

# Advising Against Active Inducement of Infringement



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THERE HAS BEEN MUCH ADO lately about *In re Seagate Technology, LLC*, and the Federal Circuit's en banc holding that, in order to find willful infringement of a patent, the accused infringer must have acted with "objective recklessness" rather than merely having failed to meet a standard of "due care" (which, in practice, had become more like a negligence standard).<sup>1</sup> Although the *Seagate* court also held that there is no affirmative obligation to obtain an opinion from patent counsel,<sup>2</sup> such patent opinions remain valuable tools for avoiding patent disputes. In addition to providing an advice of counsel defense to willful infringement should a patent dispute arise, a patent opinion also can provide a defense to a charge of active inducement of infringement.

## INDIRECT INFRINGEMENT BY ACTIVE INDUCEMENT

A patent may be infringed directly or indirectly. For the type of indirect

infringement known as active inducement of infringement,<sup>3</sup> liability may arise where the defendant induces a third party to use the product in a way that would infringe the patent. This type of indirect infringement often arises when patent claims for a method or system are asserted against medical devices, computers, or electronics. For example, a patent claiming a new method of using a medical device such as a catheter may be indirectly infringed by a catheter that is sold with instructions describing how to use the catheter in a manner that would be covered by that patented method.

In the 1990 case *Manville Sales Corp. v. Paramount Systems, Inc.*, the Federal Circuit considered whether a corporate officer of Paramount could be held personally liable for the direct infringement of the corporation under a theory of active inducement.<sup>4</sup> The Federal Circuit held that the officer was not liable for active inducement of infringement because the defendant must possess "specific intent to encourage another's infringement and not merely that the defendant had actual knowledge of the acts alleged to constitute infringement."<sup>5</sup> In addition, "the plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known that his actions would induce actual infringements."<sup>6</sup> Thus, to prove active inducement of infringement, the plaintiff has the burden of showing that there has been direct infringement by another, that the defendant's actions induced those infringing acts, and that the defendant knew or should have known his actions would induce actual infringements.<sup>7</sup> Manville's corporate officers had

a "good faith belief" based on advice of counsel that Paramount's product was not infringing the patent-in-suit, and the Federal Circuit reversed the district court's holding of personal liability against the officers because there was no compelling evidence that the officers had a specific intent to cause another to infringe the patent.<sup>8</sup>

In other cases that did not involve the personal liability of a corporate officer, however, the Federal Circuit had noted that only "proof of actual intent to cause the acts which constitute infringement is a necessary prerequisite to finding active inducement."<sup>9</sup> A specific intent to cause infringement of the patent was not required—an intent to cause the specific acts that happened to result in direct infringement was sufficient in these cases.

## RESOLVING THE REQUISITE INTENT FOR ACTIVE INDUCEMENT

In 2006, the Federal Circuit addressed the level of intent required for active inducement of infringement (*i.e.*, whether the requisite intent is to induce the specific acts of infringement, or additionally to cause the infringement) in *DSU Medical Corp. v. JMS Corp.*, and resolved the issue *en banc* by following the *Manville Sales* approach which required a specific intent to cause the infringement.<sup>10</sup> The court held that an opinion of counsel may provide a defense against active inducement of infringement because the charge of indirect infringement requires that the accused infringer have the specific intent to cause another to directly infringe the patent.<sup>11</sup> The accused product in *DSU* was a

plastic needle guard resembling an open clam shell prior to use, where the two halves of the shell close around a needle assembly to form a guard during use.<sup>12</sup> The accused needle guards were manufactured in Asia in the open shell configuration and it was the manufacturer's customer who later closed the guards around needle assemblies.<sup>13</sup> Thus, there was no direct infringement by the manufacturer, and the Federal Circuit affirmed a jury verdict of no active inducement of infringement where the manufacturer had relied on opinions of counsel to show that there was no intent to cause any patent infringement.<sup>14</sup>

