

No. 2006-M830

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

In re SEAGATE TECHNOLOGY LLC

In Support of Petition for Writ of Mandamus to
the United States District Court for the Southern District of New York in
Case No. 00 Civ. 5141 Gbd (Jcf), Judge George B. Daniels

**BRIEF OF *AMICUS CURIAE*
INTELLECTUAL PROPERTY OWNERS ASSOCIATION
IN SUPPORT OF PETITIONER**

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March 21, 2007

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

In re Seagate Technology LLC No. 2006-M830

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1. The full names of every party or *amicus* represented by me is:
Intellectual Property Owners, Inc. d/b/a Intellectual Property Owners Association
2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:
None
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are:
None
4. ~~X~~ There is no such corporation as listed in paragraph 3.
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TABLE OF CONTENTS

	<u>Page No.</u>
CERTIFICATE OF INTEREST	i
TABLE OF CONTENTS.....	ii
TABLE OF AUTHORITIES	iv
INTEREST OF <i>AMICUS CURIAE</i>	1
SUMMARY OF ARGUMENT	2
ARGUMENT	3
I. ASSERTION OF THE ADVICE OF COUNSEL DEFENSE TO WILLFUL INFRINGEMENT SHOULD NOT WAIVE TRIAL COUNSEL’S ATTORNEY-CLIENT PRIVILEGE OR WORK PRODUCT IMMUNITY 3	
A. The Ability to Communicate Freely with Trial Counsel is Central to Defending a Patent Infringement Claim	3
1. <i>EchoStar</i> is Inconsistent with Long-Standing Supreme Court Precedent and Adversely Affects the Right to Defend Against a Claim of Infringement.....	4
2. The State of Mind of the Accused Infringer is the Key Factor in an Advice of Counsel Defense.....	6
B. No Waiver of Trial Counsel Attorney Work Product.....	8
C. Applying the Principle that Trial Counsel Should Not Be Implicated in the Advice of Counsel Defense.....	10
II. <i>UNDERWATER DEVICES</i> SHOULD BE RECONSIDERED.....	13
A. Enhanced Damages Require Clear and Convincing Evidence of Specific Knowledge of Likely Infringement	14
B. Reliance on In-House Counsel Should Not Be a Negative Factor in Determining Willfulness	18
C. A Potential Infringer, Once Given Actual Notice, Should Exercise Reasonable Diligence to Evaluate a Claim	19

1.	Immediate cessation of all potentially infringing activity should not be required	20
2.	When needed, a competent opinion takes time to prepare and evaluate	21
III.	CONCLUSION	22
	CERTIFICATE OF COMPLIANCE.....	23
	CERTIFICATE OF SERVICE	24
	APPENDIX.....	A1

TABLE OF AUTHORITIES

FEDERAL CASES

Page No.(s)

<i>Affinion Net Patents, Inc. v. Maritz, Inc.</i> , 440 F. Supp. 2d 354 (D.Del. 2006).....	7
<i>Applied Medical Resources Corp. v. United States Surgical Corp.</i> , 353 F. Supp. 2d 1075 (C.D.Cal. 2004).....	7
<i>BMW of North America, Inc. v. Gore</i> , 517 U.S. 559 (1996).....	15
<i>Crystal Semiconductor Corp. v. TriTech Microelectronics Intern., Inc.</i> , 246 F.3d 1336 (Fed. Cir. 1992).....	6
<i>In re EchoStar Commc'n Corp.</i> , 448 F.3d 1294 (Fed Cir. 2006)	2, 4, 5, 6, 7, 8, 9, 10
<i>F.T.C. v. Grolier Inc.</i> , 462 U.S. 19 (1983).....	8
<i>Foster v. Hallco Manufacturing Co.</i> , 947 F.2d 469 (Fed. Cir. 1991).....	6
<i>Genentech, Inc. v. Insmmed Inc.</i> , 442 F. Supp. 2d 838 (N.D.Cal. 2006).....	7
<i>Golden Blount v. Robert H. Peterson Co.</i> , 438 F.3d 1354 (Fed. Cir. 2006)	15
<i>In re Hayes Microcomputer Products, Inc.</i> , 982 F.2d 1527 (Fed. Cir. 1992)	22
<i>Hickman v. Taylor</i> , 329 U.S. 495 (1947)	8
<i>Hunt v. Blackburn</i> , 128 U.S. 464 (1888).....	4
<i>Imonex Services Inc. v. W. H. Munzprufer Dietmar Trenner GmbH</i> , 408 F.3d 1374 (Fed. Cir. 2005).....	7

