and the lack of expansion to date of what will constitute fraud in the procurement. We then look at the practical aspects of registration diligence and post-registration audits, and the continued privilege protection those reviews possess.

The Registration Process

The protection of nationwide priority for trademarks is obtained through the issuance of a federal registration from the USPTO. Although federal registration is not required for use a trademark, owning a federal trademark registration has several advantages, including notice to the public of the registrant’s claim of ownership of the mark, a legal presumption of ownership nationwide, the exclusive right to use the mark on or in connection with the goods or services set forth in the registration, the ability to bring an action

concerning the mark in federal court, the use of the U.S. registration as a basis to obtain registration in foreign countries, and the ability to file the U.S. registration with the U.S. Customs Service to prevent importation of infringing foreign goods.²

The registration process is initiated through the filing of an application, based either upon actual use of the mark at the time of the application or upon an intent to use the mark. The application must, among other things, identify the applicant using or intending to use the mark and the goods and services on which the mark is or will be used. A specimen showing the use of the mark in commerce with each class of the listed goods or services must also accompany the actual-use application. For intent-to-use applications, the specimen must accompany a later filed Amendment to Allege Use or Statement of Use (SOU) before the USPTO will issue the registration. In all of its filings with the USPTO, an applicant has a duty of uncompromising candor to the USPTO.³

If the USPTO examining attorney raises no objections to registration, or if the applicant overcomes any objections, the mark is approved for publication in the *Official Gazette*. Any party who believes it may be damaged by registration of the mark then has 30 days to file an opposition or to request an extension of time to oppose the mark. If no opposition is filed or if any opposition is unsuccessful, a Certificate of Registration will be issued for applications based on actual use of the listed goods and services, or a Notice of Allowance will be issued for intent-to-use applications. The intent-to-use applicant must file its SOU within six months of issuance of the Notice of Allowance, and this time limit may be extended for up to five additional six-month periods.

Whether filed with the initial application or thereafter, the requisite SOU includes a declaration by the applicant that “the mark is now in use in commerce” on or in connection with the goods or services identified in the application or in the Notice of Allowance. Indeed, the Trademark Rules make it clear that an applicant may not file

its SOU until it has made use of the mark in commerce on or in connection with “all” of the goods or services specified in the notice of allowance, unless the applicant files a request to divide. This declaration is then signed by the applicant or its representative under penalty of “fine or imprisonment, or both,” and with knowledge that “willful false statements may jeopardize the validity of the application or any resulting registration.”

Once the Certificate of Registration is granted, the trademark is placed on the Principal Register and constitutes “constructive notice” of the mark throughout the United States. Federal registration must be periodically maintained by filing an Affidavit of Use between the fifth and sixth and the ninth and tenth anniversaries of registration, and every 10 years thereafter. Each of these affidavits also contains the affirmative declaration of actual use and required specimen for each class of goods or services for which registration is sought to be maintained. Finally, after the fifth anniversary of registration, registrants may file a Section 15 Affidavit declaring that the mark has been in continuous use during that period and that there have been no judicial decisions adverse to the owner’s claims of right to the registered mark. Once filed, the Section 15 Affidavit renders the registered mark “incontestable” as to allegations of prior use, descriptiveness, and a variety of other grounds. Incontestability will not, however, foreclose challenges on the grounds of fraud in the procurement or maintenance of the registration.

Medinol

Thus, no trademark owner or practitioner should ignore the consequences of the TTAB’s 2003 decision in *Medinol*. In *Medinol*, the board articulated a bright-line, objective standard that fraud upon the USPTO occurs when an applicant files a declaration concerning use of a mark when the applicant knows, or should have known, that the mark was not actually in use on one or more of the goods listed in the application or notice of allowance.

The *Medinol* applicant, Neuro Vasx, had filed an intent-to-use application, and a notice of allowance had issued, to register the mark NEUROVASX for two identified goods: “medical devices, namely, neurological stents and catheters.” After obtaining two extensions, one of which included a statement that the applicant was continuing its “efforts to promote and publicize the recited goods,” the applicant filed its SOU declaring that it was using the mark in commerce on or in connection with “those goods/services identified in the Notice of Allowance in this Application.” The SOU was signed by the applicant’s president and CEO. The USPTO thereafter granted registration for the mark for “medical devices, namely, neurological stents and catheters.”

The problem was, at the time the CEO filed the SOU, the mark had *not* been used by Neuro Vasx on or in connection with stents. When *Medinol*’s petition to cancel the mark’s registration on the grounds of fraud reached the TTAB almost three years later, the mark still had not been used on stents. Neuro Vasx admitted this in its answer to the petition, stated that the inclusion of stents in the statement of use “was apparently overlooked,” and sought to cancel its own registration in part, or to amend it, by deleting “stents” from the identification of goods.

The board, however, said “too late.” The deletion of those goods on which the mark had not yet been used “does not remedy an alleged fraud upon the Office. If fraud can be shown in the procurement of a registration, the entire resulting registration is void.” Then the decision got interesting.

Noting that there were no genuine issues of material fact on the record, the board then sua sponte granted summary judgment in favor of *Medinol* on the issue of fraud upon the USPTO. Noting the alleged misrepresentation by Neuro Vasx had been admitted by them, the board summarily disposed of the element of materiality of the false representation, finding that “[t]here is no question that

the statement of use would not have been accepted nor would registration have issued but for [Neuro Vasx’s admitted] misrepresentation, since the USPTO will not issue a registration covering goods upon which the mark has not been used.” The only remaining question was whether Neuro Vasx possessed the requisite fraudulent intent.

The Federal Circuit has long held that a trademark applicant commits fraud in procuring a registration when it makes material representations of fact in its declaration that it knows, or should know, to be false or misleading.⁴ Other courts also specifically require proof of the applicant’s intent to induce the USPTO to rely on the misrepresentation.⁵ The *Medinol* board, however, held that the appropriate inquiry is “not into the registrant’s subjec-

tive intent, but rather into the objective manifestations of that intent.”

The board noted that the application contained a brief listing of two goods that were neither highly technical nor otherwise confusing, and that the company’s CEO “was clearly in a position to know (or to inquire) as to the truth of the statements” of use he executed on behalf of the company. The board emphasized that the signed statements of the CEO, “made with such solemnity” as set forth in the declaration, “are—or should be—investigated thoroughly prior to signature and submission to the USPTO. [Neuro Vasx] will not now be heard to deny that it did not read what it had signed.” These undisputed facts clearly established that Neuro Vasx “knew or should have known at the time it submitted its SOU that the mark was not in use on all of the goods.”

The board further noted that the registrant had failed to take any steps to correct its misstatements with the USPTO even after registration but prior to the filing of

Medinol’s petition for cancellation, and this failure “clearly supports our finding that the misstatement was intentional.” With that, the board awarded summary judgment in favor of *Medinol* and cancelled the entire registration.

Expansion and Limits on *Medinol*’s Scope to Date

The TTAB adheres to *Medinol*’s standards on fraud in the procurement to this day, but initial fears that its principles would be greatly expanded to matters beyond false statements of actual use have largely not been realized.

Indeed, in the 2006 decision in *Standard Knitting, Ltd. v. Toyota Jidosha Kabushiki Kaisha*, the board clarified that fraud must be proven by clear and convincing evidence, and left open the door that “fraud will not

lie if it can be proven that the statement, though false, was made with a reasonable and honest belief that it was true.”⁶ The district court in *Urban Outfitters, Inc. v. BCBG Max Azria Group, Inc.*, recently distinguished *Medinol* on this qualified basis.⁷

However, the board in *Standard Knitting* found that the applicant did not even claim to know whether the marks were in use on the listed goods (children’s clothing) at the time he signed the SOU and that his prior inquiry—including reliance on his attorney’s representations—was grossly insufficient. The board reaffirmed the *Medinol* standard, finding that by failing to make any appropriate inquiry, the applicant signed the SOU with a “reckless disregard for the truth,” which constitutes fraud. Thus, although not enough to establish culpable intent in patent law, gross negligence can be the basis for a finding of fraud on the USPTO.⁸ At least one district court has recently followed the TTAB in this regard,⁹ while another declined to apply a negligence (“should have known”) standard to fraudulent intent to procure a mark based on allegations other than actual use.¹⁰

The board has expanded the *Medinol* standard to a false statement of use “in commerce.” In *Sinclair Oil Corp. v.*

**A “pure heart but empty head”
will provide neither a mark owner
nor its attorney safe harbor.**

Kendrick, the board held that an applicant's alleged use of a mark in connection with retail store services was fraudulent because the mark had been used on only a small number of product samples that had been given away as promotional items.¹¹

In March of this year, the TTAB, in *Herbaceuticals, Inc. v. Xel Herbaceuticals, Inc.*, limited somewhat the consequences of fraudulently procuring registrations of trademarks in multiple class registrations, holding that "if fraud can be shown in the procurement of a registration, the registration is void in the international class or classes in which the fraud based on nonuse has been committed."¹² The *Xel* board applied the *Medinol* standards in lockstep, as the applicant admitted that it was not using in commerce the marks ultimately registered on several goods listed in the statements of use, and the nature of the goods identified in the SOUs "was not complicated or highly technical. The mark was either in use on all of those goods, or it was not." The board also rejected the applicant's attempt to circumvent the import of the SOU by differentiating between the use of the words "all goods and/or services" in the body of the SOU, but only "the goods/services" in the supporting declaration. The board found the wording synonymous when viewed in context.

Proper Role of Legal Counsel

To borrow a phrase from fiduciary law, in the context of filings with the USPTO, a "pure heart but empty head" will provide neither a mark owner nor its attorney safe harbor. Whoever signs a USPTO declaration must know that everything stated in an actual-use application, an SOU, or a registration renewal affidavit is accurate and complete, or must conduct an exhaustive investigation to ensure the accuracy and completeness of the information, particularly as to use of the mark. A mark owner cannot simply rely on the fact that because its attorney prepared the application or SOU, the mark owner "thought it would be right."¹³

Even innocent misunderstandings between a mark owner and its counsel will not provide an excuse. In *Hachette Filipacchi Presse v. Elle Belle, LLC*, a mark owner and his attorney discussed the application contents in detail, but when the attorney prepared and signed it, the application mistakenly represented that

the owner was using the mark on all of the goods listed when in fact some were merely ideas for only use. Yet both the mark owner and his attorney "shared the duty to ensure the accuracy of the application and the truth of its statements."¹⁴

Because of this shared duty, at the outset of the application process, the intellectual property attorney must advise the client to tell the truth; the client must be candid; the attorney should question and probe the client's appropriate personnel for facts that support the SOU as well as facts that may not; and the attorney must be finally satisfied that the application is accurate, complete, and supported by law before it is signed. This process should be continued at each step of the registration process, as well as with all postregistration affidavits.

For example, after *Medinol*, the intent-to-use applicant absolutely must delete any goods or services listed in its application that are not in use at the time of filing the SOU. The applicant can then decide whether to abandon its attempt to obtain registration of the mark for the as-yet unused goods or services, or to divide them out from the application and seek their registration separately.

Moreover, every owner of one or more valuable, registered marks should conduct a proactive audit of its existing portfolio for misstatements as to actual use and use in commerce for each of the goods and services listed in its mark's registrations. Any problems discovered can often be corrected, and the consequences of losing an earlier nationwide priority date by re-filing are far better than a loss of the entire registration after being confronted with an infringement or cancellation claim. The good news from a lack of an advice-of-counsel defense is that your client's efforts to examine new applications and audit its existing trademark registrations, when properly assisted by legal counsel, will retain their protection from disclosure under the attorney-client privilege and work-product doctrines.