Conversely, the lack of an opinion of counsel may be used as circumstantial evidence to show the intent to cause infringement required for active inducement.<sup>15</sup> In *Broadcom Corp. v. Qualcomm, Inc.*, the Federal Circuit held that the failure to obtain an opinion of counsel could be considered as circumstantial evidence that the defendant knew or should have known that its actions would cause direct infringement.<sup>16</sup> Here, the defendant had obtained opinions of counsel regarding patent invalidity, but did not waive those opinions.<sup>17</sup> The Federal Circuit upheld the jury's verdict of active inducement of infringement, and stated that the district court properly excluded the opinions from the evidence in light of the defendant's decision not to waive privilege.<sup>18</sup> Thus, the absence of an exculpatory opinion of counsel may be considered as circumstantial evidence of the requisite intent to support a charge of active inducement of infringement.

In *Abraxis Bioscience, Inc., v. Navinta, LLC*, a district court recently went further and held that the failure to obtain a legal opinion is "strong circumstantial evidence" that the defendant had encouraged the infringement.<sup>19</sup> One of Abraxis' patents-in-suit claimed a pharmaceutically acceptable salt of ropivacaine "at a concentration of less than

0.25% by weight."<sup>20</sup> Navinta's package insert for its ropivacaine-based product included references to its use in labor and delivery, which "is only FDA-approved at concentrations of 0.2% or below."<sup>21</sup> Navinta had not obtained an opinion of counsel relating to its possible infringement of Abraxis' patents, and the court relied on this fact as additional evidence of "Navinta's active encouragement of infringement."<sup>22</sup>

Even though there is no affirmative obligation to obtain an opinion of patent counsel,<sup>23</sup> these cases illustrate the value of having an opinion of counsel to rely upon when active inducement of infringement is at issue. A defendant who obtains but does not disclose an opinion, however, may wind up in the same position as the defendant who had never sought or obtained an opinion from patent counsel, at least with respect to active inducement of infringement.<sup>24</sup> Although the decision to waive the attorney-client privilege for an advice of counsel defense is not to be taken lightly, it is advantageous to have the option of relying on an opinion of counsel when defending against a charge of active inducement of infringement.

### THE COMPETENCY OF THE OPINION

Another important issue that arises in connection with an advice of counsel defense is whether the opinion of counsel is competent.<sup>25</sup> The case law regarding the competency of an opinion of counsel was developed mostly within the context of willful infringement, but the same considerations should apply for active inducement of infringement as well.

Factors to consider in determining whether an opinion is competent include: (1) whether counsel examined the patent file history; (2) whether the opinion was oral or written; (3) the objectivity of the opinions; (4) whether the attorney rendering the opinion was a patent

attorney; (5) whether the opinion was detailed or merely conclusory; and (6) whether material information was withheld from the attorney.<sup>26</sup> In general, the opinion of counsel is viewed objectively to determine whether it was obtained in a timely manner, whether counsel analyzed the relevant facts and explained the conclusions in light of the applicable law, and whether the opinion warranted a reasonable degree of certainty that the infringer has the legal right to conduct the infringing activity.<sup>27</sup>

Patent law is a specialized area of law, and having a registered patent attorney provide the opinion of counsel will help assure that competent legal advice is given.<sup>28</sup> Using an outside patent attorney, preferably from a law firm other than trial counsel, to provide the patent opinion also may help limit the scope of waiver associated with relying on an advice of counsel defense. As a general proposition, disclosing an opinion of patent counsel does not constitute a waiver of the attorney-client privilege or work product immunity with respect to trial counsel.<sup>29</sup> But *In re Seagate* also held that the courts have the discretion to extend the waiver to trial counsel where the party or counsel engages in "chicanery."<sup>30</sup> Therefore, respective counsel should exercise caution to avoid the appearance of impropriety or otherwise cast doubt on the independence and objectivity of patent counsel.

