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Adverse Inference Rule Better Defined in 'Knorr-Bremse v. Dana'

In 1986, four years after it was established, the U.S. Court of Appeals for the Federal Circuit announced a unique rule concerning attorney-client communications in patent cases. In *Kloster Speedsteel AB v. Crucible Inc.*, 793 F2d 1565 (Fed. Cir. 1986), the court held that the failure of an accused infringer to produce an opinion of counsel concluding that it had not infringed a valid and enforceable patent would warrant an adverse inference that either no opinion was obtained or that the opinion was unfavorable. That adverse inference, in turn, would be a powerful factor in determining whether infringement was willful — a determination that can result in treble damages and an attorney's fee award.

This rule put great pressure on defendants to obtain an opinion and disclose it, thereby waiving the attorney-client privilege concerning the opinion and communications related to it. The courts have been inconsistent, moreover, in attempting to define the scope of the waiver.

All of that has changed with the Federal Circuit's en banc opinion in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F3d 1337 (Fed. Cir. 2004). Urged on by a flock of amici, the Federal Circuit overruled *Kloster* and a host of cases following it, holding that the defendant's invocation of privilege or failure to obtain legal advice at all would no longer give rise to an adverse inference that an opinion was or would have been unfavorable.

The en banc court traced the creation of the adverse inference rule to "a time when widespread disregard of patent rights was undermining the national innovation incentive." The Federal



Circuit, the court observed, was created to "reinforce" the duty to comply with patent rights. Finding that the rule "has resulted in inappropriate burdens on the attorney-client relationship," the court found it "is no longer warranted" — indicating, perhaps, its view that the court has been successful in ending an era in which federal courts were perceived to routinely invalidate patents and competitors presumably felt free to infringe them.

Noting that the federal courts have not imposed "adverse inferences on invocation of the attorney-client privilege" in other areas — for example, in trademark litigation — the court found that the contrary rule creates a "risk of liability in disclosures to and from counsel in patent matters; such risk can intrude upon full communication and ultimately the public interest in encouraging open and confident relationships between client and attorney."

The court declined to go further, however, and hold that the existence of a substantial defense to infringement is alone sufficient to defeat liability for willful infringement, even if defendant does not obtain any legal advice. Instead, it reaffirmed precedent mandating an open-textured approach that considers an opinion of counsel as one of several factors to be considered in determining willfulness. That approach "authorizes the trier of fact to accord each factor the weight warranted by its strength in the particular case." The court also declined to decide whether a jury considering willfulness can be told whether counsel was con-

sulted at all, without any instruction on the inference to be drawn, leaving that question for another day.

How will *Knorr-Bremse* change the world of patent litigation? Certainly it will have the positive effect of reducing the pressure many competitors feel to obtain comprehensive opinions of counsel at the first hint of a possible infringement action. Once litigation has begun, defendants will now have a viable option to forgo an opinion, or withhold an opinion: if they believe it will not prove persuasive, if admission of the opinion will detract from stronger defenses to willfulness, if its author will not make a convincing witness for reasons unrelated to the merits or if waiving the privilege would require disclosure of unhelpful evidence.

In cases where the patent is relatively straightforward, a defendant may well decide that the jury will be able to understand its willfulness defense without the aid of a lawyer's opinion. In other cases, where the opinion itself is a useful defense tool, or just out of habit or caution, parties are likely to continue to obtain and introduce opinions and waive the privilege.

Copyright

In *Lexmark International Inc. v. Static Control Components Inc.*, 2004 WL 2382150 (6th Cir. Oct. 26, 2004), the U.S. Court of Appeals for the Sixth Circuit rejected a printer manufacturer's controversial effort to use the copyright laws to prevent the use of unauthorized replacement toner cartridges. Lexmark sold toner cartridges with an embedded chip containing a tiny (less than 55 bytes) software program. Unless the chip sends an encrypted signal, a Lexmark printer will not function properly, effectively blocking consumers from using cartridges that Lexmark has not authorized. Defendant Static Control Components (SCC) marketed its own replacement cartridges for Lexmark printers, including a chip that copied the Lexmark program. Reversing a preliminary injunction, the Court of Appeals held that the program likely was not

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copyrightable, under the doctrines of merger (which denies copyright protection where a work's expression merges with its idea or function) and scènes à faire (denying protection to elements of a work that are "standard, stock" or dictated by industry specifications or compatibility requirements). It also rejected Lexmark's claims under the anticircumvention provisions of the Digital Millennium Copyright Act (DMCA), finding, among other things, that SCC's software qualified under the interoperability defense in §1201(f)(3) of the DMCA. Concurring Judge Gilbert S. Merritt emphasized his view that the DMCA should not be used by manufacturers to "create monopolies of manufactured goods"

A different result was reached in *Telecom Technical Services Inc. v. Rolm Co.*, 2004 WL 2360293 (11th Cir. Oct. 21, 2004), where the court affirmed dismissal of antitrust claims against Siemens, a manufacturer of PBX phone equipment that refused to sell patented replacement parts and copyrighted software to independent service organizations (ISOs). The ISOs alleged that Siemens refusal to sell amounted to an attempt to monopolize an alleged market for the servicing of Siemens PBX equipment. After observing that the case "lies at the intersection of intellectual property law and antitrust law and presents a difficult and increasingly important issue," the court found that it need not address the extent to which intellectual property rights allow restrictions on competition. It found that the copyrighted Siemens software did not play a role in servicing the equipment, but instead was used to control access to features licensed by end users. While patented parts were not sold directly by ISOs, they could be bought by end users themselves or purchased by ISOs who had written authorization from end users for specific purchasers. For those reasons, the court held that Siemens' refusals to deal did not have an anticompetitive impact in a service market.

