Inside 3Q2009

ACC AMERICA
Association of Corporate Counsel
Arizona Chapter

FOCUS

President's Message

Mark Rogers

There's no doubt about it: I am taking the easy way on this president's letter for our third quarter newsletter. I'm doing it for a very good reason, though. I want to share with the entire Arizona Chapter the letter that was sent two weeks ago to past, present and potential sponsors. Along with an accompanying set of materials, it was mailed to 21 law firms and eight businesses that provide services to in-house counsel.

I am also very excited about the upcoming 2009–2010 year. I hope to have a full year of high-quality CLE sessions scheduled by September 2009 and provide a number of other training and networking opportunities.

Finally, I'd like to extend thanks to Snell & Wilmer for its long-standing support of the Arizona Chapter and for providing content for this newsletter.

Here is the letter sent to potential sponsors for our upcoming year:

> Many, many thanks for your interest in sponsoring the activities of the Arizona Chapter of ACC America, and to our past and present sponsors, many, many thanks for the support you have already provided.
>
> The Arizona Chapter is dedicated to being nothing less than preeminent organization of and for in-house counsel in Arizona. What that means, principally, is providing world-class learning and development opportunities for our members. To that end, we are looking for sponsors to help us meet that goal. For law firms, we have three levels of sponsorship opportunities (Platinum, Gold and Silver) this year (October 2009–September 2010), and, for the first time, we have new categories of sponsorship (Chapter Underwriter and Law Department Services Sponsorship) for other service providers. We are also looking to expand the number and type of activities and events that we offer to members of the chapter. The available opportunities are explained in the attached sponsorship program description.
>
> To our past and present sponsors, you will have already noted at this point that our sponsorship program is significantly more formal than in years past. To a certain extent, this is a product of how successful the chapter has become with your backing. Accordingly, while the chapter is actively looking for a broad mix of sponsors (international firms, national firms, regional firms, local firms, large firms, small firms), you will note in the attached sponsorship program that we are including past support in the list of items we will consider in determining which firms will be selected as sponsors for the upcoming program year.
>
> To all potential sponsors for 2009–2010, please read through the attached materials carefully and send any questions well in advance of the August 25th deadline to *accarizona@yahoo.com*. Please be thoughtful and creative in suggesting programs, and please know that we are very excited about the upcoming year. The chapter has grown significantly in the past few years (more than doubling over the last handful of years), our regularly scheduled programs are well attended, and the meetings have become a regular stop for GCs and other in-house counsel from many companies here in Arizona. We believe that sponsorship of the chapter is a unique and valuable proposition for law firms and providers of services to in-house legal departments, and we hope that you'll agree. Please send us your best ideas soon!
>
> Thank you.
>
> Mark N. Rogers
> President, ACC America Arizona Chapter

Oxymorons and Indexes

Susan Hackett
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I couldn't decide which topic I really wanted to write about most for this quarter's chapter newsletter. One describes an incredible advance for in-house counsel and the value returned for their client's legal spend; and the other, which describes what may be the greatest bite into your practical ability to assert attorney work product protections in the history of my tenure here. So you get both — I told you I couldn't decide!

Bad News First: "Work-Product Protection" is now an oxymoron

On August 13, 2009, the First Circuit Court of Appeals issued an *en banc* opinion that has severe and negative ramifications for corporate clients — and even greater consequences for the in-house lawyers and financial teams that prepare corporate tax, accounting and financial statements for them.

In *US v. Textron,* the court overruled its own previous panel decision (and departs from the precedent of virtually every other US court), protecting the traditional and widely accepted interpretation of what constitutes attorney work product in the disclosure and financial reporting context. The IRS sought production of Textron's lawyers' estimates of the company's potential liability for tax positions it pursued, Textron asserted attorney-work product protections and refused to disclose the files, and the ping pong of decisions in this case began. (ACC filed two amicus briefs in the case, available online along with the court's decisions, at the URLs listed at the end of this article.)

This most recent *Textron* decision is final, unless the company decides to take the case to the US Supreme Court (and we'll be there again as amicus, if they decide to go forward). It is important to overturn this ruling and have the Supremes resolve this important issue, or public companies' in-house lawyers will be hamstrung with little alternative except to avoid any documentation of estimated litigation liabilities and, perhaps by extension, other forms of litigation reserves if the lawyer wishes to be able to assert confidentiality over such work product.

Perhaps more importantly, from a policy perspective, this case could be a watershed moment in establishing and defining work product protections that truly make or break the role of lawyers in a public company context.

The court's ruling replaces a long-standing test that protects documents prepared by attorneys because of or in anticipation of litigation (constituting protected attorney work product as defined in the US Federal Rules of Evidence, Rule 26(b)) in favor of one that suggests a much narrower standard, if any remaining protection at all. The court argued that Textron's attorneys' assessments of potential litigation liability for tax positions were not protected because financial reporting and accounting requirements dictate creation of such liability estimates, and thus any resulting work papers are mere "business" documents created pursuant to those requirements.