<i>Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp</i> , 383 F.3d 1337 (Fed. Cir. 2004).....	14-15, 21, 22
<i>Mahurkar v. C.R. Bard, Inc.</i> , 79 F.3d 1572 (Fed. Cir. 1996).....	10
<i>Mattenson v. Baxter Healthcare Corp.</i> , 438 F.3d 763 (7th Cir. 2006).....	9, 11
<i>MedImmune Inc. v. Genentech Inc.</i> , 127 S.Ct. 1118 (2007).....	20
<i>Ortho Pharmaceutical Corp. v. Smith</i> , 959 F.2d 936 (Fed. Cir. 1992).....	18
<i>State Farm Mutual Automobile Insurance Co. v. Campbell</i> , 538 U.S. 408 (2003).....	15
<i>U.S. Steel Corp. v. U.S.</i> , 730 F.2d 1465 (Fed. Cir. 1984).....	11
<i>Swidler & Berlin v. U.S.</i> , 524 U.S. 399 (1998).....	5
<i>U.S. v. Evans</i> , 113 F.3d 1457 (7th Cir. 1997).....	12
<i>U.S. v. Zolin</i> , 491 U.S. 554 (1989).....	4, 5
<i>Underwater Devices Inc. v. Morrison-Knudsen Co.</i> , 717 F.2d 1380 (Fed. Cir. 1983).....	2, 13, 15, 16, 18, 19, 20, 22
<i>Upjohn Co. v. United States</i> , 449 U.S. 383 (1981).....	3, 5
<i>Vulcan Engineering Co., Inc. v. Fata Aluminum Inc.</i> , 278 F.3d 1366 (Fed. Cir. 2002).....	6
<i>Westvaco Corp. v. International Paper Co.</i> , 991 F.2d 735 (Fed. Cir. 1993).....	17, 21

FEDERAL STATUTES AND RULES

35 U.S.C. § 284 14

Fed. R. App. P. 29(a)..... 1

Fed. R. Civ. P. 11..... 8

OTHER SOURCES

ABA Model Rules of Professional Conduct 3.7(b)..... 13

7-20 Donald S. Chisum, *Chisum on Patents: A Treatise on the Law of Patentability, Validity, and Infringement* § 20.03(4)(b) (2006)..... 18

Patent Trolls: Fact Or Fiction?: Hearing Before The Subcommittee On Courts, The Internet, and Intellectual Property of the Committee on the Judiciary House of Representatives, 109th Cong. Second Session, Serial No. 109-104, 46 (June 15, 2006) 19

The Intellectual Property Owners Association (“IPO”) submits this brief as an *amicus curiae* pursuant to Fed. R. App. P. 29(a) and Rule 29(a) of this Court, in support of the motion for a writ of mandamus by Defendant-Petitioner Seagate Technology, Inc. (“Petitioner”) seeking reversal of the Order of the Honorable George B. Daniels of the United States District Court for the Southern District of New York granting Plaintiff-Respondent Convolve, Inc.’s Motion to Compel Discovery from Seagate’s trial counsel. The petitioner has consented to the filing of this brief, however; no notice of consent was received from the respondent.

INTEREST OF *AMICUS CURIAE*

Amicus curiae Intellectual Property Owners Association (“IPO”) is a nonprofit, national organization of about 200 companies and several hundred attorneys, executives, and inventors who own or are interested in patents, trademarks, copyrights, and other intellectual property rights.¹ Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO members receive about thirty percent of the patents issued by the Patent and Trademark Office (“PTO”) to U.S. nationals. IPO regularly represents the interests of its members before Congress and the PTO, and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. The

¹ Seagate Technology and Hewlett-Packard Co. are corporate members represented on IPO’s Board of Directors. They did not take part in the decision of IPO to submit this *amicus* brief, nor did they participate in the preparation of this brief.

members of IPO's Board of Directors, which approved the filing of this brief, are listed in the Appendix.

SUMMARY OF ARGUMENT

The effective representation of an accused infringer depends upon frank and candid analysis by, and advice from, trial counsel. Current Federal Circuit precedent under *EchoStar* threatens the ability of trial counsel to zealously represent an accused infringer, because there is a great risk that trial counsel's highly confidential analysis and advice must be provided to the litigation opponent should the accused infringer invoke advice of counsel to defend against a charge of willful infringement. *EchoStar* greatly discourages reliance upon the advice of counsel defense, because no accused infringer is willing to permit its litigation adversary to rummage through its trial counsel's files. Assertion of an advice of counsel defense to willful infringement should not waive the attorney-client privilege with respect to communications with trial counsel, nor should the work product of trial counsel be implicated in an advice of counsel defense. To the extent *EchoStar* is to the contrary, it should be overruled.

