



PATENT HAPPENINGS®

A publication by MATTHEWS PATENT-LAW CONSULTING
on recent significant developments in U.S. patent law

HIGHLIGHTS

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JUDICIAL HAPPENINGS

Failure to Obtain an Opinion of Counsel

As a direct consequence of overruling the affirmative duty of due care to avoid infringement upon learning of a patent,¹ the Federal Circuit expressly instructed in *Seagate* that “there is no affirmative obligation to obtain [an] opinion of counsel.”² Taking the Federal Circuit at its literal

¹ See generally, Robert A. Matthews, Jr., *Annotated Patent Digest* § 31:19 Pre-*Seagate* Affirmative Duty of Due Care Not to Infringe [hereinafter APD]. See also APD § 31:48 Duty to Obtain Legal Advice.

² *In re Seagate Technology*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*), cert. denied, 128 S. Ct. 1445 (Feb. 25,

word, some counsel have concluded that a client no longer needs to obtain a formal opinion of counsel upon learning of a patent that raises infringement concerns. Recent cases show, however, that the failure to obtain an opinion of counsel, while no longer providing a *de facto* automatic ground for finding willful infringement, still weighs in the analysis of whether infringement was willful, and may heavily influence a trial court's decision on whether to enhance damages should a jury find willful infringement.

a) **Impact of the Failure to Obtain an Opinion of Counsel on Determining if the Infringement was Willful**

Enhancing damages for willful infringement involves a two-step process. First, the fact finder, either the jury or the district court, must find that the infringing conduct rose to the level of being “willful infringement.” Second, after considering the totality of the circumstances, the district court must determine whether, in its discretion, the damages should be enhanced, and if so to what degree.³

2008). See also *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345 (Fed. Cir. 2004) (*en banc*) (“In tandem with our holding that it is inappropriate to draw an adverse inference that undisclosed legal advice for which attorney-client privilege is claimed was unfavorable, we also hold that it is inappropriate to draw a similar adverse inference from failure to consult counsel.”).

³ See generally, APD § 31:16 Two-Step Process on Whether to Award Enhanced Damages; see also § 31:17 Enhancement is Discretionary with the District Court.

In analyzing the first prong, *i.e.*, was the infringement willful, the fact-finder applies the standard of willful infringement set forth in *Seagate*. Under this standard, the “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.” Second, “the patentee must also demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.”⁴

Post-*Seagate*, some district courts have held that the presence or absence of an opinion of counsel has little relevance to whether there was an “objectively high likelihood” of infringement.⁵ The absence of an opinion of counsel, however, has relevance to the second prong of *Seagate*’s standard, *i.e.*, whether the accused infringer should have known of the high risk of infringement.⁶ For example, denying an accused

infringer’s motion in limine seeking to preclude the patentee from telling the jury that the accused infringer had not obtained an opinion of counsel, one court stated “that nothing in *Seagate* forbids a jury to consider whether a defendant obtained advice of counsel as part of the totality of the circumstances in determining willfulness[.]”⁷ The Eastern District of Texas has denied an accused infringer’s JMOL motion seeking to overturn the jury’s finding of willful infringement, in part, “because it was undisputed at trial that Defendant chose not to obtain an opinion of counsel, aside from the informal investigation conducted by [its in-house counsel], [and] the jury could have taken this fact into account in determining that Defendant willfully infringed.”⁸ The district court expressly stated that “the lack of opinion of counsel is one factor of many that the jury could have taken into account in determining whether Defendant willfully infringed.”⁹

Another opinion from the Eastern District of Texas denied an accused infringer’s motion to strike the patentee’s expert testimony “that in the medical devices industry, the general practice is to obtain a legal opinion on known patents before going forward with plans to develop a product,” and that the accused infringer had not obtained an opinion of counsel.¹⁰ Specifically rejecting the contention that under *Seagate* the jury cannot be told if the accused infringer failed to obtain an opinion of counsel, the court stated: “The seminal question is whether a jury, after *Seagate*, can hear testimony that a defendant did not seek advice of counsel in determining whether, under the totality of the circumstances, any infringement by the defendant was willful. This court holds that it can, again, as long as no adverse inference is drawn as to what the advice may have been.”¹¹ The court further stated that while it “[wa]s mindful of the *Seagate* rule that there is no affirmative obligation to obtain the advice of counsel, Goldstein’s opinion is relevant to whether or not, under the totality of the circumstances,

⁴ *Seagate*, 497 F.3d at 1371.

⁵ While the presence or absence of an opinion of counsel may not bear on whether there was or was not an objectively high risk of infringement, the reasoning contained in an opinion of counsel can be evidence to show there was no objectively high risk of infringement. *Seagate*, 497 F.3d at 1374 (“the reasoning contained in . . . opinions ultimately may preclude *Seagate*’s conduct from being considered reckless if infringement is found”). An opinion that presents a well thought out and supported noninfringement or invalidity analysis may suffice to raise a substantial question on the issue of infringement or invalidity, and thereby defeat the patentee’s attempt to show by clear and convincing evidence there was “an objectively high likelihood that [the accused infringer’s] actions constituted infringement of a valid patent.” 497 F.3d at 1371; *see also id.* 497 F.3d at 1374 (stating that showing “a substantial question about invalidity or infringement is likely . . . to avoid . . . a charge of willfulness based on post-filing conduct”); *id.* 497 F.3d at 1384 (Gajarsa, J.) (*concurring*) (patentee must show accused infringer’s “theory of noninfringement/invalidity, was not only incorrect, but was objectively unreasonable[.]”).