According to the court, "any lawyer" would call Textron's counsel's assessment of potential liability mere tax or business documents, not litigation documents. But by "any lawyer," the court sure wasn't talking about the 24,000 members of ACC. If a lawyer's assessment of the company's potential legal liability for a position it asserted — which the government now challenges — isn't attorney work product, what the heck is? The court makes a twisted and Herculian effort to reach the perverse result it adopts.

In adopting this standard, the court seeks to promote greater convenience for government investigators at the expense of the public interest in promoting accurate and complete preparation of corporate financial documents and audits. By ignoring or setting aside clear precedent to protect attorney work product, such as estimation of potential liabilities, this court eviscerates the notion that the in-house lawyer should create or share legal assessments with internal financial colleagues or the company's auditors.

As noted by the dissent in this case (who are the judges who wrote the panel opinion that this *en banc* court overturns): "In adopting its test, the majority ignores a tome of precedents from the circuit courts and contravenes much of the principles underlying the work-product doctrine. It also brushes aside the actual text of Rule 26(b)(3), which "[n]owhere . . . state[s] that a document must have been prepared to aid in the conduct of litigation in order to constitute work product." *Adlman,* 134 F.3d at 1198." The result is that companies that empower their lawyers and auditors to work together in an effort to ensure that their financials and accounting disclosures are accurate and well-informed are punished by this decision. The court thus suggests the inconceivable: that it is more advisable for lawyers to avoid documenting or sharing information that could be used against the company's interests in litigation. In citing to ACC's amicus brief in this matter, the dissent notes further: "Thus, as *amici* worry, the majority's new rule will have ramifications that will affect the form and detail of documents attorneys prepare when working to convince auditors of the soundness of a corporation's reserves."

And that means that the role of in-house counsel is not only hamstrung, it's permanently damaged. The court's ruling

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diminishes the value of the important preventive and strategic roles that in house counsel play in complex, publicly traded companies. And calls into question the entire notion public policy presumption that confidential legal counsel encourages better corporate decision-making and more reliable and accurate public statements of financial position on which our markets must rely. In pursuit of greater transparency for IRS investigators in this one case, the court ends up promoting opposite result in the larger marketplace. Bad facts made bad law here. ACC will continue to fight to protect your client's right to expect candid and confidential counsel, and your ability to protect the work product that makes your contributions to the company's good fiscal health possible.

To read ACC's amicus briefs and the court's decisions, go to ACC's Advocacy Homepage (*www.acc.com/advocacy*) or use the following URLs:
U.S. v Textron Decision, 8/13/09:
www.ca1.uscourts.gov/cgi-bin/getopn.pl?OPINION=07-2631EB.01A

ACC-US Chamber Amicus Brief in US v. Textron, 4/22/09:
www.acc.com/vl/public/AmicuBrief/loader.cfm?csModule=security/getfile&pageid=207212

ACC-US Chamber Amicus Brief in US v Textron, 4/8/08:
www.acc.com/vl/public/AmicusBrief/loader.cfm?csModule=security/getfile&pageid=15823

Remember: ACC advocacy is the voice of the in-house bar. We perform that function by engaging in work that protects individual members' practice rights and their companies' rights to counsel of choice: in-house lawyers. Textron came to us for help in taking this case on. You should, too, if your company faces a problem that impacts in-house practice and professional standards like this one does. We don't have the resources to become involved in every case but we can't be the voice of the in-house bar unless we speak out on matters that truly impact YOU. Call me when you see those cases; that's how we move the needle and make sure that the in-house bar is your voice.

I'd rather leave you with the good news: The ACC Value Index is about to turn inefficient and non-aligned law firm business models "inside out."

The premise of the ACC Value Challenge (our project to reconnect the cost of legal services to their value) is our belief that far too often, what drives the definition of success in outside law firms is size, expensive reputation and profitability. While we can't stop folks in firms from reading the AmLaw 200 rankings and measuring themselves against these metrics, maybe we can redirect the definition of success toward something more closely aligned with what *clients* value.

That's where the ACC Value Index comes in: the idea is to ask ACC members to share information about the firms they value most on an online database (the ACC Value Index). The intake form for the ACC Value Index is now up and online for ACC members to go to to pre-populate the system with data for launch. The form presents you with a simple scoring system, asking you to give 1 to 5 stars to firms you use on six different value criteria. Once launched (at the ACC Annual Meeting in Boston in October), members will also be able to go to the database to search for returns — information about firms they might be considering or to see how their own firms stack up. If you want to find the firms that scored well for value in other members' hearts — say, attorneys in California who do employment law or lawyers in France who do commercial litigation — the system will return the information. Data can be further sliced and diced, too. With the ACC Value Index, you'll be able to see what other members think of their firms and then connect with them for more information if you need it. It's not designed to be complex. It's designed to give a quick, down-and-dirty sense of which firms are most valued, and then connect members who have experience with a firm to members who want more info on them.

If you are willing to help us pre-populate the system, go to *www.acc.com/evaluate* and tell us how you feel about your firms and the value they offer. Fill in multiple forms for each firm you feel strongly about: the form only takes about 30 seconds to complete and submit, unless you wish to write explanatory comments or accolades for your favorite lawyers at the firm in the comment box.