Also, the "affirmative duty of due care" standard announced in *Underwater Devices* should be reconsidered. First, this Court should acknowledge that recent Supreme Court cases regarding the due process requirements for enhanced (or punitive) damages mandate focus upon the accused infringer's pre-

litigation reprehensible conduct with clear and convincing proof of specific knowledge of likely infringement and the failure to act reasonably. Second, the fact that in-house counsel generated the relied-upon opinion should not be a negative factor. Third, this Court should not require immediate cessation of all possible infringing activity when the potential infringer first learns of the possibility of infringement. Instead, specific knowledge of likely infringement should trigger a reasonable period of diligence, during which period the now-accused infringer may continue operations pending diligent completion of an infringement and validity study.

ARGUMENT

I. ASSERTION OF THE ADVICE OF COUNSEL DEFENSE TO WILLFUL INFRINGEMENT SHOULD NOT WAIVE TRIAL COUNSEL'S ATTORNEY-CLIENT PRIVILEGE OR WORK PRODUCT IMMUNITY

A. The Ability to Communicate Freely with Trial Counsel is Central to Defending a Patent Infringement Claim

The attorney-client privilege is “the oldest of the privileges for confidential communications known to the common law.” *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981). The privilege is intended “to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice.” *Id.* The Supreme Court has emphasized that the privilege is of paramount importance

so that “the client may obtain ‘the aid of persons having knowledge of the law and skilled in its practice.’” *U.S. v. Zolin*, 491 U.S. 554, 562 (1989), quoting *Hunt v. Blackburn*, 128 U.S. 464, 470 (1888).

The issue presented is whether the assertion of the advice of counsel defense not only waives the attorney-client privilege associated with the communications between opinion counsel and client, but also extends to communications with trial counsel, as required by *EchoStar*. IPO submits that the waiver should never reach communications with trial counsel.

1. *EchoStar* is Inconsistent with Long-Standing Supreme Court Precedent and Adversely Affects the Right to Defend Against a Claim of Infringement

EchoStar's holding that the assertion of advice of counsel reaches the opinions of trial counsel is inconsistent with public policy endorsed by the Supreme Court. As discussed below, the relevance of opinions of *trial counsel* to the *pre-litigation decision* of whether or not there was a good faith basis to proceed is virtually nonexistent, but *EchoStar* nonetheless compels their production. *In re EchoStar Commc'n Corp.*, 448 F.3d 1294, 1303 (Fed Cir. 2006). Requiring the production of opinions of trial counsel ignores the reasons why attorney-client communications are deemed to be confidential. The cost of *EchoStar* far outweighs its benefits.

Recognizing the critical importance of the attorney-client privilege, the Supreme Court has long held that a waiver (such as the assertion of the advice of counsel defense) must be clearly shown and preserve the right to confidential communications. “Balancing *ex post* the importance of the information against client interests, even limited to criminal cases, introduces substantial uncertainty into the privilege’s application.” *Swidler & Berlin v. U.S.*, 524 U.S. 399, 409 (1998). Trial counsel’s communications with his or her clients should never be implicated in the advice of counsel defense.

EchoStar’s holding that an assertion of the advice of counsel defense reaches the opinions of trial counsel is inconsistent with longstanding public policy, as set forth by the Supreme Court in the *Upjohn*, *Zolin* and *Swidler & Berlin* cases. *EchoStar*’s attempt to limit the impact of its holding fails, because the exceptions swallow the rule. *EchoStar* held that trial counsel’s analysis of infringement and invalidity that was communicated to the client is discoverable. This includes attorney work product that happens to reference an attorney-client communication. 448 F. 3d at 1302-03. *EchoStar* thus obliterates the ability of trial counsel to candidly communicate with his or her client about the merits of an ongoing infringement action. Trial counsel must be able to freely communicate with her client about the strengths and weaknesses and issues in the litigation as it progresses through discovery and on to trial. Yet, *EchoStar* would necessitate the

shutting down of such communications. Under *EchoStar*, trial counsel could not even provide a recommendation to the client about settlement without fear that it would be subject to discovery.² This unintended result is contrary to public policy. “[T]he Federal Circuit has repeatedly expressed the view that there is a strong public interest in settlement of patent litigation.” *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 477 (Fed. Cir. 1991).