⁶ *See Krippelz v. Ford Motor Co.*, 670 F. Supp. 2d 806, 812 (N.D. Ill. Nov. 18, 2009) (in a bench trial, finding accused infringer willfully infringed the patent where it had notice of the patent, but failed to investigate the patent); *In re Katz Interactive Call Processing Patent Litig.*, 2009 WL 3698470, *3 (C.D. Cal. Mar. 11, 2009) (allowing expert proffered to support claim of willful infringement to rely on the absence of an opinion of counsel as one factor to consider in the totality of the circumstances); *Franklin Electric Co., Inc. v. Dover Corp.*, 2007 WL 5067678, *8 (W.D. Wis. Nov. 15, 2007) (failure to obtain an opinion of

counsel was only relevant to the second prong of the *Seagate* test).

⁷ *Energy Transportation Gp. v. William Demant Holdings A/S*, 2008 WL 114861, *1 (D. Del. Jan. 4, 2008).

⁸ *Creative Internet Advertising Corp. v. Yahoo! Inc.*, 2009 WL 2382132, *5 (E.D. Tex. July 30, 2009).

⁹ *Id.*

¹⁰ *Tyco Healthcare Gp. LP v. Applied Med. Resources Corp.*, 2009 WL 5842063, *3 (E.D. Tex. March 30, 2009).

¹¹ *Id.*

Applied knew or should have known of the objectively high likelihood that its actions constituted infringement of a valid patent.”¹²

Even in *Seagate*, the Federal Circuit instructed that “[a]lthough an infringer’s reliance on favorable advice of counsel, or conversely his failure to proffer any favorable advice, is not dispositive of the willfulness inquiry, it is crucial to the analysis.”¹³ Additionally, the *Seagate* court’s instruction that “standards of commerce” are factors that the district courts must consider in the willfulness analysis,¹⁴ allows for the possibility of finding willful infringement where an infringer fails to obtain an opinion of counsel under circumstances where a reasonable prudent business person would have sought an opinion of counsel.¹⁵

The foregoing shows that failing to obtain an opinion of counsel creates evidence that a patentee can present to the jury to support a claim of willful infringement.¹⁶ On the flip side, the Federal Circuit has instructed that “a competent opinion of counsel concluding either that [the accused infringer] did not infringe the [asserted] patent or that it was invalid would provide a sufficient basis for [the accused infringer] to proceed without engaging in objectively reckless behavior with respect to the [asserted] patent.”¹⁷ Thus, where an accused infringer presents evidence that it obtained and relied in good faith on a competent opinion of counsel that evidence can defeat a patentee’s efforts to prove willful infringement.¹⁸

¹² *Id.*

¹³ 497 F.3d 1360, 1369 (emphasis added).

¹⁴ 497 F.3d 1360, 1371 n.5.

¹⁵ See 497 F.3d 1360, 1385 (Newman, J.) (*concurring*) (“It cannot be the court’s intention to tolerate the intentional disregard or destruction of the value of the property of another, simply because that property is a patent . . . The fundamental issue remains the reasonableness, or in turn the culpability, of commercial behavior that violates legally protected property rights.”).

¹⁶ See, e.g., APD § 31:50.70 Post - *Seagate* Cases Finding Willful Infringement in Absence of Opinion of Counsel.

¹⁷ *Finisar Corp. v. DirectTV Gp., Inc.*, 523 F.3d 1323, 1339 (Fed. Cir. 2008) (district court erred in concluding that the accused infringer’s failure to obtain an opinion of counsel as to *validity* supported a finding of willful infringement where the accused infringer had obtained an opinion of *noninfringement*).

¹⁸ E.g., *Lexion Med., LLC v. Northgate Tech., Inc.*, No. 2007-1420, 2008 WL 4097481, *7-*8 (Fed. Cir. Aug. 28, 2008) (*nonprecedential*) (rejecting patentee’s argument that where accused infringer, after jury returned its verdict of

Should an accused infringer obtain an opinion of counsel but choose not to waive privilege and produce the opinion, district courts have held that neither party may argue any aspects of opinions of counsel to the jury and the jury will not be instructed on any aspects of an opinion of counsel.¹⁹

infringement and before the district court had ruled on its JMOL motion or entered a permanent injunction, liquidated its inventory of accused products thereby willfully infringed and ruling that accused infringer’s reliance on an oral opinion of counsel predicting a favorable outcome on the JMOL motion showed that the accused infringer’s conduct was not objectively reckless even though the district court denied the JMOL motion and awarded compensatory damages for the liquidated sales); *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1381 (Fed. Cir. 2008) (affirming JMOL overturning jury’s verdict of willful infringement because court’s “review of the record does not indicate how Abbott’s development and sale of its genotyping products were at risk of an objectively high likelihood of infringement.” – Federal Circuit opinion did not discuss any of the factual specifics of the willful infringement case or how it reached its conclusion, but the infringer’s appellate brief (2007 WL 2139702) indicated that the infringer had several opinions of counsel regarding the invalidity of the claims); *Cohesive Technologies, Inc. v. Waters Corp.*, 526 F. Supp. 2d 84, 103-07 (D. Mass. Aug. 31, 2007), *aff’d*, 543 F.3d 1351, 1374 (Fed. Cir. 2008) (after conducting a bench trial on the issue of willful infringement, ruling that even though the jury found infringement, the infringement was not willful where the infringer did not copy the patentee’s product and it obtained in good faith an opinion from its in-house counsel before proceeding to manufacture its product). See generally, APD § 31:50.50 Post - *Seagate* Cases Finding No Willful Infringement Where Infringer Had an Opinion of Counsel. *But cf.* § 31:50.60 Post - *Seagate* Cases Finding Willful Infringement Even Though Infringer Had an Opinion of Counsel.

