



Avoiding Willful Infringement Exposure: Are Opinion Letters Still Necessary?

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“Willful infringement.” For years, these two words have struck fear in the hearts of corporate counsel. And for good reason: a willful infringement finding raises the already-high stakes in patent litigation to another level by opening the door to an enhanced damage award up to three times the actual damages. The prospect of treble damages is particularly daunting when heaped atop a potential injunction and a potentially hefty actual damage award. Even the process of defending against a willful infringement allegation can be troubling. For the past 25 years, the most effective shield has been an outside counsel’s written opinion that the potentially infringing activity, in fact, was not a problem. In asserting this shield, however, the accused infringer places attorney advice at issue, which waives attorney-client privilege, and thereby subjects him and his opinion counsel to discovery on this otherwise privileged advice.

On August 20, 2007, the U.S. Court of Appeals for the Federal Circuit, sitting *en banc*, issued the *Seagate* decision,¹ which overhauled the “willful infringement” law and overturned nearly 25 years of precedent. Many

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corporate counsel breathed a sigh of relief. But how much will *Seagate* really change things? When should corporate counsel still get outside opinions as a hedge against potential willful infringement claims and when can their companies avoid this expense? To answer these questions, we review how the willful infringement standard developed, how the *Seagate* decision has changed that historical standard, and how currently pending legislation may change that standard further.

Less than a year after it was formed, the Federal Circuit established a standard for evaluating willful infringement. In the *Underwater Devices* case,² the Federal Circuit held that when a potential infringer received actual notice of another’s patent, that notice triggered an affirmative duty to investigate potential infringement and verify that his activities did not infringe.³ That affirmative duty typically obligated the potential infringer to obtain a clearance opinion – i.e. attorney sign-off – before engaging in (or continuing) the potentially infringing activity.⁴

With this substantive standard, the Federal Circuit imposed a corresponding evidentiary standard: once the patentee proved that an accused infringer had “actual notice” of the patent, the evidentiary burden shifted to the accused infringer to prove that he exercised good faith in persisting with the potentially infringing activities. In effect, the court saddled the accused infringer with the burden of disproving willful infringement. Moreover, the court determined that if an accused infringer failed to present evidence that he relied on lawyer’s advice (usually in the form of a written opinion letter), the jury could draw an “adverse inference” against the accused infringer. In other words, if the accused infringer came to trial without an opinion letter, the court would instruct the jury to assume that the accused infringer either: (1) failed to seek legal advice, or (2) had been advised that he infringed.

The *Underwater Devices* decision created a predicament for businesses. For purposes of a willful infringement analysis, a company could

be placed on “actual notice” without any formal communication from the patent owner. For example, a company executive who received an email attaching an article on a newly patented technology would have “actual notice” of the patent (and also would have an email file proving notice). This “actual notice” would trigger the company’s “affirmative duty” to investigate and verify that it did not infringe (or that the patent was invalid). At this point, the company had two choices: pay outside lawyers for a written legal opinion or (in potential later litigation) defend a willful infringement claim without an opinion and face an “adverse inference” on the willfulness issue.

After *Underwater Devices*, every time a company learned of a potentially relevant patent, it faced the choice of obtaining an opinion letter or risking this adverse inference. The adverse inference risk was not necessarily a high one. Although studies estimate that patent owners assert willful infringement claims in over 90% of all patent cases,⁵ not every potential infringement leads to litigation, and of those that do, only a small fraction (less than 10 percent)⁶ go to trial. Nonetheless, the downside of the inference is steep. A willful infringement verdict could lead to treble damages which, applied to a large damage award, might devastate a company. Accordingly, many corporate counsel approached opinion letters as catastrophe insurance; i.e., as a hedge against a small risk of a large exposure. For many larger companies, a \$10,000 to \$30,000 opinion was a reasonable hedge against a possible (but unlikely) eight figure damage award. Often a company’s budget and degree of risk aversion would dictate whether it obtained an opinion letter on a given patent.

