

# ideas on intellectual property law

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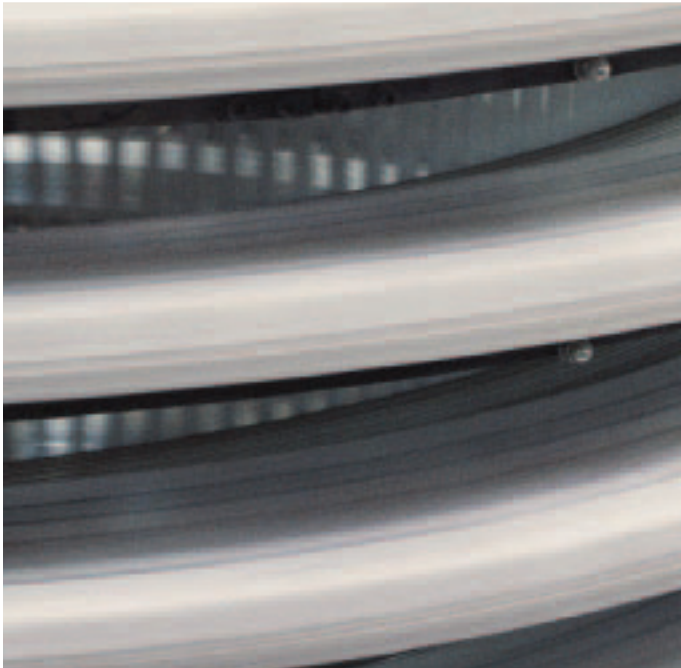
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# Don't ask (your patent lawyer); don't tell (the patentee)

*Adverse inference and failure to produce exculpatory opinion*

The U.S. Court of Appeals for the Federal Circuit, which decides all patent-related appeals, has handed down a landmark decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.* With all the judges taking part in this decision — instead of just the usual three-judge panel — the court wrestled with the concept of willfulness. The issue was whether an adverse inference of willfulness should flow from an infringer's failure to obtain or produce an exculpatory opinion of counsel. Willfulness is important, because willful infringement can lead to an award of attorneys' fees and a larger award of damages.

## INFERRING WILLFULNESS

To avoid possible patent infringement, a potential infringer can seek an opinion from its patent counsel. If that opinion says there's no infringement — because the patent is invalid or is too narrow to cover the product in question — then, even if a judge or jury later disagrees, the defendant can use the exculpatory opinion to show that it did take the patent into account. Then the defendant can argue that, although the opinion turned out in retrospect to have been wrong, he or she relied

on it in good faith at the time of the infringement and therefore didn't behave willfully.

But does this reasoning work in reverse? Suppose a patent infringer didn't obtain an opinion from patent counsel. Does this lead to the suspicion that the infringer willfully refused to

face the truth? Or suppose the infringer did obtain an opinion of counsel but invokes its attorney-client

privilege and refuses to show it to the patentee during the patent infringement trial. Does this create the suspicion that the infringer's counsel thought the patent was infringed, but the defendant willfully went ahead with the infringement anyway? If the infringer hasn't obtained an opinion of counsel or has refused to show it to the patentee, can the court infer that the infringement was willful?

## PUTTING THE BRAKES ON

Knorr-Bremse, a German corporation, manufactures air disk brakes for use in heavy commercial vehicles, primarily 18-wheelers, semis and tractor-trailers.



*If the infringer hasn't obtained an opinion of counsel or has refused to show it to the patentee, can the court infer that the infringement was willful?*

These brakes have widely supplanted drum brakes for trucks in the European market.

Dana, an American corporation, and the Swedish company Haldex Brake Products AB and its U.S. affiliate collaborated to sell in the United States an air disk brake manufactured by Haldex in Sweden. They imported into the United States about 100 units of a Haldex brake designated the “Mark II” model. They were installed in approximately 18 trucks owned by Dana and various customers.

