

THE EVOLVING ROLE OF OPINIONS OF COUNSEL IN PATENT INFRINGEMENT CASES

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ABSTRACT

Recent years have brought a number of unexpected developments in U.S. patent law in two types of cases addressing the roles of opinions of counsel: (1) those addressing willful infringement and enhanced damages, and (2) those addressing inducement of infringement. The enactment of the America Invents Act in 2011 has further altered, but not eliminated, the role of opinions of counsel in such cases. In light of these developments, companies doing business in the United States, whether U.S. or foreign-based, would do well as a strategic matter to err on the side of caution and to seek patent opinions whenever reasonable doubt about potential liability exists.

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In recent years, an unexpected intersection emerged in U.S. patent case law addressing the role of opinions of counsel. On the one hand, the U.S. Court of Appeals for the Federal Circuit indicated that opinions of counsel played a lesser role in determining willful infringement and the appropriateness of enhanced damages than lower courts, commentators, and practitioners had previously thought. On the other hand, the Federal Circuit suggested that patent opinions play a critical role in evaluating whether the requisite intent to establish inducement of infringement exists. The Federal Circuit almost certainly did not deliberately set out to create this dichotomy. Rather, the distinction arose gradually and incrementally and was impelled by differing scenarios and contexts, but it created challenging unintended implications for businesses planning their intellectual property strategies. This legal landscape has been altered even more by the recent enactment of the America Invents Act (“AIA”),¹ which greatly reduced, but did not eliminate, the role of opinions of counsel in willfulness and inducement cases, but which did not address the role of such opinions in determinations of enhanced damages.

Willful patent infringement and liability for inducement of infringement are separate inquiries. However, both inquiries raise an issue vitally important to businesses that are trying to manage their exposure to patent infringement liability: when and under what circumstances should businesses seek the opinion of patent counsel? Businesses need to be able to predict what behavior will lead to liability so that they can plan their activities accordingly. Thus, rules regarding the role of patent opinions in infringement cases directly affect businesses’ legal and strategic planning. Unclear or inconsistent rules make it difficult for businesses to operate effectively and efficiently.

The “territoriality” of patent law makes this issue particularly critical for foreign businesses operating in the United States, which may not face similar rules in their domestic legal regimes and which thus may not understand the implications of these U.S. legal rules until liability has already arisen.² Any

¹ Leahy-Smith America Invents Act, Pub. L. No. 112–29, 125 Stat. 284 (2011) (to be codified in scattered sections of 35 U.S.C.).

² “Territoriality” refers to the fact that a country’s patent laws generally operate only within its own borders. As described by the World Intellectual Property Organization (“WIPO”): “In general, an application for a patent must be filed, and a patent shall be granted and enforced, in each country in which you seek patent protection for your invention, in accordance with the law of that country.” *Frequently Asked Questions (FAQs)*, WIPO, http://www.wipo.int/patentscope/en/patents_faq.html (last visited Nov. 11, 2011). In the United States, 35 U.S.C. § 271 (2006) sets forth the parameters of patent-infringing behavior and explicitly limits infringement to activity occurring “within the United States.” See *Deep-south Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (strictly construing the territo-

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business, whether U.S.-based or not, that makes, uses, sells, offers for sale, or imports into the United States an invention patented by the U.S. Patent and Trademark Office (“PTO”)³ must know when and why to seek the advice of U.S. patent counsel in order to avoid or minimize the effects of infringement liability.

Part I of this Article briefly describes the types and functions of patent opinions most commonly used in U.S. transactions. Part II describes the evolution of patent opinion rules in cases addressing willfulness and enhanced damages. Part III analyzes the role of patent opinions in inducement cases. Part IV addresses the likely impact of the recently enacted AIA. Part V discusses the implications of these rules for business decision-making and contains concluding remarks.

I. OPINIONS OF PATENT COUNSEL IN GENERAL

Patent opinions can take many forms, both offensive and defensive.⁴ The Federal Circuit’s recent decisions have focused on defensive opinions, as the cases have addressed the potential liability of a defendant in the face of allegations that it infringed upon the plaintiff’s valid, existing patents.⁵ Two common types of defensive opinions are non-infringement and invalidity opinions.⁶

Non-infringement opinions are often used in response to an allegation of infringement by a patentee.⁷ The accused infringer may ask a patent attorney to perform an independent analysis of the issue; if the attorney’s investigation reveals a non-frivolous, good-faith basis for finding no infringement, the accused

riality of patent law by stating that “[o]ur patent system makes no claim to extraterritorial effect” and our legislation “do[es] not, and [was] not intended to, operate beyond the limits of the United States”); *see also, e.g.*, *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 456 (2007) (holding that “foreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries”); *see generally* Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119 (2008).

³ See 35 U.S.C. § 271(a) (setting forth parameters for direct patent infringement liability).

⁴ For a brief overview, see Matthew D. Thayne, *What Every Business Executive and In-House Attorney Should Know about Obtaining and Using Patent Opinions*, INTELL. PROP. TODAY, June 2009, at 31. A more detailed overview can be found at MARK J. THRONSON, ET AL., INTELLECTUAL PROPERTY LEGAL OPINIONS § 1.04 (2d ed. 2010).

⁵ *See, e.g.*, *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2008); *In re Seagate Tech., L.L.C.*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc); *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

⁶ Thayne, *supra* note 4, at 31.

⁷ *Id.*

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infringer may seek a formal non-infringement opinion from the attorney to bolster its decision to continue its allegedly infringing activities.⁸

By contrast, if a business believes that its intended actions are blocked by an existing patent with overly broad claims, the business may ask a patent attorney to search for prior art that would invalidate the patent.⁹ If the attorney finds such prior art, the business may request an *invalidity opinion* upon which the business may rely in proceeding with its plans.¹⁰

A somewhat less common type of defensive opinion is the *unenforceability opinion*, which is used when patent counsel concludes that the patent at issue is unenforceable (e.g., because the patentee defrauded the patent office during prosecution).¹¹

A fourth type of patent opinion is the *product clearance* or *freedom to operate opinion*.¹² This type of opinion is typically sought by a company about to launch or develop a new product.¹³ Before committing itself to action, the company may ask patent counsel to search for patents that might potentially be infringed by the new product and to provide analysis.¹⁴ If the search identifies problematic patents, the company may then ask for a non-infringement, invalidity, or unenforceability opinion.¹⁵

II. PATENT OPINIONS IN WILLFULNESS AND ENHANCED-DAMAGES CASES

The role of opinions of counsel in willfulness and enhanced-damages cases is a complicated one, arising out of both the intricacies of the Patent Act¹⁶ and the evolution of Federal Circuit case law. The topic also has important implications for the attorney-client privilege and the work-product doctrine, two important cornerstones of the American adversarial system.

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ THRONSON, ET AL., *supra* note 4, § 1.04(C).

¹⁴ Thayne, *supra* note 4, at 31.

¹⁵ *Id.*

¹⁶ 35 U.S.C. §§ 1–376 (2006).

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The Patent Act provides for enhanced damages, allowing the court to award up to treble damages¹⁷ and/or reasonable attorney fees.¹⁸ Although the statute provides no standard for determining when enhanced damages are appropriate, the courts have held that the enhancement of damages requires a showing of willful infringement.¹⁹ Such a showing permits, but does not require, an award of enhanced damages;²⁰ ultimately, the determination to award such damages lies in the discretion of the trial court.²¹

Defendants face a significant risk of enhanced damages in patent infringement cases. Plaintiffs allege willfulness on the part of the defendant in the vast majority of complaints.²² In almost seventy percent of the cases where a jury finds that infringement exists, the jury also finds that the infringement was willful.²³ If the judge is the fact-finder, the court finds willfulness to be present in more than fifty percent of the cases in which it finds infringement.²⁴

The role of patent opinions in establishing willfulness, and hence the availability of enhanced damages, has changed dramatically over the past several years. Understanding the evolution of this role over time is important for understanding the role that patent opinions are likely to play in future patent litigation. While superficial analysis suggests that the role of such opinions was greatly diminished even prior to the enactment of the AIA, a more nuanced analysis indicates that opinions of counsel continue to play an important role in willful infringement and enhanced-damages determinations.

¹⁷ *Id.* § 284 (“[T]he court may increase the damages up to three times the amount found or assessed.”).

¹⁸ *Id.* § 285 (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”). The Federal Circuit has determined that willful infringement may render a case “exceptional.” *See, e.g.,* *Modine Mfg. Co. v. Allen Grp., Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990).

