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Federal Circuit Weighs Attorney-Client Privilege

By Richard P. Beem

Co-Chair, ABA-IPL Committee on Amicus Briefs, a principal author of ABA amicus brief in *Knorr-Bremse v. Dana*, Appeal No. 01-1357 (argued Feb. 5, 2004, Fed. Cir.) (en banc).

In the year 1631, Thomas Hobson, an English liveryman, gave his customers a choice: They could take any horse they wanted so long as they took the horse nearest the door.

Three and a half centuries later, the U.S. Court of Appeals for the Federal Circuit gave accused patent infringers a Hobson's choice: They could stand on the attorney-client privilege, of course, but only waiver of privilege and reliance on advice of counsel would avoid potential liability for willful infringement, treble damages and attorney fees. *Fromson v. Western Litho & Plate & Supply Co*., 853 F.2d 1568 (Fed. Cir. 1988).

As this issue of the Chicago Daily Law Bulletin goes to print, the Federal Circuit is considering overruling its precedent in the pending appeal in *Knorr-Bremse v. Dana*, Appeal No. 01-1357. *Knorr-Bremse* was argued *en banc* before a packed courtroom on February 5, 2004, following submission of briefs by the parties and 30 amicus curiae. Twenty nine of the amicus briefs, including that of the American Bar Association, urge that the attorney-client privilege should be fully restored in patent cases to be consistent with other areas of the law. A decision in *Knorr-Bremse* is expected to be handed down by the Federal Circuit in the coming months.

The attorney-client privilege is vital to the very functioning of the legal system as we know it. In 1215, the Magna Carta checked the King's powers, but it did not give the people the right to consult attorneys in confidence. There followed centuries of inquisitions, unsparing of communications between clients and attorneys, until the 17th century when Lord Coke recognized the privilege.

The privilege wasn't created just for the clients of patent attorneys, although they have felt the sting of its abridgment. It wasn't created just for the clients of corporate and securities attorneys now threatened by Sarbanes-Oxley. It wasn't created just for the clients of tax attorneys now threatened by IRS demands for their client lists.

No, the privilege was created for all people, in recognition of the fact that the overwhelming majority of people who consult attorneys do so to inform themselves of the law and to conduct themselves in accordance with law. Government under the rule of law depends on respect for the law.

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But the very idea of privilege, that is, of secrecy and veiled communications with attorneys, is antithetical to modern conceptions of openness in all spheres of activity. So there are and there will continue to be attacks on attorney-client privilege. Courts occasionally will succumb to the attractive argument that if there is nothing to hide, let it all come out, and if anything stays hidden, it must be evil and let the penalty be paid. Never mind that the attorney-client privilege draws a veil of darkness over the attorney-client relationship in order to advance the public good of light in communications between client and attorney. "All people and all courts have looked upon that confidence between the party and attorney to be so great that it would be destructive to all business if attorneys were to disclose the business of their clients." *A.B. Dick Co. v. Marr*, 95 F. Supp. 83, 101 (S.D.N.Y. 1950) (quoting *Annesley v. Earl of Anglesea*, 17 How. St. Tr. 1225 (1743)).

In the bar and at the bench, we can all take a lesson from the experience of litigants, counsel and courts in patent infringement cases, where the attorney-client privilege has been abrogated to the almost universal regret among all concerned, and where serious consideration is being given to full restoration of the privilege. The pending appeal in *Knorr-Bremse v. Dana*, (Fed. Cir.) (*en banc*) should be of great interest to all members of the bar.

The ABA recognized the importance of the issue of privilege presented in *Knorr-Bremse* by filing an amicus brief in the pending appeal. The ABA's statement of interest in *Knorr-Bremse* indicates its longstanding recognition of the importance of the attorney-client relationship. The tenets of confidentiality and candor are central to the ABA Model Rules of Professional Conduct, which require attorneys to protect "information relating to representation of clients" (Rule 1.6), to provide "candid advice" to clients (Rule 2.1), to advance only "meritorious claims and contentions" (Rule 3.1), and to practice "candor" toward the courts (Rule 3.3).

These principles apply to all areas of law practice. As comments [2] and [3] to ABA Model Rule 1.6 explain:

> [2] A fundamental principle in the client-lawyer relationship is that, in the absence of the client's informed consent, the lawyer must not reveal information relating to the representation. (Sentence omitted.) This contributes to the trust that is the hallmark of the client-lawyer relationship. The client is thereby encouraged to seek legal assistance and to communicate fully and frankly with the lawyer, including even embarrassing or legally damaging subject matter. The lawyer needs this information to represent the client effectively and, if necessary, to advise the client to refrain from wrongful

conduct. Almost without exception, clients come to lawyers in order to determine their rights and what is, in the complex of laws and regulations, deemed to be legal and correct. (Sentence omitted.)