The full system that allows searching of the data will be out in beta soon for those who entered data as part of this push so that you can see how the system works, play around with it and decide if you want to keep the postings you made, and either edit or remove them. So this is a no-risk proposition — but imagine the upside of having candid peer reviews of firms ("candid" since the system is only open to ACC members) at your fingertips 24/7, covering firms around the world and allowing you to find the "value-based" expertise you need from outside counsel.

Imagine also the impact on the law firm community: maybe it will become at least as important to have satisfied clients promoting your value than to advertise that you're the most expensive firm in the market and your profit-per-partner is 20 times the salary of the in-house counsel who hire you. Kind of makes you feel like maybe we're the folks who hold the purse strings after all, doesn't it?

If you would like more info on the ACC Value Index, feel free to contact my team leaders at *accvalueindex@acc.com*. Your peers (and your firms) are anxiously waiting to hear who you like and who it is that drives value in your outside legal relationships and spend.

Pension Withdrawal Liability and EFCA Arbitration

By Gerard Morales, Amanda Hines, and Kate Hackett[1]

The interest arbitration provisions of the Employee Free Choice Act (EFCA)[2] come with hidden dangers for employers faced with union proposals for participation in union sponsored pension plans. EFCA appointed arbitrators could shackle employers with significant liabilities.

A. Union Plan Funding under the Pension Plan Protection Act

The Pension Protection Act of 2006 (PPA)[3] provides a simple analysis of union plan funding. After the plan trustees review the financial status of their plans and file annual financial information with the Department of Labor, [4] the plan's actuary certifies the financial condition of the plan. [5] Plans whose funds are able to cover at least 80% of the vested benefits with no foreseeable funding deficiencies within the next seven years are considered to be in the "Green Zone." [6] Plans that are less than 80% funded or have foreseeable deficiencies within seven years (or both) are certified to be "Endangered" (or "Seriously Endangered"), which is commonly referred to as the "Yellow Zone." [7] Actuaries may also certify plans as "Critical" or in the "Red Zone" if: (1) the plan is less than 65% funded and it has a projected funding deficiency within five years or will be unable to pay benefits within seven years; (2) it has a projected funding deficiency within four years or will be unable to pay benefits within five years; or (3) its liabilities for inactive participants are greater than its liabilities for active participants, its contributions are less than carrying costs, and a funding deficiency is projected within five years. [8]

B. Current Status of Union Pension Plans Funding and the PBGC

Many of the largest union pension plans are in the Yellow and Red Zones. [9] A recent survey based on actuarial certifications of 230 union pension plans reported that only 39% of the union pension plans are in the Green Zone, dropping from 83% the previous year. [10] Yellow Zone plans nearly tripled, rising from 10% to 29%. [11] Red Zone plans nearly quintupled, rising from only 7% to 32%. [12]

Funding among the largest union pension plans continues to decline. [13] The Pension Benefit Guarantee Corporation (PBGC), the federal insurer of pension plans, has reported that 90 union pension plans need financial assistance from the PBGC and that the average union pension fund can cover only 62% of what it owes to participants. [14] Half of the plans requiring PBGC assistance were terminated in 2008 due to insolvency. [15] The PBGC now has a $33.5 billion deficit. [16]

C. The Risk of Withdrawal Liability

Withdrawal liability means that when an employer withdraws from a plan, the plan sponsor must review the funding status of the plan and require the employer to pay for part of the vested benefits that remain unfunded at the moment of withdrawal. [17] Employer withdrawal may occur for a variety of reasons in the ordinary course of business. Circumstances such as completing the work covered under the pension fund, closing the business for personal or financial reasons, or selling the business' assets, typically causes withdrawal from the pension fund. [18] The plan assesses withdrawal liability even if the employer entered the plan when there were no deficiencies and even if the employer paid its full contributions prior to withdrawing.

Given the financial conditions of so many union pension plans, employers should be understandably apprehensive about entering into union contracts that require participation in union pension plans, for such participation necessarily means undertaking the risk of withdrawal liability. Any objective observer would agree that employers that participate in union

