



IP Advisory

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Common Sense Takes Root At The Federal Circuit

In the recent decision, *Perfect Web Tech., Inc. v. InfoUSA, Inc.*, No. 2009-1105 (Fed. Cir. Dec. 2, 2009), the U.S. Court of Appeals for the Federal Circuit affirmed a lower court decision granting summary judgment that asserted claims of the patent in suit were invalid as obvious over the prior art, in light of common sense.

The case involved U.S. Pat. No. 6,631,400 ("the '400 patent"), relating to methods of managing bulk email distribution to groups of targeted customers. Claim 1 was representative of each claim at issue, and contained four basic steps. Steps (A)–(C) involved identifying email targets, sending emails to those targets, and calculating the number of emails that were successfully received by the intended targets. Step (D), the final step, involved repeating steps (A)–(C) if the number of successfully received emails did not exceed a prescribed minimum number.

Obviousness is a question of law based on underlying factual inquiries: (1) the scope and content of the prior art, (2) the differences between the prior art and the claims at issue, (3) the level of ordinary skill in the pertinent art, and (4) secondary considerations of nonobviousness. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 406 (2007) (citing *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966)). On summary judgment, the lower court found that a person of ordinary skill in the art was a person with a high school diploma and one year of experience in the industry and that steps (A)–(C) were disclosed by the prior art. Regarding step (D), the court found that it simply recited repetition of a known procedure until success was achieved and that common sense dictated that one should try again if success was not achieved. *Perfect Web*, No. 2009-1105, slip op. at *4, *10 (citing

continued on page 2

News About Us – 1st Quarter Report 2010

- Steve Auvil was named a 2010 Ohio Super Lawyer.
- Bryan Jaketic was named a 2010 Ohio Super Lawyer Rising Star.
- Amanda Miller was named one of Northeast Ohio's Top 25 Under 35 Movers and Shakers by the Cleveland Professional 20/30 Club and *Inside Business* Magazine.
- Jenny Sheaffer is presenting, "Intellectual Property Considerations & Strategies – Polymers for Medical Use: The Who, What, Where, When, Why and How" on April 14, 2010 at the Plastics in Medical Devices Conference at LaCentre in Westlake, Ohio.
- Steve Auvil and Greg Kolocouris (of Eaton Corp.) presented "U.S. Investorship Law: A Misunderstood and Underdeveloped Doctrine" to the Cleveland Intellectual Property Law Association on February 16 at the Ritz-Carlton in Cleveland.

IN THIS ISSUE:

Common Sense Takes Root At The Federal Circuit

A Brief Look At New USPTO Director David Kappos

Muddled Marking Practices May Make One A Plaintiff's Target

En Banc Federal Circuit Rules that Section 271(f) Does Not Apply to Method Claims

Willful Infringement and the Opinion of Counsel: A Survey of District Court Applications of *In re Seagate*

Common Sense Takes Root At The Federal Circuit

continued from page 1

KSR, 550 U.S. 398 (“[a] person of ordinary skill is also a person of ordinary creativity, not an automaton”).

On appeal, neither party contested the findings relating to a person of ordinary skill or the content and differences of the prior art. Perfect

Web’s primary argument was that the lower court’s “common sense” finding was in error, since common sense or knowledge “must be rooted in

evidence and factual findings.” *Slip op. at* *5. The Federal Circuit rejected this argument, upholding the lower court’s obviousness decision and its rationale, stating that “while an analysis of obviousness always depends on evidence that supports the required *Graham* factual findings, it also may include recourse to... common sense available to the person of ordinary skill that do[es] not necessarily require explication in any reference or expert opinion.” *Slip op. at* *9. The court also

noted that, while a fact-finder may in some cases resort to common sense to combine prior art elements, it must clearly articulate the reasoning behind the common sense analysis. *Slip op. at* *9–10. Here, the Court found the lower

court to have been sufficiently articulate.

Importantly, the Court noted that since the parties agreed that the requisite complexity was minimal, no expert opinion was

necessary to appreciate the potential value to persons of ordinary skill in the art of repeating steps (A)–(C).