¹⁹ *Spectralytics, Inc. v. Cordis Corp.*, 2009 WL 3851314, *4 (D. Minn. Jan. 13, 2009), *appeal dismissed*, (Fed. Cir. Mar. 29, 2010) (“Spectralytics will not be permitted to assert that defendants failed to seek an opinion of counsel or that defendants sought an opinion of counsel but did not disclose it. b. Defendants will not be permitted to assert that they sought an opinion of counsel. c. With respect to the issue of willful infringement, the jury will not be instructed to consider whether defendants sought an opinion of counsel.”); *Telcordia Tech., Inc. v. Lucent Tech., Inc.*, 2007 WL 7076662, *6 (D. Del. Apr. 27, 2007) (where a first accused infringer had not obtained an opinion of counsel while a second accused infringer had obtained an opinion of counsel but refused to disclose the opinion, ruling that the patentee could tell the jury that the first accused infringer had not obtained an opinion of counsel,

b) Impact of the Failure to Obtain an Opinion of Counsel on District Court's Decision to Enhance the Damage Award

Post-*Seagate* opinions show that if a jury finds willful infringement, the failure of an accused infringer to have obtained an opinion of counsel can heavily influence the district court's decision to enhance the damages. In December, the Federal Circuit instructed in *i4i Ltd. Partnership v. Microsoft Corp.*, 589 F.3d 1246, 1273-75 (Fed. Cir. 2009), *withdrawn and modified on other grounds with a substituted opinion*, 2010 WL 801705 (Fed. Cir. Mar. 10, 2010), that the factors a district court must consider in determining whether to enhance damages are "distinct and separate" from the factors the jury, or the district court if acting as the fact finder, considers in determining if the infringing conduct meets *Seagate's* standard of willful infringement. For enhancing damages, a district court considers the nine

but the patentee could not tell the jury that the second accused infringer had refused to produce the opinion of counsel it obtained); *McKesson Information Solutions, Inc. v. Bridge Med., Inc.*, 434 F. Supp. 2d 810, 812 (E.D. Cal. June 5, 2006) (granting accused infringer's motion in limine to preclude any evidence or testimony regarding its assertion of the attorney-client privilege over its opinion of counsel and ruling that the situation where accused infringer obtains an opinion but chooses to maintain its privilege is different from the situation where the accused infringer failed to get an opinion of counsel, therefore cases permitting the patentee to tell the jury that the accused infringer failed to get an opinion of counsel did not extend to permitting the patentee to tell the jury that the accused infringer refused to produce the opinion it obtained); *AllVoice Computing PLC v. Nuance Commun., Inc.*, 2006 WL 6503363, *3-*4 (S.D. Tex. Jan. 10, 2006) (granting patentee's motion in limine to preclude accused infringer from telling the jury it obtained an opinion of counsel where the accused infringer had refused to produce that opinion during discovery, but also refusing to allow the patentee to mention anything to the jury about whether the accused infringer had timely obtained an opinion of counsel). *See also World Wide Stationary Mfg. Co., Ltd. v. U.S. Ring Binder, L.P.*, 2009 WL 4730342, *3 (E.D. Mo. Dec. 4, 2009); *Black & Decker Inc. v. Robert Bosch Tool Corp.*, 2006 WL 3783006, *6 (N.D. Ill. Dec. 22, 2006) (ruling that where infringer chose not to waive privilege, no inference of good faith would be drawn from the fact that the infringer obtained an opinion of counsel). *Cf. Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 700 (Fed. Cir. 2008) (district court properly excluded evidence that accused infringer had invalidity opinions, where accused infringer choose not to waive privilege for those opinions).

factors set forth in *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992).²⁰ *See i4i*, 2010 WL 801705, *20 ("the standard for deciding whether-and by how much-to enhance damages is set forth in *Read*, not *Seagate*"). The second *Read* factor addresses "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."²¹ An accused infringer's failure to obtain an opinion of counsel may show that the accused infringer failed to adequately investigate the patent. In *i4i*, for example, the Federal Circuit affirmed a \$40 million enhancement (approximately 20% of the original damage award) by the Eastern District of Texas court where the district court found that the accused infringer, after learning of the patent, failed to obtain an opinion of counsel before continuing with its accused activity. *Id.*²²

More recently, the district court in *I-Flow Corp. v. Apex Med. Tech., Inc.*, 2010 WL 114005, *2 (S.D. Cal. Jan. 6, 2010), enhanced a six million dollar damage award by one million dollars predominantly because the accused infringer failed to timely seek an opinion of counsel. The district court found that when attempting to design around the asserted patent, the accused infringer did not obtain a formal opinion of counsel, but instead relied on conclusions from its technical employees that the redesigned version of the

²⁰ The *Read* factors include: 1) whether the infringer deliberately copied 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) the infringer's behavior as a party to the litigation; 4) the defendant's size and financial condition; 5) the closeness of the case; 6) the duration of the defendant's misconduct; 7) remedial action by the defendant; 8) the defendant's motivation for harm; and 9) whether the defendant attempted to conceal its misconduct. APD § 31:26 Factors Relevant in Evaluating if Infringement is Willful.

²¹ *Read*, 970 F.2d at 827. *See also* APD § 31:29 Investigation and Good Faith Belief of Invalidity, Noninfringement, or Unenforceability.

²² Notably, the district court did not find that Microsoft had copied the patentee's patent or product. The district court only found that *Read* factors 2 (failed to investigate), 4 (defendant's size and financial condition), 6 (duration of the misconduct), 7 (remedial action), and 8 (motivation to harm) supported enhancing damages.

accused product would not infringe.²³ While the attempt to design around the patentee's product favored not enhancing damages, the district court found that the failure to obtain an opinion of counsel until after the patentee had filed its infringement suit supported enhancing the damages. In considering the other *Read* factors, the district court found that only one other factor, the closeness of the case, favored enhancing damages. Despite that only two of the nine factors favored enhancement, the district court opted to enhance the damage award, albeit only by about 16%.

