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Has Willful Infringement Been Tamed?

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Have you ever been given advice, by legal counsel, that you shouldn't even look at the patents of other companies? This may still be the best course of action, but the legal doctrine that motivates the advice, called "willful infringement," has undergone substantial change recently.

Before I even explain how willful infringement is changing, let's pause for a moment to consider how odd the above oft-told advice really is. After all, aren't patents supposed to be publicly available information? Many of you may even know that the U.S. Patent Office provides a free web-accessible database of patents and patent applications (as do many other patents offices around the world).

A major focus of DAC's upcoming Pavilion Panel, "IP at Risk: Protecting the Company Jewels," is the protection of trade secrets — both the secrets of your own company as well as those of your customers. As you may know, a typical IP tradeoff is between maintaining the trade secrecy of your company's inventions or the seeking of patent protection for them. Patents have many important advantages over trade secrets (which need not be enumerated here), but one clear disadvantage: the quid pro quo, for a grant of the powerful rights of a patent, is the requirement to publicly disclose the invention. (It is worth pointing out, however, that if only U.S.

patent protection is being sought, such public disclosure can be postponed, often for several years, until a patent is actually granted.)

By discouraging companies from looking at the patents of others, willful infringement, in its effect, acts against the free public accessibility of patents.

To understand willful infringement, one first needs to understand something about ordinary (or non-willful) infringement.

If a party X is found to be infringing the patent of another party Y, X will likely be required to pay a monetary amount to Y. Such monetary amount, typically called “damages,” is designed to compensate Y for the economic damage it has suffered as a result of X’s infringement. The amount of such damages, which we shall call “ordinary damages,” does not depend upon whether X knew anything about Y’s patent before X began its activities (such as selling a product) that were later found to be infringing.

Willful infringement is a doctrine by which a court can increase such ordinary damages, if Y can show that X knew, or should have known, that it was infringing Y’s patent. Under the patent statutes (specifically, 35 U.S.C. §284) a court can increase ordinary damages by up to a factor of three. An increase in ordinary damages, beyond the actual economic harm caused, is called “punitive damages.” Clearly, a finding of willful infringement can result in substantial punitive damages.

It is, therefore no wonder that many legal counsels advise their clients to not even look at the patents of others and, therefore, avoid even the possibility, no matter how small, of being subjected to punitive damages someday.

Of course, no course of strategy comes without its downsides. In our example, X’s not knowing about the patent of Y does decrease the likelihood that X will be subjected to punitive damages. On the other hand, the strategy may increase the likelihood that X will suffer ordinary damages. For example, if company X knew about company Y’s patent before it started selling its product, X might have been able to change the design to avoid Y’s patent (this is called “designing around”). Also, by not looking at the patents of other companies, X may be cutting itself off from a potentially significant source of intelligence about its competitors. Short of reverse engineering, a patent may be the most detailed window a company can obtain into exactly how the products of its competitors work.

Recent changes in the law have made it harder for a patent holder to show willful infringement and have, therefore, increased, at least somewhat, the incentives to examine the patents of other companies.

Since 1983, the appeal of all U.S. patent litigations, short of the Supreme Court, has been consolidated to a single court: the Court of Appeals for the Federal Circuit. In one of its earliest cases on the subject, the Federal Circuit adopted the following approach to willful infringement: once a party has actual notice of another's patent rights, the party has an affirmative duty to exercise due care to determine whether it infringes those rights, typically by seeking competent counsel. *Underwater Devices v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983) (emphasis added). In subsequent cases, "actual notice" was given a broad meaning by the Federal Circuit, and ranged from the offering of a license by the patent holder (*Ralston Purina Co. v. Far-Mar-Co, Inc.*, 772 F.2d 1570, 1577 (Fed. Cir. 1985)) to an alleged infringer's patent counsel reading of the patent in a publication (*Stryker Corp. v. Intermedics Orthopedics*, 96 F.3d 1409, 1415 (Fed. Cir. 1996)). A party that does not satisfy (or insufficiently satisfies) its affirmative duty of due care, to determine whether it is infringing a patent of which it has actual notice, runs the following risk: if the party is subsequently subjected to a lawsuit for infringement under the patent, and if the party is judged to have infringed the patent, punitive damages can be added to the ordinary damages.

