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THE ATTORNEY-CLIENT PRIVILEGE AND DISCOVERY OF AN INFRINGER'S INTENT IN PATENT CASES

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INTRODUCTION

The Federal Circuit has increased the relevance of an infringer's mental state over the last six years. During that time, the Federal Circuit changed the willfulness standard from a negligence-based duty-of-care standard to an objective-recklessness standard, which includes a subjective recognition of the objective risk. The Federal Circuit also made clear that an infringer only induces infringement if the infringer has the specific intent to cause another to infringe. A patent holder, thus, must prove the appropriate *mens rea* to succeed on any claim of willful or induced infringement. Discovery of this necessary element, however, is often thwarted by assertions of attorney-client privilege because companies involve and so heavily rely on attorneys for patent-related issues these days. Courts are primed, therefore, to address the fundamental tension between requiring a patent holder to prove an infringer's mental state while also protecting the sanctity of the infringer's attorney-client privilege. This tension is particularly difficult to fairly address when an infringer attempts to rely on some non-privileged information to rebut a charge of willful infringement or inducement while maintaining privileged information on the same subject. This article addresses the "at-issue" doctrine in this context.

BACKGROUND

I. The Attorney-Client Privilege

The attorney-client privilege is the oldest privilege known to the common law.¹ The existence of the privilege dates back to Roman law through "[t]he notion that the loyalty owed by the lawyer to his client's case disables him from being a witness in his

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The content of this article should not be taken as legal advice or as an expression of the views of the firm, its attorneys, or any of its clients. We hope the article spurs discussion in the legal community with insight into the experience of the authors.

1 See *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981).

client's case."² Similarly, the first trace of the privilege in the English common law dates back to Queen Elizabeth's time, in which "the oath and honor of the barrister and the attorney protect them from being required to disclose, upon examination in court, the secrets of the client."³ This code-of-honor justification later shifted to the current basis: A client cannot be expected to put forth all necessary facts without the assurance that the lawyer will not be compelled to reveal those confidences over the client's objection.⁴ The United States adopted the privilege and this justification from the common law,⁵ and the United States Supreme Court lucidly defined the policy behind the privilege in *Upjohn Co. v. United States* as encouraging "full and frank communications between attorneys and their clients and thereby promot[ing] broader public interests in the observance of law and administration of justice."⁶ The sanctity of the privilege is a bedrock principle of our system of justice.

The fundamental element of the privilege is that communications are confidential. Attorneys are ethically bound to keep client communications in confidence, save specific exceptions.⁷ And in order to be effective, the United States Supreme Court explained that "if the purpose of the attorney-client privilege is to be served, the attorney and client must be able to predict with some degree of certainty whether particular discussions will be protected. An uncertain privilege, or one which purports to be certain but results in widely varying applications by the courts, is little better than no privilege at all."⁸

United States courts, thus, generally exclude privileged information from discovery, even when those communications are highly relevant. But there are exceptions. Parties are not permitted, for instance, to selectively disclose privileged information, using the privilege as both a "sword and a shield." And as set forth further below, parties can waive privilege by injecting an issue into litigation that necessarily places the privileged information at issue.

II. Willful Infringement

The standard for willful infringement has evolved dramatically since the Federal Circuit's inception. In 1983, for instance, the Federal Circuit explained in *Underwater Devices v. Morrison-Knudsen Co.* that an infringer with knowledge of the asserted patent had "an affirmative duty to exercise due care to determine whether or not he is infringing. 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."⁹ The court developed this duty-of-care standard further in *Kloster Speedsteel AB v. Crucible Inc.*, in which the Federal Circuit introduced the notion that an adverse inference may be appropriate when infringers do not offer an opinion of counsel at trial.¹⁰ Specifically, the court reversed a finding of no willful infringement, explaining that the infringer "has not even asserted that it sought advice of counsel when notified of the allowed claims and [the patentee's] warning, or at any time before it began this litigation," and held that the infringer's "silence on the subject, in alleged reliance on the attorney-client privilege, would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S.