While this decision may seem to give license to parties and Patent Office Examiners to invoke common sense as a basis for asserting obviousness, a few points should be noted. First, the Federal Circuit was clear that the *Graham* factual findings, including the scope and content of the prior art, are necessary in any obviousness analysis. Second, the

“[E]ven in this instance, the Federal Circuit is clear that the rationale for combining must be expressly stated by the fact-finder to permit appellate review.”

assertion of “common sense” applies to the act of combining prior art. Prior to KSR, this act of combining must have been taught, suggested, or motivated by some reference in the prior art. Now, the act may simply be based upon a broader range of factors, including common sense. And, even in this instance, the Federal Circuit is clear that the rationale for combining must be expressly stated by the fact-finder to permit appellate review.

The bottom line is that practitioners should be especially vigilant to require express findings, based in evidence, of the scope and content of the prior art, and of express and clear articulation of the factors and rationale for any combination of such prior art elements by the fact-finder. The factors underlying the combination must still be made apparent, and must still fit within one of the categories listed in KSR.

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A Brief Look At New USPTO Director David Kappos

In the short time that David Kappos has been the Director of the U.S. Patent and Trademark Office, since August 13, 2009, several initiatives have been launched to encourage innovation by businesses, universities, and independent inventors while ensuring a level playing field for all. Director Kappos, who was most recently Vice President and Assistant General Counsel, Intellectual Property Law, for IBM Corporation, sees

the patent system as a key driver in creating jobs and prosperity in the United States and understands the need to help businesses protect their investments.

With more than twenty years of experience at IBM, Director Kappos began his career at IBM as a development engineer and served as an intellectual property law attorney

in IBM’s storage division and litigation group. He also served as IP law counsel in IBM’s software group, as Assistant General Counsel in IBM Asia/Pacific, IBM, and as corporate counsel. He received his Bachelor of Science degree in electrical and computer engineering from the University of California Davis in 1983, and his law degree from the University of California Berkeley in 1990.

Director Kappos has had to act fast amidst the additional challenges presented by the rough economic

climate. The USPTO is currently experiencing \$140 million in reduced income due to a variety of factors, including substantially lower aggregate issue fees and maintenance fees. Aside from the economic cutbacks, the PTO-reported allowance rate of only 44% in 2008 and 41% in mid-year 2009, has likely been a factor that has caused some businesses to pause. These low allowance rates are in contrast to allowance rates of between 60% to 70% for over 20 years prior to 2008. The long patent pendency periods are yet another reason for reduced filings in some cases. The USPTO patent application backlog was reported to be approximately 735,000 applications as of September 30.

Some of the decisions Director David Kappos has already made are as follows:

- Effective October 1, 2009, the PTO launched an improved “pre-first action interview program” which allows inventors to discuss their invention with examiners in certain qualified art units at the very beginning of the patent examination process. This communication at the “front end” of the application process reduces the total time and cost it takes to approve a patent application.
- On October 8, 2009, PTO announced it was officially rescinding the controversial patent rules that it proposed in 2007 but which had never gone into effect. Director Kappos stated the USPTO should develop rules that are responsive to its applicant's needs and that the rules have been highly unpopular from the outset and were not well received by the applicant community.
- On November 5, 2009 at the annual independent inventors conference, the PTO announced its pilot program to accelerate the patent process for small entity inventors. The pilot will allow a patent application from a small entity to receive special, accelerated status

if the applicant is also willing to abandon an application that has not been examined. This will reduce backlog and save the office from unnecessarily examining applications that are no longer important to the applicants.

- Most recently, on December 7, 2009, the “green technology pilot program” was announced. This program enables the first 3,000 eligible patent applicants to file a petition to obtain an accelerated review of their filings and should help reduce the backlog of patent applications.

Director Kappos is also emphasizing several other initiatives to develop new rules that will be responsive to applicants' needs.