2. The State of Mind of the Accused Infringer is the Key Factor in an Advice of Counsel Defense

EchoStar acknowledged the focus for the advice of counsel defense should be upon the state of mind of the accused infringer, *not* the attorneys for the accused infringer: “It is what the alleged infringer knew or believed, and by contradistinction not what other items counsel may have prepared but did not communicate to the client, that informs the court of an infringer’s willfulness.” 448 F.3d at 1303. The issue is whether the accused infringer had a reasonable belief that the asserted patent was either not infringed, or invalid, or both.³

² Settlement advice necessarily infers an opinion about the strength or weakness of the merits of the litigation, including infringement and validity, and under *EchoStar* could be discoverable. This unintended but very real consequence of *EchoStar* should be overruled by this Court.

³ See *Vulcan Engineering Co., Inc. v. Fata Aluminum Inc.*, 278 F.3d 1366, 1378-79 (Fed. Cir. 2002) (when an “infringer acted without a reasonable belief that its actions would avoid infringement, the patentee has established willful infringement”); *Crystal Semiconductor Corp. v. TriTech Microelectronics Intern.*,

The affirmative defense of reliance upon advice of counsel defense is used to show that an accused infringer acted reasonably under the circumstances. The focus is on the pre-litigation conduct of the defendant; once litigation has commenced, the importance of opinion counsel is reduced. *See Imonex Services Inc. v. W. H. Munzprufer Dietmar Trenner GmbH*, 408 F.3d 1374, 1378 (Fed. Cir. 2005) (seeking opinion only after complaint was served weakened defense against willfulness); *Applied Medical Resources Corp. v. United States Surgical Corp.*, 353 F.Supp.2d 1075, 1081-83 (C.D.Cal. 2004) (disregarding untimely sham legal opinions).

If trial counsel is to effectively and candidly counsel his or her client regarding the risks of proceeding, that counsel's advice and work product must not be at risk of being produced to the other side. But this is how *EchoStar* has been implemented. *See Genentech, Inc. v. Insmid Inc.*, 442 F.Supp.2d 838, 840-845 (N.D.Cal. 2006) (citing *EchoStar* and ordering production of trial counsel's opinions on infringement); *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F.Supp.2d 354, 356 (D.Del. 2006) (“[w]hen a defendant asserts the advice-of-counsel defense, the attorney-client privilege is waived as to communications with all counsel related to the same subject matter”). This nation's judicial system is premised upon the adversarial system, with the parties zealously represented by *Inc.*, 246 F.3d 1336, 1346 (Fed. Cir. 1992) (willful infringement if defendant proceeds without a “reasonable belief that its action avoided infringement”).

counsel. There is no good policy reason to extend the waiver to trial counsel, as the good faith obligations of Rule 11 (Fed. R. Civ. P. 11) and the judicial sanction power reduce the likelihood that trial counsel will knowingly advance frivolous arguments.

B. No Waiver of Trial Counsel Attorney Work Product

Work product of trial counsel is central to an effective defense against patent infringement. Just as the Supreme Court has placed a high wall around attorney-client communications, the Court likewise has fiercely guarded the attorney work product immunity. In *Hickman v. Taylor*, 329 U.S. 495, 510 (1947), the Court stated that the files and mental impressions of an attorney that are prepared in the course of legal duties fall “outside the arena of discovery and contravenes the public policy underlying the orderly prosecution and defense of legal claims.” The Court has also made clear that there is no such thing as a “routine” disclosure of attorney work product: “Whether its immunity from discovery is absolute or qualified, a protected document cannot be subject to ‘routine’ disclosure.” *F.T.C. v. Grolier Inc.*, 462 U.S. 19, 27 (1983) (work product not discoverable without showing of “substantial need”). Even *EchoStar* recognizes that an intentional waiver must be narrowly drawn, and “requires a court to ‘protect against the disclosure of the mental impressions, conclusions,

opinions, or legal theories of an attorney.’” 448 F.3d at 1302 (attempting to limit waiver of work product immunity for advice of counsel defense).

The work product immunity is codified in Federal Rule of Civil Procedure 26(b)(3), which requires that “the court shall protect against disclosure of the mental impressions, conclusions, opinions, or legal theories of an attorney or other representative of a party concerning the litigation.” The Seventh Circuit has pungently stated the basis for the policy:

The work-product doctrine shields materials that are prepared in anticipation of litigation from the opposing party, on the theory that the opponent shouldn’t be allowed to take a free ride on the other party’s research, or get the inside dope on that party’s strategy, or ... invite the jury to treat candid internal assessments of a party’s legal vulnerabilities as admissions of guilt.