2 John W. Strong, MCCORMICK ON EVIDENCE, § 87 at pg. 134 (5th Ed. 1999).

3 *Id.*

4 *See id.*

5 In 1776, Delaware was the first colony to codify the attorney-client privilege in its Constitution.

6 *Upjohn*, 449 U.S. at 389.

7 ABA Model Rule of Professional Conduct § 1.6. An attorney does not violate his ethical obligations by disclosing confidential information pursuant to a court order. *See id.* § 1.6(6).

8 *Upjohn*, 449 U.S. at 393.

9 *Underwater Devices v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

10 *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565 (Fed. Cir. 1986).

patents.”¹¹ The court then reinforced this adverse-inference standard in *Fromson v. Western Litho Plate & Supply Co.*, which determined as a general rule that “a court must be free to infer that either no opinion was obtained or, if an opinion were obtained, it was contrary to the infringer’s desire to initiate or continue its use of the patentee’s invention.”¹²

But the Federal Circuit reevaluated its willful infringement precedent starting in 2004. In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004), the *en banc* court determined two issues of law. First, the court held that a jury may not infer that an opinion of counsel, not disclosed by an infringer, would have contained negative information for the infringer.

There should be no risk of liability in disclosures to and from counsel in patent matters; such risk can intrude upon full communication and ultimately the public interest in encouraging open and confident relationships between client and attorney. As Professor McCormick has explained, the attorney-client privilege protects ‘interests and relationships which ... are regarded as of sufficient social importance to justify some sacrifice of availability of evidence relevant to the administration of justice.’¹³

Second, while the court upheld the duty-of-care standard, the Federal Circuit held that there was no duty to obtain an opinion of counsel. So the patent holder was not entitled to an adverse inference instruction based on a defendant’s failure to obtain an opinion of counsel. “[T]he 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.”¹⁴

Three years later, the *en banc* court overruled the duty-of-care standard promulgated in *Underwater Devices*. In *In re Seagate*, the court elevated the standard for willful infringement from a negligence-based standard to an “objectively reckless” standard.¹⁵ Thus, “to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”¹⁶ While the infringer’s state of mind is not relevant to the objective prong of the inquiry, the patent holder must prove that the infringer knew or should have known of the risk if it establishes the objective risk.¹⁷ The Federal Circuit, therefore, elevated the importance of the infringer’s “state of mind” into the willfulness standard.

III. Indirect Infringement – Inducement

The Federal Circuit’s precedent on induced infringement under 35 U.S.C. § 271(b) also evolved and heightened the standard for the infringer’s mental state as an element of the claim. While inducement always required some mental state, by 2006 the law was unclear “whether the required intent must be merely to induce the specific acts [of

11 *Id.* at 1580.

12 *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988).

13 *Id.* at 1344.

14 *Id.* at 1346.

15 *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

16 *See id.* at 1371.

17 *See id.*

infringement] or additionally to cause an infringement.”¹⁸ The Federal Circuit resolved this dispute in *DSU Med. Corp. v. JMS Co.*, when the court held that inducement requires “that the alleged infringer knowingly induced infringement and possessed *specific intent to encourage another’s infringement.*” Accordingly, inducement requires evidence of culpable conduct, directed to encouraging another’s infringement, not merely that the inducer had knowledge of the direct infringer’s activities.¹⁹

The Federal Circuit determined that an exception to this “specific intent” standard existed if an infringer exercised “deliberate indifference” to the existence of the asserted patent.²⁰ The United States Supreme Court reviewed this standard in *Global-Tech Appliances, Inc. v. SEB S.A.* In the Court’s view, “deliberate indifference” was not a high enough standard; instead, the Court determined that an infringer is liable for induced infringement, even without knowledge of a patent, if it acted with “willful blindness.”²¹ Willfully blind defendants “deliberately shield[s] themselves from clear evidence of critical facts that are strongly suggested by the circumstances.” In other words, “(1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact.”²² An infringer’s mental state, thus, is directly relevant and necessary to a patent holder’s inducement claim.