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2. Employee Free Choice Act of 2009 (EFCA), H.R. 1409 [S. 560], 111th Cong. (2009).
3. Pension Protection Act of 2006 (PPA) § 202, Pub. L. No. 109-280, 120 Stat. 780 (2006), codified in the Employee Retirement Income Security Act of 1974 (ERISA) § 305, 29 USC § 1085 (West, Westlaw through Aug. 2006 amendments).
4. ERISA §§ 103–104, 29 USC §§ 1023-1024.
5. ERISA § 305(b)(3), 29 USC § 1085(b)(3).
6. THE SEGAL COMPANY, SURVEY OF CALENDAR YEAR PLANS' 2009 ZONE STATUS AND FREEZE ELECTIONS (2009); PATRICK PURCELL & JENNIFER STAMAN, SUMMARY OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT (ERISA) 25 (2008), available at http://assets.opencrs.com/rpts/RL34443_20080410.pdf (last visited July 2, 2009).
7. ERISA § 305(b)(1), 29 USC § 1085(b)(1); SEGAL, supra note 6; PURCELL & STAMAN, supra note 6, at 25.
8. ERISA § 305(b)(2), 29 USC § 1085(b)(2); SEGAL, supra note 6; PURCELL & STAMAN, supra note 6, at 26.
9. These include the International Brotherhood of Teamsters, (IBT) United Steelworkers (USW), United Food and Commercial Workers International (UFCW), International Longshoremen's Association (ILA), Laborers International Union of North America (LIUNA), International Association of Machinists, (IAM) International Brotherhood of Electrical Workers (IBEW), Service Employees International Union (SEIU), United Brotherhood of Carpenters (UBC), International Union of Operating Engineers (IUOE), and the National Plumbers Union. U.S. Dep't of Labor, Employee Benefits and Security Administration, Critical and Endangered Status Notices (June 11, 2009), http:www.dol.gov/ebsa/criticalstatusnotices.html; Kevin Mooney, Almost Half of Top Unions Have Underfunded Pension Plans, WASHINGTON EXAMINER, June 7, 2009, http://www.washingtonexaminer.com/opinion/blogs/beltway-confidential/Almost-half-of-top-unions-have-underfunded-pension-plans--47162127.html.
10. SEGAL, supra note 6, at 1.
11. Id.
12. Id.
13. David B. Brandolph, Survey Shows Decline in Funded Status Among Large Pension Plans During May, DAILY LABOR REPORT (BNA) No. 113, at A-4 (June 16, 2009).
14. Mooney, supra note 9; PENSION BENEFIT GUAR. CORP., 2008 ANNUAL REPORT 63 (2008), available at http://www.pbgc.gov/docs/2008_annual_report.pdf.
15. PENSION BENEFIT GUAR. CORP., supra note 14, at 63.
16. Florence Olsen, PBGC Funding Deficit Climbs to $33.5 Billion Driven by Accelerated Pace of Terminations, DAILY LABOR REPORT (BNA) No. 96, at A-10 (May 21, 2009).
17. ERISA §§ 4201, 4211, 29 USC §§ 1381, 1391. If the plan ultimately terminates due to underfunding in a distress termination, the PBGC will likewise turn to the employer to cover deficiencies. PBGC, Distress Terminations, http://www.pbgc.gov/practitioners/plan-terminations/content/page13261.html (last visited July 6, 2009).
18. ERISA §§ 4203–4205, 29 USC §§ 1383-1385.

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pension plans face a significant risk of withdrawal liability.

D. The Effects of Withdrawal Liability on Collective Bargaining and Asset Sales

The risk of withdrawal liability affects both collective bargaining and the value of business assets.

In collective bargaining, the employer typically seeks to avoid the risk of withdrawal liability by declining to participate in the union's pension plan. This often delays, and in many cases precludes, reaching agreement.

With respect to employers who are already contractually obligated to pay into a union pension fund, the risk of incurring withdrawal liability deters the sale of business assets. [19] In such sales, if the buyer assumes the obligation to pay into the union pension fund, it is assuming the risk of withdrawal liability. In order to assume such risk, the buyer normally demands a lower price for the assets.

In cases where the buyer does not assume the obligation to pay into the union pension plan, the sale of assets causes a withdrawal and the seller will be liable for the withdrawal liability, if any. [20]

E. EFCA Would Impose Interest Arbitration for First Contracts

Under current law, once a union is certified by the NLRB or voluntarily recognized by the employer, the union and the employer are required to negotiate in good faith the terms and conditions of employment, including the employer's participation in the union's pension plan. Neither party is required to agree on any term. [21]

This would significantly change under EFCA, as currently drafted. EFCA provides that, if an employer and a union cannot reach a first contract within 130 days from union certification, binding arbitration must be imposed. [22] In plain language, a government appointed arbitrator decides the disputed terms of the contract. [23]

Experts predict that the specter of arbitration on the near horizon would decrease the likelihood that collective bargaining parties will settle on the terms of a contract. With respect to demands to participate in union pension plans, unions no longer will have an incentive to accommodate the legitimate concerns of employers seeking to avoid withdrawal liability, because EFCA arbitration guarantees a binding contract in every case. Government appointed arbitrators could, by requiring participation in the union pension plan, force the employer to assume the risk of withdrawal liability.

F. Conclusion

EFCA's contract arbitration provisions could impose significant liabilities on employers. As currently drafted, under EFCA, government appointed arbitrators could force employers to undertake the risk of withdrawal liability. At least for most small and medium-sized employers, this means that, once required to participate in the union pension plan and therefore undertake the risk of withdrawal liability, they would be left without meaningful bargaining power. For them, failure to reach agreement over union demands could mean no agreement and therefore the risk of withdrawal liability — a liability which they could not afford.

For more information about the EFCA legal developments and this article, please contact the authors at 1.800.322.0430 or *jmorales@swlaw.com*.

