

▶ INTELLECTUAL PROPERTY

Avoiding the Willfulness Trap

By Michael Warner Kallus

If you manage a high-tech company, you are familiar with this situation: One of your engineers notes that a competitor's recently issued patent may cover current product development, but you have not heard a peep from the competitor itself. This sounds harmless enough, but four years from now you could easily find yourself on the witness stand trying to explain to a jury that has already found you infringing why, in hindsight, you failed to do more to investigate the patent. If they find that you didn't do enough, you may be liable for triple damages.

Willful infringement exposes you to enhanced damages — potentially three times the court's damage award and liability for opposing counsel's costs and fees. That's enough to stop even the largest company in its tracks. Further, nearly all companies accused of infringing a patent will be accused of doing so willfully (93 percent), and over half of companies found to have infringed will be found to be willful (64 percent by judges, 56 percent by juries).

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The Federal Circuit's *Seagate* decision made it harder to get enhanced damages by shifting the burden of proving willful infringement to the accuser and raising the standard of proof to clear and convincing evidence that the defendant acted with "objective recklessness." Optimists read the decision as excusing them from having to show they looked into the patent and instead allowing them to rely on a good faith defense to infringement at trial. A closer reading of *Seagate*, however, reveals that while the patent holder carries the burden of proving an objectively high likelihood of infringement, if the accused infringer is to avoid being held liable for acting recklessly, it must be able to show that it exercised due care consistent with "standards of fair commerce" by responsibly identifying and investigating patent threats and doing its best to avoid infringement. Relying on *Seagate*, courts in *Telcordia v. Cisco* and *Depomed v.*

Ivax upheld the finding of willfulness based on the infringer's failure to show they reasonably investigated the adverse patent.

So what does an earnest, but cost-sensitive, company do meet this duty of care and avoid the risks of increased money damages plus losing the return on investment on the significant resources spent developing an infringing technology?

Ignoring a patent or waiting for a cease and desist letter to arrive before acting could prove to be a very expensive mistake. Willfulness is calculated from the time of your first awareness, which certainly does not need to come in the form of a cease and desist letter and doesn't even need to come from the patent holder itself. It could come from your own engineering department, your general counsel's reading of a notice in the PTO Gazette, or even, as *Ivax Corp.* learned in *Depomed*, without notice where a "reasonable party would have ... discover[ed] the relevant patent."

Thus, by the time the jury is scrutinizing your company's response to an adverse patent under the bare light bulb of perfect hindsight, deciding whether you acted recklessly and exposing you to a court award of treble damages and opposing counsel's \$5 million-plus fees, you have already been found guilty of infringing someone's patent rights and are not going to look very sympathetic. With the poor, aggrieved inventor glaring across the court room, you are going to have a hard time convincing anyone to care that you get numerous of these wire trips each month or that it did not look like a big deal four years ago. That someone made a management decision not to run down the lead is going to ring awfully hollow on the hard walls of the courtroom. Throw in the fact that you are probably a high-tech company with an international product with which the court may be familiar and you look like you are just stuffed with ill-gotten dollars — dollars that a jury is itching to award to the other side. This is a situation you would like to avoid. It may not be clear what the standards of commerce require you to do, but you have to do something.

But taking action may burn you also. Getting a reputable patent firm to write you an exculpatory letter, while the conservative response, may be prove a costly error.

Opinion letters are expensive: \$50,000 to \$100,000 or more each. Prominent high-tech companies can have over 70 active adverse notice files at any given time. For such a company to respond to just their current threats with opinion letters might leave them with a \$7 million legal bill.

Further, having an exculpatory opinion does not help you in a jury trial — there is less than 1 percent difference in jury verdicts on willful infringement whether or not the defendant had an exculpatory opinion. Courts regularly deny enhanced damages

notwithstanding the absence of an opinion letter. See for example, *Honeywell v. Universal Avionics*, 585 F.Supp.2d 636 (D.Del. 2008) or *Eastman Kodak v. Agfa-Gevaert*, 560 F.Supp.2d 227 (W.D.N.Y. 2008). Even the Federal Circuit itself appears to call into question the objectivity and weight of exculpatory letters, noting, unimpressed, that "[t]ypically, counsel's opinion concludes that the patent is invalid, unenforceable and/or not infringed." Consider also that it is unlikely that you will ever need to rely on that expensive opinion you just bought. Most of patent infringement cases settle or are adjudged before trial, and willfulness is almost never found in dispositive motions. Further, as any experienced IP trial attorney could tell you, opinion letters often miss the mark, focusing on feature X, or claim term Y, when, years later under the

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microscope of trial and with the benefit of full discovery it is feature A and claim term B that are at the crux of the infringement question before the court.

Finally, opinion letters can be double-edged, and in the right hands, your expensive patent opinion letter may even be harmful to your company. It is not unheard of that a veteran trial litigator turns a formal opinion letter against the very company who paid for it when the defendant ends up pursuing a different strategy at trial.

So what is a damned-if-you-do, damned-if-you-don't company to do? Fortunately there are less expensive, more effective and less risky alternatives to exculpatory opinions for savvy and risk-wary companies that can properly inform your decision on how to properly respond to the specific adverse patent situation.