¹⁹ *See, e.g.,* *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 479, 508 (1961); *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991).

²⁰ *In re Seagate Tech., L.L.C.*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (en banc).

²¹ Section 284 provides that “the court *may* increase the damages up to three times the amount found or assessed.” 35 U.S.C. § 284 (emphasis added).

²² *See* Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 FED. CIR. B.J. 227, 232 (2004) (finding that more than 90% of patent infringement complaints allege willfulness).

²³ *Id.* at 237.

²⁴ *Id.*

A. Underwater Devices

For almost three decades, the leading case on patent opinions in willfulness cases was *Underwater Devices Inc. v. Morrison-Knudsen Co.*,²⁵ a 1983 decision of the Federal Circuit. The court held that a party with actual notice of another's patent had an affirmative duty of care to avoid infringement.²⁶ This duty included "the duty to seek and obtain competent legal advice from counsel before the initiation of any possibly infringing activity."²⁷

The *Underwater Devices* rule flowed from the Federal Circuit's concern that patent rights were not being adequately respected. The Federal Circuit itself had been created by Congress just a year earlier, in 1982, "at a time when widespread disregard of patent rights was undermining the national innovation incentive."²⁸ This disregard was exemplified in the facts of *Underwater Devices*, where the defendant's (non-patent) attorney did not seek review from patent counsel but merely advised the defendant to refuse to discuss the payment of a royalty to the patentee once the existence of the patent was brought to its attention.²⁹ The attorney's memorandum to the defendant noted that "[c]ourts, in recent years, have—in patent infringement cases—found the patents claimed to be infringed upon invalid in approximately [eighty percent] of the cases."³⁰

Two aspects of *Underwater Devices* were particularly troubling. First, the *Underwater Devices* court explicitly created an affirmative duty of due care in patent willfulness cases.³¹

Second, the *Underwater Devices* court implicitly created a negative inference—a failure to obtain a patent opinion was presumed to show infringement.³²

Although the attorney-client privilege was not directly implicated in *Underwater Devices*, subsequent cases soon revealed a conflict between the adverse inference and traditional notions of the attorney client privilege that is at

²⁵ 717 F.2d 1380 (Fed. Cir. 1983), *overruled by In re Seagate*, 497 F.3d 1360.

²⁶ *Id.* at 1389.

²⁷ *Id.* at 1390.

²⁸ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc) (construing U.S. DEP'T OF COMMERCE, ADVISORY COMM. ON INDUS. INNOVATION, FINAL REPORT (1979)).

²⁹ *Underwater Devices*, 717 F.2d at 1385.

³⁰ *Id.* (quoting attorney memorandum to client).

³¹ *Id.* at 1389–90 (citations omitted).

³² *Id.* at 1390.

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the heart of the U.S. adversarial system. In *Kloster Speedsteel AB v. Crucible, Inc.*,³³ for example, the Federal Circuit stated:

[The accused infringer's] silence on the subject [of whether opinion of counsel has been sought], in alleged reliance on the attorney-client privilege, would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S. patents.³⁴

Likewise, in *Fromson v. Western Litho Plate & Supply Co.*,³⁵ decided in 1988, the Federal Circuit held that if a defendant failed to produce an opinion of counsel, "a court must be free to infer that either no opinion was obtained or, if an opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention."³⁶ The net result was that a defendant might feel compelled to produce an opinion in order to avoid the adverse inference, but in so doing, would have to offer up all related information as well.³⁷

Many courts and commentators were disturbed by the negative impact that the adverse inference would have upon the attorney-client relationship.³⁸ In addition, the adverse inference led to significant increased costs for businesses, which felt that they were required to obtain a patent opinion in all or most in-

³³ 793 F.2d 1565 (Fed. Cir. 1986), *overruled by Knorr-Bremse*, 383 F.3d 1337.

³⁴ *Id.* at 1580.

³⁵ 853 F.2d 1568 (Fed. Cir. 1988), *overruled by Knorr-Bremse*, 383 F.3d 1337.

³⁶ *Id.* at 1572–73, *quoted in Knorr-Bremse*, 383 F.3d at 1343.

³⁷ *See infra* note 54 and accompanying text.

³⁸ *See, e.g.*, *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643–44 (Fed. Cir. 1991) (questioning the fairness of a categorical negative inference because "[a]n accused infringer . . . should not, without the trial court's careful consideration, be forced to choose between waiving the privilege in order to protect itself from a willfulness finding, in which case it may risk prejudicing itself on the question of liability, and maintaining the privilege, in which case it may risk being found to be a willful infringer if liability is found"); *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 10 U.S.P.Q.2d (BNA) 1628, 1631 n.11 (N.D. Ohio 1989) (refusing to follow the negative inference because the alleged infringer's "failure to offer the opinion cannot be used to infer willfulness since that would undermine the purpose of the [attorney-client] privilege"). *See also* John Dragseth, Note, *Coerced Waiver of the Attorney-Client Privilege for Opinions of Counsel in Patent Litigation*, 80 MINN. L. REV. 167, 189–90, 195 (1995) (criticizing the negative inference as impractical and unfairly burdensome to alleged infringers and arguing that "[t]he slight prejudice from the rare case where an infringer is allowed to hide an unfavorable opinion behind other favorable factors does not warrant the Federal Circuit's intrusion on the attorney-client privilege"); David A. Nelson, Comment, *Attorney-Client Privilege and Procedural Safeguards: Are They Worth the Costs?*, 86 NW. U. L. REV. 368, 369 (1992) (finding numerous problems with the eroding of attorney-client privilege in *Fromson*).

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stances, lest they face automatic enhanced damages in the event of infringement.³⁹

Finally, after a decade of uncertainty and disarray in the lower courts, the Federal Circuit sat en banc in 2004 to address this issue in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*⁴⁰

B. Knorr-Bremse

Knorr-Bremse explicitly overruled the adverse inference created in *Underwater Devices*. The *Knorr-Bremse* en banc court held that a defendant has an affirmative duty to avoid infringement, but that no adverse inference could be drawn from the defendant either failing to get opinion of counsel or invoking the attorney-client privilege when asked about the issue.⁴¹ The court noted that the adverse inference had evolved from a “focus . . . on disrespect for law” and not from a specific judicial intent to disregard the attorney-client relationship.⁴² However, the court found the pendulum had swung too far, and the inference was placing too great a strain upon the attorney-client relationship.⁴³

In *Knorr-Bremse*, the trial court found three defendants liable for infringement and willful infringement.⁴⁴ The trial court did not award damages because there had been no sale of the infringing products; however, the trial

³⁹ See, e.g., Brief for Public Knowledge as Amicus Curiae Supporting Defendant-Appellants at 7, *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc) (No. 01-1357) (stating that, particularly for smaller companies, the costs imposed by patent opinions are financially crippling and improperly chill many legitimate activities); Brian Ferguson, *Seagate Equals Sea Change: The Federal Circuit Establishes a New Test for Proving Willful Infringement and Preserves the Sanctity of the Attorney-Client Privilege*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 167, 172 (2007) (companies seek non-infringement opinions not for the purpose of making informed business decisions but solely for protection from willful infringement claims, adding to the high cost of patent litigation); Kevin J. Kelly, Comment, *Placing the Burden Back Where It Belongs: A Proposal to Eliminate the Affirmative Duty from Willful Infringement Analyses*, 4 J. MARSHALL REV. INTELL. PROP. L. 509, 522 (2005) (arguing that the fear of enhanced damages and the duty to obtain patent opinions chills research and development, particularly among individual inventors and small companies); Edwin H. Taylor & Glenn E. Von Tersch, *A Proposal to Shore Up the Foundations of Patent Law that the Underwater Line Eroded*, 20 HASTINGS COMM. & ENT L.J. 721, 740 (1998) (stating that obligatory patent opinions impose substantial costs on businesses, and sometimes force businesses to abandon legitimate projects).

⁴⁰ 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

⁴¹ *Id.* at 1345–46.

⁴² *Id.* at 1343.

⁴³ *Id.*

⁴⁴ *Id.* at 1340.