19. See ERISA § 4204, 29 USC § 1384 (listing certain conditions to a sale that absolve the seller of withdrawal liability), and § 4225, 29 USC § 1405 (limiting liability to between 30% and 80%, depending on the dissolution or liquidation value of the assets).

20. ERISA § 4204, 29 USC § 1384; see e.g., S&F Market Street Healthcare, LLC v. NLRB, 2009 WL1851770 (D.C. Cir. 2009), for discussion of a successor employer's legal obligation to assume a union contract.

21. Gerard Morales & Kathryn Hackett, The Employee Free Choice Act: What Employers Should Know, SNELL & WILMER LLP LEGAL ALERT, Jan. 2009, at 1.

22. EFCA § 3.

23. Id.

Echoes of Echostar: Practical Issues Confronting Clients Accused of Patent Infringement After Seagate

By Andrew F. Halaby and Anne W. Bishop[1]

Introduction

Viewed from the perspective of one who believes one shouldn't have to choose between substantive rights and the attorney-client privilege, *In re Seagate Technology*[2] was a good decision. Issued by the Federal Circuit in 2007, *Seagate* clarified and improved the law governing application of the defendant's attorney-client privilege where the defendant is accused of willful patent infringement. Before *Seagate*, the Federal Circuit's 2006 opinion in *In re Echostar Communications*[3] governed that issue. *Echostar* was a mess, for it forced the defendant accused of willful infringement to choose between the privilege and what was then the defensive tactic of choice: offering an opinion of counsel. But *Echostar* represented a logical extension of the law originating with the Federal Circuit's 1983 decision *Underwater Devices v. Morrison-Knudsen Co.*,[4] which as we explain below was really a mess — a mess that the Federal Circuit's intervening 2004 decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corporation*[5] didn't clean up.[6]

Seagate is such an improvement over prior law that one is tempted to just say "thank you" and move on. But *Seagate* nevertheless presents some practical issues and uncertainties that we here explore. In particular, *Seagate's* distinction between opinion and trial counsel leaves uncertainties for those considering offering an opinion of counsel as a defense to a claim of willful infringement. And *Seagate* has practical implications for the attorney-client relationship, including the continued risk of waiver of the attorney-client privilege and potential limitations for clients who have longstanding relationships with their outside IP counsel.

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Background

35 USC § 284 permits enhanced (up to treble) damages to be awarded in patent infringement cases. The statute is silent on when enhanced damages should be awarded. But courts have generally required "willful infringement," which means bad faith or deliberate conduct.[7]

Back in the day, *Underwater Devices* bizarrely held that one had an *affirmative* duty of due care to avoid infringement. With the duty came a burden of proof. That is, a defendant accused of infringement had to prove due care, which was essentially tantamount to a burden to disprove willfulness. How would one disprove that state of mind? The approach advocated by *Underwater Devices* was to hire a lawyer to look at your accused article and tell you whether your product infringed a valid patent. If the lawyer opined that it didn't, then even if you were later found to have infringed, you couldn't have infringed "willfully" because of what your lawyer told you.

The difficulty, of course, was that you had to offer your lawyer's advice to prove the fact in issue. In this, the patent law differed from almost every other arena of substantive commercial law. Consider, by comparison, the tort of common law fraud. The plaintiff must prove, among other things, the defendant's intent to deceive.[8] Unless the defendant admits that state of mind (which the defendant almost never does), the plaintiff has to prove it circumstantially or else fail to meet its burden of proof. The defendant has several choices: maintain silence on the issue, deny fraudulent intent, or adduce other evidence tending to demonstrate the absence of intent to deceive. The defendant could, conceivably, offer its lawyer's advice to prove lack of intent: "From everything I ever saw or heard, it appeared to me that my client thought what he was saying was true," the lawyer might say. But because the plaintiff, not the defendant, bears the burden of proof, the defendant is under no compulsion to offer any evidence on intent to deceive at all. And among the defendant's choices when the defendant does want to offer evidence, the defendant invariably does not choose to offer its lawyer's advice, because the costs of waiving the privilege easily exceed the benefits of offering the lawyer's advice.

Typically, placing a lawyer's advice in issue waives the privilege as to all privileged communications on, at a minimum, the same subject matter.[9] Courts have generally declined to establish a bright line test to determine if there has been a waiver, instead relying on an examination of the circumstances, the nature of the advice, and the prejudice to the party.[10]

The fact that *Underwater Devices* effectively put the burden to prove innocence on the accused infringer placed accused infringers on the horns of a dilemma our accused fraudster never confronts: waive the privilege or fail to satisfy a burden of proof. Where our accused fraudster has the choice of whether to invoke his lawyer's advice, because the plaintiff has the burden of proof on fraudulent intent, our accused infringer more or less *had* to obtain and then reveal his (opinion) counsel's advice to satisfy the duty of due care.

In a baby step forward, the Federal Circuit held in *Knorr-Bremse* that no adverse inference could be drawn against an infringer for failing to offer an opinion of counsel. But that holding didn't address the fundamental quandary created by *Underwater Devices*, namely the placement of the burden of proof on the defendant. Thus, it had little or no effect in ameliorating the broad, practical implications of *Underwater Devices* that *Echostar* brought to light a couple of years later.