[3] The principle of client-lawyer confidentiality is given effect by related bodies of law: the attorney-client privilege, the work product doctrine and the rule of confidentiality established in professional ethics.

Since *Fromson v. Western Litho & Plate & Supply Co*., 853 F.2d 1568 (Fed. Cir. 1988), the use of adverse inferences in patent cases has been of concern to the ABA. In 1990, the ABA Section of Intellectual Property Law, concerned about the *Fromson* adverse inference of willful patent infringement upon invocation of the attorney-client privilege, adopted a resolution opposing the adverse inference. At the 2001 ABA Annual Meeting, the ABA Board of Governors recommended and the House of Delegates adopted a policy against abrogation of the attorney-client privilege in patent cases and, pursuant to this policy, the ABA submitted its amicus brief in the pending *Knorr-Bremse* appeal urging restoration of the privilege.

Fromson created an adverse inference as to willful patent infringement if the attorney-client privilege is asserted. That inference seriously undermines the attorney-client privilege by penalizing the party invoking it.

The courts' practice of permitting an adverse inference of willful infringement from the invocation of privilege jeopardizes the candid exchange of information that the privilege is designed to encourage. *Hunt v. Blackburn,* 128 U.S. 464, 470 (1888). Any rule that negates confidentiality necessarily makes clients reluctant to disclose all information in seeking advice. *A.B. Dick v. Marr*, 95 F. Supp. 83, 101 (S.D.N.Y. 1950). Indeed, the absence of confidentiality may persuade clients not to seek advice. *In re Grand Jury Investigation*, 599 F.2d 1224, 1235 (3d Cir. 1979). It also discourages attorneys from providing cautionary advice that they know may later be used to their clients' detriment. *Nabisco, Inc. v. PF Brands, Inc.,* 191 F.3d 208, 226 (2d Cir. 1999). The harmful effects of an adverse inference cannot be remedied by bifurcation or other *ad hoc* limitations.

The *Fromson* adverse inference compromises candor in attorney-client communications. Gradual erosion of the privilege began with *Underwater Devices Inc. v. Morrison Knudsen Co*., 717 F.2d 1380, 1390 (Fed. Cir. 1983) (failure "to seek and obtain competent legal advice from counsel" may be basis for willful infringement finding). The erosion continued with *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986) (defendant's "silence" based on attorney-client privilege "would warrant the conclusion that it either obtained no advice of counsel or did so and was advised" that it infringed). Finally, the erosion became complete with the adverse inference created by *Fromson.* 853 F.2d 1568, 1572-73.

Fromson negates the "principles of the common law" as they have historically been "interpreted by the courts of the United States in the light of reason and experience." Fed. R. Evid. 501. The *Fromson* line of cases is contrary to the fundamental principles that underlie the attorney-client privilege. The adverse inference undermines confidentiality because clients understandably will be unwilling to tell their attorney damaging information if the information subsequently must be disclosed. Only with the assurance of confidentiality will a client entrust the attorney with all of the facts. *Upjohn v. U.S.*, 449 U.S. 383, 389 (1981). Only with the assurance of confidentiality will the attorney candidly advise the client on the adversary's likely theories of liability, damages and other risks. *See In re Sealed Case,* 676 F.2d 793, 809-10 (D.C. Cir. 1982) (higher level of work product protection for opinions).

The courts have recognized that the *Fromson* inference presents an accused infringer with a Hobson's choice: The client must either waive the privilege and disclose the advice of counsel, or assert the privilege and be presumed to have received no opinion or an adverse opinion. *Pfizer Inc. v. Novopharm Ltd*., 57 U.S.P.Q.2d 1442, 1443 (N.D. Ill. 2000). The choice is effectively no choice for many litigants. Liability for willfulness – a possible trebling of the patentee's actual damages – may be a financial catastrophe. The threat of incurring such liability may make the decision to waive the privilege unavoidable.

Any attorney advising a client about the practical realities arising from the *Fromson* doctrine also faces a Hobson's choice. Rule 2.1 of the ABA Model Rules of Professional Conduct requires a attorney to advise the client candidly as to all risks and strategies in a case. By giving candid advice, however, a attorney places the client at risk if the opinion either must be disclosed subsequently or an adverse inference drawn from refusing to disclose the opinion. The attorney's only alternative is to produce a sanitized opinion in the nature of a brief with the expectation that it will be disclosed.