In sum, the TTAB has long rejected the notion that a registrant might be excused from fraud simply because the registrant had no personal knowledge that the declaration or affidavit it signed contained false statements as to use.¹⁵ *Medinol* and its progeny have reinforced the board's position that when a registrant "should have known" a statement was false, fraud will

likely be found, and the trademark owner may forfeit all rights afforded by the registration of its mark. ●

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Endnotes

1. 67 U.S.P.Q. (BNA) 2d 1205 (T.T.A.B. 2003).
2. More detailed information is available at <http://www.uspto.gov/main/glossary/index.html#SOU>.
3. *Orient Express Trading Co., Ltd. v. Federated Dept. Stores, Inc.*, 842 F.2d 650, 653, 6 U.S.P.Q. (BNA) 2d 1308 (2d Cir. 1988).
4. *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 1 U.S.P.Q. (BNA) 2d 1483, 1484-85 (Fed. Cir. 1986).
5. *See, e.g., Dial-A-Mattress Operating Corp. v. Mattress Madness, Inc.*, 841 F.Supp. 1339, 1353 (E.D.N.Y.1994).
6. *Standard Knitting, Ltd. v. Toyota Jidosha Kabushiki Kaisha*, 77 U.S.P.Q. (BNA) 2d 1917 (T.T.A.B. 2006).
7. *Urban Outfitters, Inc. v. BCBG Max Azria Group, Inc.*, 2007 U.S. Dist. LEXIS 63390 (E.D. Pa. 2007).
8. *Compare Standard Knitting with Ulead Sys., Inc. v. Lex Comp. & Mgmt. Corp.*, 351 F.3d 1139, 1145 (Fed. Cir. 2003).
9. *Monster Daddy, LLC v. Monster Cable Prods.*, 2007 U.S. Dist. LEXIS 54809 (D.S.C. 2007).
10. *Horizon Healthcare Services, Inc. v. Allied Nat., Inc.*, 2006 WL 344277 (D.N.J. 2006).
11. *Sinclair Oil Corp. v. Kendrick*, 85 U.S.P.Q. (BNA) 2d 1032 (T.T.A.B. 2007).
12. *Herbaceuticals, Inc. v. Xel Herbaceuticals, Inc.*, 2008 TTAB LEXIS 14 (Mar. 7, 2008).
13. *First Int'l Servs. Corp. v. Chuckles, Inc.*, 5 U.S.P.Q. (BNA) 2d 1628 (T.T.A.B. 1987).
14. *Hachette Filipacchi Presse v. Elle Belle, LLC*, 85 U.S.P.Q. (BNA) 2d 1090 (T.T.A.B. 2007).
15. *Marshall Field & Co. v. Mrs. Fields Cookies*, 25 U.S.P.Q. (BNA) 2d 1321 (T.T.A.B. 1992).

A Year after the Seagate Closed

By Brandon Mark

Following the Federal Circuit’s en banc decision in *In re Seagate Technologies, LLC*,¹ proving willful patent infringement—which permits district courts to enhance a damage award by up to three times actual damages under 35 U.S.C. § 284—became substantially more difficult. In one move, the Federal Circuit abolished the long-standing affirmative duty of care and adopted a two-step “objective recklessness” standard for willfulness. Under this standard, a patent holder must now demonstrate by clear and convincing evidence both that there was “an objectively high likelihood” that infringement would occur and that the infringer knew, or should have known, of this risk.² The “state of mind of the accused infringer is not relevant” to the first part of the *Seagate* standard; rather, evidence of the infringer’s subjectively held knowledge and beliefs is only considered after the “threshold objective standard is satisfied.”³

Seagate also reiterated that there is no legal duty to obtain advice of counsel and that no “adverse inference” arises from a failure to obtain such advice.⁴ However, *Seagate* failed to answer the question expressly left open by *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*: May the trier of fact consider “whether or not counsel was consulted . . . as part of the totality of the circumstances relevant to the question of willful infringement,” even though no adverse inference concerning such advice, or lack thereof, is proper?

In the year or so following *Seagate*, district courts have struggled to apply faithfully the new willfulness standard. While *Seagate* announced sweeping changes, it offered almost no guidance about how its new willfulness standard should be applied, “leav[ing] it to future cases to further develop the application of this standard.”⁵ District courts have also continued to grapple with the question left open by *Knorr-Bremse* and *Seagate*: Under what circumstances, if any, is it appropriate to consider an infringer’s consultation (or not) with counsel as part of the new willfulness standard?

Seagate raised as many questions as it

answered. Chief among the unanswered questions are the following: Is the willfulness inquiry still evaluated under the totality of circumstances, albeit divided into objective and subjective factors? Are the willfulness factors identified in pre-*Seagate* cases, such as in *Read Corp. v. Portec, Inc.*,⁶ still relevant to the objective recklessness inquiry? Is the fact that an infringer did or did not consult with counsel a proper factor to consider under the willfulness standard?

The reported district court decisions addressing willful patent infringement since *Seagate* offer early insight into how these questions may be answered. Although the decisions addressing these issues are scant, so far, district courts have answered each of these questions in the affirmative.

Totality of the Circumstances

Although *Seagate* acknowledged that Federal Circuit precedent had developed the totality-of-the-circumstances analysis alongside the now abandoned duty of care and did not suggest that the new objective recklessness standard was evaluated under the totality of the circumstances, district courts have almost uniformly held that *Seagate* did not intend to throw out the baby with the bathwater—willfulness under the objective recklessness standard is still evaluated in light of all relevant circumstances.⁷

The Relevant Willfulness Factors

If *Seagate* retained the totality-of-the-circumstances analysis, as most trial courts have assumed, the question then becomes whether it also intended to preserve the previous willfulness factors, and, if so, how those factors apply under the new two-step willfulness test. Like the totality analysis, *Seagate* appeared to tie these factors to the discredited duty of care. Yet, most district courts reaching this issue have determined that the pre-*Seagate* factors remain viable.⁸ Furthermore, even when they have not expressly acknowledged that they are applying pre-*Seagate* factors, district courts have routinely applied them, or variations of them, in practice.⁹

Since *Seagate*, district courts have found the following factors, among others, relevant under the new willfulness standard:

- Whether the noninfringement, unenforceability, and invalidity arguments were “substantial [and] reasonable”;¹⁰
- Whether the infringing activities continued during litigation;¹¹
- The length of time between the patent’s issuance and the commencement of infringing activities;¹²
- The notoriety of patent in the relevant market;¹³
- Whether there was direct copying of the patented invention;¹⁴ and
- Whether the infringer attempted, in good faith, to design around the patent.¹⁵

Objective Versus Subjective Willfulness Factors

Courts have identified most of these factors during the first stage of the *Seagate* test. Although many are not doing so expressly, the courts appear to be roughly dividing objective first-step factors from subjective second-step factors to reconcile the totality-of-the-circumstances analysis with the new two-step *Seagate* test.

Intuitively, this seems to be the correct approach under *Seagate*. Although some factors seem to bear exclusively upon the objective part of the test (e.g., whether the patent was well known in the relevant market) and other factors are only relevant to the subjective part of the test (e.g., when the infringer had actual notice of the patent), most are material to both parts of the test.

For example, the reasonableness of the infringer’s invalidity argument may be pertinent to both parts of the *Seagate* test. If the argument is unreasonable because, for example, it is contrary to well-established legal principles, that is objective evidence that a risk existed.¹⁶ However, that evidence also demonstrates the infringer knew or should have known of the risk because a competent invalidity analysis would have warned the infringer of it. Similarly, evidence of direct copying is material to both parts of the *Seagate*

test: Blatant copying of another's invention is objectively risky behavior, and the copying infringer should know that.

Yet, several courts have drawn a distinction between factors relevant to the objective step of the *Seagate* test and those only relevant to the subjective step. As the *Lucent Technologies* court recognized, after concluding the *Seagate* test retained the totality-of-the-circumstances analysis, “[o]ne obvious caveat to examining the totality of the circumstances is that the accused infringer’s state of mind is not relevant to the first threshold step.”¹⁷ Consistent with this approach, the court in *Franklin Electric Co. v. Dover Corp.*,¹⁸ held that all of the plaintiff’s evidence of willfulness “goes to the second component of the *Seagate* test—what defendant knew or should have known with respect to the likelihood of infringement.” In *Franklin Electric*, the plaintiff’s willfulness evidence consisted largely of the defendant’s knowledge about the invention and patent during the period of infringement.

Advice of Counsel, Waiver of Privilege, and Willfulness

Following *Knorr-Bremse* and *Seagate*, several aspects of the advice-of-counsel defense to willfulness, and its impact on the attorney-client privilege, are clearly established. *Knorr-Bremse* held that no adverse inference may be drawn from the decision to withhold an opinion of counsel by asserting the attorney-client privilege or from the failure to obtain an opinion of counsel.¹⁹ Nevertheless, a competent opinion of counsel is a factor, often a weighty factor, in assessing an infringer’s willfulness.

Under the Federal Circuit’s current precedent, if an infringer relies upon the advice-of-counsel defense, it waives the attorney-client privilege with respect to all communications with its opinion counsel on the same subject matter.²⁰ If the infringer does not assert the advice-of-counsel defense, either to preserve the attorney-client privilege or because it did not consult with an attorney before litigation,

the trier of fact may not infer that the undisclosed opinion was, or the opinion that was not obtained would have been, adverse to the infringer’s interests.²¹

However, *Knorr-Bremse* left open the possibility that an infringer’s consultation, or not, with counsel might be considered as part of the totality-of-the-circumstances willfulness analysis. Following *Knorr-Bremse* but prior to *Seagate*, several district courts confronted with that question determined that whether or not a party consulted with counsel was a relevant willfulness factor.²² Although *Seagate* fundamentally altered the analytical framework for proving willfulness, it did not provide an answer to the question left

Seagate’s reorganization of the willfulness analysis further complicates the picture.

open in *Knorr-Bremse*.

Because *Knorr-Bremse* premised that question on the application of the totality-of-the-circumstances analysis, if *Seagate* intended to abandon the totality analysis, then it may have implicitly answered the question. However, because the majority view is that *Seagate* intended to retain the totality analysis, albeit in some modified form, it would seem the question remains unsettled.

Seagate’s reorganization of the willfulness analysis into two steps further complicates the picture. Thus, after *Seagate*, the question is whether an infringer’s consultation with counsel, or its failure to consult, may be considered to assess its willfulness. If so, a further unsettled issue is whether that evidence pertains to the objective or subjective parts of the new willfulness standard.

Since *Seagate*, only one reported district court decision has reached these issues. In *Franklin Electric*, the plaintiff presented evidence of the “defendant’s failure to seek advice of counsel prior to selling the accused devices,” among other things, to demonstrate the defendant’s

willfulness.²³ *Franklin Electric* held that the infringer’s failure to obtain legal advice was only pertinent “to the second component of the *Seagate* test—what defendant knew or should have known with respect to the likelihood of infringement.”²⁴

Although *Franklin Electric* did not offer any rationale for its conclusion, its holding is consistent with *Seagate* if evidence of an infringer’s consultation, or failure to consult, with counsel is relevant to the willfulness inquiry. Because the affirmative duty to obtain advice of counsel has been abolished, it would be inappropriate to consider the infringer’s consultation with counsel during the

objective step of the *Seagate* willfulness test. If there is no duty to obtain advice of counsel, then consulting counsel (or not) does not make an activity any more risky from an objective perspective.

However, if the trier of fact determines there was an “objectively

high likelihood” that the activity would infringe under step one of the *Seagate* test, then whether or not the infringer consulted with counsel bears upon the second step—whether it knew or should have known about that risk. Evidence of a party’s consultation with counsel, or lack thereof, is relevant to the infringer’s actual or constructive knowledge of the objectively high risk. An infringer’s failure to consult with counsel may demonstrate a cavalier attitude toward an obviously risky activity under conditions warranting further investigation. For example, failing to confer with counsel despite evidence that a subcontractor repeatedly recommended that the infringer obtain a formal legal opinion is relevant to whether the infringer should have known of the high risk.

