Patent Infringement:
Structuring Opinions of Counsel
Leveraging Opinion Letters to Reduce the Risks of Liability and Enhanced Damages

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Patent Infringement: Structuring Opinions of Counsel

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September 10, 2015
I. Willful Infringement: The “Objective Recklessness” Standard

- *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.* eliminated the adverse inference for failure to obtain and use an opinion of counsel

- *In re Seagate Tech., LLC* found willfulness “requires at least a showing of objective recklessness”

- Probative value of opinions in inducement cases, as set forth in *Broadcom Inc. v. Qualcomm Corp.*, now overruled by new provisions in the AIA

- Opinion of counsel defense

- Waiver issues
  - Attorney-client privilege
  - Work product
Difficulties Created By The Old Standard

- Standard for evaluating willful infringement and the effect of opinions of counsel initially defined in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983)

  “Where…a potential infringer has actual notice of another’s patent rights, he has 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.”

  - *Underwater Devices Inc.*, 717 F.2d at 1389-90 (emphasis added)

- “Adverse inference” possible from failure to seek advice of counsel

  - *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565 (Fed. Cir. 1986)
Willful Infringement and Use of Opinions of Counsel

- Opinion of counsel is often a primary defense to claims for willful infringement
  - Counsel often cautious, wish to avoid a complete waiver of privilege
  - Policy implications: undermining purpose of privilege protection?

- Case law on this subject was something less than a model of clarity
  - Practically speaking, should there be a difference between opinion counsel and trial counsel?
  - Certainly functions are different, but reason for protecting their communications by privilege may not be
  - What about internal work product or non-lawyers (science advisors, consultants) used to formulate opinion?
Willful Infringement and Use of Opinions of Counsel

- Before *Seagate*, willfulness was *almost always* alleged in patent cases (92.3% of cases)
- Willfulness was found in *most* cases finding infringement (55.7% of cases)
- Damages are *usually* enhanced where willfulness is found
  - *Almost always* enhanced in cases where the judge has found willfulness (91.9% of cases)
  - Enhanced where the jury has found willfulness *most* of the time (60.6% of cases)

At trial, Seagate notified plaintiffs of its intent to rely on three opinion letters (from opinion counsel Sekimura) in defending against a charge of willful infringement

- Sekimura’s work product disclosed and Sekimura made available for deposition

- Plaintiffs moved to compel discovery of any communications and work product of Seagate’s trial counsel as well

- The trial court concluded…
  - Seagate had waived the attorney-client privilege for all communications between it and any counsel, including trial attorneys and in-house counsel, concerning the subject of Sekimura’s opinions
  - Production of any documents and testimony concerning the subject matter of Sekimura’s opinions was ordered

- Protection of work product communicated to Seagate also waived
Proper standard for willful infringement

- Overview of “willfulness” concept (looking at other statutes, such as the Copyright Act and civil liability for punitive damages)
- Standard of case in *Underwater Devices* was “more akin to negligence[.]”

“...[W]e overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness...[W]e also reemphasize that there is no affirmative obligation to obtain opinion of counsel...Accordingly, 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. The state of mind of the accused infringer is not relevant to this objective inquiry.”
Broadcom and Qualcomm were competitors in the chipset market used in cell phone handsets.

Jury instruction on willfulness required the jury to “consider all the circumstances, including whether or not [Qualcomm] obtained and followed the advice of a competent lawyer with regard to infringement”

Qualcomm had never obtained a non-infringement opinion letter

Qualcomm found to infringe Broadcom patents under inducement theory

Ten days after the district court denied Qualcomm’s post-trial motions, the Federal Circuit decided Seagate

On appeal, the Federal Circuit held that “failure to procure such an opinion may be probative of intent” in the context of inducement
“The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of an infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.”

- 35 U.S.C. § 298

- Result of the perception by Congress that the Federal Circuit had been inconsistent on this issue
- Overrules Broadcom, expands Seagate, confirms Knorr-Bremse
- Statute “reflects a policy choice that the probative value of this type of evidence is outweighed by the harm the harm that coercing a waiver of attorney-client privilege inflicts on the attorney-client relationship.”  
Recent Developments

- AIA has now overruled *Broadcom*
  - Sets clear standard: no adverse inference appropriate where *no evidence* about an opinion has been proffered
  - Silent on possible inferences where evidence about an opinion *has* been proffered
- Recent district court opinions applying new standards for willfulness may be rendered moot by AIA
- Obtaining opinions of counsel may still assist pragmatic business decisions
Recent Developments

- **Commil USA, LLC v. Cisco Systems, Inc.**
  - Patentee Commil sued Cisco in the E.D.Tex.
  - Second trial on indirect infringement
  - Cisco precluded from presenting evidence during the second trial of its good faith belief of invalidity
  - 720 F.3d 1361 (Fed. Cir. 2013): “…[W]e appear to have not previously determined whether a good-faith belief of invalidity may negate the requisite intent for induced infringement. We now hold that it may.”
    - Majority Opinion (Prost) saw “no principled distinction between a good-faith belief of invalidity and a good-faith belief of non-infringement” on the question of specific intent
    - Newman dissent-in-part called this an “inappropriate” “change in the law”
Recent Developments (*Commil* cont.)