ISSUE AND ANALYSIS

An infringer’s mental state is now as important and relevant as ever. As set forth above, a patent holder must prove a specific, heightened mental state to succeed on claims of willfulness and inducement. Proving a mental state in patent litigation, however, is more difficult than in other areas of law. Whether a party infringes a patent often involves claim construction. And claim construction often involves attorney analysis. More generally, companies routinely route any and all patent issues through attorneys, thus increasing the cloak of privilege in patent litigation. In light of this complexity, patent holders face an increased challenge during discovery to obtain necessary information to support its claims. There are three broad scenarios that a patent holder may now find itself in during discovery of the infringer’s mental state.

First, there is information about the infringer’s mental state and it is not privileged. An engineer, for instance, may write an incriminating email or memorandum to another engineer. This category is increasingly rare to find, particularly among sophisticated companies. In any event, in this scenario, the question is only whether the evidence is sufficient to meet the appropriate *mens rea* standard, which is for the trier of fact to assess and decide.

Second, there is information about the infringer’s mental state and it is all privileged. A company may learn of a patent through counsel, and then obtain an opinion from counsel about the patent. Assuming no other information exists (and no other circumstantial facts giving rise to “willful blindness”), this scenario will likely result in a directed verdict against the patent holder for willful or induced infringement because the

18 *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1332 (Fed. Cir. 2005) (citing *Institutum Techs., Inc. v. CAT Contracting, Inc.*, 385 F.3d 1360, 1378 (Fed. Cir. 2004)), cert. granted in part, 126 S. Ct. 733, 163 L. Ed. 2d 567 (2005); see *Manville Sales Corp. v. Paramount Sys.*, 917 F.2d 544, 553 (Fed. Cir. 1990) (“The plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.”). *But see Hewlett-Packard Co. v. Bausch & Lomb*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) (“Proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”).

19 *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (citing *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2780 (2005); *Manville*, 917 F.2d at 553) (emphasis added).

20 *SEB S. A. v. Montgomery Ward & Co.*, 594 F.3d 1360 (Fed. Cir. 2010).

21 *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011).

22 *See id.*

infringer will remain silent, and the patent holder will not have evidence to offer to meet its burden of proof. So, even if the infringer received an opinion of counsel that the infringer in fact infringed a valid patent and thus had a specific intent to infringe or cause infringement, the patent holder may still lose because the infringer's mental state is cloaked in privilege.

The third possible scenario is that there is information about the infringer's mental state, and some of it is privileged and some of it is not. This scenario presents the most difficult issues to deal with. First, it is always challenging for both patent holders and infringers to carefully navigate between privileged and non-privileged information. Second, the law is not clear at what point an infringer places its privileged information "at-issue" by producing and relying on non-privileged information on the same subject – i.e., its mental state about infringement. The following discussion will address this scenario in more detail.

I. The at-issue doctrine precludes parties from maintaining privilege on subjects that it places at issue in the litigation.

One well-established exception to the attorney-client privilege is the "at-issue" doctrine (also referred to as the implied waiver doctrine). The Fifth Circuit, for instance, explained the doctrine in *Conkling v. Turner*: "The great weight of authority holds that the attorney-client privilege is waived when a litigant places information protected by it in issue through some affirmative act for his own benefit, and to allow the privilege to protect against disclosure of such information would be manifestly unfair to the opposing party."²³ Other circuits are in accord.²⁴

In *Conkling*, the plaintiff had sued for fraud, based in part on a defendant's false representation of complete ownership of a company.²⁵ The plaintiff sought to overcome a statute of limitations based on a tolling theory because he had not known of the fraud within four years of filing suit.²⁶ The defendants sought discovery of when the plaintiff knew or should have known of the misrepresentation.²⁷ The plaintiff originally opposed this discovery because the subject involved attorney-client privileged communications.²⁸ The Fifth Circuit, nonetheless, found waiver on this subject because the plaintiff had put his mental state at issue in the litigation through its opposition to the statute of limitation defense.²⁹

District courts have addressed this at-issue doctrine in patent cases, most frequently in the context of an equitable estoppel defense which requires reasonable and actual reliance by the infringer on the patent holder's misleading conduct. But district courts have not been uniform on this issue.

