

INTELLECTUAL PROPERTY

Memorializing Advice of Patent Counsel

Written Opinions May Be Best Defense Against Willful Infringement Charges

BY DAVID K. BARR

IN ALMOST EVERY patent infringement case, the patent owner alleges that the defendant has not only infringed its patent, but has done so “willfully,” or with wanton disregard of the patentee’s rights. A finding of willful infringement can result in a trebling of the patent owner’s compensatory damages and an award of attorney fees. The most common defense to a charge of willful infringement is that the accused infringer acted in good faith reliance on the competent opinion of patent counsel.

Seeking the advice of patent counsel is fundamental to the decision of whether to introduce a product or service into the market. Patent counsel is typically asked to advise on whether the client can proceed without infringing the valid patent of another. Often, patent counsel is charged with memorializing the advice in a written opinion on which the client can rely if accused of willful infringement. Complicating matters is that the attorney-client privilege may have to be waived and the opinion disclosed in order to establish good faith reliance on the advice should the client be charged with willful infringement in a litigation.

This article examines aspects of patent counsel opinions, including when advice of counsel should be sought, the requirements

of a competent opinion, the use of such opinions in litigation, and the consequences of electing to rely or not rely on the advice of counsel as a defense to willfulness.

Enhanced Damages

Under 35 USC §284, a court may increase patent infringement damages up to three times the compensatory award. Awards of increased damages have been approved “where the infringer acted in wanton disregard of the patentee’s patent rights, that is, where the infringement is willful.” *The Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992). A finding of willful infringement can also form the basis for an award of the patent owner’s attorney fees under 35 USC §285, which provides for such awards in “exceptional cases.” See *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).

In order to prove willful infringement, the patent owner must show that the accused infringer had actual notice of the patent. Notice from the patent owner constitutes actual notice, *Underwater Devices Inc. v. Morrison-Knudsen Company Inc.*, 717 F.2d 1380, 1384, 1389 (Fed. Cir. 1983), including through the offer of a license, *Ralston Purina Co. v. Far-Mar-Co, Inc.*, 772 F.2d 1570, 1577 (Fed. Cir. 1985), as does the accused infringer’s independent discovery of the patent, *Stryker Corp. v. Intermedics Orthopedics, Inc.*, 96 F.3d 1409, 1414-15 (Fed. Cir. 1996).

The U.S. Court of Appeals for the

Federal Circuit has held that “[w]hether infringement is ‘willful’ is by definition a question of the infringer’s intent.” *Ortho Pharmaceutical Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992). Accordingly, the accused infringer’s “intent and reasonable beliefs are the primary focus of a willful infringement inquiry.” *Id.*

Because of the intent element, “[a] finding of willfulness requires the fact-finder to find that clear and convincing evidence shows ‘that the infringer acted in disregard of the patent.’” *American Medical Sys., Inc. v. Medical Eng’g Corp.*, 6 F.3d 1523, 1530 (Fed. Cir. 1993) (quoting *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1565 (Fed. Cir. 1983)). A district court’s finding of willful infringement is a finding of fact and is reviewed under a clearly erroneous standard. *Underwater Devices*, 717 F.2d at 1389. While the determination of willfulness is a fact issue triable to a jury, whether damages will be enhanced or attorney’s fees awarded is left to the discretion of the court. *Shiley, Inc. v. Bentley Labs, Inc.*, 794 F.2d 1561, 1568 (Fed. Cir. 1986); *Tate Access Floors, Inc. v. Maxcess Tech., Inc.*, 222 F.3d 958, 972 (Fed. Cir. 2000).

The test for determining willfulness is whether, “under all the circumstances, a reasonable person would prudently conduct himself with any confidence that a court might hold the patent invalid or not infringed.” *Ryco, Inc. v. AG-Bag Corp.*, 857 F.2d 1418, 1428 (Fed. Cir. 1988). Although, as the Federal Circuit often states, the “totality of the circumstances” determines

whether infringement is willful, e.g. *Ortho Pharmaceutical Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992), as a practical matter the willfulness issue frequently turns on whether the accused infringer obtained a timely and competent counsel opinion.

When to Obtain an Opinion?

As a general rule, in order to qualify as a defense to a charge of willfulness, the opinion should be obtained prior to the commencement of the allegedly infringing activity. The Federal Circuit has emphasized that "a potential infringer [having] actual notice of another's patent rights ... has an affirmative duty ... to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity." *Underwater Devices*, 717 F.2d at 1390 (emphasis in original).