Knorr-Bremse orally notified Dana of patent disputes with Haldex in Europe involving the Mark II brake and advised that patent applications were pending in the United States. Later, Knorr-Bremse notified Dana of infringement litigation against Haldex in Europe and reported that Knorr-Bremse’s U.S. patent had been issued.

But Dana persisted, and Knorr-Bremse filed suit in the United States. The trial court granted Knorr-Bremse’s motion for summary judgment of infringement by the Mark II brake.

### **FOLLOWING PRECEDENT**

On the issue of willfulness, Haldex told the trial court that it had consulted European and U.S. counsel about Knorr-Bremse’s patents but, asserting attorney-client privilege, declined to produce any legal opinion or to disclose the advice received. Dana stated that it hadn’t consulted counsel and had relied on Haldex. Applying the then-existing precedent, the trial court found it was reasonable to conclude that the opinions were unfavorable and held that the defendants’ use of the Mark II air disk brake amounted to willful infringement.

Based on that finding of willfulness, the trial court found that the case was “exceptional” within the meaning of the patent statute and therefore awarded Knorr-Bremse its attorneys’ fees for the portion of the litigation that related to the Mark II brake. Dana appealed, but only on the issue of willfulness and the resulting award of attorneys’ fees.

## **Deliberate blindness**



The appellate court in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.* found that there continues to be an affirmative duty of due care to avoid infringement of known patent rights of others. This duty to avoid known hazards may be inconsistent with the notion that there is complete freedom to avoid learning of such hazards in the first place. Otherwise, it might be argued that the court has placed a premium on deliberate blindness.

In any event, patent owners can still forcibly bring their patents to the infringer’s attention (as Knorr-Bremse did). Then there can be no argument that the infringer didn’t know of the patent.

### **APPEALING WILLFULNESS**

On appeal, the entire Federal Circuit bench reversed the ruling on willfulness. It sent the case back to the trial court to rethink its decision without drawing any adverse inferences from the defendants’ failure to disclose the opinion of counsel. The court also took the unusual step of overruling all precedent to the contrary.

The appellate court gave separate treatment to the issues of 1) nondisclosure of counsel’s opinion and 2) no counsel’s opinion. In cases where an opinion of counsel is obtained but not disclosed, the appellate court thought the overriding consideration was the sanctity of the attorney-client privilege. An inference that withheld opinions are adverse to the client’s actions can distort the attorney-client relationship, in derogation of the foundations of that relationship.

In cases where no opinion of counsel has been obtained, the court said the issue isn't one of privilege, but whether a potential infringer has a legal duty to consult with counsel. Noting that Dana hadn't sought independent legal advice, the appellate court referred to the burdens and costs of the requirement for early and full study by counsel of every potentially adverse patent of which the defendant had knowledge. The appellate court declined to impose such burdens and costs on every potential patent infringement defendant.

Finally, the appellate court asked whether the existence of a substantial defense to infringement should always be sufficient to defeat a charge of

willfulness even if no legal advice has been secured. In other words, if the infringer comes up with a plausible, but unsuccessful, rationalization after the fact, should that be enough to avoid a finding of willfulness, even if the infringement was willful at the time it occurred? The court said no, ruling that the existence of a defense is only one factor to consider in determining willfulness and isn't sufficient in itself to defeat willfulness.

### DECIDING A SECOND TIME

So the case will go back to the trial court to determine whether the defendant's conduct amounted to willfulness — without any adverse inference based on its failure to obtain a separate opinion of counsel. 🧠

## Hairbrushes and toothbrushes — It's so obvious

Alberto Lee Bigio applied for a patent on an hourglass-shaped hairbrush. The Patent and Trademark Office (PTO) turned down his application on the ground that the invention was obvious because some hourglass-shaped *toothbrushes* had turned up in a search of the prior art. Bigio appealed, but the patent's refusal was affirmed.

Why did the PTO wander into toothbrush prior art instead of confining its search to hairbrushes? Because the PTO and the appellate court both regarded toothbrushes as analogous to hairbrushes — and therefore relevant for the obviousness determination. But what makes toothbrushes analogous to hairbrushes? They are certainly not used for the same purpose, and therefore they don't have the same operational requirements.