In *Echostar*, the Federal Circuit held that an accused infringer who offers an opinion of counsel waives the privilege not only as to all communications with that counsel, but also communications on the same subject matter with any other counsel, including in-house counsel. The underlying "sword and shield" theory was pretty straightforward: The defendant is not entitled to withhold some privileged communications on the subject matter (which might, after all, suggest that there *is* an infringement problem) while producing others (those of opinion counsel, who perhaps not surprisingly says there is *not* a problem).

However straightforward a conclusion this was from the problematic framework established by *Underwater Devices*, the practical implications of *Echostar's* ruling were extraordinary, extending as they did from the accused infringer's earliest glimmer of a problem all the way through the trial where, after all, even the accused's trial counsel might have — and offer to the client — an opinion different than opinion counsel's. The *Echostar* court did not extend its holding of waiver to attorney work product not communicated to the client[11] or trial preparation materials,[12] but compared to its expansive privilege waiver ruling, this limitation was of little practical consequence.[13]

In *Seagate*, the Federal Circuit recognized and went a long way toward effectively addressing the problems wrought a quarter century earlier by *Underwater Devices*, as manifested in *Echostar*. Among other things, the court changed the willfulness standard to one of objective recklessness and placed the burden to prove it upon the plaintiff. *Seagate* further held that the waiver of privilege occurs only when the accused infringer relies on an advice of counsel defense — which should not occur until plaintiff has proved willfulness.[14] The court also held that absent "chicanery,"[15] any waiver of the privilege by offering an opinion of counsel would not extend to trial counsel, who presumably would have become involved only after defendant's state of mind was, as a factual matter, already established.

Analysis

Seagate is a distinct improvement, but it isn't a panacea. The issue is this: Does the distinction between trial counsel and opinion counsel really protect the accused patent infringer who wants to offer an opinion of counsel defense? We think that *Seagate* leaves uncertainties, particularly for the client who — understandably enough — wants to use a single law firm both to counsel it through potential infringement issues and to represent it at trial if those issues come to a head.

Consider a hypothetical scenario in which the client has vested a law firm, whom we'll call "IP counsel," with substantial respon-

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sibility over legal issues surrounding its business. IP counsel's work includes assisting the client in developing a portfolio of patent rights *and* advising the client on potential infringement issues arising from competitors' patent rights. Outside the client's technical personnel, no one knows the client's business, technology, and related IP issues better than IP counsel. Thus, if the client is accused of — or sued for — patent infringement, no one is better equipped than IP counsel to analyze the issues, advise the client, and — assuming the requisite litigation expertise — defend the case. In other words, the same group of lawyers might (1) assist the client in obtaining legal protection for its inventions as they develop, including helping the client assess whether products deriving from those inventions infringe the patent rights of others (with validity, enforceability, and infringement aspects), *and* (2) advise the client, defend its interests, or both in connection with any patent infringement litigation. In that event, the lawyers are both opinion counsel *and* trial counsel.

This hypothetical highlights four issues with *Seagate*'s approach:

Issue #1: Seagate's Solution Tends to Deprive the Client of Its Choice of Counsel. Despite its improvement over prior law, *Seagate's* distinction between "opinion counsel" and "trial counsel" has its flaws. Chief among these is that IP counsel could be either or both. *Seagate*'s solution assumes that opinion counsel and trial counsel are different law firms. But this assumption has practical consequences. Is the client to be deprived of the benefits of the opinion/trial counsel distinction — namely, that communications between the client and trial counsel aren't discoverable — because the client used the same law firm for both jobs? The risk that a court might so hold has sometimes caused clients to take their work to new counsel when accused of infringement. But the client incurs transition costs, such as the cost of getting the new lawyers up to speed, in that event. And clients hire and retain lawyers for many reasons, including but not limited to longevity and comfort level. The client loses these benefits.

Issue #2: Even if the Client Retains Separate Trial Counsel, IP Counsel's Opinions May Still Be Discoverable. The decision to hire different trial counsel doesn't solve the dilemma of whether IP counsel will be deemed "opinion counsel" for privilege waiver purposes. The underlying thrust of *Echostar* is that one shouldn't be able to obtain (and offer) an opinion that one's product doesn't infringe, while at the same time hiding a "back door" opinion to the contrary from any other lawyer, including in-house counsel. What about IP counsel? If the client chooses to offer an opinion — whatever its source — then as a general proposition, *Echostar* at least arguably renders IP counsel's opinions discoverable. *Seagate* does not undermine that proposition, which leads to another general proposition: The accused infringer may want to consider not offering any opinion at all. Retaining new trial counsel does nothing to change whether offering an opinion waives the privilege as to communications by attorneys other than trial counsel.

