Post-Seagate: Advice of Counsel in Patent Defense

In Knorr-Bremse Systeme Fuer Natzfahrzeuge GmbH v. Dana Corp., the Federal Circuit held that “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,” overturning 20 years of contrary authority central to the determination of willful patent infringement. Last year, in In re Seagate Technology, LLC, the court went a step further and expressly held that there is no affirmative obligation on the part of the accused infringer to obtain an opinion of counsel. But neither case specified what, if anything, a plaintiff could say about a defendant’s failure to obtain an opinion in the context of the “totality of circumstances” test that still governs the determination of willfulness.

Shortly after Seagate, the district court in Broadcom Corp. v. Qualcomm, Inc. evaluated a motion to reconsider its posttrial rulings in light of the Seagate holdings. The court ordered a new trial on willfulness, noting that its instructions to the jury did not properly embody Seagate’s “objective recklessness” standard. But the court let stand a finding on willful inducement, even though evidence was before the jury of Qualcomm’s failure to obtain an opinion of counsel. The court concluded that, even under Seagate, “the absence of an opinion is one factor the jury may consider in reviewing the totality of circumstances in determining whether the alleged inducement was knowing.” Does Broadcom represent a proper application of the reasoning underlying the holdings in Knorr-Bremse and Seagate? This article explores that reasoning in an attempt to discern just what a patent infringement plaintiff is (or should be) allowed to say about the defendant’s lack of an exculpatory opinion of counsel.

Recent Willfulness History

The Federal Circuit first imposed a duty to obtain competent legal advice from counsel in Underwater Devices Inc. v. Morrison-Knudsen Co.. Perhaps in view of what it saw as widespread disregard for intellectual property rights, the court in Underwater Devices held that those with actual notice of another’s patent rights have an affirmative duty to exercise due care to determine whether they are infringing a patent. Three years later, in Kloster Speedsteel AB v. Crucible Inc., the court found willful infringement largely because the defendant failed to assert an advice-of-counsel defense. Thus was born the negative inference from a patent defendant’s failure to introduce an exculpatory patent opinion.

The Federal Circuit changed course in 2004 with Knorr-Bremse. Noting that the “conceptual underpinnings” of the previous “disrespect for [the] law” had “significantly diminished,” the court overruled its precedent imposing an “inappropriate burden[] on the attorney-client relationship.” The court was clear that no adverse inference could be drawn when a defendant asserted attorney-client or work-product privilege. The court was also clear that it was inappropriate to draw an adverse inference from a defendant’s failure to consult counsel. But the court expressly left unanswered the amici question of “whether the trier of fact, particularly a jury, can or should be told whether or not counsel was consulted (albeit without any inference as to the nature of the advice received) as part of the totality of circumstances relevant to the question of willful infringement.”

Post-Knorr-Bremse Authority

After Knorr-Bremse, many courts found that under certain circumstances the jury could be told that the patent defendants did not obtain an opinion of counsel and that such evidence could be properly considered under a totality-of-circumstances test. For example, in Engineered Products Co. v. Donaldson Co., the Federal Circuit was asked to vacate the trial court’s willfulness finding because the jury heard evidence and received instructions emphasizing that the patent defendant did not obtain an opinion of counsel regarding possible infringement. In refusing to vacate the jury’s determination, the Federal Circuit noted that it “did not see any error . . . in the instructions submitted to the jury,” which “merely directed the jury to consider whether Donaldson sought a legal opinion as one factor in assessing whether, under the totality of the circumstances, infringement . . . was willful.” The Federal Circuit further noted that the instructions had not directed the jury to draw an adverse inference from the failure to seek legal advice.

Several district courts agreed with this approach. For example, in Applera Corp. v. MJ Research Inc., plaintiff’s counsel was permitted to point out the absence of a legal opinion during its closing argument because the reference was only one of many factors called to the jury’s attention. Likewise, in IMX, Inc. v. Lendingtree, LLC, the court allowed plaintiff to raise the accused infringer’s failure to obtain opinion of counsel, so long as the plaintiff did not suggest that “such an opinion, had it been acquired, would have been unfavorable to defendant.” Furthermore, in 24 Technologies, Inc. v. Microsoft Corp., the court allowed the plaintiff to present evidence that defendant’s representative had not formed an opinion as to the validity or infringement of the plaintiff’s patents, despite the potential for this evidence to suggest that no advice of counsel was sought, because the jury was not instructed to draw an adverse inference “that had [defendant] obtained the advice of counsel, the advice would have been unfavorable.”

Thus, even after Knorr-Bremse, the weight of authority held that a plaintiff could cite the defendant’s failure to obtain an opinion of counsel as one factor to be considered under the totality of circumstances, so long as no adverse inference was drawn about what the opinion would have said. This is not par-
tically surprising because the Federal Circuit was still holding firm on imposing an affirmative duty of due care upon potential infringers. The prohibition against an adverse inference would adequately protect the attorney-client privilege, but the fact of whether the defendant even sought counsel’s advice would presumably remain relevant to whether the defendant acted with due care under the circumstances.