²³ *Conkling v. Turner*, 883 F.2d 431, 434 (5th Cir. 1989).

²⁴ See, e.g., *Doe v. United States*, 350 F.3d 299, 302 (2d Cir. 2003) ("It is well established doctrine that in certain circumstances a party's assertion of factual claims can, out of considerations of fairness to the party's adversary, result in the involuntary forfeiture of privileges for matters pertinent to the claims asserted."); *Home Indem. Co. v. Lane Powell Moss & Miller*, 43 F.3d 1322, 1326 (9th Cir. 1995) (adopting *Hearn v. Rhay*, 68 F.R.D. 574, 581 (E.D. Wash. 1975); *XYZ Corp. v. United States*, 348 F.3d 16 (1st Cir. 2003); *U.S. Fire Insurance Co. v. Asbestospray, Inc.*, 182 F.3d 201, 212 (3d Cir. 1999); *Garcia v. Zenith Electronics Corp.*, 58 F.3d 1171, 1175 (7th Cir. 1995).

²⁵ *Conkling*, 883 F.2d at 433.

²⁶ See *id.*

²⁷ See *id.*

²⁸ See *id.* at 434-35.

²⁹ See *id.* at 435.

A. Some courts have broadly interpreted the at-issue doctrine when an infringer asserts a defense of equitable estoppel.

In *THK America v. NSK Co.*, the Northern District of Illinois adopted a broad approach to the at-issue doctrine.³⁰ In that case, the defendant asserted equitable estoppel as a defense, and the patent holder sought discovery broadly on the issue of reliance. The court rejected the defendant's assertion that its evidence of reliance only came from non-privileged information and that it should not be compelled to disclose its privileged analysis on the same subject.

If a defense of estoppel may be defeated by showing that the party asserting the defense actually relied not on plaintiff's conduct but on its lawyers' advice, the party claiming estoppel has put attorney-client communications in issue, and fundamental fairness dictates that the plaintiff be permitted to examine communications relevant to the estoppel question.³¹

The same court reached a similar conclusion in *Southwire Co. v. Essex Group, Inc.*³² The court ordered the defendant to produce privileged communications, so the plaintiff could assess and rebut the defendant's claims of reliance for its equitable estoppel defense. By way of background, the defendant had alleged that it relied on the plaintiff's delay in bringing suit to build a new building. The plaintiff contended that the defendant did not rely on the plaintiff's inaction, but rather its attorney's advice about the patent. The court concluded that the defendant had put its opinions of counsel at issue through its equitable estoppel defense, and fairness required discovery on the opinions to rebut the defendant's allegations of reliance on the plaintiff's delay.

If Southwire has evidence that Essex actually relied on something other than Southwire's actions or silence, that serves to undercut the inference that Essex seeks to have drawn from its 'objective' evidence. In short, Essex asserts that it relied on Southwire's delay in building the four plants; Southwire says that Essex relied on something else. What Essex is arguing here is that Southwire is not entitled to prove what Essex actually relied on, even though the court should be entitled to infer actual reliance from Essex's own proof. The unfairness of Essex' position is manifest.³³

The Southern District of New York undertook a similar approach in a copyright case. In *Lombardi v. Whitehall XI/Hubert Street, LLC*, the defendant pled an equitable estoppel defense, requiring it to prove "that it was 'ignorant of the true facts.'"³⁴ Before that litigation, the defendant had received legal advice about the architectural plans that later became the subject of the copyright claim. The court determined that the privileged communications "may bear on [the defendant's] knowledge or lack thereof regarding the copyright-protected status of the [plaintiff's architectural] plans."³⁵ The court allowed

30 *THK Am., Inc. v. NSK Co.*, 157 F.R.D. 637, 650 (N.D. Ill. 1993).