- **Examiner Count System** – A task force was formed to redesign the examiner count system which has not been revised in several decades. Director Kappos stated, “we’re going to have a count system that helps everyone get to the point without requiring two or three RCEs.”
- **Quality Review** – A new quality task force will gather information with respect to how quality should be analyzed and evaluated. Director Kappos stated, “patent quality does not equal rejection.” The quality review should also address rules that cause examiners to be “gun shy” about issuing Notices of Allowance.
- **Patent Prosecution Highway (PPH)** – Another initiative is global work sharing that will help manage the USPTO workload more efficiently through collaboration and information sharing between patent offices worldwide. It will increase the quality of the PCT processing and will result in time and cost savings for applicants and patent offices worldwide. Also it will allow the PTO to hire and retain valuable candidates across the country.

- **First Inventor to File** – Director Kappos feels that the patent reform efforts that are currently underway in Congress should improve the patent system across the board—for large tech firms, and independent inventors as well. The risk of someone running to the patent office to file first is often an exaggerated fear because, as Director Kappos has pointed out, just anyone is not an inventor. Currently, the chances that a patent will be subject to an interference based on a first to invent claim is 0.01%, which means a first inventor to file system essentially exists.

- **Post-Grant Review** – Director Kappos feels that a new post-grant review proposal should be simple and put a burden on the patent application while also giving comfort in the fact that the patentee will have a rock solid patent that will be very difficult to challenge in court. Director Kappos feels this is a good alternative to litigation and will actually increase the value and enforceability of the patents.

- **Inventor Initiatives** – Director Kappos is considering revamping the USPTO website to offer a number of on-line services, post training videos and to provide a network of pro bono legal services to assist qualifying independent inventors. He also plans to schedule additional workshops and seminars at universities around the country.

In summary, Director Kappos seems committed to fair rules for all those who seek the protection the law provides—whether it's a company, an independent inventor, or a university.

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Muddled Marking Practices May Make One A Plaintiff's Target

With the prosecution of patent applications taking longer than ever, the receipt of the sacred Notice of Allowance might warrant the same feeling of relief experienced when crossing the finish line of a marathon. Once an inventor finishes framing the ribbon copy of his or her newly issued patent, what is the next step? That is pretty simple. Etching the new patent number into the product molds and forget it, right? Well, maybe not. Recent decisions from U.S. district courts and the Federal Circuit have caused many to reconsider their companies' patent marking policies.

Background

The benefits of marking one's product with the patents protecting them are clear. In order to recover damages against an infringer prior to providing actual notification of infringement, 35 U.S.C. § 287 requires that patentees and their licensees give notice to the public that their products are patented by fixing the patent number to the product itself, or, if that is impossible, to the product's package.

However, such labeling of products with patent information should not be performed without careful consideration. The patent statute provides that any party who is marking unpatented products with patent numbers, or "patent pending," for the purpose of deceiving the public shall be fined a maximum of \$500 for every such offense. See 35 U.S.C. § 292(a). Further, § 292(b) provides that "any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States." In the past, claims under the statute have been primarily asserted by competitors claiming damages by the false marking of competing goods. Recently, though, the Federal Circuit has

interpreted the statute more expansively, holding that § 292(b) is a *qui tam* statute that allows a plaintiff the right to pursue an action without having suffered any actual damages.

Recent Case Activity

Solo Cup

In *Pequignot v. Solo Cup*, 640 F. Supp. 2d 714, 720 (E.D. Va. 2009), the plaintiff

"Recently, though, the Federal Circuit has interpreted the statute literally, holding that § 292(b)... allows a plaintiff the right to pursue an action without having suffered any actual damages."

(patent attorney Matthew Pequignot) alleged that Solo had deceptively marked various products with two expired patents, and had marked several unpatented products with the phrase, "This product may be covered by one or

more U.S. or foreign pending or issued patents." Solo filed a motion to dismiss for failure to state a claim, contending that "marking an article with an expired patent number or a statement that the article 'may be covered' by a patent cannot, as a matter of law, constitute a false marking under the statute." *Solo Cup*, 540 F. Supp. 2d 649, 650 (E.D. Va. 2008). The court denied Solo's motion, citing, *inter alia*, the Federal Circuit in *Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005). In *Clontech*, the Federal Circuit, reviewing the requirements of § 292(a) as an issue of first impression, held that an "unpatented article," as used in the statute, "means that the article in question is not covered by at least one claim of each patent with which the article is marked."