Mattenson v. Baxter Healthcare Corp., 438 F.3d 763, 767-68 (7th Cir. 2006).

If trial counsel’s work product were discoverable, the entire function of the accused infringer’s trial strategy would be eviscerated, as everything committed to writing would be required to be turned over to the opposing side. This would be more than a chilling effect on effective defense against infringement claims; it would defeat the ability of the accused to mount an effective defense.

The argument that trial counsel’s work product should not be disclosed is strengthened by the legal fact that work product that was never communicated to the accused infringer is simply not relevant to the advice of counsel defense – even if the trial counsel routinely talks with his client about infringement and validity

(and thus subjects the work product to discovery under *EchoStar*). Work product that is not communicated to the client cannot affect the state of mind of the accused infringer. A “good faith belief” by the *accused* that a patent is not infringed cannot reasonably hinge on information the accused does not receive. *See Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579 (Fed. Cir. 1996) (the advice of counsel defense places “the focus on an infringer’s mental state”).

C. Applying the Principle that Trial Counsel Should Not Be Implicated in the Advice of Counsel Defense

By excluding client communications with and work product of trial counsel from the scope of production required even where the advice of counsel defense is asserted, this Court will harmonize public policy with the appropriate contours of the advice of counsel defense. The following section discusses several variations on how this rule should be applied.

Outside Counsel as Trial Counsel. In the most common example, once a complaint is filed, an accused infringer will retain outside counsel who will analyze the patent, file wrapper and prior art, develop a claim construction, evaluate the accused products and conduct an infringement analysis, and counsel the client with respect to the relative strengths and vulnerabilities of the case. This analysis and counsel’s advice may lead to an early settlement, or it may create a prolonged battle. In either event, none of the post-litigation communications with,

or work product of, trial counsel should be at risk of production. Any slight probative effect of such evidence easily is outweighed by the destructive effect on a client's right to counsel. Permitting the patent owner to get (in the words of the *Mattenson* court) a "free ride" or the "inside dope," or "invit[ing] the jury to treat candid internal assessments of a party's legal vulnerabilities as admissions of guilt" is a perversion of our judicial system and could deny a party of effective representation of counsel.

In-House Counsel as Sole Trial Counsel. When in-house counsel is acting as the sole trial counsel (which may be common in the first weeks or months after a complaint is filed, or even longer for smaller matters or where there is a standstill agreement so that the parties can attempt to negotiate a settlement), the policy considerations set forth above are not altered. An organization should be entitled to have free and frank communications with its attorneys regarding the merits of a pending case.⁴ In-house counsel should not fear that his litigation adversary will be reading his or her emails with the business people regarding the relative strengths and weaknesses of a pending litigation matter.

⁴ In-house counsel are members of the bar, and there is no legitimate reason why they, when acting in their legal capacity, should not be accorded the same rights and abilities as outside counsel in being able to fully and freely provide legal advice to their client (the company they work for) about pending litigation. *U.S. Steel Corp. v. U.S.*, 730 F.2d 1465, 1469-70 (Fed. Cir. 1984) (no reason to distrust capacity of attorneys "who happen to be ... in-house counsel").

In-House Counsel as Part of Trial Team. The calculus is little changed when in-house counsel works with outside counsel on a joint trial team. In-house counsel is often the focal point for communications with outside counsel. Post-filing communications regarding the case between in-house counsel and either outside counsel or the businessmen and women should be protected from discovery. This Court should not permit the indirect access to the same privileged information that would come directly from outside counsel. *U.S. v. Evans*, 113 F.3d 1457, 1464 (7th Cir. 1997) (“communications between in-house counsel and outside counsel are privileged”).

* * *

The bottom line is that in-house counsel should be treated no differently than outside counsel with respect to the advice of counsel defense. Legal analysis by members of the trial team after the filing of the complaint is not implicated by the defense: an accused infringer may not cite the advice of trial counsel as a defense against a charge of willful infringement, nor should the reliance upon non-trial counsel’s legal opinions be construed as a waiver of trial counsel’s work product or the attorney-client privilege.

This bright line rule has several implications. First, opinion counsel is likely to be disqualified from serving as trial counsel if the advice of counsel

defense is asserted.⁵ Second, the earlier the advice of counsel is obtained, the more effective is the defense. Third, whether opinion counsel is in-house counsel or outside counsel should not be a factor in determining whether the opinion itself is competent. Fourth, the timing of the formation of the trial team serves as a limit as to what documents may be discoverable, *i.e.*, work product and attorney-client communications made after filing of the complaint are not discoverable. Finally, the fundamental ability of the trial team to prepare an effective defense is preserved by safeguarding the traditional privileges and immunities.