While Federal Circuit law did recognize that the affirmative duty of due care could be satisfied by a formal opinion letter, as prepared by an experienced patent attorney, such formal opinion letters are costly. Along with the possibility of willful infringement itself, the costliness of such formal opinion letters, coupled with the potential ease with which a duty to prepare such letters could arise, became another powerful incentive for not examining the patents of others.

In 2007, however, the Federal Circuit decided to reconsider its whole approach to willful infringement. In the case of *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), decided in August, 2007, the Federal Circuit specifically overruled the standard it had set out in above described 1983 case of *Underwater Devices*. The court abandoned the affirmative duty of due care standard and, in its place, put a standard it calls "objective recklessness." While the meaning of objective recklessness is still being fleshed out by subsequent litigation, the court did provide the following guidance:

- i. a patentee 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;
- ii. the state of mind of the accused infringer is not relevant to this objective inquiry; and
- iii. if the threshold objective standard is satisfied, 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.

The Federal Circuit emphasized that with its new objective recklessness standard, there is no affirmative obligation to obtain opinion of counsel (e.g., one does not need to obtain a formal opinion letter to avoid willful infringement).

In the approximately two years since the *In re Seagate Technology* decision, some results have emerged.

First (as might be expected), an opinion by a patent attorney remains an effective defense to a finding of willful infringement. The post *In re Seagate Technology* case of *Finisar Corp. v. DirectTV Group, Inc.*, 523 F.3d 1323, 1339 (Fed. Cir. 2008), however, has made it clear that an opinion need only provide a single basis (e.g., either non-infringement of the patent's claims or invalidity of the patent over the prior art) for avoiding liability under the patent.

In *Cohesive Technologies, Inc. v. Waters Corp.*, 543 F.3d 1351 (Fed. Cir. 2008), the Federal Circuit upheld the trial court's finding, that there was no willful infringement, where the opinion was produced by the company's in-house counsel (rather than by an outside law firm) working in conjunction with the company's scientists. *Cohesive Technologies, Inc. v. Waters Corp.*, 526 F. Supp. 2d 84, 105-106 (D. Mass. 2007).

Of particular interest is the extent to which the presentation of a substantial defense to a patent, at trial, even if ultimately unsuccessful for purposes of avoiding ordinary damages, can still serve as evidence of a lack of objective recklessness sufficient to avoid the punitive damages of willful infringement. The Federal Circuit suggested this as a possibility in the *In re Seagate Technology* decision.

In *Depuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314 (Fed. Cir. 2009), the Federal Circuit upheld a trial court's finding, that there was no willful infringement, on the basis of the defendant having presented a substantial question of whether it infringed the patent. The mere fact that the jury found for infringement

(and, therefore, ordinary damages) did not “diminish the difficulty of their task.”

In summary, while it seems a company still ought to exercise caution before examining the patents of other companies, the incentives in favor of such investigations have increased. If your IP policy has not been updated within the last two years, this is probably a good time to reconsider the issue.

Editor’s Note: Jonathan Kaplan and Naomi Fine of Pro-Tec Data will explore further this topic in a Pavilion Panel session titled, “IP at Risk: Protecting the Company Jewels,” Monday at 2:30 p.m.

About the author:

Jonathan Kaplan runs his own IP law firm, specializing in patents, located in the Portland, Oregon area. Mr. Kaplan has over 16 years of experience and, before starting his own practice in 2003, was an IP partner with a nationally prominent law firm. Before becoming an IP attorney, Mr. Kaplan was an early researcher (over the years 1982-89) in the area of EDA tools. As an undergraduate, he performed research at Bell Labs and later, as an EECS Ph.D. candidate at MIT, wrote a master’s thesis in the area of EDA tools. The master’s thesis resulted in two patents, obtained by MIT, for the algorithms developed. Mr. Kaplan also developed EDA tools, in an industrial setting, at an MIT spin-off company. As an attorney, Mr. Kaplan has represented some of the leading companies in the EDA field.

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