The court said that prior art qualifies for an obviousness determination when it's analogous to the claimed invention. Historically, two tests define the scope of analogous prior art: whether the prior art is from the same field of endeavor, regardless of the problem addressed by the invention; and, even if the prior art isn't within the same field of endeavor, whether it's reasonably pertinent to the particular problem which the invention addresses.

In this case, both the PTO and the court determined that the first test governed the scope of analogous art. Specifically, they determined that Bigio's claimed invention relates to the general field of handheld brushes having a handle segment and a bristle substrate segment. Thus, it was concluded that a toothbrush was in Bigio's field of endeavor because of the structural similarities between toothbrushes and small brushes for hair.

But one of the three appellate court justices dissented, saying that a hairbrush has no more relation to a toothbrush than hair resembles teeth. Neither the PTO nor the court's majority opinion could point to any ground on which a person seeking to design an improved hairbrush would deem the toothbrush art to be a source of usable technology, and thus analogous. So who got the brush-off?

# Hey, dude!

## Trademark law catches up to the Internet

Dell uses a hip teen-age spokesperson to hawk its 21st century computers, but when it registers trademarks it contends with horse-and-buggy legal concepts. For example, to qualify for registration, a trademark for tangible goods must be physically affixed to the product or to its packaging when the product is put in interstate commerce. As Dell found out, this can be more complicated than it sounds.

### THE (GOOD) OLD DAYS

The affixation rule does not apply to service marks. Because a service isn't a tangible thing, a mark cannot be physically affixed to it. So federal law allows registration of service marks used merely to advertise services if the advertising is closely related to the purchasing process. But when it comes to tangible products, the affixation requirement lives on.

Typical forms of affixation are printing the mark on the product or packaging or attaching a label or tag to the product or its package, but a few other methods have been sanctioned in recent years to accommodate the realities of the marketplace. In some cases the mark may be placed on displays associated with the goods. A typical example of this is a mark printed on a point-of-purchase advertisement located in a retail store in close proximity to goods offered for sale.

Another example is a display of a mark in a mail-order catalogue adjacent to a picture of the goods. The court in *Lands' End, Inc. v. Manbeck* said that also qualified as a display associated with the goods. The catalogue was found to be analogous to a retail store — it's the platform from which the sale of the goods takes place. The mail-order customer associated the display of the mark in the catalogue with the goods in deciding whether to buy the product pictured in the catalogue. The mark's display wasn't merely advertising, remote

from the purchasing transaction, so it qualified for federal registration.

### THE NEW MILLENNIUM

Recently, Dell applied to register the mark Quiet-Case for computer hardware but was turned down because the only use of the mark that Dell could point to was on a Web page. The trademark examiner regarded this use as mere advertising and not as a display associated with the goods or with the purchasing process. The examiner distinguished the *Lands' End* case on the basis that a single Web page wasn't analogous to an entire catalogue.

***Dell applied to register a trademark but was turned down because the only use of the mark was on a Web page.***

But on appeal, the Trademark Trial and Appeal Board (TTAB) held that a Web-site page that displays a product and provides a means of ordering the product could constitute a display associated with the goods if the mark appears on the Web page in such a way that the mark is associated with the goods. Such uses aren't merely advertising, because, in addition to showing the goods and the features of the goods, they provide a link for ordering the goods.

### THE FUTURE

So a consumer using a link on the Web page to purchase goods is the equivalent of a consumer taking an item to the cashier in a brick and mortar store to purchase it. Thus, the TTAB concluded that the single Web page is a display by which the actual sale is made. Affixing a trademark is going high-tech. 🌐

# Patent law: Some assembly required

Many years ago, in response to a U.S. Supreme Court decision, Congress amended the patent statute to create patent infringement liability for anyone who manufactures the components of an infringing device in the United States and then ships them out of the country for assembly. Thus, infringement of a U.S. patent could no longer be avoided by simply postponing assembly of the complete product until after the parts had been exported.