Seeking additional clarification as to whether the marking of products with expired patent numbers, as well as the "may be covered" language, was indeed the marking of unpatented products, the *Solo Cup* court turned to statutory interpretation and common practical sense. The court concluded that the

marking of an item with an expired patent number is the marking of an unpatented product, and is thus a false marking under § 292(a). Similarly, the court held that the "may be covered" language is enough to suggest to the public that the article is protected by a patent when it actually is not, and as such, is a false marking.

However, despite the fact that the court found a cause of action here, it later granted the defendant's motion for summary judgment on the grounds that the defendant did not act with the intent to deceive the public. *Solo Cup*, 2009 U.S. Dist. LEXIS 76032. The court again cited *Clontech*, but this time for the standard of proving the defendant's intent to deceive: *i.e.*, "whether [plaintiff] proved by a preponderance of the evidence that [defendant] did not have an honest good faith belief in marking its products." While the court held that a false marking made with knowledge of falsity creates a rebuttable presumption of intent to deceive, *Solo Cup*, at *18, in this instance it concluded that Solo sufficiently rebutted the presumption by offering evidence of its reliance upon its patent counsel's advice in marking its products, establishment and implementation of a system of removing the expired patent number from individual molds as each wears out, and thorough documentation of each of the above.

Mill-Rose

In *Rainworks Ltd. v. The Mill-Rose Co.*, 609 F. Supp. 2d 732 (N.D. Ohio 2009), the court denied a plaintiff's motion for summary judgment regarding the defendant's alleged false marking in violation of § 292. The court employed a unique approach in finding that the defendant was not in violation of § 292(a)—it reasoned that the defendant's patent markings were on its product's packaging, rather than the product itself. Finding no evidence in the record that the product itself could not be marked rather than the

packaging, the court found the marking “insufficient for the notice requirements of § 287(a).” Thus, the court held that the markings were also insufficient for false marking liability under 35 U.S.C. 292(a).

Forest Group

In *The Forest Group, Inc. v. Bon Tool Co.*, 2008 U.S. Dist. LEXIS 57134 (S.D. TX 2008), the district court found that Forest had deceptive intent to falsely mark items with patent numbers that did not cover those items. The court considered evidence of Forest’s marking of construction stilts with patent numbers that, in previous district court decisions, had been found not to apply to the stilt Forest was marking. Forest unsuccessfully attempted to rebut the presumption that it had acted with intent to deceive with unsupported testimony that it directed its manufacturer to stop marking its stilts with the patent number. The district court found it too difficult to believe that Forest did not have any documentation reflecting its instruction to the manufacturer, and even assuming it did instruct the manufacturer, never examined the newly manufactured stilts to ensure that they complied with Forest’s alleged instructions.

Regarding the issue of damages and the meaning of the language “shall be fined... for every such offense” in § 292(a), Bon Tool argued that the court should impose a penalty of \$500 for each stilt sold with a false marking. The district court rejected Bon Tool’s argument, citing *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910), in which the First Circuit held that § 292 did not impose a penalty for each article, but rather for each offense of marking. The *London* court further held that:

a plaintiff, in order to recover for more than a single offense, must present specific proof as to time and circumstances of the false

marking to show a number of distinct offenses, and to negative the possibility that the marking of the different articles was in the course of a single and continuous act.

The district court held that the facts in the record established that Forest placed a single order for falsely marked stilts after it knew of its patent’s inapplicability thereto. Applying the logic of the *London* court, the district court held that Forest made “one separate, distinct decision to mark its stilts after it knew the stilts did not meet all the claims” of its patent, and held Forest liable for \$500.

