

Attorney Opinions, Waiver, And The New Law of Willful Infringement In Light of In Re Seagate

UNIVERSITY OF HOUSTON SCHOOL OF LAW /HIPLA PROGRAM
GALVESTON, TEXAS
OCTOBER 5, 2007

William L. LaFuze
VINSON & ELKINS LLP
Houston, Texas

DISCLAIMER

WHY OBTAIN AN OPINION OF COUNSEL?

- Fundamental, common sense, **business purpose** - to obtain useful advice and guidance to determine whether there is a serious patent infringement question, to determine the level of risk, and to determine whether changes in design or other remedial action are advisable
- Prior to Seagate to satisfy the **affirmative duty under Federal Circuit law** to exercise due care to avoid infringement of any valid patent once there is notice of possible infringement
- To defend against a claim of **willful infringement** which may justify an award of enhanced damages and/or attorneys fees

THREE IMPORTANT RECENT CASE DEVELOPMENTS

- KNORR-BREMSE v. DANA
(Fed. Cir. 2004)(en banc)
- IN RE ECHOSTAR (Fed. Cir.
2006)
- IN RE SEAGATE (Fed. Cir.
2007)(en banc)

THE DUTY OF DUE CARE – PRE SEAGATE

- In its early years, the Federal Circuit made it clear that when one has knowledge of another's patent rights, **there is a duty of due care** to avoid infringing on those rights. Underwater Devices, Inc. v. Morrison-Knudsen Co., (Fed. Cir. 1983)
- The duty of care was reaffirmed by the Federal Circuit en banc in Knorr-Bremse in 2004.
- Opinion practice has evolved to comply with this duty—opinions are frequently sought and obtained, especially for important commercial products and methods.

How to Determine willfulness – PRE SEAGATE — based on the totality of circumstances

- The question of willfulness was determined by the jury based on a **totality of the circumstances test** as set forth in Read Corp. v. Portec, Inc., (Fed. Cir. 1992))

READ FACTORS for evaluating totality of circumstances

1. whether the infringer deliberately copied the ideas or design of another;
2. **whether the infringer, when he knew of the other's patent, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed (usually proved up by an attorney opinion);**
3. the infringer's behavior as a party to the litigation;
4. the defendant's size and financial condition;
5. the closeness of the case;
6. the duration of the defendant's misconduct;
7. remedial action by the defendant;
8. the defendant's motivation for harm; and
9. whether the defendant attempted to conceal its misconduct

ATTORNEY OPINION – MOST IMPORTANT FACTOR

- The second Read factor--- **the presence or absence of a legal opinion**---frequently was determinative of willfulness, and more important in most cases than any of the other factors.
- Before Knorr, accused infringers often waived privilege to avoid an adverse inference even if a written or oral opinion was problematic
- An opinion, if competent, and written by a competent attorney, effectively served as an “**insurance policy**” to willfulness and the risk of treble damages and attorneys fees

ADVERSE INFERENCE

- **Prior to Knorr-Bremse (2004), if an opinion existed but was not produced, an adverse inference** could be drawn that the opinion was unfavorable to the defendant's position and the jury could be so instructed
- A judge instructing the jury that they could draw an adverse inference had an inevitable devastating effect on an accused infringer
 - It was and is highly predictable how a jury will react to a party that is trying to hide something from them.
- Dilemma Prior to Knorr:
 - Produce opinion and waive privilege; OR
 - Maintain privilege and suffer adverse inference

KNORR Question #1: NONPRODUCTION OF OPINION

- Question: When an opinion exists and is not produced, can adverse inference be drawn that the opinion is unfavorable?
- **Answer: NO**
- In so holding, the Federal Circuit expressly overturned precedent holding that an adverse inference could be drawn

KNORR QUESTION #2 NO LEGAL ADVICE

- Question: When the defendant has not obtained legal advice, is it appropriate to draw an adverse inference that the opinion would have been unfavorable?
- Answer: **NO**
- Again no adverse inference can be drawn

KNORR – BREMSE – DUTIES and TEST REAFFIRMED

- **Federal Circuit en banc in 2004 reaffirmed the duty of care** to avoid infringing upon another's patent, as set out in Underwater Devices
- Federal Circuit also in 2004 **reaffirmed the totality of circumstances test** set forth in Read
- Although it is clear after Knorr-Bremse that the jury cannot be instructed as to an adverse inference, **there remains uncertainty and confusion** as to the proper procedures for examining witnesses and raising a question before the jury about whether an accused infringer was sufficiently diligent to seek counsel about the vitality of a possible patent claim

Knorr-Bremse Dissent

- Judge Dyk, in his dissent, raised a question about whether the mere failure to comply with the duty of due care could be a basis for willful infringement which would support enhanced (punitive) damages, and whether that law was inconsistent with US Supreme Court precedent.
- This question was answered in August, 2007 by the Federal Circuit in *In Re Seagate* (to be discussed shortly).