- On May 26, 2015 the U.S. Supreme Court, in a 6-2 decision (Justice Stephen Breyer did not participate), vacated and remanded the Federal Circuit’s ruling.

- On the key issue, the court held that “a belief as to [patent] invalidity cannot negate the scienter required for induced infringement.” No. 13-896, May 26, 2015 slip op. at 11.

- The Court noted that its prior decision in *Global-Tech* explicitly held that “liability for induced infringement can only attach if the defendant knew of the patent and knew as well that the induced acts constitute patent infringement.” Slip op. at 6.

- This holding is significant because both Commil and the Government as amicus curiae had argued that a good-faith belief in noninfringement (just as with invalidity) should not shield an inducer from liability.

- Thus, a good-faith belief in noninfringement remains a viable defense to inducement under 35 U.S.C. §271(b).
Recent Developments (Commiil cont.)

• Potential Impact?

  • The Court rejected the argument that a good-faith belief in invalidity could negate inducement, stating that “infringement and invalidity are separate matters under patent law,” and are “two separate defenses” “bearing different burdens.” Moreover, according to the majority, allowing the defense would undermine the presumption of validity. Slip op. at 10-1.

  • But in view of Global-Tech, how does a patentee prove that an infringer “knew” the accused acts were infringing when the infringer has obtained a well-reasoned opinion of counsel concluding that infringement does not exist? Does the opinion have to be objectively baseless?

    • When the infringer’s reading of the claims is “reasonable,” even though later proven wrong, is the infringer liable for inducement?
II. Waiver of Privilege: The Scope of Discovery

“Recognizing the value of a common approach and in light of the new willfulness analysis set out above, we conclude that the significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel…Because of the fundamental difference between these types of legal advice…fairness counsels against disclosing trial counsel's communications on an entire subject matter in response to an accused infringer's reliance on opinion counsel's opinion to refute a willfulness allegation.”

-Seagate at 1373 (emphasis added)
Scope of Discovery

- Extending waiver to trial counsel
  - *Beck Sys., Inc. v. Managesoft Corp.* (N.D. Ill. 2006)
  - *Iridex Corp. v. Synergetics, Inc.* (E.D. Mo. 2007)
- Extending waiver to trial counsel only for communications contradicting or casting doubt on opinions asserted
  - *Outside the Box Innovations, LLC v. Travel Caddy, Inc.* (N.D. Ga. 2006)
  - *Ampex Corp. v. Eastman Kodak Co.* (D.Del. 2006)
Scope of Discovery

- Several district courts have held waiver extends to pre-suit and post-suit communications (N.D.Ill., N.D.Cal., D.D.C., D.Del., N.D.Ga., E.D.N.Y. and E.D.Mo.)

- Several district courts have held waiver extends to all patent opinions, not just to specific issues addressed in opinion of counsel (D.D.C., D.Del., N.D. Ga., N.D. Ill.), but some have held waiver limited to issues specifically addressed in advice of counsel opinion (S.D. Ind., N.D. Cal., E.D. Tex.)
The state of the law is still unclear with respect to communications to/from in-house counsel

- Court explicitly declined to rule on this issue in *Seagate*
- Still undefined at present
- Similar policy concerns apply to in-house counsel as to trial and opinion counsel, possibly even more so (loose view of privilege likely to diminish full and frank discussions between client and attorney)
- Other in-house personnel and/or in-house investigations may also suffer from lack of clarity in the law at this point
III. Court Treatment

- “Objectively High Likelihood” Found Under Seagate Standard (Exemplary Cases)
  
  *Creative Internet Advertising Corp. v. Yahoo! Inc.* (E.D. Tex. 2009) (infringer had knowledge of similar accused product and made no post-litigation attempts to modify product or otherwise avoid infringement)

- *Krippelz v. Ford Motor Co.* (N.D. Ill. 2009) (infringer knew about patent-in-suit and had licensed a patent referencing the patent-in-suit)

- “Objectively High Likelihood” *Not* Found Under Seagate Standard (Exemplary Case)

  *Black & Decker, Inc. v. Robert Bosch Tool Corp.* (Fed. Cir. 2008) (infringer had credible defenses and invalidity arguments)

  *Protective Indus. v. Ratermann Mfg.*, (M.D. Tenn. 2013)
In re Katz Interactive Call Processing Patent Litigation (C.D.Cal. 2009)

- Plaintiff offered expert testimony of attorney Edward Fiorito to testify on the subject of willful infringement
- Expert report included a detailed description of the law prior to Seagate, discussing the duty of care and the requirement to obtain advice of counsel that a patent was invalid or not infringed

Can expert reports that draw negative inferences based on the failure to obtain an opinion of counsel be excluded?