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court did award the patentee, Knorr-Bremse, partial attorney fees.⁴⁵ One defendant “had consulted European and United States counsel concerning Knorr-Bremse’s patents, but declined to produce any legal opinion or to disclose the advice received, asserting the attorney-client privilege.”⁴⁶ Another defendant stated that it had not sought its own legal counsel, but rather had depended upon the advice received by the first defendant.⁴⁷ The defendants argued on appeal that the trial court should not have drawn an adverse inference from either one of these situations.⁴⁸

As the *Knorr-Bremse* court discussed, the attorney-client privilege plays an important role in the American legal system. The Supreme Court discussed the privilege extensively in *Upjohn Co. v. United States*,⁴⁹ describing it as the “oldest of the privileges for confidential communications known to the common law,”⁵⁰ and stating that “[i]ts purpose is to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice.”⁵¹ The privilege, the Supreme Court said, “recognizes that sound legal advice or advocacy serves public ends and that such advice or advocacy depends upon the lawyer’s being fully informed by the client.”⁵²

Only the client may waive the attorney-client privilege.⁵³ If the privilege is waived (so that the client may offer into evidence relevant information from the relationship), *all* related information comes into evidence.⁵⁴ This is viewed as a fairness issue.⁵⁵ In the words of the Federal Circuit, the privilege cannot be used “as both a sword and a shield,” permitting favorable information to come into evidence but keeping out unfavorable information.⁵⁶

“[W]ork-product privilege,” a related doctrine, is “designed to balance the needs of the adversary system: promotion of an attorney’s preparation in

⁴⁵ *Id.*

⁴⁶ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1342 (Fed. Cir. 2004) (en banc).

⁴⁷ *Id.*

⁴⁸ *Id.* at 1340.

⁴⁹ 449 U.S. 383 (1981).

⁵⁰ *Id.* at 389, *quoted in Knorr-Bremse*, 383 F.3d at 1344.

⁵¹ *Id.*

⁵² *Id.*

⁵³ *In re Seagate Tech., L.L.C.*, 497 F.3d 1360, 1372 (Fed. Cir. 2007) (en banc).

⁵⁴ *Id.* (quoting *Fort James Corp. v. Solo Cup Corp.*, 412 F.3d 1340, 1349 (Fed. Cir. 2005)).

⁵⁵ *Id.*

⁵⁶ *Id.*

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representing a client versus society's general interest in revealing all true and material facts to the resolution of a dispute."⁵⁷ "Unlike the attorney-client privilege, which provides absolute protection from disclosure, work product protection is qualified and may be overcome by need and undue hardship,"⁵⁸ but in most instances, the client may prevent the admission into evidence of the attorney's work product.⁵⁹

Knorr-Bremse made two important rulings regarding the role of opinion of counsel in willfulness cases. First, it is *not* appropriate to draw a negative inference from invocation of the attorney-client and/or work-product privilege with respect to willfulness⁶⁰ because doing so "distort[s] the attorney-client relationship."⁶¹ Second, it is *not* appropriate to draw a negative inference with respect to willfulness from a defendant's failure to obtain legal advice.⁶² The court found that there was no basis for applying a special adverse inference rule in patent cases when such a rule did not apply generally within the law.⁶³

Although the *Knorr-Bremse* court continued to recognize the "affirmative duty of due care to avoid infringement of the known patent rights of others,"⁶⁴ thus preserving one critical aspect of *Underwater Devices*, the court held that "the failure to obtain an exculpatory opinion of counsel shall no longer provide an adverse inference or evidentiary presumption that such an opinion would have been unfavorable."⁶⁵ Rather, determinations of willful infringement were to be evaluated based on "the totality of the circumstances but without the evidentiary contribution or presumptive weight of an adverse inference that any opinion of counsel was or would have been unfavorable."⁶⁶

Knorr-Bremse left several important issues unanswered. For example, in 2006, the Federal Circuit addressed the scope of waiver that resulted from assertion of the advice-of-counsel defense in willfulness cases in *In re Echostar*

⁵⁷ *Martin Marietta Corp. v. Pollard*, 856 F.2d 619, 624 (4th Cir. 1988), *quoted in In re Seagate*, 497 F.3d at 1375.

⁵⁸ *In re Seagate*, 497 F.3d at 1375.

⁵⁹ *Id.* (citing *United States v. Nobles*, 422 U.S. 225, 239 (1975)).

⁶⁰ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344 (Fed. Cir. 2004) (en banc).

⁶¹ *Id.*

⁶² *Id.* at 1345.

⁶³ *Id.*

⁶⁴ *Id.* (quoting *L.A. Gear Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993)). Judge Dyk wrote a spirited dissent. *See id.* at 1348–52 (Dyk, J., dissenting).

⁶⁵ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1346 (Fed. Cir. 2004) (en banc).

⁶⁶ *Id.*

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*Communications Corp.*⁶⁷ The *Echostar* court held that if an accused infringer relied upon in-house counsel's advice to refute a charge of willfulness, that reliance constituted waiver of the attorney-client privilege.⁶⁸ Moreover, the waiver also operated to waive work-product protection and the attorney-client privilege on all communications involving that subject matter, as well as any documentation of such attorney-client communications.⁶⁹ The impact of these successive decisions upon the attorney-client relationship was substantial, and ultimately, the Federal Circuit held yet another en banc sitting in 2007, this time to specifically address the intersection between willfulness and the attorney-client privilege and work-product protection.

C. Seagate

In re Seagate Technology, L.L.C.,⁷⁰ a 2007 en banc decision of the Federal Circuit, radically changed the law regarding the impact of obtaining or not obtaining patent opinions in willfulness cases. Although at first glance *Seagate* seemed to diminish the role of patent opinions in infringement cases, a closer look suggests that the decision, at least in some respects, actually enhanced the attractiveness of seeking such opinions as a strategic matter.

The accused infringer, Seagate, had obtained three invalidity and unenforceability opinions from its patent counsel.⁷¹ The trial court ruled that if Seagate relied upon any of those opinions in its defense, “[it] waived the attorney-client privilege for all communications between it and any counsel, including its trial attorneys and in-house counsel, concerning the subject matter of [those] opinions.”⁷²

The Federal Circuit used this case as an opportunity both to revisit the affirmative duty of care that was articulated in *Underwater Devices* and reaffirmed in *Knorr-Bremse* and to clarify the rules regarding waiver of attorney-client privilege and work-product protection.⁷³ The *Seagate* court identified several decisions that had noted the “practical concerns” arising from *Underwa-*

⁶⁷ 448 F.3d 1294 (Fed. Cir. 2006).

⁶⁸ *Id.* at 1299.

⁶⁹ *Id.* at 1299, 1302–03.

⁷⁰ 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

⁷¹ *Id.* at 1366.

⁷² *Id.* at 1366–67 (footnote omitted).

⁷³ *Id.* at 1370.

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ter Devices, particularly in the context of the attorney-client privilege and work-product doctrine.⁷⁴

The *Seagate* court also emphasized the important role that the attorney-client privilege and work-product doctrine play in the American adversarial system of justice.⁷⁵ Although an accused infringer must waive the attorney-client privilege in order to introduce exculpatory patent opinions, that waiver extends only to patent counsel, and does not require waiver of the attorney-client privilege with respect to trial counsel. As the Supreme Court has noted, trial counsel needs “a certain degree of privacy, free from unnecessary intrusion by opposing parties and their counsel.”⁷⁶ The *Seagate* court thus announced “a general proposition, that asserting the advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel.”⁷⁷ The *Seagate* court found that the same rationale should apply to the work-product doctrine, and that “as a general proposition, relying on opinion counsel’s work product does not waive work product immunity with respect to trial counsel.”⁷⁸

More importantly, *Seagate* expressly rejected the affirmative duty of due care announced in *Underwater Devices*, a duty that had been defined in *Underwater Devices* as including, “*inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.”⁷⁹ The *Seagate* court framed the issue as one of the proper standard for determining willfulness.⁸⁰ The court found that the duty-of-care standard of *Underwater Devices* set an inappropriately low threshold for willful infringement, something “more akin to negligence.”⁸¹ Rather, the correct standard “require[d] at least a showing of objective recklessness.”⁸²

Thus, the *Seagate* court expressly overruled the affirmative duty of due care and the concomitant affirmative obligation to obtain a patent opinion.⁸³

⁷⁴ *Id.* at 1369–70.

⁷⁵ *Id.* at 1372–76.

⁷⁶ *Hickman v. Taylor*, 329 U.S. 495, 511 (1947), *quoted in In re Seagate*, 497 F.3d 1360, 1373 (Fed. Cir. 2007) (en banc).

⁷⁷ *In re Seagate*, 497 F.3d at 1374.