WAIVER OF PRIVILEGE-SCOPE ISSUES

- **What is clear---**Attorney-client and work product privileges are waived--at least to some extent--once an accused infringer takes the position in litigation that it intends to rely on the advice of counsel in defense of willful infringement
- **What is unclear---**The **Scope of the Waiver**??????

What is the Scope of Waiver

- **Scope of waiver issues?**
 - Does waiver go to the **entire opinion or only to selected portions** of an opinion **relied upon** and **expressly waived** by the client?
 - Does waiver also reach beyond a written opinion to **oral communications** between the opinion writer and the accused infringer?
 - Does waiver extend to the work or communications from attorneys **other than the principal opinion writer whose opinion is voluntarily produced by the accused?**
 - Does waiver extend to **opinions or advice of trial counsel?** (answered “No” generally by Seagate)
 - Does waiver extend to documents such as notes, work papers and drafts of the opinion which are **work product not communicated** to the client?
 - Does the waiver extend to **documents not communicated to the client, but which reflect communications to the client?**
 - What are the temporal limits of waiver? Does the period of waiver **extend beyond the filing of a patent infringement suit?**

- The Fed Circuit identified **three categories of work product that are potentially relevant to the advice-of-counsel defense**
 - (1) documents that **embody a communication** between the attorney and client concerning the subject matter of the case on issues voluntarily waived, such as a traditional opinion letter;
 - (2) documents analyzing the law, facts, trial strategy, and so forth that reflect the attorney's mental impressions but were **not given to the client**;
 - (3) documents that **discuss a communication between attorney and client** concerning the subject matter of the case on issues voluntarily waived, but are not themselves communications to or from the client

- #1---Documents that **embody a communication** between the attorney and client concerning the subject matter of the case voluntarily waived--**the court held** a waiver of attorney-client privilege for all communications between the attorney and client, including any documentary communication such as opinion letters and memoranda
 - The Court said that work-product waiver extends only so far as to inform the court of the **infringer's state of mind**. – “what the alleged infringer knew or believed, ...**not** what other items counsel may have prepared **but did not communicate** to the client, that informs the court of an infringer’s willfulness.”
- #2---Work product never communicated to the client) is not discoverable – **court held** no waiver of “attorney’s own analysis and debate over what advice will be given.”
- #3---Documents that **discuss a communication between attorney and client**) is waived – **the court held** that “any **document or opinion that embodies or discusses a communication** to or from it 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.**”
- The Echo Star Court left **many questions unanswered**, unfortunately

- **AFTER THE 2006 ECHOSTAR OPINION, THE DISTRICT COURTS RENDERED INCONSISTENT AND CONFUSING RULINGS ON QUESTIONS LEFT UNANSWERED BY ECHOSTAR --some of the most important ones are:**
 - Does waiver go to the **entire opinion or only to selected portions** of an opinion **relied upon** and **expressly waived** by the client?
 - What are the temporal limits of waiver? Does the period of waiver **extend beyond the filing of a patent infringement suit**?
 - **WAIVER AS TO TRIAL COUNSEL**
 - **INCONSISTENT ADVICE**
 - **CONTRADICTORY ADVICE**
 - **IN CAMERA INSPECTIONS**
 - **SELF ENFORCEMENT**
 - **OPPOSING COUNSEL GETS A “PEEK” AT TRIAL COUNSEL’S WORK PRODUCT**

- Sua Sponte En Banc Order of the Federal Circuit
- Opinion by the Federal Circuit on August 20, 2007
- Factual background-----
 - Privilege as to formal opinions of opinion counsel had been waived by the accused infringer
 - Patentee sought waiver ruling and discovery from in-house counsel and trial counsel—both opinions and work product—on same issues as contained in the waived opinion

Seagate – District Court

- The trial court concluded that Seagate waived the attorney-client privilege for all communications between it and any counsel, **including its trial attorneys and in-house counsel**, concerning the subject matter of the attorney opinions, i.e., infringement, invalidity, and enforceability.
- It further determined that the **waiver began when Seagate first gained knowledge of the patents and would last until the alleged infringement ceased.**
- Accordingly, the district court ordered production of any requested documents and testimony concerning the subject matter of the opinions from opinion counsel.