In *The Forest Group, Inc. v. Bon Tool Co.*, 2009 U.S. App. LEXIS 28380 (Fed. Cir. 2009), the Federal Circuit disagreed, citing the plain language, legislative intent, public policy, and the *qui tam* nature of the statute to interpret “every such offense” to mean every article falsely marked for the purpose of deceiving the public. The Federal Circuit dismissed the holding of the *London* court and those district courts following it, pointing out that those decisions predated or gave little or no attention to the 1952 amendment to the false marking statute. The 1952 amendment to the statute changed the fine from a minimum of \$100, to a maximum of \$500. The amendment, according to the Federal Circuit, “eliminated the policy consideration expressed by the court in *London* of not imposing disproportionate fines for the false marking of small and inexpensive articles.” *Forest Group*, at *12.

The Federal Circuit further contended that the statute exists “to give the public notice of patent rights” and that marking articles falsely potentially results in reduced competition, deterrent of research and innovation, and unnecessary costs associated with designing around a patent whose number has been marked on a product. *Id.* at *14-15. The court

stated that “these injuries occur each time an article is falsely marked,” and thus, the more articles falsely marked, the greater the likelihood that these damages will be incurred. *Id.* at *15-16.

Responding to concerns that the imposition of fines on a per article basis might lead to the rise of “marking trolls,” the Federal Circuit asserted that the false marking statute explicitly permits *qui tam* actions, in which members of the public are allowed to file suit on behalf of the federal government and retain half of the awarded fines. *Id.* at *16-17. The court reasoned that limiting the false marking penalty to a fine imposed for each continuous act of false marking, as suggested by Forest, would do little to encourage members of the public to file suit under the statute, and little to discourage anyone from falsely marking an article. *Id.* at *17-18. The court stated that such a reading would effectively render the statute useless in that a plaintiff would be deterred from filing an expensive lawsuit where the damages might be a mere \$500, half of which would be paid to the government. *Id.* at *16.

Finally, the Federal Circuit noted that 35 U.S.C. § 292 explicitly provides a fine of “not more than \$500 for every such offense,” and as such, a court may in its discretion assess a smaller fine for each article falsely marked. *Id.* at *18-19. In light of the plain language, purpose, public policy, and the *qui tam* nature of the statute, the Federal Circuit held that “35 U.S.C. § 292 requires courts to impose penalties for false marking on a per article basis.”

Conclusions

Patent marking and § 292, like many other areas of patent law, is rapidly evolving. The plaintiff in the *Solo Cup* action, while yet to enter a Notice of Appeal, has given indication that he plans to do so. We hope to see the

continued on page 7

En Banc Federal Circuit Rules that Section 271(f) Does Not Apply to Method Claims

Recently, the Federal Circuit Court of Appeals clarified the scope of patent rights afforded to owners of patents that contain method or process claims by holding that 35

U.S.C. § 271(f) does

not apply to those

claims. *Cardiac*

Pacemakers, Inc. v.

St. Jude Medical,

Inc., 576 F.3d 1348

(Fed. Cir. 2009).

Section 271 provides

the statutory basis for various types of patent infringement. And Section 271(f), in particular, provides a cause of action for patent infringement where the “components of a patented invention” are “supplied” to be assembled abroad. In holding as it did, the Federal Circuit explicitly overruled a contrary decision it had issued only four years earlier.

The case had been before the Federal Circuit on several occasions. In fact, *Cardiac Pacemakers, Inc.* and others (“Cardiac”) originally brought the patent infringement suit against *St. Jude Medical, Inc.* and *Pacesetter, Inc.* (“St. Jude”) in 1996. Cardiac alleged that St. Jude was selling implantable cardiac defibrillators (“ICDs”) that infringed a number of Cardiac’s patents. ICDs are small, implantable devices that detect and correct abnormal heart rhythms by administering electrical shocks to the heart. One of the patents-in-suit claimed a method of heart stimulation in which the ICD itself is capable of detecting irregular heart rhythms and of being programmed to treat the arrhythmia through either single or multimode operation. The most recent appeal involved a review of the lower court’s summary judgment rulings and brought into question the application of Section 271(f) to method claims.