31 *See id.*

32 *Southwire Co. v. Essex Group, Inc.* 570 F. Supp. 643, 649-50 (N.D. Ill. 1983).

33 *Id.* at 649-50; *see also Douglas Press Inc. v. Universal Mfg. Co.*, No. 01-CV-2565, 2003 U.S. Dist. LEXIS 9860, at *11-12 (N.D. Ill. June 10, 2003) ("the Court agrees that [the plaintiff] is entitled to try to defeat the defense by demonstrating that [the defendant] relied on its attorneys' advice, and not [the plaintiff's] alleged inaction and delay in filing suit."); *Liberty Mut. Ins. Co. v. Tedford*, 644 F. Supp. 2d 753, 763-65 (N.D. Miss. 2009) (finding waiver based on equitable estoppel counterclaim and allowing discovery into privileged communications).

34 *Lombardi v. Whitehall XI/Hubert Street, LLC*, 2008 U.S. Dist. LEXIS 49167, at *3 (S.D.N.Y. June 26, 2008).

35 *See id.*

discovery “regarding the rights to [the plaintiff’s architectural] plans, the terms in the purchase agreement related to the Plans, and the risks of a copyright lawsuit,” including therefore privileged communications.³⁶

B. Other courts have adopted a more restrictive application of the at-issue doctrine, even when an infringer asserts an equitable estoppel defense.

Other courts, as well as the Northern District of Illinois, have adopted a narrower, more restrictive approach than that set forth in *THK*, *Southwire*, and *Lombardi*. In *Chamberlain Group v. Interlogix Inc.*, the court rejected a broad interpretation of the at-issue doctrine and found no waiver based on the defendant’s equitable estoppel defense. The court explained that, for the at-issue doctrine to apply, “[a] party must affirmatively use privileged communications to defend itself or attack its opponent in the action before the implicit waiver rule is applicable.”³⁷ The Southern District of California adopted a similar approach in *Sorenson v. Black & Decker Corp.*, rejecting a theory “that by asserting equitable estoppel, [the accused infringer] necessarily waived the attorney-client privilege because [the patentee] is entitled to investigate whether [the accused infringer’s] actions were the result of an independent decision based on advice of counsel and not in reliance on the conduct of the patentee.”³⁸

C. The Federal Circuit has addressed this issue only once, and the scope of its analysis is unclear.

The Federal Circuit has not directly weighed in on this issue. It has, however, denied the argument that “any assertion of estoppel and laches ‘inherently places at issue . . . communications with counsel.”³⁹ The court, as a result, reversed summary judgment of no laches and equitable estoppel where the defendant refused to disclose privileged communications.⁴⁰ While the opinion has little analysis or background on this issue, the court noted that the disputed privileged communications in this case were not relevant to the topics of laches and equitable estoppel. So, the decision is not controlling as to situations when the non-privileged and privileged information involves the very same subject.

II. How the at-issue doctrine may affect discovery and proof of an infringer’s intent.

Returning to the third scenario set forth in section I, the question becomes how much, if any, discovery is a patent holder entitled to of the infringer’s mental state when willfulness or inducement is at issue, and the infringer has both non-privileged and privileged information relating to its mental state.

For example, assume Engineer Smith at Acme Corp. learns of Innovation Corp.’s ’123 patent. He then emails Engineer Johns that Acme Corp’s products do not induce infringement based on his reading and interpretation of the claims in the ’123 patent. Engineer Smith then seeks to confirm his understanding by conferring with his outside counsel, who explains that Engineer Smith’s interpretation is fundamentally wrong, and that Acme Corp’s actions infringe a valid patent. Innovation Corp. then sues Acme for willfully inducing infringement. Engineer Smith’s email to Engineer Johns is produced during

³⁶ See *id.*

³⁷ *Chamberlain Group v. Interlogix Inc.*, No. 01-C-6157, 2002 U.S. Dist. LEXIS 5468, at *8 (N.D. Ill. Mar. 27, 2002); see also *Genentech, Inc. v. Insmid Inc.*, 236 F.R.D. 466, 469 (N.D. Cal. 2006) (holding that attorney client privilege was not waived by testimony that did not do anything more than deny intent and did not put any attorney client communication in issue).