Issue #3: IP Counsel's Communications with Trial Counsel May Be Discoverable. Supposing the client proceeds to retain separate trial counsel, the client presumably will want that new group of lawyers brought up to speed by IP counsel. Is that the "chicanery" discussed in *Seagate*? One would think not; one would want new counsel to be fully informed and ready to advocate as soon as possible. Yet under *Echostar's* reasoning, if IP counsel's communications *to the client* are discoverable, is there an argument that IP counsel's communications *to trial counsel* are discoverable as well? After all, if IP counsel's communications to the client might constitute a "back door" opinion that the plaintiff is entitled to discover, might not IP counsel's communications to trial counsel — who, after all, is the client's agent — provide a "double secret" mechanism to supply that same opinion? But the client still must weigh the risk of acting on that assumption.

Issue #4: Document Preservation Obligations Compound the Complexities of Communications Between IP Counsel and Trial Counsel. We are all by now familiar with cases like *Zubulake v. UBS Warburg*[16] — ordinary cases that serve as stern warnings on the danger of failing to take preservation of documents, including electronic documents, seriously. If *Seagate* sets a "chicanery" standard for discovery of trial counsel's communications with the client (or, perhaps, with IP counsel), then does a defendant — or indeed, a potential defendant — and its outside counsel have a duty to preserve evidence bearing on whether such "chicanery" took place; *i.e.*, all communications between the defendant and/or its IP counsel, on the one hand, and its trial counsel, on the other? The problem is at least theoretically exacerbated by the fact that Fed. R. Civ. P. 26(b)(5) requires that a party claiming privilege identify the documents subject to the privilege claim. Must all these communications be not only preserved, but logged? In today's modern age of electronic communications, lawyers email one another all the time. Must every email be kept and logged? For fear of this problem, should lawyers and clients forgo the benefits of emailing?

Conclusion

This gets us to the crux of the matter. Despite *Seagate*, retaining separate trial counsel still involves a multitude of risks or issues. Given these issues, should clients offer an opinion of counsel when accused of infringement? And, if the client chooses to offer an opinion, should a client stay with its long serving, reliable IP counsel?

If the client is resolved to offer an opinion of counsel, and the foregoing problems persist, the client has at least a slightly better argument limiting the impact of Issue #3 when it retains separate counsel. For if the same law firm that is litigating the case has counseled the client all along, the plaintiff may seek discovery of all communications between the firm and the client, again reasoning from *Echostar* that any of those communications may reflect back door advice contrary to the exonerating opinion of counsel that the client offers. The generally accepted, if unstated, rule that communications between lawyer and client need not be logged, and generally are not subject to discovery, may not serve as a failsafe bulwark against such tactics.

If the defendant decides to take *Seagate* at its word and not offer an opinion at all,

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the defendant avoids all of the foregoing problems. The defendant can hope that the trial court will apply *Seagate* faithfully, and preclude discovery or argument on alleged willfulness unless and until the plaintiff establishes, by objective evidence, that the defendant has acted recklessly or worse in regard to the plaintiff's patent rights. Then, having not put its attorneys' advice in issue by offering the opinion, the defendant never has cause to consider whether to engage separate trial counsel from its regular IP counsel. IP counsel's advice to the client is not subject to discovery; it is privileged; and, the client having not offered it to prove a fact in issue, it may not be discovered by the plaintiff. Even if different lawyers within the client's firm handle the prosecution, counseling, and litigation aspects of the client's representation in connection with the plaintiff's alleged patent rights, all of those lawyers' advice and related files are privileged. And there is no reason to preserve (or log) communications between the lawyers and the client, or among the lawyers, for they are beyond discovery. Sometimes offering an opinion will be necessary, and the client and its counsel will have to address these thorny issues. Unlike our alleged fraudster, oftentimes opinion counsel has exculpatory or potentially exculpatory evidence. In that circumstance, *Seagate* may not help very much. To the extent the client is undecided on whether to obtain and offer an opinion of counsel to avoid a finding of willful infringement, the problems remaining after *Seagate* weigh against doing so.

In many or all instances, the particulars of the client and its industry, and the role played by IP counsel in the client's affairs, will determine whether, all things considered, this or that particular accusation of infringement should be met with an opinion of counsel. But as a general proposition, *Echostar* created (or recognized) a variety of problems with the traditional approach of offering an opinion of counsel to defend willfulness charges. *Seagate* solved only some of those problems. IP counsel and clients should be aware of that fact, and take it into account in their approach to fielding accusations of infringement going forward.

(Endnotes)

