

EXPLAINING *BROADCOM V. QUALCOMM*:
ADVERSE INFERENCES IN INDUCEMENT OF INFRINGEMENT CASES

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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*, a line of cases originating with the Federal Circuit's 1983 decision in *Underwater Devices v. Morrison-Knudsen Co.*³ and culminating in the Federal Circuit's 2006 opinion in *In re Echostar Communications*⁴ effectively forced the defendant accused of willful infringement to broadly waive the privilege if it wanted to assert its best substantive defense. The Federal Circuit's intervening 2004 decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corporation*⁵ recognized and took some steps—but not enough—to fix that problem.

Recently the Federal Circuit decided *Broadcom v. Qualcomm*.⁶ There, the Federal Circuit held that whether a defendant accused of inducement of infringement⁷ consulted with counsel may be considered by the factfinder in determining whether the defendant knew or should have known it was inducing infringement.

In this article, I consider whether *Broadcom*'s holding is consistent with the Federal Circuit's decisions in *Knorr-Bremse* and *Seagate*. I conclude that *Broadcom* cannot be reconciled with *Knorr-Bremse* and *Seagate*, but it can be explained. Consistent with that explanation, the Federal Circuit should take the first reasonable opportunity to clarify that unless the defendant waives the privilege by offering the advice of counsel to prove its state of mind, neither the fact nor the substance of defendant's communications with counsel is any more admissible in the inducement context than in the willfulness context.

Background

35 U.S.C. § 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," meaning bad faith or deliberate conduct.⁸

Years ago, *Underwater Devices* held that if one had notice of another's patent rights, one had an *affirmative* duty of due care to avoid infringement.⁹ 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 for the defendant to hire a lawyer to look at its accused article and tell the defendant whether, in the lawyer's view, the article infringed a valid patent. If the lawyer opined that the article didn't, then even if the defendant later was found to have infringed, the

defendant couldn't have infringed "willfully" because of what the lawyer had said.

The difficulty was that the defendant had to offer its 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, that the defendant intended to deceive the plaintiff.¹⁰ Unless the defendant admits that state of mind (and defendants usually don't), 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. In this last vein, 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 defendant's lawyer might say. That evidence would be relevant, for it would have the tendency to make the existence of a fact of consequence to the determination of the fraud claim — the defendant's alleged intent to deceive — less probable than it would be without the evidence.¹¹ 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 almost never chooses to offer his 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.¹² The fact that

Underwater Devices effectively put the burden to prove innocence on the accused infringer thus placed accused infringers on the horns of a dilemma our alleged fraudster never confronts: broadly waive the privilege (by offering counsel’s advice) 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, not the defendant, 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 step forward, the Federal Circuit held in *Knorr-Bremse* that no adverse inference of willfulness could be drawn against an infringer for failing to offer an opinion of counsel.¹³ This holding extended both to the case where the defendant had not obtained an opinion of counsel, and to the case where the defendant had obtained one but not offered it.¹⁴ But the 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.¹⁵ 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 client¹⁶ or trial preparation materials,¹⁷ but compared to its expansive privilege waiver ruling, this limitation was of little practical consequence.¹⁸

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*. The court “abandon[ed] the affirmative duty of due care,” changed the willfulness standard to require at least a showing of objective recklessness, and placed the burden to prove it upon the plaintiff.¹⁹ *Seagate* thus relieved the defendant of the need to broadly waive the privilege in the first instance in order to defend the willfulness charge. If and only if the plaintiff established “by clear and convincing evidence that the [alleged] infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” would the defendant's state of mind—and any need for the defendant to contemplate injecting the advice of its counsel into issue—come into play.²⁰

Broadcom v. Qualcomm

Based upon the line of cases running from *Underwater Devices* through *Knorr-Bremse* and *Echostar* and culminating in *Seagate*, businesses whose activities might lead them to be accused of patent infringement might reasonably have felt more freedom to consult with their counsel about those activities. Then, in September 2008, the Federal Circuit issued its decision in *Broadcom*.