³⁸ *Sorenson v. Black & Decker Corp.*, 2007 WL 1976652, at *2 (S.D. Cal. Apr. 9, 2007).

³⁹ *Int’l Rectifier Corp. v. IXYS Corp.*, 361 F.3d 1363, 1376 (Fed. Cir. 2004).

⁴⁰ See *id.*

discovery, but Engineer Smith's communications with his counsel are withheld on the grounds of privilege.

In general, there are three broad possibilities in this scenario.

1. **No waiver.** Courts could apply the at-issue doctrine narrowly, and hold that waiver only occurs if Acme Corp. actually relies on any privileged information to support its defense of Innovation Corp.'s willfulness or inducement claims. The advantage of this approach is that it robustly protects the attorney-client privilege. The disadvantage, however, is that it allows and risks inequitable, if not fraudulent, results. If Engineer Smith takes the stand, for instance, and testifies that neither Acme nor he subjectively intended to infringe the '123 patent, that testimony is dishonest and untrue. Alternatively, Engineer Johns could testify about relying on Smith's email – even without knowledge of the privileged communications – which would be true, but still unfair to Innovation Corp. if it does not receive full discovery on the issue.

2. **Broad waiver.** Courts could apply the at-issue doctrine more broadly, and determine that Acme Corp.'s mental state is at-issue in the case and therefore Innovation Corp. gets full discovery of non-privileged and privileged information regarding Acme's mental state. This result seems unlikely. The more recent case law on at-issue waiver in equitable estoppel cases has declined this broader approach. Such a broad waiver, moreover, is at odds with the fundamental policy protection of the attorney-client privilege and the *Knorr-Bremse* holding. This broad waiver would also be difficult to reconcile with a similarly-situated defendant that has no non-privileged information (i.e., its mental state is wholly dependent on privileged information) and is allowed to maintain its privileged information – a proposition that is seemingly uncontroversial. But such a broad approach would allow the infringer's state of mind to be decided fully on the merits.

3. **Case-by-Case waiver.** Courts could apply a hybrid analysis, and determine whether privileged information is genuinely at-issue based on a case-by-case analysis and fundamental fairness. In this situation, courts could review the privileged information *in camera*, and determine if Acme Corp. has placed its privileged analysis at issue in the case based on the totality of circumstances. One downside to this approach is that it further taxes the Court with additional, time-intensive work, some of which is difficult to assess (i.e., oral communications). This approach is also problematic because privilege is best dealt with through bright-line rules, so that parties know in advance when privilege may be waived. But this case-by-case approach is valuable in that it would likely prevent the inequitable and unjust possibilities set forth in scenario 1.

Quite clearly, none of these possibilities is a silver bullet. And the issue only becomes more difficult as fact patterns blur more to grey: i.e., when the privileged information does not so directly contradict the non-privileged information, or when an infringer attempts to draw a distinction between simply holding the patent holder to its burden of proof versus affirmatively offering evidence to rebut a patent holder's proof of its mental state (and whether that difference should matter for this inquiry), among various other situations.

CONCLUSION

The Federal Circuit has increased the relevance of an infringer's mental state in patent litigation. This increase has raised the potential for a patent holder to have a meritorious claim, but at the same time, be unable to discover and prove that claim because the necessary proof may be withheld under claims of privilege. While this scenario may not be wholly *sui generis* in the law, it is at least unusual. So courts will need to decide when and to what extent an infringer puts its privileged information at issue in litigation by rebutting a claim of willfulness or inducement. The line between what is fair for a patent holder attempting to prove its claim versus what is fair for an infringer to withhold as privileged is unlikely to be easy to draw.