- Short answer: Yes
- Here, however, Mr. Fiorito’s expert testimony did not draw negative inferences from the failure to obtain opinion of counsel; he was permitted to consider whether advice of counsel was obtained in the context of the totality of circumstances.
- Fiorito not allowed to discuss pre-Seagate law
Exemplary District Court Case (Post-AIA)


- Plaintiff OTI sought leave to amend its complaint to include charges of induced infringement under §271(b) against T-Mobile, after the close of fact discovery
  - Expert discovery still open

- T-Mobile argued that introducing a theory of induced infringement would prevent them from obtaining relevant evidence for their defense (e.g., an opinion of counsel), and would be untimely in any event

- The Court responded that while OTI would be “free to argue that an opinion of counsel letter obtained after the allegedly infringing acts is immaterial to T-Mobile's intent at the time, it is statutorily barred from arguing that any failure to obtain the advice of counsel with respect to the '043 Patent is probative of T-Mobile's intent to induce infringement.”

- The Court granted leave to file the amended complaint

- Very little other development in the case law so far because §298 only applies to suits commenced on or after January 14, 2013 (issue date of the asserted patent does not matter)
Even with the Federal Circuit *Seagate* opinion and the AIA § 298, obtaining a competent opinion of counsel can be helpful in defending allegations of willful infringement

- A double-edged sword: In order to rely on the advice-of-counsel defense, these opinions will have to be disclosed to the court and to opposing counsel for hindsight-laden criticism

- After *Bard*, judges have greater discretion to keep questions of willfulness out of the hands of a jury by determining as a matter of law that a defendant’s reliance on advice of counsel was reasonable
More Best Practices For Practitioners

- Re-Thinking Defending Against Willfulness Claims
- Requires risk/reward analysis
  - Thinking creatively: are there other ways to defend against accusations of willfulness?
  - Proving a negative: can it be shown that the accused infringer had never seen the patent-in-suit?
- Cost-benefit analysis (opinions may be costly at the outset, but may be viewed as a cost-saving measure in light of costs associated with patent litigation, treble damages, etc.)
- No affirmative duty to obtain an opinion
- BUT if actively aware of/monitoring others’ patents, proceed with caution
- Seeking outside opinions (for corporate counsel)
- May often be appropriate, but depends on resources and institutional knowledge of corporate counsel
- Are two opinions better than one? (Duplicative efforts vs. Thoroughness)
Obtaining Competent Opinions of Counsel

- Requires attorney and client to be completely candid with each other
  - Important for both parties to have commanding knowledge of the technology in question
  - Frequent, detailed communications may be required depending on complexity of the technology
  - Based on appropriate understanding of the laws of validity, non-enforceability, infringement, etc.
  - Detailed inquiries into, e.g., prior litigations, prosecution history, etc. may be required

- Counsel and client must come to a reasonable time and cost estimate (very important)

- Give client opportunity to review the opinion as it comes to life (corrections, changes, etc.)
Reliance on Opinions of Counsel & Updating Opinions

- *Seagate* suggests that the Best Practice is for companies or individuals to secure such an opinion.

- Other Best Practices:
  - Confirm that the company or individual has actually read and understood any such opinion.
  - Make certain that opinions are drafted and received before the start of any litigation, otherwise any opinions may be of limited use (as in *Seagate*). Also ensure that opinions are updated as appropriate to account for newly issued patents, relevant claim constructions from other litigations, etc.
  - Ensure that the opinion itself is competent, thorough, and clear.
More Best Practices For Practitioners: Model FTO Outline

- A Freedom to Operate Opinion should include at least the following:
  - **Description**: A detailed description of the contemplated product, program, etc. (“FTO Product”)
    - This is absolutely essential and there should be no ambiguity in the Description. Clarity as to the scope of the FTO Product is necessary for proper analysis
  - **Communications**:
    - Between Counsel and Client: A section noting dates, locations, etc., of all discussions, letters, meetings, and the like relating to the FTO Product
  - **Applicable Law**: Consider including as an Appendix to allow the client to focus on the substance of the opinion
  - **References**: Requests for and results of any prior art searches should be described and detailed, whether conducted through a search firm or through internal resources
More Best Practices For Practitioners: Model FTO Outline

- **Analysis:** A thorough look at the references is necessary to distinguish the references from the key features of the FTO Product
  
  - Attorney judgment needed in order to determine how applicable a reference is (and the extent to which it does or does not need to be addressed in the Opinion)
  
  - Be sure to reference any previously cleared patents
  
  - For important references, any relevant claim construction papers should be referenced and addressed (to the extent necessary)

- **Conclusion:**
  
  - Offers a clear, concrete recommendation
Final Thoughts & Suggestions

- We are operating in a shifting landscape
  - Continue to await emergence of case law under section 298 along with the Supreme Court’s *Commil* decision
  - Supreme Court decisions in *Octane Fitness*, and *Highmark* signal increased deference to district court “exceptional case” determinations
  - Legislation in Congress contains “Fee Shifting” provisions
Questions?

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