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## Obtaining Advice of Counsel After *Seagate* (Appearing originally in *New Matter*, Vol. 32, No. 4 (2007))

The recent *en banc* Federal Circuit opinion in *In Re Seagate, LLC*<sup>1</sup> overturned years of precedent regarding the subject of willful infringement. *Seagate* makes it more difficult to prove willful infringement and it explicitly eliminates the duty to seek an opinion of counsel. In light of *Seagate*, one common question is: do companies still need to obtain non-infringement/invalidity opinions from outside counsel? If so, when? The short answer is that opinions of counsel may still be beneficial in some circumstances.

### *Willful Infringement Law to Date*

The Federal Circuit has held that enhanced damages may be awarded to a patent plaintiff on a finding of willful infringement. *Beatrice Foods Co. v. New England Printing Lithographing Co.*<sup>2</sup> The standard for evaluating willful infringement was first fashioned by the Federal Circuit in *Underwater Devices Inc. v. Morrison-Knudsen Co.*<sup>3</sup>

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. (Citations omitted.)

*Underwater Devices* required companies to act with "due care" when they learned of another's patent. The *Seagate* decision states that this standard was "akin to negligence."

Previously, as part of the duty of due care, companies were required to obtain competent advice of counsel, usually in the form of a

written opinion. When an accused infringer did not produce an opinion of counsel or refused to do so based on privilege, an adverse inference was drawn "that it either obtained no advice of counsel or did so and was advised that its [activities] would be an infringement of valid U.S. Patents."<sup>4</sup>

In *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp. (en banc)*,<sup>5</sup> the Federal Circuit eliminated the adverse inference. No longer is there an adverse inference from not producing a written opinion of counsel.

The *Seagate* decision further reduces the likelihood that a potential infringer will be found willful by explicitly overruling the due care standard of *Underwater Devices* and replacing it with a two-part test based on recklessness. The *Seagate* decision provides that:

(1) [T]o 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.

(2) If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.

As part of its analysis, the Court noted that "there is no affirmative obligation to obtain opinion of counsel." If this is the case, does it still make sense to obtain an opinion?

Under certain circumstances, the answer is still "Yes."

### ***First Knowledge of Patent is the Lawsuit***

The *Seagate* opinion distinguishes a defendant's pre-litigation activity and post-litigation activity. In most cases, if an alleged infringer first becomes aware of the patent when it is sued, it does not need to obtain an opinion. So, as a practical matter, *Seagate* has made it very difficult for a patent plaintiff to prove willful infringement when the defendant does not learn of the patent until the lawsuit is filed. The Federal Circuit stated that willful infringement alleged in an original complaint must be "grounded exclusively in the accused infringer's pre-filing conduct." Thus, unless a defendant knew of the patent prior to the lawsuit, the plaintiff cannot even allege willfulness in the original complaint.

The Federal Circuit went on to state that if the accused infringer's post-filing conduct is reckless, "a patentee can move for a preliminary injunction.... A patentee that does not attempt to stop an accused infringer's activities in this manner should not be allowed to accrue enhanced damages based solely on the infringer's post-filing conduct." Since preliminary injunctions are very difficult to obtain, obtaining opinions for post-filing conduct should be correspondingly rare. In general, unless there is a belief that there is a real danger of a preliminary injunction, an alleged infringer probably does not need to obtain an opinion from patent counsel. The one major exception is when defending against a charge of infringement by inducement. That exception is discussed below.

### ***Knowledge Prior to Lawsuit***

What about the situation where an alleged infringer learns of a patent before any lawsuit is filed? Although an opinion is no longer required after *Seagate*, a competent opinion may still be useful in insulating against a finding of willful infringement. The Northern District of California appears to agree. That

Court is currently drafting a new set of Model Patent Jury Instructions. The unapproved September 26, 2007, "Final Draft" contains a new instruction regarding willful infringement. Citing to, *inter alia*, *Seagate*, Instruction 3.11 sets out three facts to consider. One of those factors is:

Whether [alleged infringer] relied on a legal opinion that was well-supported and believable and that advised [alleged infringer] (1) that the [product] [method] did not infringe [patent holder]'s patent or (2) that the patent was invalid [or unenforceable].

The other two factors concern whether the alleged infringer acted consistently with the standards of commerce for its industry and whether there was intentional copying. The former factor also weighs in favor of obtaining an opinion. Having no opinion provides an opening for a patent plaintiff to call an expert witness to testify that the established standard is to obtain a formal opinion. If a company has

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an opinion, that tactic will not be effective.

Of course, opinions should not necessarily be obtained in all cases where knowledge of a patent occurred prior to a lawsuit. With the higher recklessness based standard, companies should obtain opinions when they learn of patents that are of serious concern. There are no bright lines rules that determine when a patent presents a serious issue, but here are a few guidelines: (1) notice letters suggesting infringement should be treated seriously; (2) if there are easily identifiable straightforward non-infringement answers, the patent can be treated less seriously, but that analysis should be documented; and (3) invalidity positions are more complex and generally require more careful analysis. These guidelines are intended to be applied by a patent attorney. Non-expert understandings of infringement and invalidity could easily lead one to the

wrong result.

Finally, always keep in mind that willfulness will be judged by the new *Seagate* standard. Therefore, regardless of whether a formal opinion is obtained, a party should act responsibly and document why it does not believe a patent is of concern.

### ***Additional Reasons to Obtain Opinions***

#### **Avoiding Inducement**

In *DSU Medical Corp. v. JMS Co. Ltd (en banc)*,<sup>6</sup> the Federal Circuit clarified the intent requirement for inducing patent infringement under 35 U.S.C. § 271(b). The Federal Circuit held that inducement requires both knowledge of the patent and intent to induce infringement of the patent. As a result, if a company reasonably relies on an opinion of counsel, reliance should negate the intent requirement and insulate them from any charges of inducement.

#### **Trial Tactics**

Even when willfulness is not a serious concern, a company may seek to obtain a formal opinion to provide their eventual trial counsel with a useful tool. Allowing a patent attorney to explain a helpful opinion on the witness stand can be invaluable assistance to trial counsel because it provides the company with another expert to summarize the company's position.

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*Bernard Chao is a partner with Chao Hadidi Stark & Barker LLP where he specializes in intellectual property law. His practice includes providing non-infringement and invalidity opinions. Mr. Chao is also currently serving as a Special Master in a group of patent cases that are being handled through the multidistrict litigation process.*

#### **Endnotes**

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<sup>1</sup> *In re Seagate, LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

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<sup>2</sup> *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991).

<sup>3</sup> *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

<sup>4</sup> *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).

<sup>5</sup> *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004).

<sup>6</sup> *DSU Medical Corp. v. JMS Co. Ltd*, 471 F.3d 1293 (Fed. Cir. 2006).