Broadcom had sued Qualcomm, alleging, among other things, that Qualcomm had infringed three of Broadcom's cell phone technology patents. Following claim construction and trial, the jury found Qualcomm liable for direct infringement, inducement of infringement, and contributory infringement. The jury further found that Qualcomm had willfully infringed each of the three patents, and awarded Broadcom \$20 million in damages.²¹

After the trial court denied Qualcomm's post-trial motions, *Seagate* issued. So the trial court invited and considered further briefing on the willfulness verdict in light of *Seagate* and, ultimately, vacated the verdict as "based essentially on Qualcomm's not having obtained non-infringement opinion letters."²² Qualcomm appealed the infringement verdicts, as well as the permanent injunction subsequently issued by the trial court.

In challenging the inducement of infringement verdicts, Qualcomm argued that the trial court had erred in issuing the following jury instruction:

When considering whether Qualcomm knew or should have known that the induced actions would constitute infringement, in the totality of the circumstances, *you may*

*consider all of the circumstances, including whether or not Qualcomm obtained the advice of a competent lawyer. I will explain the significance of advice of counsel in more detail in a moment.*²³

Qualcomm argued that this instruction improperly directed the jury to consider Qualcomm's "failure to obtain an opinion of counsel as a factor in determining whether Qualcomm had the requisite level of intent to induce infringement of Broadcom's patents."²⁴ The Federal Circuit characterized this argument as "essentially rest[ing] on the proposition that *Seagate* altered the standard for establishing the intent element of inducement."²⁵ In fact, Qualcomm had argued that

[a]lthough *Seagate* focused on willfulness, abolition of the duty of care (and with it any duty to seek opinions of counsel) is equally relevant to inducement. Because specific intent is a stricter standard than objective recklessness, evidence not probative of objective recklessness cannot be probative of specific intent.²⁶

The Federal Circuit rejected Qualcomm's argument "that *Seagate* altered the state of mind requirement for inducement."²⁷ Rather, the Federal Circuit held, inducement liability "requires 'that the alleged infringer . . . possessed specific intent to encourage another's infringement,'" *i.e.*, "*knew or should have known* his actions would induce actual infringements."²⁸ Moreover, maintained the Federal Circuit, "this intent may be established through circumstantial evidence."²⁹ The court continued:

Because opinion-of-counsel evidence, along with other factors, may reflect whether the accused infringer "knew or should have known" that its actions would cause another to directly infringe, we hold that such evidence remains relevant to the second prong of the intent analysis. Moreover, we disagree with Qualcomm's argument and further hold that the failure to procure such an opinion may be probative of intent

in this context. It would be manifestly unfair to allow opinion-of-counsel evidence to serve an exculpatory function . . . and yet not permit patentees to identify failures to procure such advice as circumstantial evidence of intent to infringe.³⁰

Accordingly, the court held, “the district court did not err in instructing the jury to consider ‘all of the circumstances,’ nor in instructing the jury to consider-as one factor-whether Qualcomm sought the advice of counsel as to non-infringement.”³¹

Analysis

The Federal Circuit’s holding in *Broadcom* departs from the reasoning that led the court, after so many years, to overrule *Underwater Devices* in *Seagate*. The departure appears to be grounded in Qualcomm’s argument that, “after *Seagate*, lack of opinions of counsel is not *probative* of whether an accused infringer acted willfully.”³²

Seagate did not say that, exactly. It is true that *Seagate* requires the plaintiff seeking to prove willfulness to satisfy a “threshold objective standard” by establishing that the defendant acted “despite an objectively high likelihood that its actions constituted infringement of a valid patent.”³³ But the plaintiff satisfying this first prong then has to satisfy a second prong: showing “that this objectively-defined risk . . . was either *known* or so obvious that it should have been known to the accused infringer.”³⁴ Supposing the defendant had obtained and reviewed an opinion of counsel, *Seagate* wouldn’t make that opinion any less *probative* of the defendant’s state of mind, at least on the second prong. Of course such an opinion is probative of the client’s state of mind, just as the client’s statements to the lawyer in our fraud hypothetical bear upon that client’s state of mind. (Indeed, if that hypothetical opinion said, “Defendant, you are infringing a valid patent,