Use of such evidence in this manner does not run afoul of *Knorr-Bremse*, which merely proscribes an “adverse inference that an opinion of counsel was or would have been unfavorable.”²⁵ Absent this impermissible inference, such evidence is pertinent to whether the infringer knew or should have known about the objectively

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Dodging Left and Right: The Emerging Use of a Qualified Associational Privilege

By Jeremy J. Beck

By upholding the right of the NAACP to shield its membership rolls from the State of Alabama in 1958 in *NAACP v. Alabama ex rel. Patterson*, the U.S. Supreme Court first underscored the availability of a qualified associational privilege in civil discovery.¹ The heart of Justice Harlan’s opinion in *Patterson* declares that where (1) an order of production would create “the likelihood of a substantial restraint” upon the right to freedom of association by a party’s members, and (2) compelled disclosure of a party’s membership would likely have an adverse effect on “the ability of [the party] and its members to pursue their collective effort to foster [their] beliefs . . . in that it may induce members to withdraw from the [group] and dissuade others from joining it because of fear of exposure of their beliefs shown through their associations and of the consequences of this exposure,” then such an order of production will not be enforced.²

The *Patterson* decision highlights the Supreme Court’s continuing concern that compelled disclosure in this area carries with it a potential chilling effect on freedom of association.³ Thus, in the Supreme Court’s associational privacy decisions, the party seeking disclosure must demonstrate an “overriding and compelling” interest bearing “a substantial relation [to] the information sought[.]”⁴

Moreover, even if the inquiring party meets its burden and shows such a compelling need, a court should engage in a balancing test to “measure the degree of relevance required in light of both the private needs of the parties and the public concerns implicated.”⁵ In addition, the inquiring party should be limited to the most narrowly tailored request that will satisfy its demonstrated need.⁶

Although claims of this particular work-product privilege tend to be found in cases like *Patterson* (and are thus focused primarily on First Amendment concerns regarding the rights of freedom of speech and free association), its continuing and effective use in such cases has led some commentators to note an increased need

for, and potential application of, this privilege in a broader civil context.⁷ More specifically and most recently, the privilege and the foregoing applicable standards have been invoked successfully in the realm of intellectual property litigation.

Moving Left: Copyright Infringement

In *Beinin v. Center for Study of Popular Culture*,⁸ a liberal plaintiff brought claims of copyright infringement against a conservative defendant and defeated the defendant’s motion to compel with an effective use of a qualified associational privilege. The defendant—a nonprofit organization that promoted conservative positions on matters of domestic and foreign policy—had published a political pamphlet entitled “Campus Support for Terrorism,” which was critical of certain academics and campus organizations. One of the pamphlet’s articles, “Terror’s Faculty Sympathizers,” specifically criticized the plaintiff while the cover of the pamphlet included copyright-protected photographs of four individual professors, including the plaintiff. Among other claims, the plaintiff alleged copyright infringement of his photograph, the rights to which had been assigned to him by the photographer for the express purpose of filing the infringement claim.

In response, the defendant asserted, in part, the affirmative defenses of copyright misuse and unclean hands.⁹ To support these assertions, the defendant sought discovery of the plaintiff’s relevant email correspondence. A discovery dispute arose, in part, because the plaintiff had redacted the names and email addresses of many of his email correspondents. The magistrate judge denied the defendant’s motion to compel. The district court judge upheld the magistrate judge’s findings that “the communications in dispute are between and among people who share political views and goals, including specifically a desire to support [the plaintiff] in his disputes with the [defendant] (including, but not limited to this action).”¹⁰ In addition, the court found that “some of

the emails suggest making efforts to create a ‘defense fund’ or otherwise organize in support of [the plaintiff’s] efforts. As such, the interests that underlie the associational privilege are fully implicated notwithstanding the fact that there is no formal organization *per se*.”¹¹

In overruling the defendant’s objections to the magistrate judge’s order denying the defendant’s motion to compel, the court cited *Patterson* and then noted that “[s]upport of litigation is a form of expression and association protected by the First Amendment.”¹² The court observed that compelled disclosure of the redacted names and addresses in the plaintiff’s email correspondence could have a chilling effect upon such support; specifically, that “[h]ad Plaintiff’s email correspondents realized that privately supporting his litigation would potentially subject them to intrusive depositions or other discovery, they may have chosen to refrain from speaking.”¹³

Moreover, because the defendant was unable to demonstrate a compelling interest sufficient to overcome the privilege,¹⁴ the court also upheld the magistrate judge’s conclusion that disclosure of the plaintiff’s supporters’ identities would be merely cumulative as to the defendant’s allegations of copyright misuse and unclean hands. In short, the court ruled that a qualified associational privilege would protect the information the plaintiff had redacted and withheld from discovery by the defendant.

Moving Right: Trademark Dilution and Infringement

At the other end of the political spectrum, in *Klayman v. Freedom’s Watch, Inc.*,¹⁵ a conservative defendant successfully used the privilege as a shield against a libertarian plaintiff’s motion to compel. In *Klayman*, the plaintiff was an antiwar activist who alleged he was the owner of the trademark “Freedom Watch” and that the corporate defendant’s use of the name “Freedom’s Watch” violated his common-law and statutory trademark rights. The defendant, a nonprofit foundation,

was “established to support the current war in Iraq and increase support for the President’s troop surge policy in Iraq.”¹⁶

Given that the defendant’s express purpose stood in direct opposition to that of the plaintiff, in relevant part, the plaintiff claimed as follows:

[The] unlawful infringement and use of the Freedom Watch name in conjunction with the promotion and furtherance of the Iraq war destroys the real Freedom Watch trademark[,] as Klayman and his Freedom Watch, while supportive of removing Saddam Hussein, stand for the position that the Iraq war does not promote freedom but in fact damages it as the Iraqi people are incapable of and are in fact opposed to democracy. . . . Thus, Defendants are not in any way affiliated or associated with Klayman or the real Freedom Watch and they have absolutely no legal right or authority to use, market, advertise, damage and destroy the Freedom Watch mark.¹⁷

During the course of discovery, the plaintiff requested extensive information concerning the conservative political mission, political and policy discussions, objectives, sponsorship, and donors of the defendant. The defendant then sought an emergency protective order and opposed the plaintiff’s motion to compel, arguing the plaintiff was using his lawsuit to explore “a political conspiracy theory” in an effort to show that “the Bush Administration [was] using Defendant Freedom’s Watch for the purpose of unlawfully evading the statutory restrictions on the use of soft money contributions to such organizations” and that therefore “numerous discovery requests [were] directed to this purpose and [were] not relevant” to the trademark dilution and infringement claims forming the basis of the lawsuit.¹⁸ In addition, the defendant sought protection from disclosure of its “internal operations, planning process and future plans, as well as donor lists[,]” relying, in part, “upon the qualified privilege recognized under the First Amendment right of free association[.]”¹⁹

The *Klayman* court initially noted in

its analysis that “information regarding whether the name ‘Freedom’s Watch’ was adopted with the intention of capitalizing on Plaintiff’s reputation or goodwill, or on any confusion, is relevant and discoverable.”²⁰ However, citing *Patterson* among other authorities, the court then agreed with the defendant’s asserted position, namely, that under the facts of the case, “the allowable scope of discovery must also be viewed in the context of the qualified associational privilege under the First Amendment.”²¹ Finding the privilege to be applicable, the court issued an order protecting certain matters from discovery.²²

Intellectual Property Matters and the Politics of Today

The 2007 cases of *Beinin* and *Klayman* show that courts in their analysis of the qualified associational privilege still look to the seminal case of *Patterson* in support of the applicable standards. Furthermore, both cases demonstrate that intellectual property matters and the politics of today may intersect in unexpected and unforeseen ways.²³ Thus, wherever a party may fall on the political spectrum, as such intersections continue to emerge, a qualified associational privilege may well provide an effective defense for either plaintiffs or defendants against overreaching discovery in intellectual property litigation. ●

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Endnotes

1. NAACP v. Alabama *ex rel.* Patterson, 357 U.S. 449 (1958).
2. *Id.* at 462–63, 466.
3. *See, e.g.*, Buckley v. Valeo, 424 U.S. 1, 68–74 (1976).
4. Gibson v. Fla. Legislative Investigation Comm., 372 U.S. 539, 546 (1963).
5. Herbert v. Lando, 441 U.S. 153, 179 (1977) (Powell, J., concurring).
6. *See, e.g.*, Savola v. Webster, 644 F.2d 743, 746–47 (8th Cir. 1981).
7. *See, e.g.*, Joan Steinman, *Privacy of Association: A Burgeoning Privilege in*

Civil Discovery, 17 HARV. C.R.-C.L. L. REV. 355 (1982).

8. *Beinin v. Center for Study of Popular Culture*, No. C 06-02298 JW., 2007 WL 1795693 (N.D. Cal. June 20, 2007) (slip op.).

9. The affirmative defense of copyright misuse precludes a copyright holder from using a valid copyright outside the scope of rights granted to the holder under copyright law. In other words, “[t]he misuse defense prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly.” *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir. 2001).

10. *Beinin*, at *2 (parentheses in original).

11. *Id.* (brackets, quotation marks, and italics in original).

12. *Id.* at *3 (citation omitted).

13. *Id.* at *4 (citation omitted).

14. “A ‘compelling interest’ is one that ‘is crucial to the party’s case,’ goes to the ‘heart of the claims,’ or is ‘directly relevant to the [party’s] claim.’” *Id.* at *3 (citations omitted; quotations and brackets in original).

15. *Klayman v. Freedom’s Watch, Inc.*, No. 07-22433-CIV., 2007 WL 3343079 (S.D. Fla. Nov. 12, 2007) (slip op.).

16. *Id.* at *1.

17. *Id.* (quoting the plaintiff’s Complaint).

18. *Id.* at *2.

19. *Id.*

20. *Id.* at *4.

21. *Id.* at *5 (other citations omitted).

22. *Id.* (e.g., “Plaintiff is not entitled to discovery with respect to the internal decision-making process which led to the selection of various markets and methods of advertisements, or other internal discussions such as the motive in forming Defendant Freedom’s Watch.”).

23. For further reading on this topic, see, for example, Graeme W. Austin, *Intellectual Property Politics and the Private International Law of Copyright Ownership*, 30 BROOK. J. INT’L. L. 899 (2005) (discussing, in part, “the tension between efficient international protection of copyright . . . and respect for territorial sovereignty, or comity”).

Waiver of Attorney-Client Privilege Based on Two Forms of Fraud

By Michael C. Gilleran

The biggest breach in the wall of attorney-client privilege in patent litigation comes not when a patentee seeks communications between an alleged infringer and its counsel where the patentee alleges willful infringement and the alleged infringer defends on the basis of an opinion of counsel. No, the biggest breach of the wall of privilege comes when an alleged infringer asserts that the patentee engaged in inequitable patent procurement or bad-faith assertion of patent rights.

In *In re Seagate Technologies, LLC*,¹ the Federal Circuit limited the extent to which a patentee can use waiver of attorney-client privilege against an alleged infringer. The Federal Circuit held that where an infringer asserts an advice of opinion counsel defense to a claim of willful infringement, the infringer has necessarily waived its privilege with opinion counsel but not with trial counsel.² Prior to the decision in *Seagate*, there was at least a serious question as to whether the patentee could also void the privilege as to trial counsel.