Similarly, in *Creative Internet Advertising Corp. v. Yahoo! Inc.*, 2010 WL 446571, *5-*6 (E.D. Tex. Feb. 1, 2010), the court enhanced damages by two-thirds based in part on the accused infringer's inadequate investigation of the patent after the patentee gave the accused infringer notice of the patent and the suspected infringement. While the accused infringer's in-house counsel allegedly investigated the scope of the patent during a series of correspondences with the patentee, the court characterized the in-house counsel's investigation as being "superficial" because the in-house counsel developed a non-infringement position "without [the] formal advice of counsel." *Id.* The court further stated that it found the accused infringer's "failure to seek the advice of outside counsel particularly concerning." *Id.* Additionally, the court determined that this failure to obtain a formal opinion of counsel when combined with the superficial investigation conducted by the in-house counsel showed that the accused infringer "did not make a good faith effort to investigate the infringement charges before it." In the court's view, this supported enhancing the damage award.

In *Emcore Corp. v. Optium Corp.*, 2010 WL 235113, *2 (W.D. Pa. Jan. 15, 2010), the court, relying on *i4i*, found that the accused infringer's failure to investigate the scope of the patent supported enhancing the damages in view of the jury's finding of willful infringement. Nonetheless, after noting that the accused infringer ceased manufacturing the

accused product during the pendency of the suit, that the case was close, that the accused infringer did not litigate the case in bad faith (with the exception of one pre-trial episode that the court dealt with during the pre-trial proceedings), and that there was only circumstantial evidence of copying, the district court concluded that the totality of the circumstances did not warrant enhancing the damages. *Id.* at *4. Thus, *Emcore* shows that not all failures to obtain an opinion of counsel will lead to enhanced damages if, in the court's eyes, other factors show enough good faith.

Pre-*i4i* cases also show that post-*Seagate* district courts give weight to an accused infringer's failure to have obtained an opinion of counsel when deciding whether to enhance damages. For example in *Finjan Software, Ltd. v. Secure Computing Corp.*, 2009 WL 2524495, *15 (D. Del. Aug. 18, 2009), the court enhanced the damage award by 50% based on the accused infringer copying the patented product and failing to obtain an opinion of counsel. In *Wordtech Systems, Inc. v. Integrated Network Solutions, Inc.*, 2009 WL 113771, *2-*3 (E.D. Cal. Jan. 15, 2009), the court trebled the damage award based on the accused infringer's copying of the patentee's product and its failure to seek an opinion of counsel after being notified by the patentee of the alleged infringement. In *Minks v. Polaris Indus., Inc.*, 2007 WL 788418, *1-*2 (M.D. Fla. March 14, 2007), *aff'd*, 546 F.3d 1364, 1380-81 (Fed. Cir. 2008), the court doubled the damage award because the accused infringer "waited until it had actually been accused of infringement before investigating the issue."

Considering the possibility of legislative patent reform, the latest amended version of Senate bill S.515 proposes to introduce into the Patent Act a new provision addressing "Advice of Counsel." Newly proposed § 298, would provide that:

The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent or the failure of the infringer to present such advice to the court of [*sic*: "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.

Even if passed, § 298 does not appear to alter the holding of *i4i*, and thus would not impact the ability of a court to rely on an accused infringer's failure to obtain an opinion of counsel in deciding whether to enhance damages. Under the provision however, the patentee would still have to prove willful infringement

²³ See also *Kowalski v. Mommy Gina Tuna Resources*, 2009 WL 856332, *1 (D. Hawai'i Mar. 30, 2009) (rejecting argument that even though the infringer had not obtained an opinion of counsel, its reasonable belief of invalidity showed that it did not act with objective recklessness, where that belief appeared to have been recklessly formed based on reliance on statements made by a nonpatent attorney that was a competitor of the patentee). See generally, APD § 31:52 Competency of the Author.

without relying in any way on the accused infringer's failure to have obtained an opinion of counsel.

c) Conclusion

Today's poor economic climate, coupled with the Federal Circuit's pronouncement that an accused infringer does not have an affirmative obligation to obtain an opinion of counsel, may entice some corporate counsel to forego obtaining opinions of counsel as a cost-savings measure. But relying on the Federal Circuit's pronouncement as justification for such action may give counsel a false sense of security.

The post-*Seagate* cases show that a patentee can strategically use an accused infringer's failure to obtain an opinion of counsel as evidence presented to the jury to support the patentee's claim for willful infringement.²⁴ Furthermore, the cases show that where a jury finds willful infringement,²⁵ district courts give significant weight to the accused infringer's failure to have timely obtained an opinion of counsel in deciding whether to enhance damages. Conversely, if the accused infringer has obtained a competent opinion of counsel, and elects to waive privilege and rely on the opinion, the opinion generally provides evidence to refute the claim of

willful infringement.²⁶ Further, even if the jury finds willful infringement, under the *Read* factors, the district court should be able to consider the opinion of counsel as a factor that supports refusing to enhance damages.²⁷ Where an accused infringer obtains an opinion of counsel, but opts not to waive privilege and refuses to disclose the opinion, that decision may effectively nullify the ability of both parties to use aspects of opinions of counsel in the willful infringement analysis. (Should a patentee also assert claims of inducing infringement, however, other considerations should be assessed in view of *Broadcom*.)

Thus, in today's patent litigation, opinions of counsel still serve a valuable function in defending against claims of willful infringement. Being penny-wise and pound-foolish, potential accused infringers act at their peril in opting not to seek an opinion of counsel upon learning of a patent that raises substantial infringement concerns for a significant accused product or process.

Use of Settlement-Induced Licenses

Since 1889, the law has accepted the view that licensing rates agreed to as part of settling a patent infringement action do not provide competent evidence of the value of a patent for determining a royalty rate to apply in later cases. For example, in *Rude v. Westcott*, the Supreme Court instructed:

It is clear that a payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure the value of the improvements

²⁴ Unless legislatively overruled by the enactment of proposed § 298, counsel should also keep in mind the Federal Circuit's opinion in *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 698-700 (Fed. Cir. 2008), where the Federal Circuit held that an accused infringer's failure to obtain a non-infringement opinion of counsel could be used as circumstantial evidence to prove the intent element of inducing infringement. The Federal Circuit rendered this ruling even though the accused infringer had obtained opinions of counsel on invalidity because the accused infringer chose to maintain privilege for its invalidity opinions. See *Patent Happenings*, [Sept. 2008](#), at pp. 1-2; see also APD § 10:49 Applicability of Opinion of Counsel to Knowledge Requirement.