II. *UNDERWATER DEVICES* SHOULD BE RECONSIDERED

In *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), this Court imposed an “affirmative duty” on an accused infringer “to exercise due care to determine whether or not he is infringing.” *Underwater Devices*, however, does not clearly set out what creates the “affirmative duty,” instead asking judges, juries – and accused infringers – to fathom the “totality of the circumstances.” *Underwater Devices* should be reconsidered.

⁵ Opinion counsel and trial counsel may be from the same law firm, however. The fact that one attorney may be a necessary witness neither disqualifies the rest of the firm, nor acts as a waiver for all privileged communications or firm work product. *See, e.g.*, ABA Model Rules of Professional Conduct 3.7(b) – Lawyer As Witness (“A lawyer may act as advocate in a trial in which another lawyer in the lawyer’s firm is likely to be called as a witness”).

First, the “totality of the circumstances” test must be reconsidered in light of the Supreme Court’s recent punitive damages jurisprudence. The new test should require clear and convincing evidence of reprehensible pre-litigation conduct after specific knowledge of likely infringement. Second, reliance on in-house counsel for an otherwise competent opinion of counsel should not be a negative factor. Third, an accused infringer, once given actual notice, should exercise reasonable diligence to evaluate a claim and take appropriate action; immediate cessation of all potentially infringing activity pending the completion of the evaluation is unreasonable and should not be required to avoid enhanced damages for willful infringement.

A. Enhanced Damages Require Clear and Convincing Evidence of Specific Knowledge of Likely Infringement

35 USC § 284 provides that, upon proof of infringement, the patentee shall be awarded “damages adequate to compensate for the infringement.” In addition, “the court may increase the damages up to three times the amount found or assessed.” *Id.*⁶ Because these increased damages are by definition in addition to compensatory damages, they are punitive in nature. *Knorr-Bremse Systeme Fuer*

⁶ Unlike the Lanham Act or Copyright Act, § 284 does not refer to “willfulness,” and it says nothing about a “duty of due care” – those doctrines are creations of this Court. “Willfulness” may be understood to be a shorthand reference to the predicate for a finding of enhanced damages; the “duty of due care” may be a shorthand reference to when it is prudent to obtain the advice of counsel.

Nutzfahrzeuge GmbH v. Dana Corp, 383 F.3d 1337, 1348 (Fed. Cir. 2004) (“enhanced damages awarded pursuant to 35 U.S.C. § 284 are a form of punitive damages”). Willful infringement must be shown by clear and convincing evidence. *Golden Blount v. Robert H. Peterson Co.*, 438 F. 3d 1354, 1368 (Fed. Cir. 2006) (“The patentee bears the burden of persuasion and must prove willful infringement by clear and convincing evidence”).

Since this Court issued *Underwater Devices*, however, the Supreme Court has issued a series of decisions explaining that awards of punitive damages must comply with the Due Process Clause, and has outlined three criteria for granting punitive damages: “(1) the degree of reprehensibility of the defendant's misconduct; (2) the disparity between the actual or potential harm suffered by the plaintiff and the punitive damages award; and (3) the difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases.” *State Farm Mutual Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 418 (2003) (citing *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 575 (1996)). Because § 284 caps punitive damages at a multiple of three times compensatory damages, we focus upon the “degree of reprehensibility” prong.

The “totality of the circumstances” test of *Underwater Devices* and its progeny do not comport with the Supreme Court’s requirement that punitive damages be awarded only upon evidence of “the degree of reprehensibility of the

defendant's misconduct.” The “totality of the circumstances” test is not focused solely upon the accused infringer’s pre-litigation conduct and provides little objective guidance as to when the alleged infringer has a risk of punitive damages. For example, if a company is aware of the existence of a patent, but has no reason to believe that its product infringes the patent, *Underwater Devices* is not clear whether there is a duty to investigate. The “totality of the circumstances” test must be abandoned in favor of specific standards that provide accused infringers with clear notice of when they are at risk for punitive damages.