However, claims by alleged infringers against patentees for inequitable patent procurement or bad-faith assertion of patent rights provide much greater opportunities for alleged infringers to void assertions of attorney-client privilege by patentees. The crime-fraud exception to an assertion of attorney-client privilege applies where the party asserting the privilege has engaged in not just a crime, but also in some kind of fraud. Two forms of fraud an alleged infringer may seek to assert against a patentee are fraudulent/inequitable patent procurement or bad-faith assertion of patent rights. The crime-fraud exception to the attorney-client privilege may apply in both types of cases of patentee misconduct.

The Crime-Fraud Exception

“The crime-fraud exception applies when there is probable cause to believe that: (1) a fraud or crime has been committed; and (2) the communication in question was intended to further the fraud or crime.”³

“It is well-established that communications that otherwise would be protected by the attorney-client privilege or the attorney work-product privilege are not protected if they relate to client communications in furtherance of contemplated ongoing criminal or fraudulent conduct.”⁴

The party seeking to invoke the crime-fraud exception must establish a prima facie case that a fraud occurred and that an attorney-client privileged communication was made in furtherance of the fraud.⁵ This is a threshold question that must be answered by a court in the positive before any otherwise privileged communications can be ordered produced. Moreover, it is a difficult question to answer without the challenging party or the court knowing the substance of the privileged communications. Therefore, the challenging party is required to make a prima facie showing, before any access to the privileged communication, that there is a reasonable basis to suspect the perpetration or attempted perpetration of a crime or fraud, and that the perpetrator communicated with counsel in furtherance of the criminal or fraudulent scheme.⁶

Once the challenger makes this prima facie showing, the court will then examine the privileged communication in camera to determine if in fact there are communications evidencing knowledge of, or participation by counsel in, the fraud. Only when the examining court has made the determination that the crime-fraud exception has been met can it order production of the otherwise privileged communication.

Inequitable Patent Procurement

Procuring a patent from the U.S. Patent and Trademark Office (USPTO) based on inequitable conduct can lead to a judgment that the patent is unenforceable. Inequitable conduct “can arise from an affirmative misrepresentation of material fact, failure to disclose material information, or submission of false material information, coupled with an intent to mislead or deceive the PTO.”⁷ Once materiality of nondisclosure and intent to deceive have been established, “the court conducts a balancing test

and determines whether the scales tilt to a conclusion that inequitable conduct has occurred.”⁸ “The more material the omission or the misrepresentation, the lower the level of intent required to establish inequitable conduct, and vice versa.”⁹

Where a patentee has engaged in fraudulent patent procurement, and not just inequitable patent procurement, an alleged infringer may be able to prevail on a claim under the Sherman Act for violation of antitrust laws.¹⁰ Antitrust liability for fraudulent patent procurement can result in not only the invalidation of the patent but also a judgment for an automatic award of both treble damages and attorney fees.¹¹

Bad-Faith Assertion of Patent Rights

Aside from a claim for fraudulent or inequitable procurement of patent rights, there is a related claim based on bad-faith assertion of patent rights.¹² However, a claim for bad assertion of patent rights is not brought under patent law but under unfair competition law in general or specifically under the federal Lanham Act,¹³ under state law of unfair competition, or even under state law of interference with contract.¹⁴ The elements of a claim for bad-faith assertion of patent rights require that the plaintiff show that the patentee’s assertion of patent rights is objectively baseless and that the assertion was made in bad faith.¹⁵ Bad-faith itself is shown by assertion or publication of patent rights in the marketplace with knowledge of their incorrectness or falsity, or with reckless disregard for their incorrectness or falsity.¹⁶

Patent rights asserted in the marketplace can be shown to be incorrect or false if the patent is invalid, unenforceable, or not infringed. A plaintiff may show a patent to be invalid or unenforceable for purposes of unfair competition law by proving that the patentee had procured the patent from the USPTO through fraudulent or inequitable conduct. This is exactly the same showing that an alleged infringer, counterclaiming under patent law for patent invalidity based on fraudu-

lent or inequitable procurement, would have to make.

The rule permitting claims for unfair competition for bad-faith assertion of patent rights in the marketplace now extends to the following kinds of conduct: assertion that only the patentee can legally manufacture and sell the product and that a supposed infringer could not legally manufacture and sell a noninfringing product; warning alleged infringers or their distributors of potential suit by sending cease and desist letters asserting infringement and demanding that any manufacturing and sales of the alleged infringing product cease; and warning customers of an alleged infringer of the claimed scope of the patentee's patent, without naming the claimed infringer, identifying the claimed infringement, or overtly demanding that the customers stop doing business with the alleged infringer.

Baseless Litigation Asserting Patent Rights

The crime-fraud exception may also be used to vitiate attorney-client privilege where a patentee engages in fraudulent conduct consisting of pursuit of baseless infringement litigation.¹⁷

The Crime-Fraud Exception in the Patent Context

Some courts have applied the crime-fraud exception in the context of inequitable patent procurement under patent law and found under the facts in those cases that the attorney-client privilege was vitiated:

*Leybold-Heraeus Techs., Inc. v. Midwest Instrument Co., Inc.*¹⁸ The alleged infringer established a prima facie case that the patentee had intentionally not disclosed to the Patent Office clearly material prior art that had been cited and applied against the patentee in a foreign counterpart application. The court concluded that such conduct constituted common-law fraud, thus invoking the crime-fraud exception, and also met the standard for inequitable patent procurement, thus making all of the patent claims unenforceable. The court held that the documents sought to be protected did not qualify for protection under attorney-client privilege or the work-product doctrine.

*W.R. Grace & Co.-Conn. v. Viskase Corp.*¹⁹ The court held that the crime-fraud exception may vitiate attorney-client privilege where a prima facie

showing of fraud before the USPTO has been made. The court ruled that there was evidence that the patentee's nondisclosure of prior art was intentional and "[t]his is all that is necessary to invoke the crime/fraud exception." The court ordered production of all documents relating to the patentee's decision not to disclose prior art to the USPTO.

*Bristol-Myers Squibb Co. v. Rhône-Poulenc Rorer Inc.*²⁰ The court held that the attorney-client privilege in the patent application process can be vitiated by a prima facie showing of fraud. The court found that prosecution counsel had been told by the inventors about the inventors' own article that questioned the operability of one of the claims in the patent, and patent counsel's subsequent failure to cite the article to the USPTO. The court ruled that a prima facie showing of fraud had been made and the privilege vitiated. The court ordered production of the withheld documents.

*Specialty Minerals, Inc. v. Pleuss-Stauffer AG.*²¹ The court stated the rule that if a patent applicant obtains a patent through . . . deliberate non-disclosure [of prior art] and thereafter seeks re-examination of the patent to reinforce the patent's security, and in doing so again conceals prior art to ensure the success of the application, it has engaged in fraud during the re-examination process, which may trigger the exception to the privilege. The court ruled that there was ample evidence to support the inference that at least some of the patentee's communications with its reexamination counsel, in connection with the reexamination proceeding, were intended to assist the patentee in concealing the prior fraud and in perpetrating a similar fraud during reexamination, and "thus strengthening the patent, under false pretenses."

Other courts have also held that the crime-fraud exception applies in the context of patent procurement but have held under the facts of the cases that the crime-fraud exception had not been met:

*Am. Optical Corp. v. U.S.*²² The court held that in order to pierce the [attorney-client] privilege, it is not enough to show merely inequitable conduct before the Patent Office . . . [r]ather it is necessary to establish a case of fraudulent procurement, i.e., one must show (1) a knowing, willful and intentional act of misrepresentation or omission before the Patent Office; (2) the misrepresentation or omis-

sion must be material; and (3) the Patent Office must have relied on the misrepresentation or omission.

The court denied disclosure of attorney-client communications on the basis of the crime-fraud exception where the patentee had been informed by its attorney that a previous patent might make its patent application invalid, and then the patentee, through its attorney, intentionally omitted reference to the earlier patent in its application.

*Stryker Corp. v. Intermedics Orthopedics, Inc.*²³ The court held that "proof of inequitable conduct is not sufficient to vitiate the privilege, rather the movant must establish a prima facie case of common law fraud before the privilege can be extinguished . . . mere allegations or suspicions of fraud are not sufficient to vitiate the privilege." The court found that the prior art not disclosed to the USPTO was not material given the prior art the patentee had already disclosed to the USPTO, and therefore fraud had not been shown and the crime-fraud exception had not been met.

*In re Spalding Sports Worldwide, Inc.*²⁴ The Federal Circuit held that an invention record presented by the inventors to prosecution counsel was subject to the attorney-client privilege and that the necessary facts to support the crime-fraud exception, and thus require disclosure of the invention record, had not been shown. The alleged infringer argued that there might be citations in the invention record to prior art that prosecution counsel had not then cited to the USPTO, but there was no evidence that this was true. The court concluded that "[a]lthough the party seeking to overcome the attorney-client privilege need not conclusively prove fraud, or necessarily submit direct evidence to make a prima facie showing of fraud, Wilson's mere allegation of Spalding's failure to cite a reference to the PTO will not suffice."

*Genentech, Inc. v. Insmad, Inc.*²⁵ The court ruled, citing *In re Spalding*, that "[a]n omission such as the failure to cite a piece of prior art would support a finding of common law fraud only if it were accompanied by evidence of fraudulent intent; a mere failure to cite a reference to the PTO will not suffice."

The crime-fraud exception has also been applied in the context of fraudulent patent procurement and held to be in vio-

lation of antitrust law:

*Nobelpharma AB v. Implant Innovations, Inc.*²⁶ The Federal Circuit held as follows:

[a] finding of Walker Process [anti-trust] fraud requires higher threshold showings of both intent and materiality than does a finding of inequitable conduct . . . Therefore, for an omission such as a failure to cite a piece of prior art to support a finding of Walker Process fraud, the withholding of the reference must show fraudulent intent . . . A mere failure to cite a reference to the PTO will not suffice.

The court upheld a jury finding that the patent had been fraudulently procured where prosecution counsel, who had received a document from the inventors indicating that one of the inventors was the author of a book that was published three years before the application, verifying the utility of the patent, deleted any reference to the book in the patent application. Statements in the book anticipated the patent, thereby rendering it invalid.

Strategies of Alleged Infringer to Maximize Disclosure

The alleged infringer's first task is to get the court to review the attorney-client communications in camera. To convince the court to undertake an in camera review, the principal strategy of an alleged infringer, bringing a claim against a patentee for fraudulent/inequitable patent procurement or bad-faith assertion of patent rights, is to document as much as possible (1) any claimed misrepresentation or nondisclosure to the USPTO, (2) any evidence that the patentee knew of such misrepresentation or nondisclosure, (3) any evidence that the patentee's counsel also knew of the misrepresentation or nondisclosure, and (4) any evidence that the USPTO relied on the misrepresentation or nondisclosure or would have thought it was material.

The alleged infringer must not seek to rely solely on misrepresentation or nondisclosure to the USPTO; arguing pure inferences to satisfy the crime-fraud exception will not be enough.

The best evidence is likely to be evidence that the patentee had actual knowledge of prior art that prosecution counsel

then did not disclose in the patent application. This fact pattern creates a strong inference that the patentee told its counsel about the prior art, but then the patentee and its counsel discussed it and decided not to disclose it.

Strategies of Patentee to Minimize or Prevent Disclosure

The patentee's first defense is that no fraudulent/inequitable patent procurement or bad-faith assertion of patent rights ever occurred. The patentee can best prove this by showing that any claimed nondisclosure of prior art was not material because it was redundant or did not anticipate the patented invention.

The patentee's second defense is to show that even if it did engage in some kind of inequitable conduct before the USPTO, such conduct did not amount to fraud and therefore will not support application of the crime-fraud exception. Such conduct may not be fraud where it was simply a mistake, it was not material, the USPTO did not rely on it, or there was no intent to deceive.

Third, the patentee may argue that there is no evidence of any communications with its prosecution counsel on the subject of the claimed fraud.

