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# PATENT HAPPENINGS®

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on significant developments in U.S. patent law

## Case Spotlight

### *Resurgence of the Need for Opinions of Counsel*

As a direct consequence of overruling the affirmative duty of due care to avoid infringement upon learning of a patent,<sup>1</sup> the Federal Circuit expressly instructed in *Seagate* that “there is no affirmative obligation to obtain [an] opinion of counsel.”<sup>2</sup> Taking the Federal Circuit at its literal 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.<sup>3</sup>

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

<sup>1</sup> 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.

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

<sup>3</sup> 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.

obvious that it should have been known to the accused infringer.”<sup>4</sup>

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.<sup>5</sup> 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.<sup>6</sup> 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[.]”<sup>7</sup> 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.”<sup>8</sup> 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.”<sup>9</sup>

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.*”<sup>10</sup> Additionally, the *Seagate* court’s instruction that “standards of commerce” are factors that the district courts must consider in the willfulness analysis,<sup>11</sup> 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.<sup>12</sup>

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.<sup>13</sup> 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

<sup>4</sup> *Seagate*, 497 F.3d at 1371.

<sup>5</sup> 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[.]”).

<sup>6</sup> *See Krippelz v. Ford Motor Co.*, \_\_\_ F. Supp. 2d \_\_\_, 2009 WL 3852466, \*3-4 (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).

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

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

<sup>9</sup> *Id.*

<sup>10</sup> 497 F.3d 1360, 1369 (emphasis added).

<sup>11</sup> 497 F.3d 1360, 1371 n.5.

<sup>12</sup> *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.”).

<sup>13</sup> *See, e.g.*, APD § 31:50.70 Post - *Seagate* Cases Finding Willful Infringement in Absence of Opinion of Counsel.

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reckless behavior with respect to the [asserted] patent.”<sup>14</sup> 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.<sup>15</sup> 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.<sup>16</sup>

**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. Recently, the Federal Circuit instructed in *i4i Ltd. Partnership v. Microsoft Corp.*, \_\_\_ F.3d \_\_\_, \_\_\_, 93 USPQ2d 1161, 2009 WL 4911950, \*20 (Fed. Cir. Dec. 22, 2009), 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 factors set forth in *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992).<sup>17</sup> See *i4i*,

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<sup>14</sup> *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*).

<sup>15</sup> 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 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.

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<sup>16</sup> *Spectralytics, Inc. v. Cordis Corp.*, 2009 WL 3851314, \*4 (D. Minn. Jan. 13, 2009) (“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.”); *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). 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). 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).

<sup>17</sup> 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

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2009 WL 4911950, at \*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.”<sup>18</sup> 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% enhancement by the Eastern District of Texas court in the damage award 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. 2009 WL 4911950, at \*20.<sup>19</sup>

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 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 accused product would not infringe.<sup>20</sup> While the

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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.

<sup>18</sup> *Read*, 970 F.2d at 827. See also APD § 31:29 Investigation and Good Faith Belief of Invalidity, Noninfringement, or Unenforceability.

<sup>19</sup> 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.

<sup>20</sup> 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

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%.

Other cases 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.”

### 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.<sup>21</sup> Furthermore, the cases show that

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attorney that was a competitor of the patentee). See generally, APD § 31:52 Competency of the Author.

<sup>21</sup> Counsel should also keep in mind the Federal Circuit’s opinion in *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d

where a jury finds willful infringement,<sup>22</sup> 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 provides evidence to refute the claim of willful infringement.<sup>23</sup> 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.<sup>24</sup> Where an

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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.

<sup>22</sup> 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.

<sup>23</sup> 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.

<sup>24</sup> *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.

accused infringer obtains an opinion of counsel, but opts not to waive privilege and refuses to disclose the opinion, that decision effectively nullifies 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.

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