⁷⁸ *Id.* at 1375–76.

⁷⁹ *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389–90 (Fed. Cir. 1983), *overruled by In re Seagate*, 497 F.3d 1360.

⁸⁰ *In re Seagate*, 497 F.3d at 1371–72.

⁸¹ *Id.* at 1371.

⁸² *Id.*

⁸³ *Id.*

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Rather, to show willful infringement, the patentee now “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.”⁸⁴ Pre-litigation opinion of counsel may well be relevant in showing whether there was such “objectively high likelihood” of infringement.⁸⁵ In addition, “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.”⁸⁶

The *Seagate* standard raises the question, of course, of what a patentee knew or should have known. Patent opinions play an important role in answering this inquiry. While neither an accused infringer’s reliance on favorable advice of patent counsel nor an accused infringer’s failure to produce a favorable opinion is “dispositive of the willfulness inquiry, it is,” the *Seagate* court noted, “crucial to the analysis.”⁸⁷

Thus, *Seagate* created an interesting split regarding the role of patent opinions in willfulness cases. On the one hand, the case could be read as diminishing the role of such opinions because there was no longer an affirmative duty to seek them. On the other hand—by reiterating the importance of the attorney-client privilege and work-product doctrine, and by emphasizing the distinct roles of patent counsel and trial counsel—the *Seagate* court created an incentive for potential infringers to seek such opinions. No longer would accused infringers have to worry that by relying upon a patent counsel opinion in their defense they would be opening up their entire trial strategy to opposing counsel; moreover, obtaining and relying upon such opinions would likely decrease the likelihood that accused infringers would face enhanced damages. Thus, the net effect of *Seagate*, even post-enactment of the AIA, may well turn out to be an increase in the frequency with which potential infringers seek such opinions, which could translate into increased respect for patent rights.

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ *In re Seagate*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc). The *Seagate* court stated that it left it “to future cases to further develop the application of this standard.” *Id.* Post-*Seagate* courts have considered a number of factors, such as evidence of copying, receipt of cease and desist letters, and knowledge received during licensing negotiations, in determining whether the accused infringers knew or should have known of the objectively high likelihood of infringement. See Randy R. Micheletti, Note, *Willful Patent Infringement After In re Seagate: Just What Is “Objectively Reckless” Infringement?*, 84 CHI.-KENT L. REV. 975, 994–96 (2010).

⁸⁷ 497 F.3d at 1369 (citation omitted).

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While *Seagate* seemingly limited the role of patent opinions in willfulness cases, it did not render them irrelevant,⁸⁸ and such opinions remained important to willfulness determinations, at least prior to enactment of the AIA. In evaluating willfulness, the courts consider the “totality of the circumstances.”⁸⁹ As one post-*Seagate* trial court noted:

Case law post-*Seagate* is split as to whether lack of opinion of counsel is still a valid factor that can be considered by the jury in determining willfulness of infringement. Many courts seem to have concluded that, while there is no longer any “adverse inference” from the failure to obtain opinion of counsel, it is still a factor to be considered in the “totality of the circumstances” approach.⁹⁰

This court went on to note, however, that “[a] number of courts . . . have interpreted *Seagate* differently, concluding that lack of opinion of counsel cannot be considered by the jury at all.”⁹¹

⁸⁸ See *Presidio Components Inc. v. Am. Technical Ceramics Corp.*, 723 F. Supp. 2d 1284, 1324 (S.D. Cal. 2010) (“[T]he Federal Circuit did *not* hold [in *Seagate*] that failure to obtain opinion of counsel was legally irrelevant.”).

⁸⁹ *Id.* See also *ACCO Brands, Inc. v. ABA Locks Mfr. Co.*, 501 F.3d 1307, 1312–13 (Fed. Cir. 2007); *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826–27 (Fed. Cir. 1992), *abrogated in part on other grounds* by *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (en banc), *aff’d*, 517 U.S. 370 (1996).

⁹⁰ *Presidio*, 723 F. Supp. 2d at 1324–25. See *Finjan Software, Ltd. v. Secure Computing Corp.*, C.A. No. 06-369 (GMS), 2009 WL 2524495, at *15 (D. Del. Aug. 18, 2009) (“While there is no longer an affirmative duty of care that requires an accused infringer to obtain an opinion of counsel, the fact that Secure did not seek any such opinion may be considered in the totality of circumstances surrounding willful infringement.”), *aff’d in part, rev’d in part*, 626 F.3d 1197 (Fed. Cir. 2010); *Creative Internet Adver. Corp. v. Yahoo! Inc.*, No. 6:07cv354, 2009 WL 2382132, at *5 (E.D. Tex. July 30, 2009) (noting that while it is not determinative, “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”); *GSI Grp., Inc. v. Sukup Mfg. Co.*, 591 F. Supp. 2d 977, 981 (C.D. Ill. 2008) (“An alleged infringer’s decision not to secure an opinion is relevant to show willfulness, but an alleged infringer is not required to secure an attorney opinion letter before marketing a device to avoid a claim of willfulness.”); *Energy Transp. Grp., Inc. v. William Demant Holding A/S*, C.A. No. 05-422 GMS, 2008 WL 114861, at *1 (D. Del. Jan. 7, 2008) (denying accused infringer’s motion in limine and concluding 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”); *Cohesive Techs., Inc. v. Waters Corp.*, 526 F. Supp. 2d 84, 103 (D. Mass. 2007) (noting that “whether the infringer solicited or followed the advice of counsel” was one of the factors to be considered in determining willfulness), *vacated in part and rev’d in part on other grounds*, 543 F.3d 1351 (Fed. Cir. 2008).

⁹¹ *Presidio*, 723 F. Supp. 2d at 1325 (citing *Spectralytics, Inc. v. Cordis Corp.*, No. 05-CV-1464 (PJS/RLE), 2009 WL 3851314, at *4 (D. Minn. Jan. 13, 2009) (“With respect to the issue of willful infringement, the jury will not be instructed to consider whether defendants sought an

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D. Post-Seagate Judicial Developments: Enhanced Damages

Once the fact-finder has established willfulness, the court must determine whether to enhance damages.⁹² The presence or absence of opinion of counsel is relevant to this determination. In *i4i Ltd. Partnership v. Microsoft Corp.*,⁹³ for example, the Federal Circuit emphasized that the factors considered in evaluating whether enhanced damages were appropriate were “distinct and separate” from the factors considered in the willfulness determination.⁹⁴ Enhancement of damages is considered under the nine factors set forth in *Read Corp. v. Portec, Inc.*,⁹⁵ the second of which is “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.”⁹⁶ Thus, in *i4i Ltd.*, the Federal Circuit affirmed a twenty percent enhancement (\$40 million) of damages because the accused infringer learned of the patent but failed to obtain an opinion of counsel before continuing with its allegedly infringing activity.⁹⁷

opinion of counsel.”); *Anascape, Ltd. v. Microsoft Corp.*, No. 9:06-CV-158, 2008 WL 7182476, at *4 (E.D. Tex. Apr. 25, 2008) (“[T]he failure to obtain opinion of counsel is not a factor supporting willful infringement.”)). The *Presidio* court ultimately determined that:

Having considered the issue, the Court agrees with what appears to be the majority view post-*Seagate* that lack of opinion of counsel, while not giving rise to an adverse inference, is still a factor that the jury *can* consider when applying the ‘totality of the circumstances’ approach with respect to willfulness of infringement.

723 F. Supp. 2d at 1325.

⁹² See *supra* notes 18–21 and accompanying text.

⁹³ 589 F.3d 1246 (Fed. Cir. 2009). The Supreme Court granted certiorari in *i4i* and held that invalidity must be proven by clear and convincing evidence when allegedly invalidating prior art was not before the PTO during prosecution. *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238 (2011).

⁹⁴ *i4i Ltd.*, 589 F.3d at 1274.

⁹⁵ 970 F.2d 816 (Fed. Cir. 1992), *abrogated in part on other grounds by* *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (en banc), *aff’d*, 517 U.S. 370 (1996).

⁹⁶ *Id.* at 827. The remaining factors are: (1) “whether the infringer deliberately copied the ideas or design of another”; (2) “the infringer’s behavior as a party to the litigation”; (3) the “[d]efendant’s size and financial condition”; (4) the “[c]loseness of the case”; (5) the “[d]uration of [the] defendant’s misconduct”; (6) the “[r]emedial actions by the defendant”; (7) the “[d]efendant’s motivation for harm”; and (8) “whether [the] defendant attempted to conceal its misconduct.” *Id.* (citations omitted).