²⁵ Failing to obtain an opinion of counsel does not automatically lead to a finding of willful infringement. See APD § 31:50.80 Post - *Seagate* Cases Finding No Willful Infringement Despite Stated Absence of Opinion of Counsel. Accused infringers can rely on litigation defenses and other evidence to show there was not an objectively high risk of infringement. See APD § 31:40 Litigation Defenses and Good Faith and Substantial Challenges to the Patent; § 31:40.20 Cases Finding Litigation Defenses Precluded Finding Willful Infringement. But see § 31:40.40 Cases Finding Litigation Defenses Not Sufficient to Defeat a Finding of Willful Infringement.

²⁶ Relying on an opinion of counsel can also provide a defense to a charge of inducing infringement by negating the element of intent. *DSU Med. Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1307 (Fed. Cir. 2006). See generally, APD § 10:49 Applicability of Opinion of Counsel to Knowledge Requirement; § 10:51 —Cases Finding Obtaining an Opinion Defeated Inducement Claims.

²⁷ *Electro Scientific Industries, Inc. v. General Scanning, Inc.*, 247 F.3d 1341, 1353 (Fed. Cir. 2001) ("Although substantial evidence supports the jury verdict of willfulness, the district court retained authority to reweigh the competency of General Scanning's opinion of counsel and General Scanning's reliance on that opinion. A jury verdict of willfulness simply does not bar a district court from determining the egregiousness of a willful infringer's conduct." – affirming denial of enhanced damages where accused infringer had obtained a written opinion of counsel that the infringed patent was invalid). See also § 31:11 Limitations on District Court's Reweighing of Evidence.

patented, in determining the damages sustained by the owners of the patent in other cases of infringement. Many considerations other than the value of the improvements patented may induce the payment in such cases. The avoidance of the risk and expense of litigation will always be a potential motive for a settlement.²⁸

Consequently, in today's patent litigation, courts often exclude evidence of license rates proposed or accepted in settling other infringement litigation involving the same patent.²⁹ Although often excluding from trial such settlement agreements, some courts will still allow discovery concerning settlement agreements.³⁰

Two recent opinions from the Eastern District of Texas, *Tyco Healthcare* and *DataTreasury*, both purportedly relying on *ResQNet.Com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (Fed. Cir. 2010), may be signaling a shift in the treatment of license rates contained in settlement agreements. Before addressing these opinions, however, it is helpful to discuss the relevant aspect of *ResQNet*. In *ResQNet*, the Federal Circuit, vacated a damage award based on 12.5% royalty rate. The district court had allowed the patentee to support the 12.5% rate with evidence of royalty rates of 25-40% charged by the patentee in "re-bundling" agreements. In vacating the damages award, the Federal Circuit held that because the "re-bundling" agreements concerned services and other subject matter unrelated to the asserted patent, the agreements did not provide competent evidence of a

royalty rate the parties would have agreed to in a hypothetical negotiation for the asserted patent.³¹ As an additional point for showing why the 12.5% royalty rate lacked evidentiary support, the Federal Circuit noted that the only evidence in the record that actually appeared to address the value of the patented technology were two settlement agreements. One agreement set forth a lump-sum royalty while the other provided for an on-going royalty rate "averaging substantially less than the 12.5% of revenues."³² Given that the settlement agreements addressed the patented technology, while the "re-bundling" agreements did not, the Federal Circuit characterized the settlement agreements as "the most reliable license *in this record*." (Emphasis added).³³ However, the court quickly pointed out that "litigation itself can skew the results of the hypothetical negotiation."³⁴ Without addressing further the use of settlement agreements in proving a reasonable royalty, the Federal Circuit remanded to the district court to redo the damages analysis. Providing instructions for the district court to follow on remand, the Federal Circuit stated that during the remand, the district court "should not rely on unrelated licenses to increase the reasonable royalty rate above rates more clearly linked to the economic demand for the claimed technology."³⁵

Relying on *ResQNet*, Judge Ward, in *Tyco Healthcare Gp. LP v. E-Z-EM, Inc.*, 2010 WL 774878, *2 (E.D. Tex. Mar. 2, 2010), addressed a motion to compel discovery of a settlement agreement the accused infringer had with another patentee for the accused product. In a characterization that, unfortunately, seems easily subject to being misconstrued, Judge Ward characterized *ResQNet* as stating that "prior license agreements that result from litigation can be the 'most reliable' to the hypothetical negotiation damages analysis." *Id.* (emphasis added). He then stated that a "related settlement agreement, where it exists, may be central to the fact-finder's determination of damages using a hypothetical negotiations analysis." *Id.* Noting *ResQNet*'s

²⁸ *Rude v. Westcott*, 130 U.S. 152, 164 (1889). *Accord Cornely v. Marckwald*, 131 U.S. 159, 161 (1889). *Rude* has been interpreted as prohibiting a settlement agreement to serve as evidence of an *established* royalty rate. See *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078-79 (Fed. Cir. 1983); *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1164 n.11 (6th Cir. 1978). Thus, whether a royalty rate in a settlement agreement can be relied on as a factor to consider in determining a reasonable royalty rate under the hypothetical negotiation model arguably is not prohibited by *Rude*.

²⁹ See generally, APD § 30:82 Established Rate May Not be Based on Impact of Royalties Paid in Settlement; § 30:101 —Rate Proposed in Settlement Negotiations May Be Inadmissible; see also § 44:94 Settlement Negotiations Under Rule 408.

³⁰ See generally, APD § 41:21 Relevancy of Licensing Agreements; § 41:62 Production of Patentee's Licensing Documents; see also § 42:192 Settlements and Related Negotiations; § 44:85 Prelitigation License Offers; § 44:94.50 Rule 408 as a Basis to Deny Discovery.