The Federal Circuit’s En Banc Opinion

In the *en banc* portion of its opinion, the Federal Circuit addressed St. Jude’s

“Applying the ordinary meaning..., the court asserted that ‘supplying’ an intangible step is a physical impossibility.”

argument that the district court erred in concluding that Cardiac could recover damages for overseas sales of St. Jude’s ICDs under Section 271(f). St. Jude shipped ICDs

abroad where they were implanted and used as claimed in the patented method. The Federal Circuit held that although the ICD that St. Jude produces can be used to perform the steps of the patented method, Section 271(f) does not apply to method or process claims.

Background on Section 271(f)

Congress enacted Section 271(f) in order to prevent would-be infringers from escaping liability by manufacturing in the United States and shipping to foreign countries components of a patented invention that, if combined in the United States, would infringe a United States patent. Section 271(f) provides:

- (1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.¹

In 2005, the Federal Circuit explicitly held in *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Company*, 425 F.3d 1366 (Fed. Cir. 2005), that Section 271(f) applied to method claims. In that case, the Federal Circuit held that Shell’s exportation of a catalyst that was necessary to perform a patented method for producing ethylene oxide could result in liability for patent infringement under Section 271(f).

In *Cardiac Pacemakers*, the district court, relying on *Union Carbide*, held that 35 U.S.C. § 271(f) applied to method claims and that St. Jude’s shipment of ICDs abroad resulted in a violation of that section.

The Federal Circuit’s Analysis

To determine whether Section 271(f) applies to method or process claims, the Federal Circuit began by construing the terms of Section 271(f) according to their plain meaning. In doing so, the court observed that, although the isolated reference to “patented invention” in the statute might “by itself seem to extend to all inventions within the definition of ‘invention’” found in 35 U.S.C. § 101 (which includes “any new and useful process, machine, manufacture or composition of matter”), it could not disregard the remaining language in that section that suggested otherwise. Nor could the court “ignore the context of the statute and its legislative history.” And, ultimately, all of these sources led the court to conclude that Section 271(f) does not encompass method claims.

In the eyes of eleven of the twelve active judges of the Federal Circuit,² there exists a “fundamental distinction” between a claim to a product, device, or apparatus and a claim to process that is critical to the meaning of the Section 271(f).

A component of a tangible product, device, or apparatus is a tangible part of the product, device, or apparatus. In contrast, “the patented invention at issue when a method patent is implicated consists of a ‘series of acts or steps.’” The elements or components of a method are “the steps that comprise the method.” Accordingly, the court recognized that “method patents do have ‘components,’” i.e., “the steps that comprise the method.”

But, Section 271(f) requires not only “components of a patented invention,” it requires those components to be “supplied.” And, according to the court, this later requirement is fatal to method claims when it comes to Section 271(f). Looking to Webster’s Dictionary, the court stated that the meaning of “supply” is to “provide that which is required,” or “to furnish with ... supplies, provisions, or equipment.” Applying the ordinary meaning, then, the court asserted that “supplying” an intangible step is a physical impossibility. Thus, the court concluded, “because one cannot supply

the step of a method, Section 271(f) cannot apply to method or process patents.”

The court also indicated that its conclusion is consistent with the legislative history of Section 271(f). Specifically, as mentioned above, Congress’s goal in enacting Section 271(f) was to close a loophole in infringement liability relating to unassembled patented products being shipped overseas for later assembly. In fact, the court observed that the legislative history is “almost completely devoid of any reference to the protection of method patents.” Moreover, the court reasons that any ambiguity as to Congress’s intent in enacting the statute is further resolved by the Supreme Court’s presumption against extraterritoriality of patents.

For all of these reasons, the Federal Circuit held that Section 271(f) does not apply to method claims and overruled its earlier decisions, including *Union Carbide*, to the extent they conflict with the holding. The court

then reversed the lower court’s decision that St. Jude was liable to Cardiac for ICDs exported abroad that could be used to perform the steps of the claimed method.

¹ Section 271(f)(2) contains similar language. Although the Federal Circuit’s analysis focuses on Section 271(f)(1), the court notes that its analysis is “equally applicable to 271(f)(2).”