Conclusion

Use of the crime-fraud exception to attorney-client privilege is a powerful tool in litigation claiming either inequitable patent procurement or bad-faith assertion of patent rights. Alleged infringers should be aware of it and know how it can best be used to help invalidate a patent they are alleged to have infringed. Patentees, to best protect their patents, should at all times be aware of the risks that the crime-fraud exception poses to attorney-client communications, and thus be forearmed. ●

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Endnotes

1. *In re Seagate Techs., LLC*, 497 F.3d 1360, 1374–75 (Fed. Cir. 2007).

2. *Id.*

3. *John Doe, Esq. v. United States*, 82 Fed. App'x 250, 252 (2d Cir. 2003).

4. *In re Grand Jury Subpoena Duces Tecum*, 731 F.2d 1032, 1038 (2d Cir. 1984).

5. *See id.* at 1039.

6. *See id.*

7. *Purdue Pharma L.P. v. Endo Pharms. Inc.*, 438 F.3d 1123, 1128 (Fed. Cir. 2006).

8. *Critikin, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1256 (Fed. Cir. 1997).

9. *Id.*

10. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965).

11. *See Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069–71 (Fed. Cir. 1998).

12. *See Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470 (Fed. Cir. 1998); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336 (Fed. Cir. 1998).

13. *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1354 (Fed. Cir. 1999).

14. *Golan v. Pingel Enter., Inc.*, 310 F.3d 1360, 1365 (Fed. Cir. 2002).

15. *Id.* at 1371.

16. *See id.*

17. *See Kockums Indus., Ltd., v. Salem Equip., Inc.*, 561 F. Supp. 168, 173–74 (D. Or. 1983); *Motorola, Inc. v. Vosi Techs., Inc.*, No. 01 C 4182, 2002 U.S. Dist. LEXIS 15655, at *8 (N.D. Ill. 2002).

18. 118 F.R.D. 609, 615–16 (E.D. Wis. 1987).

19. No. 90 C 5383, 1991 U.S. Dist. LEXIS 10424, at *2–3, 10 (E.D. Ill. 1991).

20. 48 U.S.P.Q. 2d 1817, 1823 (S.D.N.Y. 1998), *vacated on other grounds*, 48 U.S.P.Q. 2d 1823 (Fed. Cir. 1998).

21. 98 Civ. 7775, 2004 U.S. Dist. LEXIS 178, at *25–26 (S.D.N.Y. 2004).

22. No. 293-71, 1973 U.S. Ct. Cl. LEXIS 487, at *6 (Ct. Cl. 1973).

23. 148 F.R.D. 493, 497–99 (E.D.N.Y. 1993).

24. 203 F.3d 800, 806–8 (Fed. Cir. 2000).

25. 236 F.R.D. 466, 470 (N.D. Cal. 2006).

26. 141 F.3d 1059, 1070–73 (Fed. Cir. 1998).

Avoiding Patent Traps

Continued from cover

reasonable care in reviewing documents for privilege prior to production to minimize the possibility of producing privileged materials. Without doing so, a party may face arguments that the privilege was waived, which will result in expensive motions practice to defend.

Yet, even with a claw-back agreement in place, parties still face the risk of waiving the privilege through inadvertent productions. This is because these agreements cannot modify the substantive waiver law of any jurisdiction. In addition, claw-back agreements generally cannot bind nonparties or parties in a subsequent action being brought in a different jurisdiction. Finally, intentional disclosure to a third party will result in complete subject matter waiver of privilege.

To protect privileged material from use by the other side, it is important to understand the law and risks relating to inadvertent production, claw-back provisions, and the waiver of privilege. It is also important to draft effective claw-back provisions that are sufficiently broad to address these types of inadvertent disclosures. Finally, it is most important to implement strategies during document review and production to minimize the risk of an inadvertent disclosure, particularly of very sensitive privileged material such as an opinion of counsel.

The Rules' Claw-Back Requirements

The 2006 amendments to the Federal Rules of Civil Procedure were enacted in part to ease the burdens of massive discovery and to allow parties that inadvertently produce privileged documents to face less drastic consequences than under the common-law rule, which held that any disclosure of privileged information resulted in the subject-matter waiver of that privilege, regardless of the disclosing party's intent.¹ Rule 26(b)(5)(B), one of the 2006 amendments, seeks to counteract these risks by requiring the return of inadvertently produced privileged documents in the course of discovery. The rule provides:

If information produced in discovery is subject to a claim of privilege or of protection as trial preparation

material, the party making the claim may notify any party that received the information of the claim and the basis for it. After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has; must not use or disclose the information until the claim is resolved; must take reasonable steps to retrieve the information if the party disclosed it before being notified; and may promptly present the information to the court under seal for a determination of the claim. The producing party must preserve the information until the claim is resolved.

With the adoption of Rule 26(b)(5)(B)'s express claw-back requirements, parties now must determine whether to rely solely on the rules or whether also to negotiate a claw-back agreement more tailored to their particular circumstances. The rules encourage parties to engage in these sorts of discussions during the Rule 16 discovery-planning conference so that any differences in philosophy as to the scope of such a claw-back agreement may be resolved before discovery commences.² An effectively drafted agreement will provide additional support to show that a party's inadvertent production of privileged material was not intended to waive the privilege and eliminate any confusion as to the scope of the claw-back agreement.³

Because of Rule 26's requirements and philosophy encouraging early discussion of issues affecting document production, it is important to have a well-crafted claw-back agreement that addresses the inadvertent production of privileged documents. Effective claw-back agreements will provide at least the following terms:

- A reference to Rule 26's requirements for claw back.
- An express requirement that inadvertently produced documents be returned to the producing party after notice of the disclosure.
- Burden shifting to the receiving party to show that the inadvertent production was intentional.
- The presumption that an inadvertent production was not intended to waive the privilege.

Ensuring that a claw-back agreement con-

tains these terms will enable parties to have more security when producing a large volume of documents during discovery.

Standards for Finding Waiver

If a party inadvertently produces privileged material and the opposing party claims the privilege has been waived, despite the presence of a claw-back agreement, the producing party will need to demonstrate that its conduct was reasonable and not intended to waive the privilege. Most courts apply a multifactor balancing test to assess waiver arguments. These factors include:

- The reasonableness of the precautions taken to prevent inadvertent disclosure compared with the size of the document production;
- The number of inadvertent disclosures;
- The extent of the inadvertent disclosure;
- The timing within which the producing party notified the opposing party after production of an inadvertently produced document; and
- Whether the interests of justice would be served by finding that the party did not waive the privilege.⁴

This five-factor test has been employed in all of the recent cases addressing allegations of waiver when a privileged document was inadvertently produced.⁵ In performing this analysis, courts have concluded that "inadvertent disclosure of privileged information does not automatically result in waiver of the privilege."⁶

Risks Associated with Inadvertent Production

Although claw-back agreements and Rule 26's provisions provide support for the protection of inadvertently produced documents, these protections are not absolute. For example, as discussed above, if a party has not engaged in reasonable measures to prevent inadvertent disclosure of privileged materials, courts may conclude that the claw-back agreement is not sufficient to protect a party's lack of diligence. Claw-back agreements also generally cannot bind nonparties.⁷

Similarly, a claw-back agreement drafted in one jurisdiction may not bind the same

two parties in a proceeding before a different court if one jurisdiction's substantive law is significantly different from that of the original venue. Most important, intentional disclosure of privileged material to a third party will generally result in a complete subject-matter waiver of privilege, as against all parties.⁸ As a result of these risks, it is particularly important in a patent infringement case involving allegations of willfulness that the parties define their claw-back agreement explicitly and that the parties exercise diligence in their document production efforts to minimize any inadvertent production that could lead to challenges in the current (or even future) dispute.

A Road Map for Complex, Document-Intensive Discovery

Because of the risks associated with an inadvertent production of sensitive privileged material, parties should develop a discovery plan that minimizes the potential for inadvertent productions to occur. This plan should include at least the following steps:

- Filter electronic data using privilege keyword terms (“attorney-client,” “work product,” names of in-house and outside counsel, law firm names, etc.).
- Review the data identified as potentially privileged with an attorney review team.
- Produce documents “subject to the terms of Rule 26” and any specially negotiated claw-back agreements.
- Promptly notify opposing counsel when an inadvertently produced document is discovered.

Although this plan may not be fail-safe because a document that is privileged may not contain the privilege keyword terms and therefore may not be identified in the filtering process, it will allow a party to show reasonable steps it took to protect its privileged documents. Following a detailed protocol designed to minimize the potential for inadvertent production of privileged documents will provide substantial support for a party facing a challenge that it waived the privilege. And, even though the court's inquiry to determine waiver is fact-specific, courts are reluctant to find waiver when a party has taken these types of measures to

prevent privileged materials from being produced particularly when discovery is voluminous.⁹

Inadvertent Production of Opinion of Counsel

The challenges of inadvertent production are heightened in the context of an inadvertently produced opinion of counsel during a lawsuit alleging willful patent infringement. Following *In re Seagate Tech., LLC*, parties need no longer produce an opinion of counsel to rebut charges of willful infringement of a patent.¹⁰ Prior to *Seagate*, parties were forced to make the choice between waiving privilege to defend against willfulness allegations and retaining the privilege but having to show they nevertheless exercised due care.¹¹ Now that opinions of counsel are less “important” to the defense of willfulness allegations, parties will likely be more circumspect in assessing whether to waive the privilege, and in many instances, parties may conclude that it is not necessary to waive the privilege in light of this new standard.

Because parties may choose to retain the privilege as to opinion letters, it will be critical for parties to protect such documents from inadvertent disclosure. Given the option that a party may choose to waive the privilege to defend against willfulness allegations, if a party produces an opinion letter, the opposing party will likely argue that it is presumed that the disclosing party knowingly produced the opinion in defense to willfulness allegations. The disclosing party will then need to demonstrate not only that it took reasonable measures to protect against inadvertently producing privileged documents but also that it did not intend to waive the privilege associated with its noninfringement or invalidity opinions. To satisfy this inquiry, it will be critically important for the disclosing party to promptly notify the other side of the inadvertent disclosure of the opinion and to make clear in requesting the return of the material that the disclosing party did not intend to waive the privilege when the opinion was inadvertently produced. It will also be important that the parties have negotiated a claw-back agreement that contains explicit language as to non-waiver to further protect against a finding that the privilege was intentionally waived. Without such express statements of the disclosing

party's intent, the court could find that the party intended to waive the privilege.

Conclusion

With substantial changes to discovery caused by the increased amount of electronic data that may be relevant to patent infringement actions, the landscape that parties face during discovery in patent infringement actions is different from the landscape they faced just a few years ago. Claw-back agreements and the changing rules of privilege waiver provide some relief for parties that, faced with expansive discovery, turn over privileged documents inadvertently. Nevertheless, these agreements are not absolute and the courts employ a fact-specific inquiry to assess whether a party waived the privilege by inadvertently producing privileged material. Parties should therefore exercise caution and employ reasonable measures to minimize the possibility of inadvertently producing privileged material. In light of *Seagate*, parties in patent infringement cases should exercise even greater caution to protect against the inadvertent production of opinion letters.

In the end, although claw-back agreements and Rule 26 provide some guidance for parties that protect against a finding of waiver, these provisions are not absolute. The consequences of disclosing an opinion of counsel can be far-reaching, including potentially waiving the privilege as to the opinion in future cases, not only the case in which the document was inadvertently produced. Because the Federal Circuit has yet to rule on whether claw-back agreements protect an inadvertently disclosed opinion of counsel, parties should be especially vigilant in protecting their privileged communications from inadvertent disclosure. ●

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Endnotes

1. See FED. R. CIV. P. 26(b)(5)(B) Advisory Comm. Notes; *Int'l Digital Sys. Corp. v. Digital Equip. Corp.*, 120 F.R.D. 445 (D. Mass. 1988) (discussing common-law rule on waiver).
2. FED. R. CIV. P. 26(f)(3)(D) (“[A] discovery plan [should] state the parties’

views and proposals on any issues about claims of privilege or of protection as trial-preparation materials, including—if the parties agree on a procedure to assert these claims after production—whether to ask the court to include their agreement in an order.”).