³¹ See, 594 F.3d 860, 869-73 (criticizing the use of the re-bundling agreements in part because "none of these licenses even mentioned the patents in suit or showed any other discernible link to the claimed technology").

³² *Id.* at 870.

³³ *Id.* at 872.

³⁴ *Id.*

³⁵ *Id.* at 872-73.

statement that litigation can skew the rate in a settlement agreement, Judge Ward further instructed that “the parties are entitled to show whether and to what extent the rate from a prior license agreement is the result of a compromise or reflects a desire to avoid litigation.” *Id.* Judge Ward concluded, therefore, that:

It necessarily follows that, in light of the admissibility and importance of prior related settlement agreements, *ResQNet* suggests that the underlying negotiations are relevant to the calculation of a reasonable royalty using the hypothetical negotiation damages model. The prior license agreements, as before *ResQNet*, must relate to the same patents or comparable technology to be of any value to the hypothetical negotiation process.

Id. Accordingly, Judge Ward granted the motion to compel the accused infringer to produce evidence related to its prior settlement negotiations with a third party patentee.³⁶

As noted above, the Federal Circuit in *ResQNet* only stated that, in the context of the *particular record before it*, the settlement agreements were the most reliable evidence because the other evidence simply did not relate to the patented technology. In this sense, Judge Ward’s statement that settlement agreements *can be* the most reliable is technically accurate due to the unique facts of *ResQNet*. But Judge Ward’s statement that settlement agreements “may be *central* to the fact-finder’s determination of damages using a hypothetical negotiations analysis,” is not supported by *ResQNet*. The Federal Circuit did *not* announce a new rule in *ResQNet* that settlement agreements are the “most reliable” of all possible evidence that may factor into a reasonable royalty analysis, and therefore are always admissible, and always discoverable. Indeed, that would contradict prior statements from the court that “[a] royalty at which a patentee offers to license his invention, particularly when coupled with a claim of infringement, is not necessarily the same rate as that

upon which a hypothetical willing licensee and willing licensor would agree.”³⁷

The same day that Judge Ward issued *Tyco Healthcare*, Judge Rader, a member of the per curiam panel that authored *ResQNet*, sitting by designation as a trial judge in the Eastern District of Texas stated in *IP Innovation L.L.C. v. Red Hat, Inc.*, 2010 WL 986620 (E.D. Tex. Mar. 2, 2010), that license agreements negotiated outside the context of litigation are the “appropriate touchstone” of a hypothetical negotiation analysis. *Id.* at *3. In *IP Innovation*, Judge Rader struck the patentee’s damages expert’s testimony for being unreliable. One of Judge Rader’s criticisms of the expert’s analysis focused on the expert ignoring in his analysis license agreements the prior owner of the patent had with other third parties. The expert ignored the prior license agreements because they occurred ten years before the date of the hypothetical negotiation.³⁸ Commenting on the relevance of these prior agreements, Judge Rader noted “[a]t least two of these agreements were entered into *outside of the context of litigation* and thus *appropriate as touchstones* for determining the appropriate royalty rate in this case.” *Id.* Even though the agreements were old, Judge Rader instructed that “these licenses are far more relevant than the general market studies on which Mr. Gemini primarily relied in his expert report. A credible economic approach might have tried to account for the passage of time since the 1990’s agreements on the patents in this case, rather than reject them out of hand.” *Id.* In focusing on the only two license agreements that were noted as being negotiated “outside of the context of litigation,” and paying no attention to the other agreements (presumably because

³⁶ Judge Ward also rejected the contention that a “settlement privilege” as set forth in *Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc.*, 332 F.3d 976, 980-983 (6th Cir. 2003) applied to bar discovery. In his view, *ResQNet* overruled any applicability that *Goodyear* may have had. *Id.* See generally, APD § 42:192 Settlements and Related Negotiations (discussing cases addressing “settlement privilege”).

³⁷ *American Original Corp. v. Jenkins Food Corp.*, 774 F.2d 459, 464 (Fed. Cir. 1985). See also *Snellman v. Richo Co., Ltd.*, 862 F.2d 283, 289 (Fed. Cir. 1989) (proper to admit evidence of settlement agreement between plaintiff and third party where royalty would only become effective if appellate litigation ultimately resulted in infringement liability to the third party *because the agreement was not an attempt to resolve litigation*); *Studiengesellschaft Kohle v. Dart Indus., Inc.*, 862 F.2d 1564, 1572 (Fed. Cir. 1988) (proper to consider patent holder’s post-infringement settlement with third party where patent held valid in litigation and all that remained for parties was an accounting, and therefore settlement was *not reached under a threat of litigation* but in the context of attempting to value a valid patent).

³⁸ See generally, APD § 30:86 Time Period for Assessing Circumstances Relevant to Setting the Royalty Rate.

they involved litigation), Judge Rader's view suggest that the Federal Circuit did not intend to alter the damages law regarding the relevancy of settlement agreements in a hypothetical negotiation.

Nonetheless, following *Tyco Healthcare*, and not mentioning *IP Innovation*, Judge Folsom, two days later in *DataTreasury Corp. v. Wells Fargo & Co.*, 2010 WL 903259, *2 (E.D. Tex. Mar. 4, 2010), denied an accused infringer's motion in limine seeking to exclude evidence of a royalty rate offered to settle a case. Judge Folsom held that "[i]n light of *ResQNet*, litigation-related licenses should not be excluded..." *Id.* at *2. Instead, "Defendants' concerns about the reliability of litigation-related licenses are better directed to weight, not admissibility." *Id.*

Tyco Healthcare and *DataTreasury* may be signaling a shift in the use of royalty rates proposed or accepted in settlement agreements. *ResQNet* shows that there may be special circumstances where settlement agreements merit some consideration in a reasonable royalty analysis. But *ResQNet* has not transformed the analysis by making settlement agreements the "central fact" of a hypothetical negotiation in the way that *Tyco Healthcare* and *DataTreasury* appear to do. Even though *Tyco Healthcare* and *DataTreasury* may arguably be based on an incorrect reading of *ResQNet*, now that the cat is out of the bag, the use of settlement agreements in setting a reasonable royalty will likely attract greater attention until the Federal Circuit clarifies under what circumstances, if any, these agreements should be considered in a reasonable royalty damages analysis. Litigants should prepare accordingly.