² Judge Newman dissented from the court’s *en banc* ruling. Judge Newman asserts that Section 271(f) applies to all statutory classes of patentable invention, including method patents. Her opinion argues that the court’s interpretation of Section 271(f) is “contrary to the text of the statute, ignores the legislative history, is without support in precedent, and defeats the statutory purpose.”

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Muddled Marking Practices May Make One A Plaintiff’s Target

continued from page 5

Federal Circuit again provide more clarity regarding the application of § 292. These recent patent marking decisions underscore the importance of establishing and implementing an effective program with the assistance of patent counsel. A good patent marking

program can help avoid the inadvertent marking of unpatented articles, and, if documented properly and followed closely, can be adequate evidence to avoid a charge of intent to deceive the public.

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Willful Infringement and the Opinion of Counsel: A Survey of District Court Applications of *In re Seagate*

Until recently, a potential infringer had an affirmative duty to, among other things, obtain a competent non-infringement or invalidity opinion of counsel before engaging in any potentially infringing activity. *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

Without an opinion of counsel, the potential infringer risked the patent owner being awarded enhanced damages, which may be assessed at up to three times the amount of determined compensatory damages under 35 U.S.C. § 284.

Although § 284 does not specify a standard for determining when it is permissible to award enhanced damages, the Federal Circuit law holds that an award of enhanced damages requires a showing of willful infringement. *Beatrice Foods Co. v. New England Printing & Lithography Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991). Once a court has found willful infringement, it then has discretion to award enhanced damages based on the totality of circumstances.

In *In re Seagate Tech. LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the Federal Circuit held that potential infringers no longer have an affirmative duty of care, and therefore have no affirmative duty to seek an opinion of counsel. *Seagate*, 497 F.3d at 1371. After *Seagate*, no inference may be drawn from the potential infringer's failure to obtain opinion of counsel.

Seagate established a two-part objective recklessness test for willful infringement. First, a patentee must "at least show by clear and convincing evidence that the infringer acted despite an objectively

high likelihood that its actions constituted infringement of a valid patent." *Id.* at 1371. If this threshold standard is satisfied, then "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." *Id.*

"In practice, some district courts have interpreted Seagate as requiring that the willful infringement determination be made in light of the totality of the circumstances[, while others] have interpreted it as... only maintaining that analysis when determining whether to grant enhanced damages."

Importantly, the Federal Circuit did not overrule the pre-*Seagate* totality of the circumstances approach of *Rolls Royce LTD v. GTE Valeron Corp.*, 800 F.2d 1101 (Fed. Cir. 1986), *Bott v. Four Star Corp.*, 807 F.2d 1567 (Fed. Cir. 1986), and *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992). In practice, some district courts have interpreted *Seagate* as requiring that the willful infringement determination be made in light of the totality of the circumstances. Other courts have interpreted it as eliminating the totality of the circumstances approach when determining willful infringement, and only maintaining that analysis when determining whether to grant enhanced damages. District courts further diverge on whether the alleged infringer's failure to obtain an opinion of counsel is to be considered as one factor among the totality of the circumstances.

The following district court cases illustrate the application of the standards set forth by the Federal Circuit in *Seagate*:

TGIP, Inc. v. AT&T Corp., 527 F.Supp.2d 561, 567 (E.D. Texas Oct. 29, 2007)

In this case, the district court granted AT&T's motion for judgment as a matter of law ("JMOL"), overturning a jury's

verdict of willful infringement. Following *Seagate*, the court decided that the infringement was not willful because the likelihood that AT&T's actions constituted infringement of a valid patent were not objectively high. The court based its decision on TGIP's failure "to prove by clear and convincing evidence that AT&T knew, or should have known, that there was an objectively high likelihood that AT&T was infringing" the patents. The court pointed out that the validity of the patents was put into question by TGIP's request for reexamination on one of its patents and by a six year delay in enforcing the second patent. The court further stated that since infringement in this case was "at best, a very close question," "[r]easonable persons, properly instructed and exercising impartial judgment, could not find by clear and convincing evidence that AT&T acted in the face of an unjustifiably high risk of harm that was either known or so obvious that it should have been known."