This predicament changed only slightly after the Federal Circuit’s 2004 decision in the *Knorr-Bremse* case. In *Knorr-Bremse*, the court overturned the *Underwater Devices* “adverse inference” rule. Under *Knorr-Bremse*, courts could no longer instruct juries, in essence, that an infringer who failed to produce a clearance opinion presumably infringed in bad faith. But *Knorr-Bremse* did not disturb the *Underwater*

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Devices rule that “actual notice” of a patent triggered an “affirmative duty” to investigate “every potential infringement.”⁷ Accordingly, while potential infringers still effectively bore the burden of proving their good faith, they no longer faced a willful infringement inference when they failed to present opinion evidence.

As a practical matter, *Knorr-Bremse* did little to change the potential infringer’s decision on when to obtain an opinion letter. The potential infringer could try to prove its “good faith” without an opinion, but a solid opinion letter still provided the most persuasive evidence of good faith. Accordingly, after *Knorr-Bremse* it still made sense for corporations to hedge their bets by obtaining opinion letters whenever they received notice of a potentially troubling patent.

In its recent *Seagate* decision, the Federal Circuit finally abandoned the “affirmative duty” standard, and established a new test for willful infringement, stating:

[W]e overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness. Because we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain opinion of counsel.⁸

Under the new willful infringement standard, a patentee must prove by clear and convincing evidence that: (a) “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent”; and (b) “that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.”⁹

Seagate has changed the willful infringement standard significantly, but it has not eliminated entirely the need for opinion letters. While “actual notice” does not automatically trigger a duty to obtain an opinion letter, in some situations, a company that proceeds without one may be viewed as objectively reckless. In other circumstances, however, one would not expect a reasonable business person to seek an opinion letter even if he had “actual notice” of a patent. For example, a business may still want to obtain an opinion in response to a demand letter but may reasonably decide not to assume that expense for a patent on which no one has asserted a claim or demand. Whether a business person has acted reasonably is an inherently subjective analysis that depends on all relevant circumstances. *Seagate* provides no clear lines here, but some very recent, post-*Seagate* jury verdicts suggest that willful infringement lives on in the post-*Seagate* world.

On September 14, 2007, less than four weeks after *Seagate* was decided, the new willful infringement standard was used in the instructions read to a jury in a patent case in the Eastern District of Texas. In that case, the jury found AT&T liable for willfully infringing patents asserted by plaintiff T.G.I.P. concern-

ing telephone calling cards.¹⁰ (The judge later overturned the infringement and willful infringement verdicts on post-trial motions). That same day, a Delaware jury found that Andrew Corp. willfully infringed a patent owned by TruePosition, Inc. relating to cellular telephone location system technology.¹¹ Within the next two-week period, several other patent cases resulted in willful infringement findings.¹² Time will tell whether the other verdicts survive post-trial motions and appeal. In any event, these “early returns” suggest that jurors have no trouble finding defendants willful under the new, stricter standard.

No matter how the *Seagate* decision plays out in the courts, the next major change in the willful infringement standard likely will come from Congress. A patent reform bill (HR. 1908),¹³ if it is signed into law in its current form, will provide further hurdles to proving willful infringement and will further reduce the need to obtain opinion letters. The bill passed in the House of Representatives on September 7, 2007 and is now pending in the Senate.

Under the proposed Act, a company may incur willful infringement liability in only one of three ways. First, an infringer may be “willful” if it has received a specific written notice from the patent owner and, after a reasonable opportunity to investigate, it commits further infringing acts.¹⁴ Second, an infringer may be “willful” if it has “intentionally copied the patented invention with knowledge that it was patented.”¹⁵ Third, an infringer may be “willful” if it re-infringes a patent that it previously had been found to infringe, and its “re-infringing” conduct is essentially the same as its original infringing conduct.¹⁶

The bill also provides an affirmative defense for infringers who prove that they held an “informed good faith belief” that their conduct was not infringing or that the patent was invalid or unenforceable.¹⁷ The infringer may prove this “good faith” defense by presenting: (1) evidence that he reasonably relied on advice of counsel,¹⁸ (2) evidence that he modified his conduct to avoid infringement after learning of the patent,¹⁹ or (3) other evidence showing good faith.²⁰