Challenging Injunction's Scope in Contempt

Until set aside by the issuing court or a higher court, parties must obey any injunction order, even those improperly issued.³⁹ The requirement that litigants must obey a court's orders applies with such force that a party facing a contempt charge for violating the terms of an injunction normally cannot defend against the contempt charge by arguing that the scope of the injunction exceeds the bounds of what

³⁹ *GTE Sylvania, Inc. v. Consumers Union*, 445 U.S. 375, 386 (1980). *Howat v. Kansas*, 258 U.S. 181, 189-190 (1922) (Injunctions "must be obeyed . . . , however erroneous the action of the court may be, even if the error be in the assumption of the validity of a seeming, but void law going to the merits of the case."). See generally, APD § 32:189.

the law permits.⁴⁰ Challenging the breadth of an injunction must be done during the appeal of the order issuing the injunction.

The Federal Circuit hammered this lesson home in *TiVo, Inc. v. EchoStar Corp.*, No. 2009-1374, 2010 WL 724807 (Fed. Cir. Mar. 4, 2010). There, the district court, as part of a permanent injunction enjoining continued infringement, had ordered the accused infringer to disable *all* DVR functionality in several models of the accused system it had sold to its customers.⁴¹ The requirement to disable *all* DVR functionality appeared to go beyond the functionality found to have infringed the asserted patents. Relying on this fact, the accused infringer argued that it should not be held in contempt for violating the disablement provision of the injunction because the district court never had authority to enjoin noninfringing activity. Unfortunately for the accused infringer, it had not challenged the breadth of the injunction, and specifically its application to noninfringing functionality, when it originally appealed the district court's final judgment ordering the injunction.

Affirming the contempt finding, over the dissent of Judge Rader, the Federal Circuit determined that the district court's injunction order was clear as to what conduct the accused infringer had to undertake. Since the order gave sufficient notice to the accused infringer as to what it had to do, i.e., disable all DVR functionality, the accused infringer was legally bound to obey the order. The Federal Circuit explained that "a party is not free to ignore the court's order and only appeal a later contempt finding. The time to appeal such an order is when it is handed down, not when a party is later found to be in contempt." *Id.* at *10. Accordingly, the Federal Circuit held that by not challenging the scope of the disablement provision in the injunction when it appealed the underlying judgment, the accused infringer had "waived any argument that the injunction was overbroad." *Id.* at *11.

Correcting Patent Term Adjustments

With the much anticipated opinion of *Wyeth v. Kappos*, 591 F.3d 1364 (Fed. Cir. Jan. 7, 2010), the Federal Circuit overturned one aspect of the PTO's methodology of calculating the amount of a patent

⁴⁰ Cf. APD § 32:167 Can't Grant Relief Beyond that Obtainable Under Patent Act.

⁴¹ See generally, APD § 32:175 Injunctions Requiring Seizing or Destroying Infringing Products.

term adjustment (PTA) an applicant is due under the Patent Term Guarantees of 35 U.S.C. § 154(b). While *Wyeth* will apply to calculating PTAs going forward, procedural obstacles may foreclose patentees from obtaining a correction of prior PTA determinations for issued patents or patent applications in which the issue fee has already been paid.

As part of switching to a patent system where the term of a utility patent is measured twenty years from the patent's earliest effective filing date, rather than seventeen years from its issue date, Congress enacted certain "Patent Term Guarantees" to ensure that delays by the PTO in processing a patent application would not unfairly deprive a patentee from enjoying the full term of its patent.⁴² The Patent Term Guarantees address three periods of possible delays in processing a patent application; denoted herein as Period A, B, and C. "Period A" delays occur when the PTO fails to meet certain examination deadlines, such as issuing a first office action within fourteen months after the application had been filed. 35 U.S.C. § 154(b)(1)(A)(i)-(iv). A "Period B" delay arises where the PTO fails to issue a patent within three years from the actual filing date, subject to several caveats. 35 U.S.C. § 154(b)(1)(B)(i)-(iii). "Period C" delays account for delays due to interference proceedings, secrecy orders, or an appeal to the Board of Patent Appeals. 35 U.S.C. § 154(b)(1)(C).

In general, for each day of PTO delay, the applicant is entitled to one day of a PTA. The total number of days of a PTA must be reduced by the number of days that the applicant "failed to engage in reasonable efforts to conclude prosecution." 35 U.S.C. § 154(b)(2)(C).⁴³ Additionally, to prevent a double counting of delays, the statute further provides that "[t]o the extent that *periods of delay* attributable to grounds specified in paragraph (1) *overlap*, the period of any adjustment granted under this subsection shall not exceed the actual number of days the issuance of the patent was delayed." 35 U.S.C. § 154(b)(2)(A) (emphasis added).

The main legal question in *Wyeth* concerned the proper construction of the "overlap" provision of § 154(b)(2)(A), and specifically how the PTA should be calculated where the patent had Period A delays during the first three years of its prosecution and a

Period B delay for being issued more than three years from the actual application filing date. Viewing Period A delays as necessarily contributing to any Period B delay, the PTO had taken the position that for patents subject to a Period B delay *all* Period A delays "overlapped" with the Period B delays, even if those Period A delays happened during the first three years of the application's pendency. Under this view of the statute, an applicant was entitled to a PTA equal to the greater of the total number of days of Period A delays or the number of days of Period B delay; but never a combination of the two periods.