Thereafter, a defendant who domestically created every ingredient of an infringement except the final assembly would be liable for what it did in this country to induce the final assembly, even though the consummation didn't occur here. But how much domestic activity is required? A recent case, *Pellegrini v. Analog Devices, Inc.*, dealt with this issue.

## THE STATUTE AMENDMENT

The U.S. Supreme Court decision that led to the patent statute amendment, *Deepsouth Packing Co. v. Laitram Corp.*, involved a combination patent — a patent that covers an invention comprising an assembly of specific component parts. In *Deepsouth* the defendant manufactured, in the United States, the components of a U.S.-patented shrimp-peeler and sold those components to foreign customers. If the defendant had assembled the component parts to form a complete shrimp-peeler in the United States — before shipping it overseas — that would have constituted infringement of the plaintiff's U.S. patent. But instead, the defendant shipped the unassembled parts overseas and then assembled them to form a complete shrimp-peeler in the foreign country.

As a result, the Court held that there was no U.S. infringement because the patent covered only the fully assembled product, and the product didn't



exist in fully assembled form until it was beyond our borders. Patents are territorially limited — therefore U.S. patents have no legal force in other countries.

Congress closed that loophole by making it illegal to *supply or cause to be supplied* in or from the United States — without permission — all or a substantial portion of a patented invention's components in a way that actively induces the components' combination outside the United

## ***The question was whether a defendant's domestic design and management activities tainted its overseas manufacture and sales activities, making it liable under the patent statute.***

States, so that the final assembly would infringe the patent if it occurred in the United States.

### **THE RECENT CHALLENGER**

Can this section be stretched beyond the shrimp-peeler scenario? Gerald Pellegrini owns a U.S. patent on brushless electric motor drive circuits, but he never applied for corresponding foreign patents. Analog Devices is a U.S. company that manufactures integrated circuit chips. Pellegrini sued Analog Devices for patent infringement, charging that Analog designed some of its chips to be combined with brushless electric motors to form motor-circuit combinations that infringed his patent.

Analog was granted summary judgment in its favor as to those accused chips that it both manufactured outside the United States and sold and shipped to customers outside the United States. An appellate court affirmed that decision.

### **THE SUPPLY THEORY**

Both courts rejected Pellegrini's argument that the patent statute's assembly provision covered those chips. How could he make that argument? Yes, the chips at issue were arguably components of the patented combination, and yes, assembly outside the United States eventually created the patented combination. But those chips weren't supplied in or from the United States — they were supplied in and from other countries. They were never physically present in this country.

Pellegrini replied that the chips didn't have to be supplied from this country. He argued that under the assembly provision it's sufficient that the *causation* of the supplying of the chips occurred in or from the United States.

And how did he figure that such domestic causation took place? Because, he said, Analog's

headquarters are located in the United States and all the instructions for the production and disposition of those chips came from those headquarters. This, according to Pellegrini, was domestic activity that caused the chips to be supplied overseas within the meaning of the assembly provision.

### **THE LOCATION MATTERS**

Thus, the question was whether a defendant's domestic design and management activities tainted its overseas manufacture and sales activities, making it liable under the patent statute. The appellate court noted that this was a question that had never been decided in any previous case.

It ruled that the plain language of the statute doesn't apply to this situation. Rather, the statute contemplates only situations where the patented invention's *components* are physically present in the United States — it focuses on the accused components' location, not on the accused *infringer's* location.

### **THE FUTURE OF COMPONENTS**

Is this decision correct? From a historical point of view, the assembly provision was specifically intended to close the loophole in the shrimp-peeler case — where the accused components were physically manufactured in the United States. No historical basis exists for thinking that it also applies to components that were never physically present in this country.

What does this decision mean for U.S. patent owners? A broader interpretation of the assembly provision could have made domestic companies routinely liable under U.S. patent law for their overseas activities — a result that violates the fundamental notion that patents are limited by their national boundaries. 