and here are the reasons why,” one would think the opinion would be probative on the first prong, regardless of whether the defendant believed the opinion or not.) Thus, even if *Seagate*’s comment that “[t]he state of mind of the accused infringer is not relevant to th[e threshold] objective inquiry”³⁵ reached to the second prong — and it does not — it is best understood not as a comment on Federal Rule of Evidence 401 relevancy, but as a statement of the policy change wrought by *Seagate*: defendants no longer have an affirmative duty of due care to avoid infringement, so defendants no longer have to offer their counsel’s advice to defend willfulness charges.³⁶

Yet rejecting Qualcomm’s false premise did not require the Federal Circuit to reject Qualcomm’s conclusion: that the trial court erred in instructing the jury that it could consider whether Qualcomm had consulted with counsel in determining whether Qualcomm intended to induce infringement. Qualcomm’s conclusion was correct, but *Knorr-Bremse* more than *Seagate* was the reason why.

In *Knorr-Bremse*, the Federal Circuit held explicitly that “no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer’s failure to obtain or produce an exculpatory opinion of counsel.”³⁷ *Knorr-Bremse* did not reach that conclusion because opinions of counsel were irrelevant to the defendant’s state of mind. Rather, *Knorr-Bremse* held that failure to obtain or produce an opinion of counsel could not support an adverse inference because of the stresses permitting an adverse inference imposed on the attorney-client relationship.³⁸ The ruling was one of policy, not relevancy. And *Knorr-Bremse* explicitly held its new “no adverse inference” rule to apply equally to the case where the defendant obtained no opinion of

counsel at all, as to the case where the defendant obtained one but did not produce it.

The Federal Circuit's adverse inference holding in *Broadcom* cannot be reconciled with *Knorr-Bremse*. The policy rationale barring adverse inferences in *Knorr-Bremse*'s willfulness context applies equally in *Broadcom*'s inducement context. Permitting the plaintiff to use the fact (or lack thereof) or substance of defendant's consultation with counsel would seem to be just as chilling on "full and frank communication between attorneys and their clients"³⁹ in the one context as the other, particularly given the ease with which 35 U.S.C. § 271(b) inducement allegations can be levied in concert with § 271(a) direct infringement allegations. If protection of the attorney-client privilege disqualifies the fact or substance of the defendant's counsel's advice from consideration among "the totality of the circumstances"⁴⁰ bearing upon willfulness, then it disqualifies the fact or substance of counsel's advice from consideration among "all the circumstances"⁴¹ that might bear upon the defendant's intentions in the inducement context (unless, of course, the defendant chooses to offer counsel's advice). It is no more unfair, let alone "manifestly unfair[,] to allow opinion-of-counsel evidence to serve an exculpatory function . . . and yet not permit patentees to identify failures to procure such advice as circumstantial evidence of intent to infringe"⁴² in the inducement context, than it is to permit defendants to obtain and produce opinions of counsel when exculpatory on willfulness, yet prevent patentees from arguing an adverse inference when the defendant does not. Yet that is exactly what happens, and exactly what *Seagate* contemplated might happen, in the latter context.⁴³

So to the extent *Broadcom* suggests that the fact and substance of the inducement defendant's consultation with counsel may be considered by the jury even when the defendant does not inject them into issue, *Broadcom* must be explained. I believe it is best understood as an aberration deriving from one or more of several factors. These might include the *Seagate*- rather than *Knorr-Bremse*-based premise on which the Federal Circuit was asked to consider the issue. Or the fact that the trial court had instructed the jury — albeit on willfulness — that “you may not assume that merely because a party did not obtain an opinion of counsel, the opinion would have been unfavorable.”⁴⁴ (One suspects, though, that Qualcomm would have preferred that the trial court issue neither the adverse inference instruction (on inducement) nor the “no adverse inference” instruction (on willfulness), rather than issuing both.) Or, maybe, the *other*, much more widely publicized Qualcomm/Broadcom fight then winding its way through the appeal process had some influence.⁴⁵