The Implications of Seagate

Under its landmark 2007 holding, the Federal Circuit’s test for willful infringement no longer imposes a duty of due care on potential infringers.20 Rather, the standard for willful infringement now requires “at least a showing of objective recklessness.”21 Under this standard, the plaintiff must show (1) that “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” and (2) that the objectively defined risk was known or should have been known to the infringer.22 Furthermore, Seagate expressly stated that an accused infringer has no affirmative obligation to obtain an opinion of counsel.23

By eliminating the affirmative duty of due care and raising the level of proof required to prove willfulness, Seagate appears to undermine the rationale for permitting the trier of fact to consider evidence of a defendant’s failure to obtain an opinion of counsel. But while the Federal Circuit expressly refused to define the contours of the new objective recklessness standard, it did leave in place the totality-of-circumstances approach to the determination of willfulness.24 It also did not explicitly go further than Knorr-Bremse in barring adverse inferences with respect to the content of an opinion not obtained, rather than the failure to obtain an opinion at all. It would seem intuitive that a defendant’s failure to seek advice of counsel, when considered among a totality of circumstances, would aid a finding of objectively reckless conduct. For example, a competitor who deliberately copies a patented invention without obtaining an opinion on invalidity certainly appears to be acting recklessly.

At least one pre-Seagate case might be illuminating. In Golden Blount, Inc. v. Robert H. Peterson Co.,27 the court implied that the defendant’s conduct was so egregious as to be reckless. In explaining its willfulness findings, the district court explained that “in the two and one-half years after Peterson received notice of the patent, Peterson never obtained a written opinion of counsel and that the oral opinions obtained by Peterson were rendered without counsel having examined either the patent’s prosecution history or the accused device, and were thus incompetent.”28

The defendant sought an appeal on the grounds that Knorr-Bremse prohibited such adverse inferences to be drawn, but the Federal Circuit rejected this argument.29 First, the court explained that pointing to defendant’s withholding of an opinion is alone not enough to make out a prima facie case of willful infringement, but that the burden can shift to the accused infringer to show that it acted with due care if the plaintiff makes a prima facie showing by other means.30 The court also explained that if a defendant asserts the advice-of-counsel defense, the patentee could introduce as evidence whatever opinions were obtained and challenge the competence of the opinions—including, in this case, that the defendant never bothered to obtain a written opinion.29

Of course, if an accused infringer raises the advice-of-counsel defense, a patentee can attack the quality and competence of the opinions sought; this almost certainly remains true after Seagate, as such a holding does not presume a duty of due care. Golden Blount II would also seem to be the perfect scenario where pointing to the accused infringer’s complete failure to obtain an opinion is consistent with Knorr-Bremse and Seagate. The defendant there was particularly reckless:

Peterson demonstrated a cavalier attitude toward Golden Blount’s patent rights from the facts that Peterson did not respond substantively to Golden Blount’s notice letters and that it only sought a thorough opinion of counsel after suit was filed, and then only out of a concern to avoid a willfulness finding and a possible judgment for attorney fees.30

And Seagate, although eliminating the duty of due care, did not expressly prohibit a plaintiff from pointing to an accused infringer’s failure to obtain an opinion of counsel as an additional factor for consideration under the totality of circumstances where other facts showed the defendant had acted recklessly. Although a case with these facts has yet to reach the Federal Circuit since Seagate, several post-Seagate cases do seem to support the proposition that a patent defendant’s failure to obtain advice of counsel can be discussed before a trier of fact. For example, although not expressly reaching this issue, the court in Franklin Electric Co. v. Dover Corp.,31 stated that the evidence of willfulness marshaled by the plaintiff, including the defendant’s failure to seek advice of counsel, would have been relevant to whether defendant knew or should have known of the objectively high likelihood of infringement, the second component of the Seagate test. And as noted above, in Broadcom, the court granted a new trial on willful infringement because of its failure to instruct the jury on the proper standard for willfulness under Seagate,33 but let stand the jury’s finding of willful inducement, even though the plaintiff had adduced evidence regarding the defendant’s failure to obtain an opinion of counsel.34 As to willful inducement, the court noted that if it “had had the benefit of Seagate, it would likely have instructed the jury on the inducement claim that there is no duty to obtain an opinion,”35 a nod, perhaps, to those post-Knorr-Bremse (but pre-Seagate) trial courts that allowed the plaintiff to mention the defendant’s failure to obtain an exculpatory opinion as long as the jury was instructed that no adverse inference could be drawn.