3. *See* *Adams v. United States*, No. CV-03-E-BLW, 2008 WL 126629, at *1 (D. Idaho Jan. 10, 2008) (enforcing the parties’ claw-back agreement and finding that an inadvertently produced document was privileged despite its production to the other side).

4. *Hydraflow, Inc. v. Enidine, Inc.*, 145 F.R.D. 626, 637 (W.D.N.Y. 1993).

5. *See, e.g.*, *Jackson v. Bd. of Educ.*, No. 07-2497, 2008 WL 747288, at *2–3

(W.D. Tenn. Mar. 18, 2008) (assessing waiver arguments and Rule 26’s claw-back standards); *Continental Casualty Co. v. Under Armour, Inc.*, 537 F. Supp. 2d 761, 765–68 (D. Md. 2008) (same); *Pinnacle Pizza Co., Inc. v. Little Caesar Enter., Inc.*, No. CIV. 04-4170, 2007 WL 1960585, at *4–5 (D.S.D. July 3, 2007) (same).

6. *Pinnacle Pizza Co., Inc.*, 2007 WL 1960585, at *4.

7. *See* Sedona Principle 10 cmt. 10.a. The Sedona Principles Addressing Electronic Production (2d ed. June 2007), available at http://www.thesedonaconference.org/content/miscFiles/TSC_PRINCP_2nd_ed_607.pdf.

8. *See, e.g.*, *Fort James Corp. v. Solo*

Cup Co., 412 F.2d 1340, 1349 (Fed. Cir. 2005); *V. Mane Fils S.A. v. Int’l Flavors & Fragrances, Inc.*, Civ. Action No. 06-2304 (FLW), 2008 WL 619207, at *3 (D.N.J. Mar. 4, 2008).

9. *See, e.g.*, *Adams v. United States*, No. CV-03-E-BLW, 2008 WL 126629, at *1 (D. Idaho Jan. 10, 2008) (“[H]aste and size combine to make inadvertent disclosures of privileged material inevitable.”).

10. 497 F.3d 1360, 1371 (Fed. Cir. 2007).

11. *See id.* at 1368–70 (discussing the historical standard for evaluating willful infringement).

Post-Seagate: Advice of Counsel

Continued from cover

willful inducement, even though evidence was before the jury of Qualcomm’s failure to obtain an opinion of counsel.⁵ The court concluded that, even under *Seagate*, “the absence of an opinion is one factor the jury may consider in reviewing the totality of circumstances in determining whether the alleged inducement was knowing.”⁶ Does *Broadcom* represent a proper application of the reasoning underlying the holdings in *Knorr-Bremse* and *Seagate*? This article explores that reasoning in an attempt to discern just what a patent infringement plaintiff is (or should be) allowed to say about the defendant’s lack of an exculpatory opinion of counsel.

Recent Willfulness History

The Federal Circuit first imposed a duty to obtain competent legal advice from counsel in *Underwater Devices Inc. v. Morrison-Knudsen Co.*⁷ Perhaps in view of what it saw as widespread disregard for intellectual property rights, the court in *Underwater Devices* held that those with actual notice of another’s patent rights have an affirmative duty to exercise due care to determine whether they are infringing a patent.⁸ Three years later, in *Kloster Speedsteel AB v. Crucible Inc.*,⁹ the court found willful infringement largely because the defendant failed to assert an advice-of-counsel defense. Thus was born the negative inference from a

patent defendant’s failure to introduce an exculpatory patent opinion.

The Federal Circuit changed course in 2004 with *Knorr-Bremse*. Noting that the “conceptual underpinnings” of the previous “disrespect for [the] law” had “significantly diminished,” the court overruled its precedent imposing an “inappropriate burden[] on the attorney-client relationship.”¹⁰ The court was clear that no adverse inference could be drawn when a defendant asserted attorney-client or work-product privilege.¹¹ The court was also clear that it was inappropriate to draw an adverse inference from a defendant’s failure to consult counsel.¹² But the court expressly left unanswered the amici question of “whether the trier of fact, particularly a jury, can or should be told whether or not counsel was consulted (albeit without any inference as to the nature of the advice received) as part of the totality of circumstances relevant to the question of willful infringement.”¹³

Post-Knorr-Bremse Authority

After *Knorr-Bremse*, many courts found that under certain circumstances the jury could be told that the patent defendants did not obtain an opinion of counsel and that such evidence could be properly considered under a totality-of-circumstances test. For example, in *Engineered Products Co. v. Donaldson Co.*,¹⁴ the Federal Circuit was asked to vacate the trial court’s willfulness finding because the jury heard evidence and received instructions emphasizing that the patent defendant

did not obtain an opinion of counsel regarding possible infringement. In refusing to vacate the jury’s determination, the Federal Circuit noted that it “did not see any error . . . in the instructions submitted to the jury,” which “merely directed the jury to consider whether Donaldson sought a legal opinion as one factor in assessing whether, under the totality of the circumstances, infringement . . . was willful.”¹⁵ The Federal Circuit further noted that the instructions had not directed the jury to draw an adverse inference from the failure to seek legal advice.¹⁶

Several district courts agreed with this approach. For example, in *Applera Corp. v. MJ Research Inc.*,¹⁷ plaintiff’s counsel was permitted to point out the absence of a legal opinion during its closing argument because the reference was only one of many factors called to the jury’s attention. Likewise, in *IMX, Inc. v. Lendingtree, LLC*, the court allowed plaintiff to raise the accused infringer’s failure to obtain opinion of counsel, so long as the plaintiff did not suggest that “such an opinion, had it been acquired, would have been unfavorable to defendant.”¹⁸ Furthermore, in *z4 Technologies, Inc. v. Microsoft Corp.*, the court allowed the plaintiff to present evidence that defendant’s representative had not formed an opinion as to the validity or infringement of the plaintiff’s patents, despite the potential for this evidence to suggest that no advice of counsel was sought, because the jury was not instructed to draw an adverse inference

“that had [defendant] obtained the advice of counsel, the advice would have been unfavorable.”¹⁹

Thus, even after *Knorr-Bremse*, the weight of authority held that a plaintiff could cite the defendant’s failure to obtain an opinion of counsel as one factor to be considered under the totality of circumstances, so long as no adverse inference was drawn about what the opinion would have said. This is not particularly surprising because the Federal Circuit was still holding firm on imposing an affirmative duty of due care upon potential infringers. The prohibition against an adverse inference would adequately protect the attorney-client privilege, but the fact of whether the defendant even sought counsel’s advice would presumably remain relevant to whether the defendant acted with due care under the circumstances.

The Implications of *Seagate*

Under its landmark 2007 holding, the Federal Circuit’s test for willful infringement no longer imposes a duty of due care on potential infringers.²⁰ Rather, the standard for willful infringement now requires “at least a showing of objective recklessness.”²¹ Under this standard, the plaintiff must show (1) that “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” and (2) that the objectively defined risk was known or should have been known to the infringer.²² Furthermore, *Seagate* expressly stated that an accused infringer has no affirmative obligation to obtain an opinion of counsel.²³

By eliminating the affirmative duty of due care and raising the level of proof required to prove willfulness, *Seagate* appears to undermine the rationale for permitting the trier of fact to consider evidence of a defendant’s failure to obtain an opinion of counsel. But while the Federal Circuit expressly refused to define the contours of the new objective recklessness standard, it did leave in place the totality-of-circumstances approach to the determination of willfulness.²⁴ It also did not explicitly go further than *Knorr-Bremse* in barring adverse inferences with respect to the content of an opinion not obtained, rather than the failure to obtain an opinion at all. It would seem intuitive that a defendant’s failure to seek advice of counsel, when considered among a totality of circumstances, would aid a finding of

objectively reckless conduct. For example, a competitor who deliberately copies a patented invention without obtaining an opinion on invalidity certainly appears to be acting recklessly.

At least one pre-*Seagate* case might be illuminating. In *Golden Blount, Inc. v. Robert H. Peterson Co.*,²⁵ the court implied that the defendant’s conduct was so egregious as to be reckless. In explaining its willfulness findings, the district court explained that “in the two and one-half years after Peterson received notice of the patent, Peterson never obtained a written opinion of counsel and that the oral opinions obtained by Peterson were rendered without counsel having examined either the patent’s prosecution history or the accused device, and were thus incompetent.”²⁶

The defendant sought an appeal on the grounds that *Knorr-Bremse* prohibited such adverse inferences to be drawn, but the Federal Circuit rejected this argument.²⁷ First, the court explained that pointing to defendant’s withholding of an opinion is alone not enough to make out a prima facie case of willful infringement, but that the burden can shift to the accused infringer to show that it acted with due care if the plaintiff makes a prima facie showing by other means.²⁸ The court also explained that if a defendant asserts the advice-of-counsel defense, the patentee could introduce as evidence whatever opinions were obtained and challenge the competence of the opinions—including, in this case, that the defendant never bothered to obtain a written opinion.²⁹

Of course, if an accused infringer raises the advice-of-counsel defense, a patentee can attack the quality and competence of the opinions sought; this almost certainly remains true after *Seagate*, as such a holding does not presume a duty of due care. *Golden Blount II* would also seem to be the perfect scenario where pointing to the accused infringer’s complete failure to obtain an opinion is consistent with *Knorr-Bremse* and *Seagate*. The defendant there was particularly reckless:

Peterson demonstrated a cavalier attitude toward Golden Blount’s patent rights from the facts that Peterson did not respond substantively to Golden Blount’s notice letters and that it only sought a

thorough opinion of counsel after suit was filed, and then only out of a concern to avoid a willfulness finding and a possible judgment for attorney fees.³⁰

And *Seagate*, although eliminating the duty of due care, did not expressly prohibit a plaintiff from pointing to an accused infringer’s failure to obtain an opinion of counsel as an additional factor for consideration under the totality of circumstances where other facts showed the defendant had acted recklessly.

Although a case with these facts has yet to reach the Federal Circuit since *Seagate*, several post-*Seagate* cases do seem to support the proposition that a patent defendant’s failure to obtain advice of counsel can be discussed before a trier of fact. For example, although not expressly reaching this issue, the court in *Franklin Electric Co. v. Dover Corp.*,³¹ stated that the evidence of willfulness marshaled by the plaintiff, including the defendant’s failure to seek advice of counsel, would have been relevant to whether defendant knew or should have known of the objectively high likelihood of infringement, the second component of the *Seagate* test. And as noted above, in *Broadcom*, the court granted a new trial on willful infringement because of its failure to instruct the jury on the proper standard for willfulness under *Seagate*,³² but let stand the jury’s finding of willful inducement, even though the plaintiff had adduced evidence regarding the defendant’s failure to obtain an opinion of counsel.³³ As to willful inducement, the court noted that if it “had had the benefit of *Seagate*, it would likely have instructed the jury on the inducement claim that there is no duty to obtain an opinion,”³⁴ a nod, perhaps, to those post-*Knorr-Bremse* (but pre-*Seagate*) trial courts that allowed the plaintiff to mention the defendant’s failure to obtain an exculpatory opinion as long as the jury was instructed that no adverse inference could be drawn.