In order to be eligible for punitive damages, a patent owner should prove by clear and convincing evidence that an infringer had specific knowledge of likely infringement of a valid patent and failed to act reasonably in response to that knowledge. IPO believes that there are three instances clearly satisfying the Supreme Court’s “reprehensibility” requirement for a potential award of punitive damages for willful patent infringement: (1) the patent owner provided written notice of a charge of infringement that identified the specific patent, claims and allegedly infringing product or process at issue with sufficient specificity to give the accused infringer an objectively reasonable apprehension of suit; or (2) the infringer intentionally copied the patented subject matter with knowledge that it was patented; or (3) the patent was asserted against the infringer in a prior U.S. judicial proceeding, and the present infringement is not more than a colorable

difference from the conduct asserted to be infringing in the previous proceeding.

Upon clear and convincing evidence of one of these three circumstances, and in the absence of a reasonable belief that the patent was not infringed or invalid, there can be a finding of willful infringement and an award of punitive damages.

Clearly defining these standards (or triggers) will permit parties to be held to a consistent rational standard of when they have sufficient notice of the likely applicability of a patent to their activities to require an investigation. Mere knowledge of a patent is not enough. There are many industries such as polymers and semiconductor fabrication that have many thousands of unexpired patents in the relevant areas of technology. Most of those patents may, at one time or another, have crossed the desk (or computer) of someone in the corporation. It is unreasonable that one should have an obligation to investigate every patent in the field before proceeding. By clearly identifying the basis for when punitive damages may be awarded, this Court also defines the threshold for when an accused infringer has any obligation to conduct any investigation regarding a specific patent. This clarity enables accused infringers to know when they would need to get an opinion of counsel.⁷

⁷ Once the duty is triggered, the potential infringer would be obligated to conduct a reasonable inquiry to determine whether there is infringement of any valid claim of the patent. Well-established case law defines the requirements and contours of an adequate opinion of counsel. *See Westvaco Corp. v. International Paper Co.*, 991 F.2d 735, 743-44 (Fed. Cir. 1993) (setting forth requirements of a competent

B. Reliance on In-House Counsel Should Not Be a Negative Factor in Determining Willfulness

With no explanation, *Underwater Devices* states that the obtaining of an opinion from in-house counsel “is a fact to be weighed” in determining “lack of good faith.” *Underwater Devices*, 717 F.2d at 1390. In the past 24 years, this holding has been generally understood to mean that an accused infringer is at risk if it does not use outside counsel for its final opinion. See 7-20 Donald S. Chisum, *Chisum on Patents: A Treatise on the Law of Patentability, Validity, and Infringement* § 20.03(4)(b) (2006) (asserting affirmative duty to seek legal advice before beginning potentially infringing activity). The obnoxious implication is that in-house counsel are presumed to be unable to conduct a professional assessment of whether a patent is infringed or invalid.

IPO – which primarily is comprised of patent-seeking corporations – strongly disagrees with the implication in *Underwater Devices* that the reliance upon in-house counsel for advice regarding infringement or invalidity is different than outside counsel. The issue is the adequacy of the advice, not whether the attorney offering it is paid directly by the client, or indirectly through a law firm.

opinion); *Ortho Pharmaceutical Corp. v. Smith*, 959 F2d 936, 944 (Fed. Cir. 1992) (“counsel’s opinion must be thorough enough ... to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable”).

There is no rational basis for assuming that in-house counsel are less reliable, less skilled or more inclined to give biased legal advice than outside counsel. In fact, in-house counsel may be in a more advantageous position to provide complete opinions, having generally better knowledge of the relevant technology than outside counsel. The practical basis for an analysis by in-house counsel was recently stated in congressional hearings:

There's a lot of actions that a patent owner can take that can make it such a pain in the butt to deal with it that you will give them \$30,000 or \$40,000 to go away so you don't have to pay \$50,000 just to protect yourself from a willfulness allegation. And there are instances of people, it's not uncommon, that send out 300 letters or 400 letters and explicitly say, I am asking you for a royalty that is less than what it will take you to get one of your in-house people – forget outside lawyers – to look at the problem. That happens; that happens a fair amount.⁸

C. A Potential Infringer, Once Given Actual Notice, Should Exercise Reasonable Diligence to Evaluate a Claim

Underwater Devices states: “Such an affirmative duty includes, inter alia, the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.” 717 F.2d at 1390. The obligation that a potential infringer “stop in its tracks” while it conducts a reasonable investigation is unrealistic.

⁸ *Patent Trolls: Fact Or Fiction?: Hearing Before The Subcommittee On Courts, The Internet, and Intellectual Property of the Committee on the Judiciary House of Representatives*, 109th Cong. Second Session, Serial No. 109-104, 46 (June 15, 2006) (statement of Edward R. Reines, Esq., Weil, Gotshal & Manges, LLP).