Under the proposed legislation, opinion letters may still play a critical role in rebutting a willful infringement allegation in certain circumstances. For example, where an accused infringer continues to perform the allegedly infringing acts after receiving specific written notice from the patentee, his strongest defense may be an opinion letter. Likewise, where an accused infringer has intentionally copied a patented invention, his strongest defense may be an opinion letter advising that the patent is invalid or verifying that the accused infringer’s modifications to the patented invention avoided infringement. Similarly, if the accused infringer has previously been held liable for infringing, he presumably would want to obtain written legal advice before relying upon a re-design that might infringe the same patent a second time. Under the pending legislation, a

company’s need to obtain an opinion letter may be significantly reduced when it has not received a notice letter, has not copied the patented invention, and has not previously been held liable for infringement. Under those circumstances, an opinion letter may add additional weight to a later willful infringement defense, but would not necessarily be essential to rebutting a willful infringement allegation.

Moreover, the proposed legislation contains an evidentiary limitation, which provides that an infringer’s failure to produce an attorney opinion is “not relevant.”²¹ Accused infringers may rely on this provision to bar patent owners even from raising this “failure” with the jury for the purpose of proving willful infringement. Finally, the bill provides an important procedural hurdle for patentees by prohibiting them even from asserting a willful infringement claim until *after* they first win a ruling on the merits of their underlying infringement claim.²² In short, the legislation will add significant substantive, evidentiary, and procedural hurdles to proving willful infringement.

While neither the *Seagate* decision nor the Patent Reform Act of 2007 will eradicate willful infringement claims entirely, each will reduce the potential exposure to these claims and, correspondingly, the need to rely on opinion letters to avoid them.

¹ In re *Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

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

³ *Underwater Devices*, 717 F.2d at 1389-90.

⁴ *Underwater Devices*, 717 F.2d at 1389-90.

⁵ See *Kimberly A. Moore*, Empirical Statistics on Willful Patent Infringement, 14 Fed. Cir. B.J. 227, 232 (2004-2005).

⁶ *Moore*, Empirical Statistics on Willful Patent Infringement, 14 Fed. Cir. B.J. at 234.

⁷ *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

⁸ *Seagate*, 497 F.3d at 1371.

⁹ *Seagate*, 497 F.3d at 1371.

¹⁰ T.G.I.P., Inc. v. AT&T Corp., Case No. 2:06-CV-105 (E.D. Tex.).

¹¹ *TruePosition, Inc. v. Andrew Corp.*, No. 05-00747 (D. Del.).

¹² U.S. Philips Corp. v. KXD Tech., Inc., Case No. CV 05-8954 (C.D. Cal.) (September 17 bench trial judgment found that KXD Technology, Inc. willfully infringed U.S. Philips Corp.’s patents relating to DVD technology); U.S. Philips Corp. v. Int’l Norcor Tech., Case No. CV 06-1366 (C.D. Cal.) (September 18 jury verdict finding International Norcor Technology liable for willfully infringing DVD patents owned by U.S. Philips Corp.); Sprint Communications Co., L.P. v. Vonage Holdings Corp., Case No. 2:05-CV-02433 (D. Kan.) (September 25 jury verdict finding that Vonage Holdings Corp. willfully infringed Sprint Communications Co.’s patents concerning voice-over packet technology); Chase Medical L.P. v. CHF Technologies, Inc., Case No. 3:04-CV-02570 (N.D. Tex.) (September 25 jury verdict finding defendants liable for willfully infringing Chase Medical L.P.’s patents relating to heart surgery methods).

¹³ The counterpart Senate bill is S. 1145.

¹⁴ HR. 1908, §5(c)(2)(A).

¹⁵ HR. 1908, §5(c)(2)(B).

¹⁶ HR. 1908, §5(c)(2)(C).

¹⁷ HR. 1908, §5(c)(3)(A).

¹⁸ HR. 1908, §5(c)(3)(B)(i).

¹⁹ HR. 1908, §5(c)(3)(B)(ii).

²⁰ HR. 1908, §5(c)(3)(B)(iii).

²¹ HR. 1908, §5(c)(3)(C).

²² HR. 1908, §5(c)(4).