Seagate – District Court

- The trial court provided for in camera review of documents relating to trial strategy, but said that **any advice from trial counsel that undermined the reasonableness of relying on the attorney opinions would warrant disclosure of, and waive the privilege with respect to, trial counsel’s communications with Seagate.**
- The trial court also held that protection of work product communicated to Seagate was waived.
- Based on these rulings, the patentee sought production of trial counsel opinions relating to infringement, invalidity, and enforceability of the patents, and also noticed depositions of Seagate’s trial counsel.

Seagate – Mandamus to Federal Circuit

- The Federal Circuit stayed the trial court's discovery orders, and, sua sponte ordered en banc review of the petition.

- The en banc order set out the following questions:
 1. Should a party's assertion of advice of counsel defense to willful infringement extend waiver of the attorney-client privilege to communications with that party's trial counsel?
 2. What is the effect of any such waiver on work-product immunity?
 3. Given the impact of the statutory duty of care standard announced on the issue of waiver of attorney-client privilege, should this court reconsider the decision in Underwater Devices and the duty of care standard itself?

Seagate-Summary of Holdings

- Seagate generally upheld the attorney-client and work product privileges as to trial counsel, with limited exceptions
 - **But the trial court has discretion in “unique circumstances to extend waiver to trial counsel” if, for example, “a party or counsel engages in chicanery.”**
- Seagate changed dramatically the law of willful infringement.
 - **Abolished the long established “duty of care” standard for willfulness.**
 - **New test for willfulness requires the patentee to show by clear and convincing evidence that the infringer’s conduct was reckless.**
 - **Waiver resulting from the assertion of advice the counsel defense generally does not extend to communications or work product of trial counsel.**

Seagate – Rejection of the duty of care standard

- Seagate began by overruling the duty of care standard, which – as set forth by the Federal Circuit in *Underwater Devices* – had been the governing legal standard for willfulness for almost 25 years.
- Seagate explained that the duty of care standard was announced at “a time ‘when widespread disregard of patent rights was undermining the national innovation incentive.’”
- But the court noted that the standard had since evolved to the point where it failed to comport with the general understanding of willfulness in the civil context.
- The Court pointed to precedent outside of patent law, and recent Supreme Court decisions, which had determined that similar willfulness requirements were met only when the accused had acted **recklessly**.
- The court said the duty of care was:
 - more akin to negligence
 - did not comport with the common law usage of willfulness
 - allowed for punitive damages in a “manner inconsistent with Supreme Court precedent.”

Seagate – The New Reckless Standard

- The Court replaced the duty of care standard with a two-step **recklessness** inquiry.
 - **Step 1 --**
 - **The patentee must first show “by clear and convincing evidence that the accused infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”**
 - .
 - **Step 2 --**
 - **If the first entirely-objective threshold of STEP 1 is met, the patentee must then show that the “objectively-defined risk was either known or so obvious that it should have been known to the accused infringer.”**

Comments by the Federal Circuit regarding the two-step test

- The Supreme Court said that it is a **high risk of harm, objectively asserted, that is the essence of recklessness.**
- The Fed Circuit explained that the **accused infringer’s state of mind is irrelevant to the first step of the analysis.**
- With respect to Step 2, the Fed Circuit did not define the factors governing whether an accused infringer “should have” known of the risk of infringement, but it explained that the **“standards of commerce** would be among the factors a court might consider.”
 - **Question-is state of mind of the infringer relevant and admissible to Step 2?? Presumably so.**

WAIVER OF PRIVILEGE

- The Court stated that “[a] patentee who does not attempt to stop an accused infringer’s activities [by requesting a preliminary injunction] **should not be allowed to accrue enhanced damages based solely on the infringer’s post-filing conduct.**”
- “Willful infringement in the main must find its basis in prelitigation conduct,” and the patentee can protect against post-filing conduct by seeking a preliminary injunction
- Question---did the Fed Circuit get it right as to injunctions
 - Preliminary injunctions involve a four part test, only one of which is whether the patentee has a substantial likelihood of prevailing
 - Most judges are reluctant to even grant a request for a preliminary injunction hearing---unless the patent has been litigated previously and found not invalid---because of duplication of effort.
 - Does Seagate somehow now mandate or encourage district court judges to hold hearing on Motions for Preliminary Injunctions routinely---unlikely or the court would have said so expressly

What Is the Impact of Seagate?