1. Immediate cessation of all potentially infringing activity should not be required

In the real world, one often learns of a potentially relevant patent shortly before commencing “any possible infringing activity,” or even more often after such activity is already in progress. It cannot be good public policy to force immediate cessation of any activity the instant a potentially relevant patent is discovered. Manufactured products already in the marketplace would have to be withdrawn on the mere possibility of infringement. Requiring the cessation of “any possible infringing activity” on the basis of an unexamined assertion arguably violates the due process rights of the accused by the loss of business, profits, and property without the benefit of legal recourse.⁹ This standard should be changed to impose on the potential infringer a duty of reasonable diligence and a reasonable period in which to make an assessment. In no event should willfulness be asserted when a defendant acted with reasonable diligence in obtaining an opinion of counsel, rather than desisting immediately even before any review.

⁹ In *MedImmune Inc. v. Genentech Inc.*, 127 S.Ct. 1118 (2007), the Supreme Court ruled that a licensee need not breach its license (and thereby engage in a “possible infringing activity”) prior to challenging the validity of the licensed patent. *Underwater Devices* is inconsistent with this policy.

2. When needed, a competent opinion takes time to prepare and evaluate

Not all defenses against assertions of infringement require a formal opinion of counsel. *Knorr-Bremse* held that “the failure to obtain an exculpatory opinion of counsel shall no longer provide an adverse inference or presumption that such an opinion would have been unfavorable.” 383 F.3d at 1345.

When a formal opinion is needed, however, it can take months to prepare. Just getting a file wrapper and the prior art can take some time. Counsel must study the patent, file wrapper, the accused devices and the prior art, construe the claims, and conduct a careful analysis. A competent opinion should reflect that it is based on a review of the file history of the patent, the prior art of record, and additional prior art, thereby demonstrating an adequate foundation for the opinion. *Westvaco Corp. v. International Paper Co.*, 991 F.2d 735, 744 (Fed. Cir. 1993). The opinion should rely on such documentation. *Id.* Statements made in the opinion should not be conclusory. *Id.* Validity and infringement issues should be analyzed in detail, with consideration of the accused device, claim language, and relevant prior art (for invalidity). *Id.* Each claim should be analyzed separately, and not aggregated and generalized. *Id.*

In most instances, it would be grossly unjust to require that a party learning of the potential relevance of a patent shut down his business operations while waiting on the advice of counsel. Some courts, however, have construed

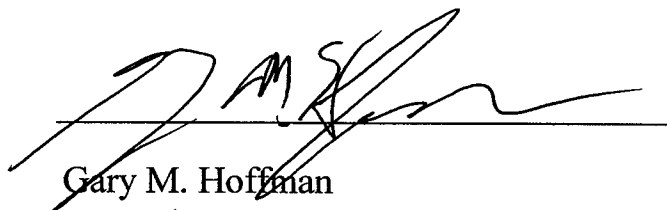
Underwater Devices to require just this. See *Knorr-Bremse*, 383 F.3d at 1343 (citing *Underwater Devices* for duty to obtain opinion before commencing potentially infringing action); *In re Hayes Microcomputer Products, Inc.*, 982 F.2d 1527, 1544 (Fed. Cir. 1992) (same). In those extraordinary instances where justice demands immediate cessation of infringing conduct, patentees are adequately protected by the availability of injunctive relief. IPO thus proposes that the Court adopt a reasonable diligence standard, which would require an accused infringer to conduct a reasonable, appropriate and timely investigation once there was specific knowledge of likely infringement of a valid patent.

III. CONCLUSION

The court should answer the three questions posed in the en banc order of January 26, 2007 as urged by this brief.

Respectfully submitted,

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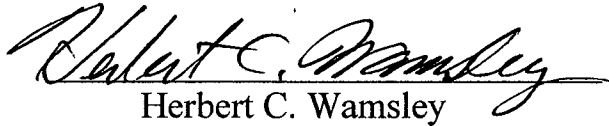


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Pursuant to Rule 32(a)(7)(C)(i) of the Federal Rules of Appellate Procedure, I certify that this brief complies with Rule 32(a)(7)(B)(i) and Rule 28(e)(2)(A)(i) of the Federal Rules of Appellate Procedure. Exclusive of the portions of the brief exempted by Rule 32(a)(7)(B)(iii), this brief contains 4,601 words.

Dated: March 21, 2007


Herbert C. Wamsley

CERTIFICATE OF SERVICE

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APPENDIX

APPENDIX*

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