A manufacturer of electronic voting machines paid a price for overzealous use of the DMCA in *Online Policy Group v. Diebold*, 337 FSupp2d 1195 (N.D. Cal. 2004). Diebold sent cease and desist letters to many Internet service providers (ISPs) under §512(c) of the DMCA, demanding that the ISPs remove postings consisting of an archive of over 13,000 internal Diebold e-mails including admissions of problems associated with the company's voting machines. Diebold never filed an infringement action; instead, it was sued by an ISP and two college students who had posted or linked to the archive. Plaintiffs alleged that Diebold's cease and desist letters violated §512(f) of the DMCA, which prohibits knowing misrepresentations in §512(c) letters "that material or activity is infringing" and claimed they were dam-

aged when the postings were removed in response to Diebold's letters. The district court held that a party makes knowing misrepresentations under the statute when it "actually knew, should have known if it acted with reasonable care or diligence, or would have had no substantial doubt had it been acting in good faith, that it was making misrepresentations." The court then found that much of the archive was clearly protected by the fair use doctrine — the copyrightable material clearly had no market value as literary work — and that "no reasonable copyright holder could have believed" otherwise. The court directed the parties to brief the issue of appropriate damages and an award of attorney's fees.

Patents

Institutum Technologies Inc. v. Cat Contracting Inc., 385 F3d 1360 (Fed. Cir. 2004) illustrates the Federal Circuit's application of the new rules governing prosecution history estoppel adopted in

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Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co. Ltd., 344 F3d 1359 (Fed. Cir. 2003). In *Festo*, acting on remand from the U.S. Supreme Court, the Federal Circuit held that a narrowing amendment made for a reason of patentability surrenders the entire territory between the original and the amended claim, thus barring an equivalents claim against a product occupying the surrendered territory. That presumption can be rebutted by showing, among other things, that the rationale for the amendment "bore no more than a tangential relation to the equivalent in question." In *Institutum*, the patent covered a method of repairing underground pipes by impregnating a flexible tube liner with resin. The claim at issue had been amended to add a limitation requiring the use of a single vacuum cup applied to the liner to draw the resin. The Court of Appeals sustained a finding that a method using multiple cups was an equivalent. It held that the amendment had been made to distinguish prior art that required the use of a large single vacuum source at the end of the pipe, finding that the prosecution history had no indi-

cation of "any relationship between the narrowing amendment and a multiple cup process"

In *Astrazeneca AB v. Mutual Pharmaceutical Co.*, 384 F3d 1333 (Fed. Cir. 2004), the Federal Circuit emphasized the effect on claim construction of specific limiting statements in the specification and prosecution history. Astrazeneca's patent claimed a drug compound including a "solubilizer." The parties agreed that persons skilled in the art would understand solubilizer to embrace co-solvents in addition to surfactants, and on that basis the trial court found that Mutual's compound, which included a co-solvent, infringed. Reversing, the Court of Appeals held that the specification defined the term as limited to surfactants (the inventors had, in the traditional phrase, "acted as their own lexicographers") when it stated that acceptable solubilizers "are defined below" and then referred only to surfactants, and when it criticized co-solvents as undesirable. That conclusion was confirmed by the prosecution history, where Astrazeneca had distinguished prior art references by characterizing the invention as limited to surfactants.

Trademarks

The U.S. Court of Appeals for the Tenth Circuit considered the question of when "unclean hands" will bar relief in trademark cases in *Worthington v. Anderson*, 2004 WL 2307347 (10th Cir. Oct. 13, 2004). The Worthingtons and the Andersons had jointly operated cafes under the servicemark Kneaders. After bitter disputes between them, the business was divided and an arbitrator awarded the mark to the Worthingtons, but imposed certain financial and other obligations on them. After the Andersons failed to stop using the mark, the Worthingtons sued for trademark infringement. The Court of Appeals affirmed the district court's dismissal of the complaint on the ground that the Worthingtons had unclean hands. While "neither party has behaved equitably," the Worthington's failure to comply with their obligations created "economic obstacles" preventing the Andersons from making the investments necessary to stop using the mark. That misconduct was sufficiently "related to" the trademark to disqualify the Worthingtons from seeking equitable relief. Their claims were barred, moreover, even though the Andersons were also guilty of misconduct.

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