Timely internal review and investigation by your in-house IP or research and development departments will allow you to use your resources to determine the invention claimed in the patent, investigate with your engineers and suppliers whether any of your products may embody the invention and conduct your own prior art searches in a field you probably know better than a law



firm attorney. For companies that do not have an extensive in-house IP department, or whose IP department is overmatched by the threat, the best course is to contact an experienced trial attorney. A senior litigator, experienced with successful patent cases, will be best able to coordinate the infringement and invalidity analysis with an understanding of what kinds of issues end up at trial, and give you effective strategic advice on how to avoid them. You may even consider working with a high-quality legal outsourcing processor with extensive expertise in patent infringement and invalidity analysis. Finally, a third party request for re-examination of the adverse patent before the U.S. Patent and Trademark Office will accomplish the same ends of an exculpatory letter by determining non-infringement and validity, but is, additionally,

less expensive, may force the patentee to disclaim some of its patent's scope in the prosecution history, or could knock out the patent altogether.

Seagate raised the bar for proving willfulness, but the need for companies to develop an informed, cost-effective strategy at first awareness of a possibly adverse patent is the best defense from future treble damages. With the rising trend of monetizing IP through assertions of patent rights, companies must choose their responses wisely or end up with huge expenses in an uncertain economy.

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Product-by-Process Decision Resolves Longstanding Conflict

By Greg Hasley and David Clonts

An inventor patents "compound X, obtained by process Y." A competitor makes "compound X by process Z." Is this infringement? Under a recent en banc Federal Circuit ruling, the answer is no — never. This ruling is significant because it resolves a long-standing conflict on the scope of product-by-process claims; and the court's reasoning demonstrates that the U.S. Supreme Court has regained control of patent law in this country.

On May 18, 2009, the Federal Circuit handed down *Abbott Laboratories v. Sandoz, Inc.*, which settles a long-existing conflict concerning interpretation of product-by-process claims. The en banc portion of the opinion holds that product-by-process claims cannot be infringed by "products made by processes other than the one claimed."

But what if the inventor lacked the means to specifically identify the new compound other than by the means of its manufacture? What if the compound was so new or complex that current technology provides no means to describe it other than by the manner of its creation? As it stands now, such an inventor is out of luck — product-by-process claims now include the process as a limitation on scope.

The Federal Circuit has established a universal rule, apparently not subject to any exception for new, difficult-to-describe products. If claim language describes the product with reference to a process of manufacture, then that will serve to limit the scope of the claim to prod-

ucts made by that process. While an inventor is still free to describe new products by reference to their method of manufacture, protection will be limited to only products made by the claimed process, with no extension (save for potential equivalents of the process).

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This holding alters what has been called the "rule of necessity," which in its previous form had sometimes allowed inventors to obtain general protection on the product itself based only on a claim describing the product as one obtained by specific means of manufacture. With this holding, the Federal Circuit adopts the rule for products-by-process laid out in *Atlantic Thermoplastics v. Faytex Corp.*, 970 F.2d 834 (Fed. Cir.

1992), and overrules the conflicting decision in *Scripps Clinic & Research Foundation v. Genentech Inc.*, 927 F.2d 1565 (Fed. Cir. 1991).

Given modern analytic methods, it may likely be a fairly rare event when the structure of a new chemical compound cannot be ascertained. Abbott, in fact, had claimed the compound in question in a separate, independent product claim by reference to certain objective measurements (X-ray diffraction) related to its structure. But the *Abbott* decision should still be kept in mind when drafting claims in the chemical, pharmaceutical or biotechnological fields, as the court appears willing to apply any language of description within a claim as a strict limitation on patent scope.

Of perhaps broader interest is the method the Federal Circuit used to reach its decision; *Abbott* is another in a string of recent decisions, such as *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007), and *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), in which the Federal Circuit relied on Supreme Court precedent to alter long-standing Federal Circuit patent doctrines. *Seagate* and *Bilski* relied on modern Supreme Court cases, but here, in *Abbott*, the Federal Circuit relied heavily on 19th-century cases, while rather abruptly dismissing decisions by its predecessor courts — the Court of Customs and Patent Appeals and the Court of Claims.

Much of the court's analysis centered on a Supreme Court case from 1884 that had denied general product protection to an "artificial" version of dye compound previously known in naturally occurring form. *Cochrane v. Badische Anilin & Soda*



Fabrik, 111 U.S. 293 (1884). The artificial dye had been claimed as that produced by specific methods of manufacture, as well as more broadly by "any other method."

The court refused to construe the patent broadly and limited patent protection only to compounds made by the methods specifically claimed. The Federal Circuit highlighted the following quote from the 1884 decision: "Every patent for a product or a composition of matter must identify it so that it can be recognized aside from the description of the process for making it, or

else nothing can be held to infringe the patent which is not made by that process."

It may be that the *Abbott* decision is a reflection that the Federal Circuit has learned the lesson taught in Supreme Court in cases such as *eBay v. MercExchange*, 547 U.S. 388 (2006), and *KSR International Co. v. Teleflex Inc.*, 127 S.Ct. 1727 (2007). Those decisions were heavy-handed reminders that, while the Federal Circuit may have a special role in patent law, that role does not trump the Supreme Court's primacy over the judicial branch. As

such, Supreme Court precedents, even very old precedents, cannot be ignored. A decade ago, few might have even bothered to cite the Supreme Court precedents on which the Federal Circuit now relies. This raises the question: What other "settled" patent doctrines might be overturned as conflicting with previously ignored Supreme Court precedents?

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