⁹⁷ 589 F.3d at 1274–75. See *Finjan Software, Ltd. v. Secure Computing Corp.*, C.A. No. 06-369 (GMS), 2009 WL 2524495, at *15–16 (D. Del. Aug. 18, 2009) (enhancing damages because accused infringer copied the patented product and failed to obtain a patent opinion);

In its recent decision in *Spectralytics, Inc. v. Cordis Corp.*,⁹⁸ the Federal Circuit emphasized that failure to obtain opinion of counsel has different implications in the contexts of willfulness (where *Seagate* erased the negative inference) and enhancement of damages (where *Read* lists failure to adequately investigate patents as a factor to consider).⁹⁹ The court concluded: “*Seagate* did not change the application of the *Read* factors with respect to enhancement of damages where willful infringement under § 285 is found.”¹⁰⁰

The lower courts routinely consider the presence or absence of opinions of counsel in evaluating enhanced-damages requests. In *Meyer Intellectual Properties Ltd. v. Bodum, Inc.*,¹⁰¹ for example, the trial court found that the infringer acted in bad faith, and it enhanced a \$50,000 damage award by \$100,000 and awarded attorneys' fees in part because the infringer failed to obtain opinion of counsel.¹⁰² The court declined to accept the infringer's argument that *Seagate* eliminated the advice-of-counsel requirement in the context of enhanced damages.¹⁰³ Further, in considering the *Read* factors, the court found that the infringer did not form a good-faith belief because it had failed to adequately investigate or even read existing patents.¹⁰⁴

In *Funai Electric Co. v. Daewoo Electronics Corp.*,¹⁰⁵ the trial court, while ultimately declining to enhance damages, found that the award of enhanced damages was “a close call.”¹⁰⁶ The court held that the following supported an award of enhanced damages: (1) the infringer's failure to seek outside opinion of counsel until after litigation had commenced; (2) its decision to retain a South Korean law firm without training in U.S. patent law; and (3) its disregard for all of the subsequent opinion letters in deciding to continue selling infringing products.¹⁰⁷

Wordtech Sys., Inc. v. Integrated Network Solutions, Inc., No. 2:04-cv-01971-MCE-EFB, 2009 U.S. Dist. LEXIS 2806, at *5–6 (E.D. Cal. Jan. 14, 2009) (enhancing damages because plaintiff copied exactly the defendant's product and never attempted to learn if their actions infringed a valid patent).

⁹⁸ 649 F.3d 1336 (Fed. Cir. 2011).

⁹⁹ *Id.* at 1347–48.

¹⁰⁰ *Id.* at 1349.

¹⁰¹ 764 F. Supp. 2d 1004 (N.D. Ill. 2011).

¹⁰² *Id.* at 1008, 1011.

¹⁰³ *Id.* at 1008.

¹⁰⁴ *Id.* at 1009.

¹⁰⁵ 593 F. Supp. 2d 1088 (N.D. Cal. 2009), *aff'd*, 616 F.3d 1357 (Fed. Cir. 2010).

¹⁰⁶ *Id.* at 1117.

¹⁰⁷ *Id.* at 1114.

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In *Seagate*, the Federal Circuit emphasized the distinction between seeking a pre-litigation opinion and a post-litigation opinion. Subsequent trial courts have likewise been influenced by the timing of the opinion. In *I-Flow Corp. v. Apex Medical Technologies, Inc.*,¹⁰⁸ *Wordtech Systems, Inc. v. Integrated Networks Solutions, Inc.*,¹⁰⁹ and *Minks v. Polaris Industries, Inc.*,¹¹⁰ the trial court enhanced damages in part because the accused infringer waited until after it had been accused of infringement to investigate the patent and seek opinion of counsel.¹¹¹

III. PATENT OPINIONS IN INDUCEMENT CASES

U.S. law provides for liability for indirect patent infringement in the form of contributory infringement¹¹² and inducement of infringement.¹¹³ Liability for indirect infringement exists only where there is direct infringement by another.¹¹⁴ Inducement liability typically arises when a defendant sells an article to another party who uses it to directly infringe a patent, or when a defendant makes extra-territorial sales of an item covered by a U.S. patent that is then imported into the United States.¹¹⁵ Inducement liability raises issues regarding the need for and use of opinion of counsel.

Inducement is, in effect, a mechanism for holding a defendant liable even though that defendant did not directly cause the harm at issue.¹¹⁶ On theoretical grounds, such secondary liability is viewed as both more efficient (it provides a mechanism for “shift[ing] costs to those in the best position to prevent future harm”) and more moral (it provides a mechanism for holding liable “those who intended to bring about a harm . . . even if another party was the

¹⁰⁸ No. 07cv1200 DMS (NLS), 2010 WL 114005 (S.D. Cal. Jan. 6, 2010).

¹⁰⁹ No. 2:04-cv-01971-MCE-EFB, 2009 WL 113771 (E.D. Cal. Jan. 15, 2009).

¹¹⁰ No. 6:05-cv-1894-Orl-31KRS, 2007 WL 788418 (M.D. Fla. Mar. 14, 2007), *aff'd*, 546 F.3d 1364 (Fed. Cir. 2008).

¹¹¹ *I-Flow*, 2010 WL 114005, at *2-3; *Wordtech Sys.*, 2009 WL 113771, at *2; *Minks*, 2007 WL 788418, at *1-2.

¹¹² 35 U.S.C. § 271(c) (2006).

¹¹³ *Id.* § 271(b).

¹¹⁴ *See Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993) (“Liability for either active inducement of infringement or for contributory infringement is dependent upon the existence of direct infringement.”).

¹¹⁵ *See* 35 U.S.C. § 271(b).

¹¹⁶ Lynda J. Oswald, *International Issues in Secondary Liability for Intellectual Property Rights Infringement*, 45 AM. BUS. L.J. 247, 247 (2008).

direct cause of the harm incurred by the plaintiff”).¹¹⁷ Courts and commentators have also articulated pragmatic reasons for imposing secondary liability in patent infringement cases; that is, secondary liability could provide a mechanism for relief where it is impracticable to sue the direct infringer, either because the direct infringer lacks resources to provide compensation, or because the individual recovery from each of many small infringers would be dwarfed by the costs of litigation.¹¹⁸

In the patent law arena, secondary liability developed first in the common law and was later codified in the Patent Act of 1952.¹¹⁹ Section 271(a) of the Patent Act imposes direct liability upon those who make, use, sell, or offer for sale in the United States inventions patented by others, as well as upon those who import patented inventions into the United States.¹²⁰ Direct patent infringement is, in effect, a form of strict liability.¹²¹ The Patent Act divided the common law notion of indirect liability into two distinct causes of action: (1) contributory infringement, which imposes liability for supplying parts or services that are specially suited to infringe,¹²² and (2) inducement of infringement.¹²³

Section 271(b), which addresses inducement liability, uses very simple language: “Whoever actively induces infringement of a patent shall be liable as an infringer.”¹²⁴ The Patent Act left it to the courts to flesh out the parameters of this sparse language. In particular, the courts were faced with the issue of identifying *intent* for inducement, an issue that implicates the role of opinion of patent counsel.¹²⁵

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 254 (citations omitted).

¹¹⁹ *Id.*

¹²⁰ 35 U.S.C. § 271(a) (2006).

¹²¹ See *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) (“Infringement itself . . . is a strict liability offense . . .”); *Intel Corp. v. U.S. Int’l Trade Comm’n*, 946 F.2d 821, 832 (Fed. Cir. 1991) (“[T]here is no intent element to *direct* infringement.”).

¹²² 35 U.S.C. § 271(c).

¹²³ *Id.* § 271(b).

¹²⁴ *Id.*

¹²⁵ See generally Lynda J. Oswald, *The Intent Element of “Inducement to Infringe” Under Patent Law: Reflections on Grokster*, 13 MICH. TELECOMM. & TECH. L. REV. 225 (2006) (discussing the evolution of the intent element of inducement liability).

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A. DSU Medical Corp.