In *Wyeth* two pharmaceutical companies challenged the PTO's methodology of calculating the PTA where Period A delays overlapped with a Period B delay for two different patents. For the first patent, the PTO had calculated that the application was subject to 610 days of Period A delays, 345 days of B delay, and 148 days of applicant delay. Further, only 51 days of Period A delays had occurred more than three years after the actual filing date of the application. Applying its view that an applicant was only entitled to a PTA of the greater of the Period A delays or the days of Period B delay, the PTO gave the patentee 610 days of PTA less the 148 days of delay caused by the applicant for a total PTA of 462 days. The applicant objected and argued that Period A delays occurring before the Period B delay began did not "overlap" under the statute. Accordingly, since there were only 51 days of Period A delays that happened during the Period B delay, the applicant argued that it was entitled to a PTA equal to 610 (the total Period A delays) plus 345 (the total days of Period B delay) minus 51 (the number of days of Period A delays that overlapped with the Period B delay) minus 148 (the applicant's delay), which would have resulted in a PTA of 756 days.

After the PTO denied the applicants' request for reconsideration of the PTA determination, the applicant brought suit against the PTO under 35 U.S.C. § 154(b)(4). In that suit, the applicants argued that "'A period' and 'B period' [delays] overlap only if they occur on the same calendar day or days." *Wyeth v. Dudas*, 580 F. Supp. 2d 138, 140 (D.D.C. Sept. 30, 2008). In granting the applicants summary judgment, the district court agreed with the applicant's construction of the statute and specifically that "overlap" requires the delays to occur on the same calendar day. *Id.* at 140-42. On appeal, the Federal Circuit affirmed.

⁴² See generally, APD § 9:24 Extensions for PTO Delays.

⁴³ Additionally, PTAs cannot extend the term of a patent beyond the expiration date mandated by a terminal disclaimer. 35 U.S.C. § 154(b)(2)(B).

Considering the statute's text, the Federal Circuit stated that it "detect[ed] no ambiguity in the terms 'periods of delay' and 'overlap.'" 591 F.3d at 1369. It found that a Period A delay "runs from the date the PTO misses the specified deadline to the date (past the deadline) of response to the underlying action." *Id.* In contrast, a Period B delay "under the express language of the B clause ... runs from the three-year mark after filing until the application issues." Based on this understanding of the two periods, the Federal Circuit held that it was "clear that no 'overlap' happens unless the violations occur at the same time. ... If an A delay occurs on one day and a B delay occurs on a different day, those two days do not 'overlap' under section 154(b)(2)." *Id.* at 1370. The Federal Circuit concluded that "[t]he PTO's position cannot be reconciled with the language of the statute. ... The problem with the PTO's interpretation is that it considers the application *delayed* under the B guarantee during the period *before it has delayed*." *Id.*

The PTO argued that since Period A delays often lead to Period B delays, there would be an inequity in not treating all Period A delays as overlapping with a Period B delay. Although giving some acknowledgement to this observation, the Federal Circuit noted that the PTO's solution produced its own "potential perverse results." *Id.* It therefore instructed that "[r]egardless of the potential of the statute to produce slightly different consequences for applicants in similar situations, this court does not take upon itself the role of correcting all statutory inequities, even if it could. In the end, the law has put a policy in effect that this court must enforce, not criticize or correct." Hence, at the end of the day, the Federal Circuit overruled the PTO's methodology of treating all Period A delays as overlapping any Period B delay.

With a clear (even if potentially debatable) ruling from the Federal Circuit overturning the methodology the PTO has followed for the last several years in calculating PTAs, many who feel they were the victim of an incorrect PTA calculation by the PTO may wonder if they have any recourse to obtain a correction of a prior PTA determination. While nothing in *Wyeth* prevents a retroactive application of the ruling, other procedural requirements may preclude patentees from obtaining a correction of a prior PTA determination.

First, 35 U.S.C. § 154(b)(4), which permits a district court action to challenge the PTO's PTA determination, expressly states that the action must be

"filed ... within 180 days after the grant of the patent." The statute provides for no exceptions to the six-month deadline. This *statutorily imposed* deadline will likely preclude most, if not all, suits where the patent issued more than six months before the applicant filed the suit. Given that the Federal Circuit affirmed a ruling handed down on September 30, 2008, it seems unlikely that courts will give weight to an argument that Federal Circuit's opinion represents an intervening change in the law justifying an exception to the statute's six-month deadline.⁴⁴

Second, even in situations where the six-month deadline has not passed, some patentees may face another procedural obstacle. The PTA statutory provision expressly states that the PTO has to provide an applicant "one opportunity to request reconsideration of any patent term adjustment determination made by the Director." 35 U.S.C. § 154(b)(3)(B)(ii). A patentee who failed to file a request for reconsideration of the PTA in the PTO before filing a lawsuit may face an argument that its suit should be dismissed because the patentee failed to exhaust its administrative remedies. *Cf. Wyeth*, 591 F.3d at 1368 (noting patentee had filed in the PTO petitions for reconsideration of the PTA determinations). (Whether a futility-type argument can overcome a failure-to-exhaust defense for a PTA challenge raises an interesting issue beyond the scope of this summary.) Additionally, for those holding issued patents, it seems unlikely that, under the current regulations, they can file in the PTO a post-issuance request to correct a prior PTA determination since under the applicable PTO regulation *all* requests for reconsidering the PTO's determination of a term adjustment "must be filed no later than the payment of the issue fee." 37 C.F.R. 1.705(b) ("Any request for reconsideration of the patent term adjustment indicated in the notice of allowance ... must be by way of an application for patent term adjustment. An application for patent term adjustment under this section must be filed no later than the payment of the issue fee"); *see also* 37 C.F.R. 1.705(e) ("The periods set forth in this section are *not extendable*.").

There may be some creative solutions to the above-identified obstacles. But whether the costs to develop and support such solutions make pursuing a PTA correction worthwhile is something each patent holder will have to determine for itself.

⁴⁴ *See generally*, APD § 43:57.50 Intervening Change in the Law Before Final Judgment.

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