Certainly, other trial courts that rigidly apply *Seagate*’s two-part approach to objective recklessness might be inclined to believe there is no place within that structure for plaintiffs to point to the accused infringer’s failure to produce an opinion of counsel. Under *Seagate*, the plaintiff first must show that the infringer acted despite an objectively high

likelihood of infringing a valid patent.³⁵ *Seagate* further held that the “state of the mind of the accused infringer is not relevant to this objective inquiry.”³⁶ Failure to seek opinion of counsel would seem to be a subjective fact going to the accused infringer’s knowledge, that is, state of mind, and therefore irrelevant to the first part of the *Seagate* test.

If the plaintiff can show that the defendant acted despite an objectively high risk of infringing a valid patent, it must then show that this objectively defined risk was known or should have been known to the infringer.³⁷ *Franklin Electric* suggests that the failure to obtain opinion of counsel is relevant to the second part of the *Seagate* inquiry.³⁸ But failure to seek advice of counsel does not really show that the defendant knew or should have known of the risk, unless the fact finder makes an adverse inference about what an unsought opinion would have said—which is exactly the kind of inference prohibited by both *Knorr-Bremse* and *Seagate*. With *Knorr-Bremse*’s restriction, plaintiffs could only use a defendant’s failure to seek an opinion of counsel to show that the defendant *did not* know of the risk.³⁹ It goes without saying that such limited use of defendant’s failure to seek advice of counsel is not particularly helpful to plaintiffs.

On the other hand (and as appears to be the underlying teaching of *Golden Blount II*), if the accused infringer’s other conduct constitutes a rash disregard for a patentee’s rights—for instance, through blatant copying of an invention known to be patented—it would seem that under a totality-of-the-circumstances evaluation, the accused infringer’s failure to seek counsel’s opinion *should* be admissible before a trier of fact. An unfavorable inference regarding what an opinion would have said need not be drawn; the failure to produce such an opinion has evidentiary value itself. And although there is no affirmative duty of care, under these hypothetical circumstances, the accused infringer has, by reason of its own reckless conduct, created a situation where it must act to prevent harm (i.e., infringement) if such harm is foreseeable.

Seagate also left open a window for introduction of this evidence by suggesting that, in fleshing out the contours of the objectively reckless standard, a court could consider the “standards of commerce.”⁴⁰ In a rapidly evolving

industry where the custom is to secure intellectual property rights via patents, or where the risk of infringement is otherwise known to be high, it seems that the “standard of commerce” might be to seek counsel opinions before proceeding with the production or use of any potentially infringing technology. No affirmative duty of due care is imposed—the actors in such circumstances seek opinions of counsel not as a defense to subsequent claims of willfulness, but rather to *avoid* infringement. Such parties are acting reasonably in the totality of the circumstances.

Seagate indisputably continued the Federal Circuit’s trend toward discouraging meritless claims of willful patent infringement and, in doing so, has constrained plaintiff’s ability to introduce evidence of the accused infringer’s failure to seek an opinion of counsel. But it did not expressly foreclose this possibility. Both pre- and post-*Seagate* authority suggests that a plaintiff can successfully argue for putting this evidence before the trier of fact and should do so when the circumstances of the claimed infringement warrant. ●

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Endnotes

1. *Knorr-Bremse Systeme Fuer Natzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1346 (Fed. Cir. 2004).
2. *In re Seagate Techs., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).
3. *Broadcom Corp. v. Qualcomm, Inc.*, No. SACV 05-467-JVS(RNBx), 2007 U.S. Dist. LEXIS 86627, at *5 (C.D. Cal. Nov. 21, 2007).
4. *Id.* at *8.
5. *Id.* at *9–12.
6. *Id.* at *11.
7. *Underwater Devices Inc. v. Morrison-Knudsen Co.* 717 F.2d 1380, 1389–90 (Fed. Cir. 1983).
8. *Id.*
9. *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).
10. *Knorr-Bremse Systeme Fuer Natzfahrzeuge GmbH v. Dana Corp.*, 383

- F.3d 1337, 1343–44 (Fed. Cir. 2004).
11. *Id.* at 1344–45.
12. *Id.*
13. *Id.* at 1346–47 (internal citation omitted).
14. *Engineered Prods. Co. v. Donaldson Co.*, 147 F. App’x 979, 990–91 (Fed. Cir. 2005).
15. *Id.* at 991 (citing *Knorr-Bremse*, 383 F.3d at 1342–43).
16. *Id.*
17. *Applera Corp. v. MJ Research Inc.*, 372 F. Supp. 2d 233, 243 (D. Conn. 2005).
18. *IMX, Inc. v. Lendingtree, LLC*, No. Civ. 03-1067-SLR, 2006 WL 38918, at *1. (D. Del. Jan. 6, 2006).
19. *z4 Techs., Inc. v. Microsoft Corp.*, No. 6:06-CV-142, 2006 WL 2401099, at *8 (E.D. Tex. Aug. 18, 2006).
20. *In re Seagate Techs., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).
21. *Id.*
22. *Id.*
23. *Id.*
24. *Id.*
25. *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354 (Fed. Cir. 2006) (hereinafter *Golden Blount II*).
26. *Id.* at 1366.
27. *Id.* at 1366–68.
28. *See id.* at 1368.
29. *Id.* at 1369.
30. *Id.* at 1370.
31. *Franklin Elec. Co. v. Dover Corp.*, 2007 U.S. Dist. LEXIS 84588, at *22. (W.D. Wis. Nov. 15, 2007).
32. *Broadcom Corp. v. Qualcomm, Inc.*, No. SACV 05-467-JVS(RNBx), 2007 U.S. Dist. LEXIS 86627, at *7–8 (C.D. Cal. Nov. 21, 2007).
33. *Id.* at *9–12.
34. *Id.* at *11.
35. *In re Seagate Techs., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).
36. *Id.*
37. *Id.*
38. *Franklin Elec.*, 2007 U.S. Dist. LEXIS 84588 at *22 (“Plaintiff points to defendant’s failure to seek advice of counsel prior to selling the accused devices, . . . [which] goes to the second component of the *Seagate* test”).
39. *See In re Seagate*, 497 F.3d at 1371.
40. *In re Seagate*, 497 F.3d at 1371 n.5.

Pitfalls in Disclosing Prefiling Investigations

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investigative materials, it may be safest to not claim the attorney-client privilege as to such materials at all. Instead, claim that such materials are protected by the work-product doctrine alone. True, you lose an argument against disclosure that way, but the risks of subject-matter waiver of the attorney-client privilege are arguably much worse than the odds of a defendant convincing a court to order the production of work-product protected material.

Do Not Use the Disclosure as a Sword—Only as a Shield

If it appears that you are attempting to disclose the helpful while hiding the painful, it is likely that a broad-based waiver will be found. “Where society has subordinated its interest in the search for truth in favor of allowing certain information to remain confidential, it need not allow that confidentiality to be used as a tool for manipulation of the truth-seeking process.”⁸ “[S]elective waiver of the privilege may lead to the inequitable result that the waiving party could waive its privilege for favorable advice while asserting its privilege on unfavorable advice.”⁹ “[A] district court should balance the policies to prevent sword-and-shield litigation tactics

with the policy to protect work-product.”¹⁰ Consider disclosure of a presuit investigative memorandum purely in a defensive context if the document is truly privileged and was never intended to be disclosed.

Negotiate Safeguards in the Protective Order

Stipulated protective orders are enforceable.¹¹ If you feel that this might be an issue in a case and you have privileged documents that you do not want to disclose absent extraordinary circumstances (such as in response to a Rule 11 motion, in settlement discussions, or in response to exceptionality arguments), then draft a clause into a protective order that would allow disclosure for limited, defensive purposes with impunity. Defendants may or may not want to agree to that, but if phrased such that the issue is contingent upon a defendant’s offensive arguments in a case, it might be palatable. ●

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Endnotes

1. *In re Echostar Commc’ns Corp.*, 448

F.3d 1294, 1298–99 (Fed. Cir. 2006).

2. *Id.* at 1299; *In re Sealed Case*, 676 F.2d 793, 809 (D.C. Cir. 1982).

3. *In re Echostar*, 448 F.3d at 1302; *Pittman v. Frazer*, 129 F.3d 983, 988 (8th Cir. 1997); *In re Sealed Case*, 676 F.2d at 809; *Duplan Corp. v. Deering Milliken, Inc.*, 540 F.2d 1215, 1222 (4th Cir. 1976); *but see Sinclair Oil Corp. v. Texaco, Inc.*, 208 F.R.D. 329, 335 (N.D. Okla. 2002).

4. *Pittman v. Frazer*, 129 F.3d 983, 988 (8th Cir. 1997).

5. *In re Sealed Case*, 676 F.2d 793 at 818; *Ken’s Foods, Inc. v. Ken’s Steak House, Inc.*, 213 F.R.D. 89, 95 (D. Mass. 2002).

6. *In re Echostar*, 448 F.3d at 1300; *United States v. Doe*, 219 F.3d 175, 182 (2d Cir. 2000); *but see Chaudhry v. Gallerizzo*, 174 F.3d 394, 402 (4th Cir. 1999).

7. *Neuberger Berman Real Estate Income Fund, Inc. v. Lola Brown Trust No. 1B*, 230 F.R.D. 398, 412–13 (D. Md. 2005).

8. *In re Sealed Case*, 676 F.2d at 807.

9. *In re Echostar*, 448 F.3d at 1301.

10. *Id.* at 1302.

11. *See, e.g., Ken’s Foods, Inc. v. Ken’s Steak House, Inc.*, 213 F.R.D. 89, 95 (D. Mass. 2002).

The Dangers That Await the Purchaser

Continued from page 5

substantive law” because it was a defense to willful infringement and the remedies provided for under 35 U.S.C. §§ 284–285.

The Federal Circuit will not likely create privilege law that allows privilege power to transfer to a subsequent patent owner when the subsequent patent owner does not own or control the former patent owner, because this amounts to ignoring the force and effect of the Supreme Court’s *Weintraub* decision. Moreover, unlike the advice-of-counsel defense to willful infringement remedies provided specifically for in 35 U.S.C. §§ 284–285, the issue of whether privilege power passes to the subsequent patent owner *does not necessarily implicate patent law* to justify the application of Federal Circuit law. Further,

former patent owners will suffer harm and prejudice when a subsequent patent owner, who does not own or control the former patent owner, gains access to the former patent owner’s privileged communications concerning the patents, including perhaps highly confidential business information of the former patent owner.

The prognosis: *Weintraub*’s rule is here to stay. Potential purchasers and subsequent patent owners aware of the dangers of purchasing patents should proceed with care and deploy strategies to avoid the dangers and to minimize the magnitude of harm when the danger hits. ●

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Endnotes

1. *Commodity Futures Trading Comm’n v. Weintraub*, 471 U.S. 343, 349 (1985) (“[W]hen control of a corporation passes to new management, the authority to assert and waive the privilege passes as well.”).

2. *Soverain Software LLC v. The Gap Inc.*, 340 F. Supp. 2d 760, 763 (E.D. Tex. 2004).

3. *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*, 836 F.2d 1332, 1333–34 (Fed. Cir. 1988).

4. *Graco Children’s Prods. v. Regalo Int’l LLC*, No. 97-6885, 1999 U.S. Dist. LEXIS 11392, at *11–13, 20–21 (E.D. Pa., July 29, 1999).

5. *See Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1349 (Fed. Cir.

2005); *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1273 (Fed. Cir. 2001); *Texaco Puerto Rico, Inc., v. Dep't of Consumer Affairs*, 60 F.3d 867, 883–84 (1st Cir. 1995).

6. *Fort James*, 412 F.3d at 1349–50.

7. *See Libbey Glass, Inc. v. Oneida, Ltd.*, 197 F.R.D. 342 (N.D. Ohio 1999) (declining to apply common interest exception to disclosure of privileged information to a potential customer concerned about trademark infringement); *Katz v. AT&T Corp.*, 191 F.R.D. 433 (E.D. Pa. 2000) (declined to apply common interest exception to disclosure of documents during licensing negotiations).