Certainly, other trial courts that rigidly apply Seagate’s two-part approach to objective recklessness might be inclined to believe there is no place within that structure for plaintiffs to point to the accused infringer’s failure to produce an opinion of counsel. Under Seagate, the plaintiff first must show that the infringer acted despite an objectively high likelihood of infringing a valid patent.35 Seagate further held that the “state of the mind of the accused infringer is not relevant to this objective inquiry.”36 Failure to seek opinion of counsel would seem to be a subjective fact going to the accused infringer’s knowledge, that is, state of mind, and therefore irrelevant to the first part of the Seagate test. If the plaintiff can show that the defendant acted despite an objectively high risk of infringing a valid patent, it must then show that this objectively defined risk was known or should have

Published in Intellectual Property Litigation, Volume 20, Number 1, Fall 2008 © 2008 by the American Bar Association. Reproduced with permission. All rights reserved. This information or any portion thereof may not be copied or disseminated in any form or by any means or stored in an electronic database or retrieval system without the express written consent of the American Bar Association.
been known to the infringer. 37 Franklin Electric suggests that the failure to obtain opinion of counsel is relevant to the second part of the Seagate inquiry. 38 But failure to seek advice of counsel does not really show that the defendant knew or should have known of the risk, unless the fact finder makes an adverse inference about what an unsought opinion would have said—which is exactly the kind of inference prohibited by both Knorr-Bremse and Seagate. With Knorr-Bremse’s restriction, plaintiffs could only use a defendant’s failure to seek an opinion of counsel to show that the defendant did not know of the risk. 39 It goes without saying that such limited use of defendant’s failure to seek advice of counsel is not particularly helpful to plaintiffs. On the other hand (and as appears to be the underlying teaching of Golden Blount II), if the accused infringer’s other conduct constitutes a rash disregard for a patentee’s rights—for instance, through blatant copying of an invention known to be patented—it would seem that under a totality-of-the-circumstances evaluation, the accused infringer’s failure to seek counsel’s opinion should be admissible before a trier of fact. An unfavorable inference regarding what an opinion would have said need not be drawn; the failure to produce such an opinion has evidentiary value itself. And although there is no affirmative duty of care, under these hypothetical circumstances, the accused infringer has, by reason of its own reckless conduct, created a situation where it must act to prevent harm (i.e., infringement) if such harm is foreseeable.

Seagate also left open a window for introduction of this evidence by suggesting that, in fleshing out the contours of the objectively reckless standard, a court could consider the “standards of commerce.” 40 In a rapidly evolving industry where the custom is to secure intellectual property rights via patents, or where the risk of infringement is otherwise known to be high, it seems that the “standard of commerce” might be to seek counsel opinions before proceeding with the production or use of any potentially infringing technology. No affirmative duty of due care is imposed—the actors in such circumstances seek opinions of counsel not as a defense to subsequent claims of willfulness, but rather to avoid infringement. Such parties are acting reasonably in the totality of the circumstances.

Seagate indisputably continued the Federal Circuit’s trend toward discouraging meritless claims of willful patent infringement and, in doing so, has constrained plaintiff’s ability to introduce evidence of the accused infringer’s failure to seek an opinion of counsel. But it did not expressly foreclose this possibility. Both pre- and post-Seagate authority suggests that a plaintiff can successfully argue for putting this evidence before the trier of fact and should do so when the circumstances of the claimed infringement warrant.

Brett Williamson is a partner and Edgar Martinez is an associate at O’Melveny & Myers LLP in Newport Beach, California. The authors wish to acknowledge the role of summer associate Alexa Lawson-Remer in conducting research for this article.

Endnotes
2. In re Seagate Techs., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).
4. Id. at *8.
5. Id. at *9–12.
6. Id. at *11.
8. Id.
11. Id. at 1344–45.
12. Id.
13. Id. at 1346–47 (internal citation omitted).
15. Id. at 991 (citing Knorr-Bremse, 383 F.3d at 1342–43).
16. Id.
20. In re Seagate Techs., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).
21. Id.
22. Id.
23. Id.
24. Id.
26. Id. at 1366.
27. Id. at 1366–68.
28. See id. at 1368.
29. Id. at 1369.
30. Id. at 1370.
33. Id. at *9–12.
34. Id. at *11.
35. In re Seagate Techs., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).
36. Id.
37. Id.
38. Franklin Elec., 2007 U.S. Dist. LEXIS 84588 at *22 (“Plaintiff points to defendant’s failure to seek advice of counsel prior to selling the accused devices, . . . [which] goes to the second component of the Seagate test”).
39. See In re Seagate, 497 F.3d at 1371.
40. In re Seagate, 497 F.3d at 1371 n.5.

Published in Intellectual Property Litigation, Volume 20, Number 1, Fall 2008 © 2008 by the American Bar Association. Reproduced with permission. All rights reserved. This information or any portion thereof may not be copied or disseminated in any form or by any means or stored in an electronic database or retrieval system without the express written consent of the American Bar Association.