The Federal Circuit has specifically credited the early involvement of patent counsel in concluding that infringement was not willful. For example, in *Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 792 (Fed. Cir. 1995), the court, in determining that infringement was not willful, noted that the accused infringers "communicated with patent counsel regularly with respect to possible infringement of any patents" and that "[n]early two years before starting the manufacture ..., indeed before designing any models," [defendant] sought advice from its counsel ... regarding avoiding infringement of others' patents." To the same effect is *Westvaco Corp. v. International Paper Co.*, 991 F.2d 735, 744 (Fed. Cir. 1993), where the court found that the accused infringer "sought advice of counsel before it originally began manufacturing the accused product."

In some cases, even an opinion obtained after commencement of the accused activity has been considered in determining the good faith of the accused infringer. See *Transmatic Inc. v. Gulton Indus., Inc.*, 849 F.Supp. 526, 536-37 (S.D. Mich. 1994), aff'd in pertinent part, 53 F.3d 1270 (Fed. Cir. 1995) (court considered opinion obtained after infringement began); *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1571 (Fed. Cir. 1996) (affirming finding of no willfulness even though infringer delayed eight months before consulting patent counsel after it received notice of infringement).

Willful infringement is often charged where the allegedly infringing activity commenced prior to the issuance of the patent. In *State Industries, Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed. Cir. 1985), the Federal Circuit reversed a judgment of willful infringement where manufacture of the accused product commenced almost two years before patent issuance and suit was brought shortly thereafter. The court held that to "willfully infringe a patent, the patent must exist and one must have knowledge of it." 751 F.2d at 1236 (emphasis by the court).

However, in *Shiley, Inc. v. Bentley Labs*,

As a general rule, in order to qualify as a defense to a charge of willfulness, the opinion should be obtained prior to the commencement of the allegedly infringing activity.

Inc., 794 F.2d 1561, 1568 (Fed. Cir. 1986), the Federal Circuit stated that *State Industries* did not hold that willful infringement could never be found where the defendant manufactured the accused device prior to issuance of a patent. See also, *Pacific Furniture Mfg. Co. v. Preview Furniture Corp.*, 800 F.2d 1111, 1114 n.9 (Fed. Cir. 1986) ("The fact that Preview may have started its infringement before the patents issued (or before appellants were aware of the patents) does not bar an award of increased damages or attorneys fees.").

In particular, willful infringement has been found on the basis of defendant's activities prior to patent issuance, including evidence of copying of plaintiff's product, or where defendant had been warned of the patent's pending issuance. E.g., *Shiley*, 794 F.2d at 1570 (evidence of copying); *Power Lift, Inc. v. Lang Tools, Inc.* 774 F.2d 478, 481-82 (Fed. Cir. 1985) (willfulness found where defendant copied patentee's product prior to patent issuance and was notified the day the patent issued, but continued to infringe); *L.A. Gear, Inc. v. Thom McAn*

Shoe Co., 988 F.2d 1117, 1127 (Fed. Cir. 1993) ("L.A. Gear warned Melville of the impending issuance of the patent...." Defendant's "deliberate copying was strong evidence of willful infringement"). Where such factors are present, a possible infringer would be prudent to obtain an opinion in order to support a position of good faith with respect to the accused activity after patent issuance.

Finally, it should be noted that failure to obtain an opinion does not necessarily lead to a conclusion of willfulness. The Federal Circuit has held that: "Though it is an important consideration, not every failure to seek an opinion of competent counsel will mandate an ultimate finding of willfulness." *Kloster Speedsteel AB*, 793 F.2d at 1579. See also, *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1109-1110 (Fed. Cir. 1986) (finding of no willful infringement affirmed despite lack of opinion of counsel where, inter alia, defendant had "made bona-fide efforts to avoid infringement by attempting to 'design around' the claimed invention."); *Biotec Biologische Naturverpackungen GmbH & Co. KG v. Biocorp, Inc.*, 249 F.3d 1341, 1356 (Fed. Cir. 2001) (holding that though failure to obtain an opinion of counsel is relevant evidence, it does not automatically require a finding of willful infringement and affirming jury verdict that willful infringement was not proved). However, such cases are the exception, and failure to obtain an opinion is a risky proposition.

Hallmarks of a Competent Opinion

As a general rule, an opinion of patent counsel should be in writing and obtained from an outside patent attorney. See e.g., *Underwater Devices*, 717 F.2d at 1390. Outside counsel are deemed to be more objective than in-house counsel, *Minnesota Mining & Mfg Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992), and patent attorneys, rather than general attorneys, are deemed to have the necessary qualifications to evaluate patent validity and infringement, *Acoustical Design, Inc. v. Control Elecs. Co.*, 932 F.2d 939, 942 (Fed. Cir. 1991).

