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To Get an Opinion or Not, That Is the Question

Michael J. Terapane, Ph.D.
Rivka D. Monheit, Esq.

Patent litigation is generally very expensive and time consuming for both the patent owner and the alleged infringer. A finding by the court of infringement of a patent can result in an award of damages to the patent owner equal to a reasonable royalty or lost profits. A finding of willful infringement can result in enhanced damages, up to three times the actual damages awarded. In addition, the court may award reasonable attorney's fees to the prevailing party "in exceptional cases", such as when there is a finding of willful infringement. Attorneys' fees alone can range from a few hundred thousand dollars to several million dollars, depending on the complexity of the case. The combination of paying your own attorney's fees and damages, and, possibly, the opposing party's attorney's fees and treble damages, can result in very large awards and severe financial strain on a company. What can you do to avoid being found to be a willful infringer?

A court's finding of willful infringement indicates that the infringer intentionally disregarded another's patent rights. The finding of willful infringement is determined by the totality of the circumstances surrounding the infringement. The test for willfulness is whether a reasonable person would reasonably believe with any confidence that a court may determine the patent of interest to be invalid or not infringed by his product or method. Some of the factors that a court considers in such an inquiry include: (1) whether the infringer deliberately copies the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good faith belief that it was invalid or that it was not infringed; (3) whether the infringer engaged in appropriate behavior in the course of litigation; (4) the infringer's size and financial condition; (5) the closeness of the infringement and validity issues; (6) the duration of the infringer's misconduct; (7) any remedial action by the infringer; (8) the infringer's motivation for continuing the infringing conduct; and (9) whether the infringer attempted to conceal its misconduct.

It has long been held that a potential infringer, with actual notice of another's patent, has an affirmative duty to investigate before engaging in conduct which may infringe the patent. This usually involves obtaining competent legal advice, typically in the form of a written legal opinion, regarding whether the proposed conduct would infringe the claims of the patent and/or whether the patent would likely be held to be invalid by a competent court if asserted against the potential infringer.

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If the case proceeds to litigation, is the potential infringer required to produce a non-infringement or invalidity opinion? Previously, the U.S. Court of Appeals for the Federal Circuit (CAFC) held that if an infringer refused to produce an exculpatory legal opinion in response to a charge of willful infringement, an inference may be drawn that either no opinion was obtained or, if it was, that it was

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an unfavorable opinion. This rule was called "the adverse inference rule". Applying the adverse inference rule, a court could determine that failure by an alleged infringer to obtain or disclose an opinion from legal counsel was a manifestation of the infringer's disregard for the patentee's ownership rights. Sucha conclusion could provide a basis for a finding of willful infringement.

> The CAFC also held that no adverse inference arises from a potential infringer's failure to obtain an exculpatory opinion from counsel.

In Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp., 383 F.3d 1337, 72 U.S.P.Q.2d 1560 (Fed. Cir. 2004), the CAFC reversed the adverse inference rule. In Knorr, the plaintiff patent owner sued the defendant importers for infringement of U.S. Patent No. 5,927,445 entitled "Disk Brake for Vehicles Having Insertable Actuator" ("the '445 patent"). The plaintiff alleged that the Mark II and Mark III air disk brakes manufactured and imported by the defendants infringed claims 1-5 and 8-11 of the '445 patent. One of the defendants, Haldex, had previously obtained two verbal opinions and one written opinion from counsel but withheld those opinions from the court during discovery stating that these documents were privileged under the attorney-client privilege and/or work-product privilege. The second defendant, Dana, had not sought the advice of counsel, relying instead on the opinions obtained by Haldex. The District Court found that defendants' use of the Mark II air disk brake amounted to willful infringement of the '445 patent. In reaching its determination of willful infringement, the District Court drew an adverse inference from Haldex's refusal to disclose, and Dana's failure to obtain, an exculpatory opinion from counsel stating that they did not infringe the claims of the '445 patent.

On appeal, the CAFC held that no adverse inference arises when an infringer asserts that it will not provide an exculpatory opinion due to the attorney-client and/or work product privilege. The attorney-client privilege is one of the oldest privileges under common law for protecting the confidential status of communications between a client and his attorney. This privilege encourages full and honest communication between attorneys and their clients. Further, the attorney-client privilege recognizes that sound legal advice and advocacy serves the public interest and that such advice can be given only if the attorney is fully informed by his client. The former practice of drawing an adverse inference when legal opinions were withheld created a special rule abrogating the attorney-client relationship in patent cases. The CAFC concluded that such a special rule is not necessary.

The CAFC also held that no adverse inference arises from a potential infringer's failure to obtain an exculpatory opinion from counsel. The court noted that early and detailed study of every potentially adverse patent known to a party created burdens and costs that were simply too great to impose an absolute requirement for the public to obtain legal opinions from counsel. However, the court restated that the affirmative duty of due care to avoid infringement of other's known patent rights continues to exist.

By reversing the adverse inference rule, the CAFC has made it easier for clients to provide their legal counsel with complete disclosures regarding their proposed or existing products and methods. Full disclosure enables attorneys to provide their clients with a thorough legal opinion, when necessary, regarding non-infringement and/or invalidity of a patent, as well as develop a strategy to avoid costly litigation.

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