- “Recklessness” is a far more stringent standard than the old duty of care.
- Preliminary injunctions.
 - The Court explained that “if a patentee attempts to secure [preliminary] injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness.”
 - This is because an accused infringer may avoid a preliminary injunction by showing only **a substantial question as to infringement or invalidity** – as opposed to a final judgment of non-infringement or proof of invalidity by clear and convincing evidence.
- Thus, it appears that the Federal Circuit’s jurisprudence yet to be developed regarding what constitutes a **substantial question of infringement or invalidity** sufficient to avoid a preliminary injunction will also guide the threshold objective, first step of the recklessness inquiry.

Opinions of counsel after *Seagate*

- The distinction the Court drew in *Seagate* between pre-suit and post-filing conduct may affect the role opinions of counsel will play in the post-*Seagate* world.
- The accused infringer in *Seagate* had obtained several opinions from separate opinion counsel *after* the filing of the infringement suit.
- The Court explained that the fact that those post-filing opinions had been obtained was of **little significance**.
- Instead, the recklessness inquiry was focused on the objective merit of the accused infringer's defenses:
 - [t]he opinions of *Seagate*'s opinion counsel, received after suit was commenced, appear to be of similarly marginal value. Although the reasoning contained in those opinions ultimately may preclude *Seagate*'s conduct from being considered reckless if infringement is found, reliance on the opinions after litigation was commenced will likely be of little significance.
- *Seagate* suggests that post-filing opinions of counsel may not as important as they once were and calls into question their significance as evidence of non-willfulness.

Post Filing Options

- Seagate does not hold that post-filing opinions are inadmissible or irrelevant.
- Such opinions are believed to be useful and perhaps powerful.
- For example, a post-filing opinion of counsel could have strategic value in litigation where the testimony of opinion counsel could serve not only as a rebuttal to willfulness, but also to reiterate the accused infringer's key defenses, e.g., non-infringement or invalidity, to the jury.
- Also, trial counsel might also consider using a patent law expert to testify regarding the objective merit of the accused infringer's defenses.
- If allowed by the district court, such testimony could be compelling evidence that the accused infringer's conduct was not reckless, although admissibility and probative value are open issues.

- Pre-suit opinions are clearly valuable for a variety of reasons in the post-Seagate world.
- First, such opinions can help the potential infringer evaluate the objective merit of the patentee's claims.
- A careful analysis of patent validity, infringement, and enforceability issues will help the potential infringer assess whether its conduct is highly likely to infringe a valid patent, and therefore, whether its conduct is objectively reckless.
- A favorable, written opinion obtained prior to the start of a lawsuit is also relevant to the second part of the analysis.
- Such an opinion, if asserted as a defense in subsequent litigation, tends to show that the accused infringer did not know (and, indeed, assuming that the opinion appears competent, should not have known) of the objectively-defined risk resulting from its pre-suit conduct.

PRACTICE TIPS – Need to further revise

- Opinion Counsel should endeavor to provide all opinions in writing—all oral communications should be limited to facts—not preliminary opinions or explanations of a previously provided written opinion.
- Clients should endeavor to obtain opinions from a single counsel who is not trial counsel, and not with the same firm as trial counsel.
- Trial Counsel should avoid giving **an accused infringer “opinions” on patent issues inconsistent with opinion counsel and central to the case in order to avoid “chicanery”**
 - Inform client that you as trial counsel will not give them an opinion on the validity, infringement, or enforceability issues
 - But give them tactical and strategic advice based on arguments, positions and evidence

CONCLUSION

- Attorney opinions have tremendous potential value as a defense to enhanced damages and attorneys' fees
- Tactically, since they are part of the evidence, and the opinion writer becomes a witness, they are also potentially helpful in persuading judge and jury as to the merits of the accused infringer's liability defense
- Extreme CARE must be taken to insure that attorney opinions are obtained under the most opportune circumstances, written by the best opinion writer, in a timely fashion, and having the appropriate content

END