8. *Swidler v. United States*, 524 U.S. 399, 405 (1998) (“The great body of this case law supports, either by holding or considered dicta, the position that the privilege does survive.”).

9. *See, e.g., Republic Gear Co. v. Borg-Warner Corp.*, 382 F.2d 551, 558 n.6 (2d Cir. 1967); *In re Grand Jury Subpoena #06-1*, Nos. 07-1889, 07-2024, 2008 U.S. App. LEXIS 8618 (4th Cir. Apr. 21, 2008) (noting that the issue of whether attorney-client privilege survives

the dissolution of the corporate entity is dissolution of the corporate entity”).

10. *Compare Gilliland v. Geramita*, No. 2:05-CV-01059, 2006 W.L. 2642525, at *4 (W.D. Pa. Sept. 14, 2006) (adopting the rule that “there should be a presumption that the attorney-client privilege is no longer viable after the corporate entity ceases to function, unless a party seeking to establish the privilege demonstrates authority and good cause”).

11. *See Zenith Elecs. Corp. v. WH-TV Broad Corp.*, No. 01-C-4366, 2003 U.S. Dist. LEXIS 13816, at *7 (N.D. Ill. Aug. 6, 2003) (“The court finds that Zenith’s attorney-client privilege simply was not a property right that could be sold.”).

12. *Synopsis, Inc., v. Ricoh Co., Ltd.*, No. C-03-4669, 2006 U.S. Dist. LEXIS 64270, at *5–6 (N.D. Cal. Aug. 28, 2006).

13. *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D.S.C. 1974); *see also In re Regents of the Univ. of Cal.*, 101 F.3d 1386, 1390 (Fed. Cir. 1996) (A third-party potential exclusive licensee and the patentee’s exchange of privileged communications did not waive attorney-client privilege because the par-

ties had the same interest in obtaining strong and enforceable patents.); *Baxter Travenol Labs. v. Abbott Labs.*, No. 84-C-5103, 1987 U.S. Dist. LEXIS 10300, at *3–4 (N.D. Ill. 1987) (A community of legal interests may arise between parties jointly developing patents, because they have a common legal interest in developing the patents to obtain greatest protection and in exploiting the patents.).

14. *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 115 F.R.D. 308, 309–10 (N.D. Cal. 1987).

15. *Id.* at 310; *see also Tenneco Packaging Specialty & Consumer Prods., Inc.*, 1999 U.S. Dist. LEXIS 15433, at *7 (N.D. Ill. 1999) (common interest doctrine shielded from production a patent opinion about potential infringement disclosed by patentee to potential buyer). Not all jurisdictions are common-interest exception friendly. *See, e.g., Libbey Glass, Inc. v. Oneida, Ltd.*, 197 F.R.D. 342 (N.D. Ohio 1999).

16. *In re Echostar Commc’ns Corp.*, 448 F.3d 1294 (Fed. Cir. 1996).



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A Year after the Seagate Closed

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high risk.²⁶ Simply stated, if willfulness is assessed under the totality of the circumstances, whether or not the infringer consulted with counsel is a relevant factor, so long as nothing about the undisclosed or unsought opinion is presumed.

Conclusion

It remains to be seen whether the Federal Circuit will adopt this approach to the new willfulness standard. However, because most district courts that have attempted to harmonize *Seagate* with prior precedent have found that all relevant facts must be considered, it is likely they will follow *Franklin Electric* to the conclusion that one such relevant factor—at least under the subjective part of the *Seagate* test—is whether or not the infringer consulted with counsel. If so, the question posed by *Knorr-Bremse* and left unanswered by *Seagate* may finally have an answer. ●

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Endnotes

1. *In re Seagate Techs., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).
2. *Id.* at 1371.
3. *Id.*
4. *Id.* at 1369–71 (“reemphasiz[ing]” the holding in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004)).
5. *Id.* at 1371.
6. *Read Corp. v. Portec, Inc.*, 970 F.2d

816 (Fed. Cir. 1992).

7. *See, e.g.*, *Trading Techs. Int’l, Inc. v. eSpeed, Inc.*, No. 04 C 5312, 2008 U.S. Dist. LEXIS 295, at *4 (N.D. Ill. Jan. 3, 2008) (“*Seagate* did not alter the requirement that the totality of the circumstances must be taken into account when determining whether infringement was willful.”); *Lucent Techs., Inc. v. Gateway, Inc.*, No. 07-CV-2000, 2007 U.S. Dist. LEXIS 95934, at *11 (S.D. Cal. Oct. 30, 2007). *But see* *Depomed, Inc. v. Ivax Corp.*, 532 F. Supp. 2d 1170, 1177 (N.D. Cal. 2007) (“It is unsettled whether the Federal Circuit’s prior ‘totality of the circumstances’ test is now abrogated. . . .”).

8. *See, e.g.*, *Fisher-Price, Inc. v. Safety 1st, Inc.*, No. 01-051, 2008 U.S. Dist. LEXIS 36712, at *19 n.4 (D. Del. May 5, 2008); *Lucent Techs., Inc.*, 2007 U.S. Dist. LEXIS 95934, at *10 (*Seagate* “did not expressly abandon other factors previously applied to the willfulness inquiry.”). *But see* *Depomed, Inc.*, 532 F. Supp. 2d at 1177.

9. As a practical matter, it is difficult to imagine how courts could not rely upon at least some of the pre-*Seagate* factors, which largely exhaust the universe of relevant evidence.

10. *E.g.*, *ResQNet.com, Inc. v. Lansa, Inc.*, 533 F. Supp. 2d 397, 420 (S.D.N.Y. 2008); *Lucent Techs., Inc.*, 2007 U.S. Dist. LEXIS 95934, at *12.

11. *Quantronix, Inc. v. Data Trak Techs., Inc.*, 536 F. Supp. 2d 1039, 1050 n.10 (D. Minn. 2008).

12. *Depomed, Inc.*, 532 F. Supp. 2d at 1177.

13. *Id.*

14. *Trading Techs. Int’l, Inc. v. eSpeed, Inc.*, No. 04 C 5312, 2008 U.S. Dist. LEXIS 295, at *4, *8–9 (N.D. Ill. Jan. 3, 2008).

15. *Rhino Assocs., L.P. v. Berg Mfg. & Sales Corp.*, 531 F. Supp. 2d 652, 659–60 (M.D. Pa. 2007).

16. This assumes, of course, that a proper invalidity analysis would have demonstrated that the patent was likely valid.

17. *Lucent Techs., Inc. v. Gateway, Inc.*, No. 07-CV-2000, 2007 U.S. Dist. LEXIS 95934, at *11, *12 (S.D. Cal. Oct. 30, 2007).

18. *Franklin Elec. Co. v. Dover Corp.*, No. 05-C-598, 2007 U.S. Dist. LEXIS 84588, at *22 (W.D. Wis. Nov. 15, 2007).

19. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344–46 (Fed. Cir. 2004).

20. *In re Seagate Techs., LLC*, 497 F.3d 1360, 1372–75 (Fed. Cir. 2007) (en banc).

21. *Knorr-Bremse*, 383 F.3d at 1341.

22. *See, e.g.*, *Avocent Huntsville Corp. v. Clearcube Tech., Inc.*, No. CV-03-S-2875, 2006 U.S. Dist. LEXIS 55307, at *95–96 (N.D. Ala. July 28, 2006).

23. *Franklin Elec.*, 2007 U.S. Dist. LEXIS 84588, at *22.

24. *Id.*

25. *Knorr-Bremse*, 383 F.3d at 1341.

26. *Third Wave Techs., Inc. v. Stratagene Corp.*, 405 F. Supp. 2d 991, 1016 (W.D. Wis. 2005) (*Knorr-Bremse* “did not say that it was improper for a jury to infer from an infringer’s failure to consult with counsel that the infringer had no prior knowledge of its opponent’s patents or that it had not acted properly in other respects.”).

Providing Privileges

Continued from page 7

Caution the expert not to create the report on a desktop computer, then transfer the document to a laptop to travel or use a thumb drive to transport the document for review, because the expert may well be leaving an electronic trail subject to discovery. Requests to copy drives of experts are becoming more common.

14. If the expert must interview your client or your client's employees, prepare your client before the visit. Inform your client that any information shared with the expert will not be privileged. Be sure that an attorney is present during such interviews. Be selective about whom the expert interviews, because that person will be a possible witness. If two people have information and only one needs to talk with the expert, pick the person who will make the best witness and will be least likely to damage the case. Again, caution the expert to carefully think before making any notes and that any notes can be used against him or her.
15. If the expert must inspect a scene or equipment, consider whether you want the client there. Again, anything that the client says to the expert will not be privileged.
16. Do not allow the expert to write an opinion or a report without having completely discussed the details of what will be said. Consider sitting

with the expert as he or she initially drafts the report to ensure that nothing that hurts the case is written down.

17. Caution the expert not to use legal terms unless he or she discusses those with you first. Many times problems arise because of the differences between the terminology used in the expert's field and the legal terminol-

Do not let the expert create an electronic trail.

ogy. In particular, experts seem to have difficulty with the concept of legal causation versus the concept of causation in their field of expertise. For example, a correlation between two variables that are related may be evidence of legal causation, but the same correlation may be distinct and separate from the concept of causation in the field of statistics.

18. Consider having a litigator initially write the report and have the expert make any necessary changes. The report should address the necessary elements but not go too far.
19. Many times financial or statistical calculations must be run. Be sure that the expert runs only the calculations that are absolutely necessary to his or her opinions and that are required by his or her field of expertise as a necessary practice; otherwise you run the risk of creating bad facts and having to hand the facts to the opposing party in a nice neat package.

20. It is likely that the expert will have to produce versions of the report that the lawyer reviewed with the expert. For that reason, be sure that, by the time the litigator reviews a draft, all that remains to be done is to review for clarity and completeness.

As a final note, experts can be an integral part of a case and truly help mold the selection of theories and proof. You might find yourself working very closely with the expert over a significant period of time. Be careful not to become too comfortable with the expert. Do not let your guard down. Simply do not share with the expert any information, whether orally or in written form, that you do not want shared with the opposing party. ●

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Endnotes

1. *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981).
2. *United States v. Nobles*, 422 U.S. 225, 238 (1975).
3. Confidentiality is the key to these privileges. Waiver will occur if the party attempting to use the privilege discloses the substance of the otherwise privileged information to third parties. *In re Qwest Commc'ns Int'l, Inc., Sec. Litig.*, 450 F.3d 1179, 1185–86 (10th Cir. 2006).
4. EDNA SELAN EPSTEIN, *THE ATTORNEY-CLIENT PRIVILEGE AND THE WORK-PRODUCT DOCTRINE*, 993–1003 (A.B.A. 5th ed. 2007) (a two-volume treatise that summarizes specifics of waiver of these privileges under multiple jurisdictions).

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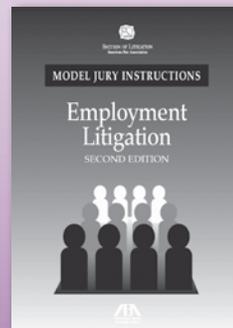
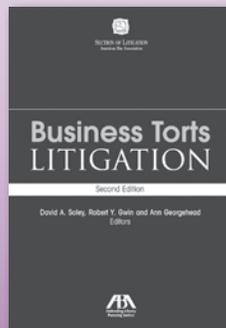
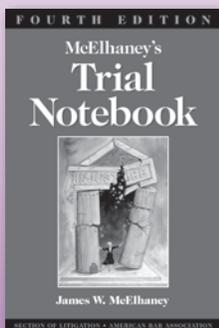
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