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2. *In re Seagate Technology, L.L.C.*, 497 F.3d 1360 (Fed. Cir. 2007).
3. *In re Echostar Communications Corp.*, 448 F.3d 1294 (Fed. Cir. 2006) (*en banc*).
4. *Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380 (Fed. Cir. 1983).
5. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir 2004).
6. Now *Qualcomm v. Broadcom*, 543 F.3d 683 (Fed. Cir. 2008), threatens to create another mess by undermining *Knorr-Bremse*'s holding in cases involving accusations of inducing infringement. But that's for another article.
7. *See, e.g., In re Seagate Technology, L.L.C.*, 497 F.3d at 1370; *Beatrice Foods Co. v. New England Printing and Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991).
8. *See, e.g. Norton v. Curtiss*, 433 F.2d 779, 793 (C.C.P.A. 1970).
9. *In re Echostar Communications Corp.*, 448 F.3d at 1299.
10. *In re Seagate Technology, L.L.C.*, 497 F.3d at 1372; *see also* Andrew F. Halaby & Teresa K. Anderson, *A Brief Primer on Inadvertent Disclosure of Otherwise Privileged Documents*, ACC Focus (Arizona Chapter) (3d Q. 2007).
11. *Id.* at 1303.
12. *Id.* at 1297.
13. *Id.* at 1304 (describing the waiver as including "any document or opinion that embodies or discusses a communication … concerning whether that patent is valid, enforceable, and infringed by the accused. This waiver of both the attorney-client privilege and the work-product immunity includes not only any letters, memorandum, conversation, or the like between the attorney and his or her client, but also includes, when appropriate, any documents referencing a communication between attorney and client."
14. But it is unclear when, in the context of a particular infringement lawsuit, the waiver occurs. Does waiver occur as soon as the defendant pleads or argues "advice of counsel"? If so, might a defendant inadvertently waive that defense? These are questions for another article.
15. *In re Seagate Technology, L.L.C.*, 497 F.3d at 1376.
16. *Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309, 312 (S.D.N.Y. 2003) (standard for allocating costs for producing e-mails contained on backup tapes); *Zubulake v. UBS Warburg LLC*, No. 02 Civ. 1243, 2003 WL 21087136 (S.D.N.Y. May 13, 2003); *Zubulake v. UBS Warburg LLC*, 216 F.R.D. 280 (S.D.N.Y. 2003) (cost allocation for backup tape restoration costs); *Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212 (S.D.N.Y. 2003) (sanctioning UBS for violation of duty to preserve evidence).

Give Me Back My Stuff: Adding Bite to An Employer's Demand Through the CFAA

The Computer Fraud and Abuse Act ("CFAA") was passed by Congress in 1984 primarily to deter computer hackers. 18 U.S.C § 1030 et seq. Although the CFAA is generally a criminal statute, it does permit private parties to bring a cause of action to redress violations. Importantly, this private cause of action can serve as a valuable tool for employers to protect their intellectual and proprietary information.

Employers frequently entrust employees with their intellectual and proprietary information, which are stored and used by the employee on company-issued laptops in the regular course of employment. When the employment relationship does not work out for whatever reason, the employer will request the return of the lap-

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Board Members and Contacts

Welcome New Members

We wish to welcome the following new members who have joined our chapter recently:

Susan Bovee, US Airways, Inc.

Lukas M. Grabiec, Intel Corporation

Thomas N. Jankowski, Apollo Group, Inc.

Richard Karam, Microchip Technology Inc.

William D. Sheldon, SCF Arizona

James R. Todd, Limelight Networks, Inc.

Fay Waldo, Incentive International

Toni A. Yarwood, MasterTax, LLC

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top along with all intellectual and proprietary information. Sometimes the former employee will refuse to return the laptop and/or destroy the information it contains.

These familiar facts are very similar to the facts in a recent district court decision that found that two former employees violated the CFAA when they "deleted confidential and trade secret information from [the employer's] computer" and waited well over a month to return "all electronic and hard copy information in [their] possession belonging to [the employer]." See, e.g., Lasco Foods, Inc. v. Hall and Shaw Sales, 600 F. Supp. 2d 1045 (E. D. Mo. 2009). In reaching this conclusion, the Lasco Court found that the employer had established "damage" and "loss".

The CFAA defines "damage" as "any impairment to the integrity or availability of data, a program, a system, or information." 18. USC § 1030(e). Damage, for example, can include the deletion of information from a single laptop because it "impairs the integrity or availability of data, programs, or information on the computer." While the CFAA does not define "loss," courts, including Lasco, have consistently interpreted that word "to mean a cost of investigating or remedying damage to a computer, or a cost incurred because the computer's service was interrupted." A "loss" must result in the "interruption in service", which can be established by showing the former employee physically withheld return of the laptop computer.

While this language is meant to combat computer hackers and their deleterious effects on computer systems, the Lasco decision shows us that the CFAA has beneficial application in the familiar and nontechnical setting that employers regularly face, as discussed above. First, the CFAA gives employers an additional tool to maintain control over their laptops, electronic devices, and the confidential information they may contain. Second, because the CFAA is a broad statute covering the unauthorized and unlawful access of all electronic information or interruption of service, the employer can theoretically use the CFAA as a proverbial sword without necessarily showing that the information is proprietary, confidential, or otherwise protected. Third, by creating a private cause of action for the unauthorized and unlawful access of electronic information, employers now have another claim they can raise and therefore obtain additional leverage over the defendant employees.

Finally, the CFAA should also remind employers of the importance of having confidentiality agreements and/or agreements that protect intellectual property with those employees who have access to confidential and/or protected information. Additionally, if appropriate, employers should consider whether a noncompete, nonsolicitation, and/or anti-piracy agreement is required or, if already existing, whether it is sufficient, to protect the employer's interests.

If you have any questions on the subject of this article or would like more information, please contact a Snell & Wilmer attorney at 602.382.6000.