Under *Fromson,* the attorney's opinion becomes part and parcel of the client's defense at trial. The sanitized opinion comes at the cost of candor. A rule that punishes non-disclosure not only undermines the privilege but may well tarnish the advice given. *Swidler & Berlin v. U.S.*, 524 U.S. 399, 410 (1998) (*ad hoc* exceptions to privilege may cause "general erosion"). Thus, *Fromson* penalizes candor and changes what should be candid advice into advocacy.

The general rule, apart from *Fromson*, is that no adverse inference can be drawn from assertion of the attorney-client privilege because to do so would destroy the privilege. In *Nabisco,* the lower court had allowed an adverse inference based on a claim of attorney-client privilege for an opinion letter in a trademark action.

The Court of Appeals held there was no basis for allowing such an inference (191 F.3d at 226):

But we know of no precedent supporting such an inference based on the invocation of the attorney-client privilege. This privilege is designed to encourage persons to seek legal advice, and lawyers to give candid advice, all without adverse effect. *See Upjohn Co. v. United States*, 449 U.S. 383, 389, 101 S.Ct. 677, 66 L.Ed.2d 584 (1981); 8 Wigmore, *Evidence* § 2291 (McNaughton rev.1961). If refusal to produce an attorney's opinion letter based on claim of the privilege supported an adverse inference, persons would be discouraged from seeking opinions, or lawyers would be discouraged from giving honest opinions. Such a penalty for invocation of the privilege would have seriously harmful consequences.

To the same effect are: *Parker v. Prudential Insurance Co*., 900 F.2d 772, 775 (4th Cir. 1990) (refusing to apply a "negative inference" based on assertion of the privilege) and *THK America, Inc. v. NSK, Ltd*., 917 F. Supp. 563, 566 (N.D. Ill. 1996). There is no reason why this principle should not apply in patent infringement cases as it does in other areas of the law.

In *Hickman v. Taylor*, 329 U.S. 495 (1947), the Supreme Court addressed forced waiver of attorney's work product immunity and the resulting problems.

Were such materials open to opposing counsel on mere demand, much of what is now put down in writing would remain unwritten. An attorney's thoughts, heretofore inviolate, would not be his own. Inefficiency, unfairness and sharp practices would inevitably develop in the giving of legal advice and in the preparation of cases for trial. The effect on the legal profession would be demoralizing. And the interests of the clients and the cause of justice would be poorly served.

Hickman, 329 U.S. at 511.

Some of the effects of a forced waiver of privilege are illustrated in the following decisions: *Chiron Corp. v. Genentech, Inc.,* 179 F. Supp.2d 1182, 1189-90 (E.D. Cal. 2001) (reliance on advice waives privilege and work product both pre- and post-complaint filing; invoking advice of counsel not a "painless decision or a free lunch"; "there are discovery consequences . . . party who seeks to be absolved [must] pay the discovery price"); *Akeva L.L.C. v. Mizuno Corp.,* 24.3 F. Supp.2d 418, 419-20, 425 (M.D.N.C. 2003) (ordering defendant to provide discovery of all oral and written opinions received from any source at any time "including up through trial," even if those opinions came from "trial counsel where [president of defendant] admitted to relying not only on an 'opinion' by an attorney retained by trial counsel, but also on 'advice' from trial counsel").

The same unfortunate effects, of course, arise from the forced waiver of attorney-client privilege required by *Fromson* to defend against a claim of willful infringement. The attorney's opinion may not be available on mere demand, but the practical effect of drawing an adverse inference causes disclosure in almost all cases.

We hope that the Federal Circuit will agree with the ABA and other amicus curiae in the pending *Knorr-Bremse* appeal and overrule *Fromson* to the extent that it supports the drawing of an inference of willfulness when an accused patent infringer invokes the attorney-client privilege. On a broader front, the bar is urged to stand vigil over the attorney-client privilege in all areas of law. Incursions on the attorney-client privilege, in whatever kind of case, are harmful precedents acting ultimately against the interests of all clients and their attorneys. ■

Richard P. Beem, Principal

Beem Patent Law Firm
53 W. Jackson Blvd.
Suite 1352
Chicago, IL 60604

Phone: (312) 201-0011
Fax: (312) 201-0022

E-mail:
richard@beemlaw.com

For more information about this topic and other patent related information, visit our web site: **www.beemlaw.com**

- 02/27/04--CHICAGO--Beem delivers presentation on "Willfulness, Opinions & Privilege*: Knorr-Bremse* & The Coming New 'Totality of Circumstances' Standard (With 10 Predictions)," 48th Annual Intellectual Property Conference, John Marshall Law School.

- 02/16/04--CHICAGO--Beem summarizes oral argument in *Knorr-Bremse,* reporting on prevailing assumption that Federal Circuit will overrule its precedent imposing an adverse inference of willfulness as a penalty for defendant's assertion of the attorney-client privilege.