In many ways, *DSU Medical Corp. v. JMS Co.*,¹²⁶ a 2006 en banc decision by the Federal Circuit, set the stage for examining the role of patent opinions in inducement cases, although it did not discuss the issue directly. The plaintiff, DSU Medical, sued the defendants for direct infringement, inducement to infringe, and contributory infringement of two patents.¹²⁷ The Federal Circuit, sitting en banc on this issue alone, addressed the issue of intent in the context of induced infringement.¹²⁸

In earlier cases, the Federal Circuit had made it clear that inducement required: (1) direct infringement by another; (2) actual or constructive knowledge of the patent by the inducer; and (3) intent to induce infringement.¹²⁹ It was unclear, however, what “intent” meant in this context.¹³⁰ In fact, there was a split of authority in Federal Circuit precedent on this point. In *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*,¹³¹ decided in 1990, a three-judge panel of the Federal Circuit held that § 271(b) inducement liability required “actual intent to cause the acts which constitute the infringement.”¹³² Just three months later, another panel of the Federal Circuit decided *Manville Sales Corp. v. Paramount Systems, Inc.*¹³³ Although rules of precedent would dictate that the *Manville Sales* panel follow the rule articulated earlier by the *Hewlett-Packard* panel, the *Manville Sales* court articulated a different, higher standard for inducement liability: “It must be established that the defendant possessed specific intent to encourage another’s infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement.”¹³⁴

¹²⁶ 471 F.3d 1293 (Fed. Cir. 2006) (en banc).

¹²⁷ *Id.* at 1297.

¹²⁸ *Id.* at 1304.

¹²⁹ See, e.g., *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1378 (Fed. Cir. 2005); *Insituform Techs., Inc. v. CAT Contracting, Inc.*, 161 F.3d 688, 695 (Fed. Cir. 1998).

¹³⁰ *MEMC*, 420 F.3d at 1378 n.4 (citation omitted).

¹³¹ 909 F.2d 1464 (Fed. Cir. 1990).

¹³² *Id.* at 1469.

¹³³ See 917 F.2d 544 (Fed. Cir. 1990) (issuing the decision in *Manville* on Oct. 23, 1999); *Hewlett-Packard*, 909 F.2d at 1464 (issuing the decision on July 30, 1999).

¹³⁴ *Manville Sales*, 917 F.2d at 553.

These conflicting standards generated considerable uncertainty for parties and courts. Some courts adopted the lower *Hewlett-Packard* standard,¹³⁵ some the higher *Manville Sales* standard.¹³⁶ Some avoided the issue by noting the split in authority but finding that the facts of the particular case at issue would dictate the same result regardless of which standard was applied.¹³⁷

The *DSU Medical* en banc court resolved the confusion by adopting the higher *Manville Sales* definition of intent.¹³⁸ Proof of inducement under § 271(b) of the Patent Act requires that the patentee show “the alleged infringer’s actions induced infringing acts *and* that he knew or should have known his actions would induce actual infringements.”¹³⁹ This decision had the (perhaps unintended) effect of heightening the incentive to seek a patent opinion.

The patentee in *DSU Medical* sued two defendants, JMS and ITL, for infringing patents on a needle guard assembly.¹⁴⁰ ITL made open needle guard assemblies abroad and sold them to JMS for distribution in the U.S.¹⁴¹ The open needle guard assemblies had to be closed for patent infringement to occur.¹⁴² JMS closed the guards around the assemblies before importing them and selling them to U.S. customers.¹⁴³ Evidence at trial showed that ITL knew of the patent and intended that JMS complete the assembly by closing the guards.¹⁴⁴ ITL, however, presented evidence that it did not intend to infringe.¹⁴⁵ The jury found

¹³⁵ See, e.g., *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1365 (Fed. Cir. 2004); *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1273 (Fed. Cir. 2004).

¹³⁶ See, e.g., *Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1363 (Fed. Cir. 2003); *Minn. Mining & Mfg. Co. v. Chemque, Inc.*, 303 F.3d 1294, 1305 (Fed. Cir. 2002).

¹³⁷ See, e.g., *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1378 n.4 (Fed. Cir. 2005); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1377–78 (Fed. Cir. 2005). For a good summary of the different impacts that the two standards had in cases involving opinions of counsel, see generally Michael N. Rader, *Toward a Coherent Law of Inducement to Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for Intent Under § 271(b)*, 10 FED. CIR. B.J. 299, 320–26 (2000).

¹³⁸ *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006) (en banc).

¹³⁹ *Id.* at 1306 (quoting *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990)).

¹⁴⁰ *Id.* at 1297.

¹⁴¹ *Id.* at 1298–99.

¹⁴² *Id.* at 1302.

¹⁴³ *Id.* at 1299.

¹⁴⁴ *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1303 (Fed. Cir. 2006) (en banc).

¹⁴⁵ *Id.* at 1307.

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JMS liable for direct infringement (a strict liability offense), but did not find ITL liable for inducement because of lack of intent.¹⁴⁶

The Federal Circuit affirmed this finding, noting several facts that evidenced a lack of intent on ITL's part to induce infringement by JMS: (1) ITL consulted an Australian attorney, who opined that the product did not infringe; (2) ITL obtained letters from U.S. patent counsel opining that the product did not infringe; and (3) one of the owners of ITL who helped design the product testified that ITL had no intent to infringe.¹⁴⁷ The court concluded that "on this record, the jury was well within the law to conclude that ITL did not induce JMS to infringe by purposefully and culpably encouraging JMS's infringement."¹⁴⁸

Thus, although *DSU Medical* did not directly address the role of patent opinions in determining the intent necessary to support a finding of inducement liability, the decision implicitly suggested that the presence of such opinions could negate the finding of the requisite intent necessary to support a claim of inducement.¹⁴⁹ This suggestion, combined with the heightened standard of intent adopted by the en banc court, elevated the role of patent opinions in inducement cases, although the extent of this elevation was uncertain.¹⁵⁰ One subsequent lower court held that non-infringement opinions of counsel were probative, but not dispositive, regarding lack of intent to infringe.¹⁵¹ Another found that the presence of a non-infringement opinion of counsel was sufficient evidence of lack of intent to overcome a patentee's motion for summary judgment.¹⁵²

However, a more critical question remained unresolved by *DSU Medical*. While obtaining a patent opinion could eliminate inducement liability,

¹⁴⁶ *Id.* at 1302, 1307.

¹⁴⁷ *Id.* at 1307.

¹⁴⁸ *Id.*

¹⁴⁹ See Vivian Lei, *Is the Doctrine of Inducement Dead?*, 50 IDEA 875, 876 (2010) (discussing *DSU's* holding on the requisite intent for inducement, as well as subsequent lower court opinions on that issue).

¹⁵⁰ *Id.* at 876–77.

¹⁵¹ *Semiconductor Energy Lab. Co. v. Chi Mei Optoelectronics Corp.*, 531 F. Supp. 2d 1084, 1113 (N.D. Cal. 2007).

¹⁵² *Vnus Med. Techs., Inc. v. Diomed Holdings, Inc.*, 2007 U.S. Dist LEXIS 76499, at *5–6 (N.D. Cal. Oct. 2, 2007) (denying patentee's motion for summary judgment of induced infringement because: (1) "each defendant has offered evidence that it sought and obtained the opinion of counsel, who, in each instance, provided an opinion the accused products did not infringe and/or the patents were invalid" and (2) "each defendant has offered evidence that in reliance on the opinion of its counsel, it continued to sell the accused products").

would failure to obtain such an opinion *imply* such liability? In 2008, the Federal Circuit explored the issue further in *Broadcom Corp. v. Qualcomm Inc.*,¹⁵³ which addressed the intersection of *Seagate* and *DSU Medical*.¹⁵⁴

B. Broadcom Corp.

In *Broadcom Corp. v. Qualcomm Inc.*, a panel of the Federal Circuit held that a jury could consider failure to obtain an opinion of counsel in deciding whether the defendant had the necessary intent to induce infringement.¹⁵⁵ The timing of the case was significant. Qualcomm was found liable at trial for direct and induced infringement of Broadcom's patent and was assessed damages of \$20 million.¹⁵⁶ Ten days after the trial court denied all of Qualcomm's post trial motions, the Federal Circuit issued its opinion in *Seagate*.¹⁵⁷ Thus, the trial and appellate courts were considering *Broadcom* during a period in which the rules regarding patent opinions were in flux.