The Federal Circuit has held that written opinions should be given more weight than

oral opinions: "[O]ral opinions are not favored.... Such opinions carry less weight, for example, because they have to be proved perhaps years after the event, based only on testimony which may be affected by faded memories and the forces of contemporaneous litigation." *Minnesota Mining & Mfg. Co.* 976 F.2d at 1580.

For an opinion to be of value in defending against a charge of willful infringement, it must provide the client with a good faith belief that the patent claims at issue will either not be infringed or that the patent claims should be found invalid. Whether the opinion is correct is not determinative of willfulness. As the Federal Circuit stated in *Ortho Pharmaceutical*:

While an opinion of counsel letter is an important factor in determining the willfulness of infringement, its importance does not depend upon its legal correctness. Indeed, the question arises only where counsel was wrong. Rather, counsel's opinion must be thorough enough, as combined with other factors, to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable. 959 F.2d at 944.

Moreover, the opinion need not be unequivocal in predicting the outcome of any litigation on the patent. Rather, "[a]n honest opinion is more likely to speak of probabilities than certainties." *Read*, 970 F.2d at 829 n.9; see also *Westwaco*, 991 F.2d at 744.

The opinion of counsel is the client's best opportunity for demonstrating, should the need arise, that it proceeded with the good faith belief that its activities were not covered by a valid, enforceable patent. The opinion therefore should demonstrate within its four corners that it was based on a careful and thorough analysis of all relevant documents and information and should not contain "bald, conclusory and unsupported remarks regarding validity and infringement." *Underwater Devices*, 717 F.2d at 1390. Importantly, the opinion must be based on the "best information known to the defendant" and can be severely undermined if the client withholds material information from the counsel preparing the opinion. *Comark Communications, Inc. v. Harris Corp.*, 156 F.3d 1182, 1191 (Fed. Cir. 1998). Moreover, obtaining the opinion



alone is not enough. The evidence must also show that the client in fact relied on the opinion. *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983).

Opinions are often couched in terms of how a court would decide the issues of patent validity and infringement based on the evidence available. Therefore, one approach would be to structure the opinion in a manner that would be expected of a well-reasoned judicial opinion, paying careful attention to the same details with which judges concern themselves, such as due consideration to applicable statutory provisions, case law and evidentiary burdens. Such an approach makes common sense given that it is likely that a judge will be evaluating the opinion. It is also important that the opinion be written clearly and plainly so that a judge and jury will be able to understand the factual and legal grounds on which it is based.

In determining whether an opinion passes muster, counsel should consider whether the opinion includes:

- An analysis of the patent, including the claims, which define the scope of the patent right, the specification, which teaches those skilled in the art how to make and carry out the claimed invention, and the prosecution history, which is the written record of the events leading to the patent's issuance by the Patent Office. The opinion should cite to and quote from pertinent portions of the patent and its prosecution history.
- A discussion of the technology involved in sufficient detail to support the conclusions reached. It may be advisable to consult with

an expert to make sure that the technological bases for the opinion are accurate.

- A description of the product or process being analyzed for infringement, including diagrams where necessary to illustrate important points.

- An analysis demonstrating how counsel arrived at the construction of the claim language supporting the conclusions reached on infringement and validity. A separate section in the opinion on claim construction may be advisable in view of the prominence given this issue after *Markman v. Westview Instruments Inc.*, 517 U.S. 370 (1996).

- A discussion of the applicable case law relating to the issues addressed in the opinion.

- An analysis of the applicable burdens of proof and the basis for any conclusion that the patent challenger will meet, or that the patent owner will fail to meet, any evidentiary burden.

- A presentation of the arguments that will likely be made by the patent owner and how those arguments are overcome.

- A thorough analysis of the prior art relied upon to assert invalidity.

- If obviousness is asserted, consideration should be given to any of the "secondary considerations" of non-obviousness set out in *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966) that the patent owner may rely on in response to an obviousness challenge.

- To the extent relevant, a discussion of the level of ordinary skill in the art.

While not exhaustive, the above provides a checklist of many of the important indicia of a patent opinion that should rebut a charge of willful infringement.

Use of Opinion in Litigation

In litigation, the accused infringer may be faced with the dilemma of asserting the attorney-client privilege, risking a finding of willful infringement, or waiving the privilege in order to rely on the opinion, thereby disclosing potentially useful materials to the patent owner.

One risk of maintaining the privilege and withholding the opinion is that an adverse inference may be drawn against the accused infringer. "Where the infringer fails to introduce an exculpatory opinion of counsel at trial, a court must be free to infer that either no opinion was obtained or, if an opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention." *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988). See also, *Advanced Cardiovascular Systems, Inc. v. Medtronic, Inc.*, 265 F.3d 1294, 1309 (Fed. Cir. 2001) ("A party asserting its attorney-client privilege runs the risk of having the fact-finder draw a negative inference.").