### CONCLUSION

Although there is no affirmative legal duty to obtain an opinion of counsel, it remains a good business practice to obtain competent patent opinions during product development. Such opinions assist companies in assessing their freedom to operate and help avoid patent disputes. In addition, should a patent dispute arise, and the accused infringer chooses to waive the attorney-client privilege, a competent patent opinion

may provide an effective advice of counsel defense against a charge of willful infringement and avoid a punitive award of trebled damages if patent infringement is found. And, if active inducement is the only infringement claim, then a competent patent opinion may provide a defense against that charge of indirect infringement. Moreover, the failure to obtain a patent opinion can be used as circumstantial evidence of intent for active inducement of infringement. ■

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#### Endnotes

1. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*). Until the *Seagate* decision, an accused infringer had "an affirmative duty to exercise due care to determine whether or not he is infringing," including the obligation to obtain legal advice before initiating possibly infringing activity. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).
2. *In re Seagate*, 497 F.3d at 1371.
3. 35 U.S.C. § 271(b) (2008). The statute does not define whether the infringer must intend to induce the infringement or whether the infringer must merely intend to induce another to engage in the acts that happen to result in infringement.
4. *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990). The court also noted that, unlike contributory infringement, under a theory of active inducement of infringement, "corporate officers who actively assist with their corporation's infringement may be personally liable for inducing infringement *regardless* of whether the circumstances are such that a court should disregard the corporate entity and pierce the corporate veil." *Id.* (emphasis in original).
5. *Id.*
6. *Id.*
7. *Id.*
8. *Id.* at 553-4.
9. *E.g., Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).
10. *DSU Med. Corp. v. JMS Corp.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006) (*en banc* in relevant part) (citing the Supreme Court's decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), as validating the Federal Circuit's articulation of the state of mind requirement for inducement).
11. *Id.* at 1306-7.
12. *Id.* at 1298.
13. *Id.* at 1299.
14. *Id.* at 1307.
15. *But see Knorr-Brense Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344-5 (Fed. Cir. 2004) (*en banc*) (with respect to willful infringement, a jury may not be instructed to draw an adverse inference from an accused infringer's failure to obtain or introduce an exculpatory opinion of counsel because of the burden it would place on the attorney-client privilege).
16. *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008). The technology at issue in *Broadcom* concerned wireless voice and data communications on cellular telephone networks, and, more particularly, to 3G baseband processor chips that enable a cell phone's basic communication functions, along with other features such as graphics, multimedia, data transfer, and custom applications. *Id.* at 686.
17. *Id.* at 697.
18. *Id.* at 700. This treatment of an undisclosed opinion effectively places the defendant in the same position as a defendant who never sought and obtained an opinion from patent counsel.
19. *Abraxis Bioscience, Inc. v. Navinta, LLC*, No. 3:2007cv01251, 2009 WL 2382251, at \*36 (D. N.J. Aug. 3, 2009).
20. *Id.* at \*24.
21. *Id.* at \*36.
22. *Id.*
23. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).
24. *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 700 (Fed. Cir. 2008).
25. *See VNUS Med. Techs., Inc. v. Diomed Holdings, Inc.*, 527 F. Supp. 2d 1072, 1076 (N.D. Cal. 2007) (denying a motion for summary judgment of no willful infringement by defendant Diomed because the defendant had relied upon conclusory opinions including "a self-described 'preliminary' assessment" with "no legal analysis," instead of a competent opinion of counsel).
26. *Chiron Corp. v. Genentech, Inc.*, 268 F. Supp. 2d 1117, 1121 (E.D. Cal. 2002) (citations omitted).
27. *SRI Int'l, Inc. v. Adv. Tech. Labs., Inc.*, 127 F.3d 1462, 1467 (Fed. Cir. 1997); *see also Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983) (an opinion may contain sufficient internal indicia of being competent if it contains "a patent validity analysis, properly and explicitly predicated on a review of the file histories of the patents at issue, [or] an infringement analysis that, *inter alia*, compared and contrasted the potentially infringing method or apparatus with the patented inventions"), *overruled on other grounds by In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*).
28. *See Spindelfabrik Suessen-Schurr v. Schubert & Salzer*, 829 F.2d 1075, 1084 (Fed. Cir. 1987) (opinion of an in-house German lawyer on U.S. patent law did not constitute competent advice).
29. *In re Seagate*, 497 F.3d at 1374.
30. *Id.* at 1375. An opposing party in litigation may find more opportunities to claim chicanery where trial counsel and patent counsel are members of the same lawfirm.