Qualcomm's position on appeal was that *Seagate* made patent opinions irrelevant in the context of inducement as well as in the context of willfulness.¹⁵⁸ Qualcomm argued that it had not sought non-infringement opinions because it had already received invalidity opinions for each patent.¹⁵⁹ However, Qualcomm asserted the attorney-client privilege and did not rely upon those invalidity opinions during litigation.¹⁶⁰ Rather, Qualcomm argued that the opinion of counsel was no longer relevant to inducement.¹⁶¹ It contended that the specific intent for proving inducement under *DSU Medical* was higher than the willfulness standard under *Seagate* and so opinion of counsel, which is irrelevant to willfulness, should be irrelevant to specific intent as well.¹⁶² Broadcom countered that patent opinions were one factor to consider among many and that *Seagate* did not address the standard of intent for inducement, much less rule that the presence or absence of such letters was irrelevant to the intent inquiry.¹⁶³

¹⁵³ 543 F.3d 683 (Fed. Cir. 2008).

¹⁵⁴ *See id.* at 697.

¹⁵⁵ *Id.* at 698.

¹⁵⁶ *Id.* at 687.

¹⁵⁷ *Id.*

¹⁵⁸ *Id.* at 699.

¹⁵⁹ *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 683 (Fed. Cir. 2008).

¹⁶⁰ *Id.*

¹⁶¹ *Id.* at 699.

¹⁶² *Id.*

¹⁶³ *Id.* at 697.

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The *Broadcom* panel explained that while Qualcomm was correct in asserting “there is no affirmative duty to seek opinion of counsel,” and that no adverse inference may be drawn from failure to obtain an opinion with regard to determinations of willfulness, Qualcomm was incorrect in contending that *Seagate* altered the intent standard for inducement.¹⁶⁴ *DSU Medical* required “specific intent to encourage another’s infringement.”¹⁶⁵ Specific intent, in turn, meant “knew or should have known [the] actions would induce actual infringements.”¹⁶⁶ Opinion-of-counsel evidence is relevant to whether a defendant knew or should have known its actions would lead to direct infringement by another, although the court emphasized such evidence should be considered “along with other factors.”¹⁶⁷ Moreover, the court stated, failure to obtain an opinion may also be “probative of intent in this context.”¹⁶⁸ The court explained: “It would be manifestly unfair to allow opinion-of-counsel evidence to serve an exculpatory function . . . and yet not permit patentees to identify failures to procure such advice as circumstantial evidence of intent to infringe.”¹⁶⁹

The *Broadcom* panel in effect created an adverse inference (albeit, a somewhat weak one) for patent opinions in the inducement context,¹⁷⁰ even though the *Knorr-Bremse* en banc court had rejected such an adverse inference in the willfulness context.¹⁷¹ The explanation for this apparent dichotomy might lie in the role that enhanced damages play in patent law. In his partial dissent in *Knorr-Bremse*, Judge Dyk argued that enhanced damages are a form of punitive damages that require “reprehensible behavior” under Federal Circuit precedent.¹⁷² To the extent that a willfulness determination can lead to enhanced damages, it carries overtones of punitive damages. It is not surprising, therefore, that a court might be wary.¹⁷³ Inducement, however, carries no such punitive damages connotations and so might make the court more amenable to the creation and application of adverse inferences.

¹⁶⁴ *Id.* at 699.

¹⁶⁵ *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008).

¹⁶⁶ *Id.* (quoting *DSU Med. Corp. v. JMS Corp.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006) (en banc)).

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

¹⁷⁰ *See Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008).

¹⁷¹ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1341 (Fed. Cir. 2004).

¹⁷² *Id.* at 1348 (Dyk, J., concurring in part and dissenting in part).

¹⁷³ *See id.*

C. SEB S.A./Global-Tech

In 2010, a panel of the Federal Circuit addressed the issue of the standard of knowledge for inducement of infringement and held that “deliberate indifference” to potential patent rights is sufficient to satisfy the knowledge requirements for induced infringement.¹⁷⁴ *SEB S.A. v. Montgomery Ward & Co.*¹⁷⁵ involved a dispute over a patented deep fryer marketed by SEB in the United States through a subsidiary.¹⁷⁶ Pentalpha, a manufacturer of household appliances, copied a SEB deep fryer sold in Hong Kong without U.S. patent markings.¹⁷⁷ Before marketing its product, Pentalpha sought and received a “right-to-use” opinion from a U.S. patent attorney that its deep fryer would not infringe any U.S. patent.¹⁷⁸ However, Pentalpha did not inform the attorney about the deep fryers it had examined or copied in making its own product.¹⁷⁹ Pentalpha then sold its deep fryers overseas to three U.S. retailers, who imported them into the United States.¹⁸⁰ At trial, the jury found that Pentalpha was liable for both willful infringement and inducement of infringement.¹⁸¹ Pentalpha appealed.¹⁸²

The Federal Circuit affirmed the trial court’s decision that Pentalpha was liable for inducement of infringement under § 271(b) and found that Pentalpha’s “deliberate indifference of a known risk” regarding its potentially infringing product satisfied the state of mind element for actively inducing infringement under the Patent Act.¹⁸³ One issue presented in *SEB* was whether actual knowledge of existing patent rights was required before a party could be liable for inducement to infringe.¹⁸⁴ The Federal Circuit interpreted § 271(b) to mean that “the standard of deliberate indifference . . . is not different from actual knowledge, but is a form of actual knowledge.”¹⁸⁵ The Federal Circuit ex-

¹⁷⁴ *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1377–78 (Fed. Cir. 2010), *aff’d sub nom.* *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011).

¹⁷⁵ *Id.*

¹⁷⁶ *Id.* at 1365.

¹⁷⁷ *See id.* at 1366.

¹⁷⁸ *Id.*

¹⁷⁹ *Id.*

¹⁸⁰ *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1366 (Fed. Cir. 2010), *aff’d sub nom.* *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011).

¹⁸¹ *Id.* at 1367–68.

¹⁸² *Id.* at 1368.

¹⁸³ *Id.* at 1377. Pentalpha subsequently filed a motion for rehearing en banc, which was denied.

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

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plained: “‘deliberate indifference’ is not necessarily a ‘should have known’ standard. The latter implies a solely objective test, whereas the former may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed.”¹⁸⁶

For purposes of this Article, however, the important question raised by *SEB* is what role does opinion of counsel play in the determination of inducement liability? The *SEB* panel found that “Pentalpha deliberately disregarded a known risk that SEB had a protective patent.”¹⁸⁷ The court explained that the *DSU Medical* “knowledge of the patent” requirement is met by either actual knowledge of the patent or deliberate indifference to the existence of the patent.¹⁸⁸

Unlike the situation in *DSU Medical*, there was no direct evidence in *SEB* that the accused infringer had actual knowledge of the patent.¹⁸⁹ However, Pentalpha had purchased and copied a SEB deep fryer.¹⁹⁰ Although it “hired an attorney to conduct a right-to-use study,” it did not inform the attorney that it had copied SEB’s product.¹⁹¹ The Federal Circuit noted: “A failure to inform one’s counsel of copying would be highly suggestive of deliberate indifference in most circumstances.”¹⁹² It certainly suggests that the patent opinion obtained and relied upon by Pentalpha was less than fully informed.¹⁹³ Moreover, Pentalpha’s president was knowledgeable about U.S. patent law, and Pentalpha and SEB had had an earlier business relationship involving patented products.¹⁹⁴ Finally, Pentalpha produced no exculpatory evidence indicating that it believed there were no patents covering the accused product other than the fact that the product it purchased in Hong Kong had no U.S. patent markings (and the court apparently saw no reason that a product sold in Hong Kong would carry such

¹⁸⁶ *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1376 (Fed. Cir. 2010), *aff’d sub nom.* *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011) (citations omitted).

¹⁸⁷ *Id.* at 1377.

¹⁸⁸ *Id.* at 1376–77.

¹⁸⁹ *Id.*

¹⁹⁰ *Id.* at 1377.

¹⁹¹ *Id.*

¹⁹² *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1377 (Fed. Cir. 2010), *aff’d sub nom.* *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011).

¹⁹³ *See id.*

¹⁹⁴ *Id.*

markings).¹⁹⁵ Thus, the court found there was sufficient evidence in the record “that Pentalpha deliberately ignored the risk that SEB had a patent”¹⁹⁶

The Federal Circuit’s treatment of patent opinions in *SEB* is instructive. The case does not present an adverse inference scenario as seen in *Broadcom*¹⁹⁷ because the accused inducer in *SEB* had indeed sought opinion of counsel.¹⁹⁸ However, that opinion was not fully informed, as Pentalpha had withheld key facts from patent counsel.¹⁹⁹ In effect, the *SEB* appellate court was making the point that obtaining opinion of counsel is not a mere checklist item that will absolve the client of the necessary intent to support inducement liability.