Bifurcation of Willfulness

In *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643-644 (Fed. Cir. 1991), the Federal Circuit suggested, in dicta, that bifurcation of willfulness from liability would be a solution to the dilemma faced by a defendant:

An accused infringer ... should not, without the trial court's careful consideration, be forced to choose between waiving the privilege in order to protect itself from a willfulness finding, in which case it may risk prejudicing itself on the question of liability, and maintaining the privilege, in which case it may risk being found a willful infringer if liability is found. Trial courts thus should give serious consideration to a separate trial on willfulness whenever the particular attorney-client communications, once inspected by the court, in camera, reveal that the defendant is indeed confronted with this dilemma.

Bifurcation of trial of willfulness from

liability under Rule 42(b), F.R.Civ.P, is within the discretion of the district court as is the decision to bifurcate discovery on willfulness. Even after *Quantum*, district courts have denied motions to bifurcate willfulness from liability where the court concludes, for example, that "[b]ifurcation of the issue of willfulness and a stay of discovery would only complicate the instant proceedings and cause needless delay." *Calmar, Inc. v. Emson Research, Inc.*, 850 F.Supp. 861, 866 (C.D. Cal. 1994). Courts have also cited the defendant's failure to submit its opinions for in camera inspection, as suggested in *Quantum*, as a basis for denying bifurcation. E.g., *Spectra-Physics Lasers, Inc. v. Uniphase Corp.*, 144 F.R.D. 99, 101 (N.D. Cal. 1992); *Knoll Pharmaceuticals Co., Inc. v. Teva Pharmaceuticals USA, Inc.*, 2001 U.S. Dist. Lexis 12998, at *6 (D. Ill. 2001); *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 2001 U.S. Dist. Lexis 8300, at *9 n.1 (S.D. Ind. 2001).

On the other hand, the accused infringer may succeed in obtaining bifurcation and a stay of discovery on the willfulness issue until after liability has been decided. See *Yamaha Hatsudoki Kabushiki Kaisha v. Bombarider, Inc.*, 59 U.S.P.Q. 2d 1088, 1091 (C.D. Cal. 2001). See also, *Johns Hopkins Univ. v. Cellpro*, 160 F.R.D. 30, 37 (D. Del. 1995) (denying bifurcation of discovery on willfulness, but granting defendant leave to renew its request for a separate trial). Accordingly, bifurcation of both discovery and willfulness can be sought to postpone, if not obviate, the need to produce opinions of counsel. However, the accused infringer should be prepared in the event it has to defend its good faith at the same time it is defending against liability.

Attorney-Client Privilege

As noted at the outset, reliance on the advice of counsel may waive the attorney-client privilege with respect to other communications with counsel. The basis for the waiver is that it would be improper for the accused infringer to rely on a favorable opinion while withholding unfavorable or contradictory opinions.

Micron Separations, Inc. v. Pall Corp., 159 F.R.D. 361, 362 (D. Mass. 1995). The waiver generally extends to the subject matter of the opinion and therefore extends to other privileged communications that relate to the issues addressed in the opinion. *Id.* at 363-364. Courts have held also that the waiver extends to attorney work product. E.g., *Mushroom Associates v. Monterey Mushrooms, Inc.*, 24 U.S.P.Q.2d 1767 (N.D. Cal. 1992). The court in *Novartis Pharmaceuticals Corp. v. Eon Labs Mfg., Inc.*, 206 F.R.D. 396, 399 (D. Del. 2002), found that the waiver applied "broadly to any and all materials available to the attorneys rendering the legal advice." While some courts have denied the patent owner's attempts to discover counsel's work product that was not communicated to the client, finding such information not to be probative of the accused infringer's intent, e.g., *Thorn EMI N. Am., Inc. v. Micron Tech., Inc.*, 837 F.Supp. 616, 622 (D. Del. 1993), others have extended the waiver to include work product that was not communicated to the client, e.g., *Chiron Corp. v. Genentech, Inc.*, 179 F.Supp. 2d 1182, 1188 (N.D. Cal. 2001).

As indicated, it is difficult to predict how a trial court will decide the issues of bifurcation and waiver of privilege. This makes it all the more important that the client obtain a competent opinion on which it can confidently rely, if and when the need should arise.

Conclusion

The advice of patent counsel is an important aspect of the decision-making process for a business considering whether to launch a new product or service. Patent counsel should both guide the client through any patent issues that arise and provide the means by which to demonstrate the good faith basis for a decision to proceed in the face of the patent rights of others. The written opinion of patent counsel, based on the criteria established by the Federal Circuit, is often the best defense to the charge of willful infringement that is raised in the majority of patent cases.