The Federal Circuit should take the first reasonable opportunity to clarify its opinion in *Broadcom* and hold explicitly that unless the defendant chooses to offer its counsel's advice, neither the fact (or lack thereof) nor the substance of defendant's communications with counsel is any more admissible in the inducement context than in the willfulness context. Otherwise, potential patent infringement defendants will, in many instances, continue to suffer the dilemma of having to choose between the attorney-client privilege and their substantive rights. *Knorr-Bremse* and *Seagate* show that, as a general proposition, the Federal Circuit cannot have meant that result.

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² *In re Seagate Technology, L.L.C.*, 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*).

³ *Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380 (Fed. Cir. 1983).

⁴ *In re Echostar Communications Corp.*, 448 F.3d 1294 (Fed. Cir. 2006) (*en banc*).

⁵ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*).

⁶ 543 F.3d 683 (Fed. Cir. 2008).

⁷ See 35 U.S.C. 271(b) (“Whoever actively induces infringement of a patent shall be liable as an infringer.”).

⁸ 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).

⁹ See *Underwater Devices*, 717 F.2d at 1389.

¹⁰ See, e.g., *Norton v. Curtiss*, 433 F.2d 779, 793 (C.C.P.A. 1970).

¹¹ See Fed. R. Evid. 401.

¹² *In re Echostar Communications Corp.*, 448 F.3d at 1299.

¹³ *Knorr-Bremse*, 383 F.3d at 1344-45.

¹⁴ *Id.*

¹⁵ *In re Echostar Communications Corp.*, 448 F.3d at 1299.

¹⁶ *Id.* at 1303.

¹⁷ *Id.* at 1297.

¹⁸ *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.”).

¹⁹ *In re Seagate Technology, L.L.C.*, 497 F.3d at 1371. The court also held that absent “chicanery,” 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. *Id.* at 1376.

²⁰ *Id.*

²¹ 543 F.3d at 687.

²² *Id.* at 697. Qualcomm had obtained invalidity opinions, but chose not to rely on them at trial. *Id.*

²³ *Id.* at 698.

²⁴ *Id.* at 699.

²⁵ *Id.*

²⁶ Supplemental Brief for Defendant-Appellant Qualcomm Inc., 2008 WL 1995514, at *17.

²⁷ *Broadcom*, 543 F.3d at 699.

²⁸ *Id.* (quoting *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006)).

²⁹ *Id.* at 699.

³⁰ *Id.*
³¹ *Id.*
³² Supplemental Brief, *supra* note 26, at 17 (emphasis added).
³³ 497 F.3d at 1371.
³⁴ *Id.* (emphasis added).
³⁵ *Id.*
³⁶ See Andrew F. Halaby & Anne W. Bishop, *Echoes of Echostar: Practical Issues Confronting Clients Accused of Patent Infringement After Seagate*, ACC Focus (Arizona Chapter) (3d Q. 2009) (forthcoming).
³⁷ *Knorr-Bremse*, 383 F.3d at 1341.
³⁸ *Id.* at 1343.
³⁹ *Id.* at 1344 (quoting *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981)).
⁴⁰ *Knorr-Bremse*, 383 F.3d at 1342.
⁴¹ *Broadcom*, 543 F.3d at 700.
⁴² *Id.* at 699.
⁴³ *In re Seagate Technology, L.L.C.*, 497 F.3d at 1372.
⁴⁴ *Broadcom*, 543 F.3d at 698.
⁴⁵ See *Qualcomm v. Broadcom*, 548 F.3d 1004 (Fed. Cir. 2008); John C. Tredennick, Jr., *The Qualcomm EDD Sanctions: Lessons from a Bad Day at the Office*, Law Technology Today, <http://www.abanet.org/lpm/ltt/articles/vol1/is7/firewire/The-Qualcomm-EDD-Sanctions.shtml>.