The U.S. Supreme Court granted certiorari and in May, 2011, issued its decision in *Global-Tech Appliances, Inc. v. SEB, S.A.*²⁰⁰ The Court held that inducement “requires knowledge that the induced acts constitute patent infringement.”²⁰¹ The accused infringer, Pentalpha, was found to have had “knowledge” under the doctrine of willful blindness, a doctrine imported by the Court from criminal law that holds “that defendants cannot escape [liability] by deliberately shielding themselves from clear evidence of critical facts that are strongly suggested by the circumstances.”²⁰²

As the *Global-Tech* Court noted, the accused infringer’s failure to fully inform its patent counsel about the inventions it had copied supported the finding of willful blindness.²⁰³ The willful blindness doctrine requires that: “(1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact.”²⁰⁴ Thus, “a willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts.”²⁰⁵

Although the Federal Circuit’s test was too lax, requiring only a “known risk” of infringing acts of inducement and a “deliberate indifference” to that risk, the Supreme Court nonetheless found the evidence supported a finding that

¹⁹⁵ *Id.* at 1377–78.

¹⁹⁶ *Id.* at 1378

¹⁹⁷ *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008).

¹⁹⁸ 594 F.3d at 1377.

¹⁹⁹ *See id.*

²⁰⁰ 131 S. Ct. 2060 (2011).

²⁰¹ *Id.* at 2068.

²⁰² *Id.* at 2068–69.

²⁰³ *Id.* at 2071–72.

²⁰⁴ *Id.* at 2070.

²⁰⁵ *Id.* at 2070–71.

the accused infringer, Pentalpha, was liable for inducement under the Court's higher standard.²⁰⁶ Pentalpha's failure to fully inform its patent counsel about its copying activities before seeking a right-to-use opinion was critical in this regard: "On the facts of this case, we cannot fathom what motive [Pentalpha's CEO and president John] Sham could have had for withholding this information other than to manufacture a claim of plausible deniability in the event that his company was later accused of patent infringement."²⁰⁷

The *Global-Tech* Court did not directly address the role of patent counsel in inducement cases, nor did it set forth a rule that fully informed patent counsel opinions are needed to overcome a finding of willful blindness in inducement cases. One could easily imagine a scenario in which an accused infringer did not seek a patent counsel opinion and yet nonetheless could not be said to be willfully blind to facts showing knowledge of inducement. However, *Global-Tech* does make it clear that a failure to fully inform patent counsel of the facts before seeking such opinions can create the requisite knowledge needed to support a finding of inducement of patent infringement.²⁰⁸

IV. THE AMERICA INVENTS ACT

The AIA, signed into law by President Obama on September 16, 2011,²⁰⁹ contains specific language addressing the role of patent opinions in willfulness and inducement cases, but it does not address this issue in the context of enhanced damages. New § 298 of the Patent Act, which will take effect on September 16, 2012, provides:

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 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.²¹⁰

In effect, this provision of the AIA codified the Federal Circuit's ruling in *Knorr Bremse* barring the use of a negative inference for willfulness cases.²¹¹ This

²⁰⁶ *Global-Tech Appliances, Inc. v. SEB, S.A.*, 131 S. Ct. 2060, 2070–72 (2011).

²⁰⁷ *Id.* at 2071.

²⁰⁸ *See id.* at 2071–72.

²⁰⁹ Leahy-Smith America Invents Act, Pub. L. No. 112–29, 125 Stat. 284 (2011) (to be codified in scattered sections of 35 U.S.C.).

²¹⁰ *Id.* § 17.

²¹¹ *See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1341 (Fed. Cir. 2004).

provision also bars the weak negative inference created by the *Broadcom* court in the context of inducement.²¹²

The enactment of the AIA does not render opinions of patent counsel irrelevant, however. In patent infringement cases alleging willfulness, for example, two separate determinations are made. First, the fact-finder (whether jury or judge) decides whether infringement occurred and if so, whether it was willful. The AIA provides that the opinion of counsel cannot “be used to prove” willfulness.²¹³ Next, assuming willful infringement is found, the judge determines the availability of enhanced damages and/or attorneys fees.²¹⁴ The AIA does not address the standards for enhancing damages or awarding attorney’s fees and so the opinion of counsel is remains relevant in this context.

Moreover, it is possible that the AIA does not completely close the door on the use of evidence of the absence of a patent opinion in the willfulness and inducement settings. The language of the AIA regarding the implications of failing to obtain patent counsel opinions is significantly diluted as compared to earlier legislative proposals. For example, S.1145, introduced in 2007, would have provided: “The decision of the infringer not to present evidence of advice of counsel *is not relevant* to a determination of willful infringement”²¹⁵ The “not relevant” language would have effectively precluded the consideration of a failure to obtain advice of counsel in willfulness determinations. By contrast, the AIA states failure to obtain such advice cannot “be used to prove” willfulness or intent to induce, leaving open at least the possibility that a court could consider it as a non-conclusive factor in such determinations. Moreover, the AIA speaks only to the inference that cannot be drawn from a failure to obtain such advice; it does not preclude accused infringers from bringing in such opinions as exculpatory evidence. Thus, while the AIA certainly has narrowed the relevance of opinions of counsel in patent infringement cases, it has not rendered such opinions of no importance.

V. CONCLUSION

In light of the AIA and recent Federal Circuit opinions, what advice should the legal profession give businesses about the role of patent opinions and their relevancy to business practices? Patent opinions are not cheap. The reported median cost of a validity/invalidity only opinion in 2011 was \$10,000;

²¹² See *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008).

²¹³ Leahy-Smith America Invents Act § 17 (quoted *supra* note 210).

²¹⁴ See *supra* notes 18–21 and accompanying text.

²¹⁵ Patent Reform Act of 2007, S. 1145, 110th Cong. § 284(e)(3) (2007).

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the reported median cost of infringement/non-infringement only opinion in 2011 was also \$10,000.²¹⁶ Complicated opinions can cost in excess of \$100,000.²¹⁷ Chief Justice Newman warned in his concurrence in *Seagate* of the “disproportionate burdens” that a “per se rule that every possibly related patent must be exhaustively studied by expensive legal talent” would place on “otherwise law-abiding commercial enterprise.”²¹⁸ Opinion costs can mount rapidly for a business that is operating in a patent-dense field and is thus faced with a large number of patents that must be investigated.

Yet the cost of patent opinions is dwarfed by the monstrous cost of patent litigation in U.S. courts. The reported median cost of litigation in 2011 where less than \$1 million was at stake was \$650,000.²¹⁹ Where more than \$25 million was at stake, the median cost rose to \$5 million.²²⁰ Given these numbers, perhaps the best advice that can be given to businesses operating in the U.S. is to err on the side of caution and to seek a patent opinion whenever reasonable doubt about potential liability exists.

Sound business and legal strategy considerations support this position. Obtaining the opinion of patent counsel can help a business avoid infringement suits in the first place—for example, by encouraging the business to design around potentially adverse patents or to seek licensing agreements. If an infringement action is filed, the presence of an opinion can be useful in persuading the fact-finder that willfulness or intent to induce was lacking (even though the absence of the opinion cannot be used to show the converse). And if infringement is found, opinion of counsel can be relevant in persuading the court not to impose enhanced damages.

Moreover, there is a greater societal good to be had from encouraging potential infringers to seek competent legal advice before proceeding with dubious activities. Patent opinions help ensure that businesses will take a serious look at the potential existence and impact of the patents of others before acting. This practice leads to greater protection for patent holders and a greater overall respect for intellectual property rights—the same goal espoused by Congress when it created the Federal Circuit in 1982.²²¹

²¹⁶ AIPLA, REPORT OF THE ECONOMIC SURVEY 2011, at 28 (2011).

²¹⁷ See Moore, *supra* note 22, at 228 n.5.

²¹⁸ *In re Seagate Tech., L.L.C.*, 497 F.3d 1360, 1385 (Fed. Cir. 2007) (en banc) (Newman, J., concurring).

²¹⁹ AIPLA, *supra* note 216, at 35.

²²⁰ *Id.*

²²¹ See S. REP. NO. 97-275, at 1 (1981), reprinted in 1982 U.S.C.C.A.N. 11, 11.