AT&T also presented uncontradicted evidence that it received and relied upon non infringement and invalidity opinion letters from outside counsel requested in response to TGIP's correspondence claiming infringement. 527 F.Supp.2d at 578-79. AT&T's counsel further sent correspondence to TGIP stating its position that AT&T did not infringe, including factual and legal basis for such position. AT&T did not hear back from TGIP on the infringement claims until six years later. The court considered AT&T's opinion of counsel and TGIP's subsequent delay in enforcement as evidence that AT&T was objectively reasonable when proceeding with sale of the accused product.

Informatica Corp. v. Business Objects Data Integration, Inc., 527 F.Supp.2d 1076 (N.D. Cal. Oct. 29, 2007)

In this case, the defendant filed a motion for JMOL to overturn the jury's verdict of willfulness based on the *Seagate* decision. The court declined to enhance damages in light of *Seagate*. 527 F.Supp.2d at 1078. The court stated that the jury's verdict on willfulness allows, but does not require, the court to enhance damages. The court decided not to enhance damages based on the totality of the circumstances. Noting that *Seagate* raised the standard for willful infringement, the court decided that, in this very close case, the balance of the totality of the circumstances had now shifted towards not enhancing damages.

Eastman Kodak Co. v. Agfa-Fevaert N.V., 560 F.Supp.2d 227, 301-02 (W.D. NY April 22, 2008)

In this case, the court discussed willfulness *in dicta* after a decision of non-infringement. In opining that Agfa's conduct could not rise to the level of objective recklessness, the court noted that Agfa had taken into account Kodak's patents when designing the accused product and took steps to design around the patents. And, while Agfa made mistakes in its analysis, the court opined that the evidence showed that Agfa's conduct was not objectively reckless despite the absence of an opinion of counsel. Moreover, the court heavily considered the fact that Agfa began marketing its product in 1995 and it was not until 2001 that Kodak informed Agfa of the potential infringement. Finally, the court pointed out that there were substantial questions of validity and infringement.

VNUS Medical Tech. Inc., v. Diomed Holdings, Inc., et al., 527 F.Supp.2d 1072, 1073 (N.D. Cal. Oct. 24, 2007)

Plaintiff claimed that three defendants had copied patented methods with actual knowledge, and the defendants

each filed motions for summary judgment of no willful infringement. The court granted summary judgment to two of the three defendants, where Plaintiff sought to rely on evidence submitted to the FDA by third parties referencing Plaintiff's and/or Defendant's technology. Citing *Seagate*, the court held this to be insufficient evidence of copying.

However, the court denied the third defendant's motion because one of its employees testified that the idea for defendant's product was not his, but derived from interaction with the plaintiff's personnel. This evidence, said the court, did not necessarily show copying, but it could show that the defendant had actual knowledge of the patents, and that any sales with this knowledge would constitute willful infringement. The defendant sought to defend against the charges of willful infringement by asserting reliance on two non infringement opinions. However, the first opinion was an email which stated that the non-infringement assessment was "preliminary," and provided no legal analysis for the non-infringement assessment. The second opinion was also an email with no factual or logical basis for its findings, and included a conclusory statement that the product in question did not infringe. The court found these opinions to be insufficient to foreclose a finding of willful infringement because of their lack of legal basis for the non-infringement conclusion.

Franklin Electric Co. Inc. v. Dover Corp. Franklin Electric Co. Inc. v. Dover Corp., 2007 WL 5067678 (W.D. Wisc. Nov. 15, 2007)

In this case, Dover moved for a determination that the facts were not sufficient to establish willful infringement as a matter of law. Franklin

presented evidence showing that Dover did not obtain an opinion of counsel prior to selling the accused device. Franklin also presented evidence that Dover attempted to obtain a license from Franklin's predecessor company and a letter accusing Dover of infringement. The court rejected the evidence as having no bearing on whether there was an objective high likelihood that the product infringed. 2007 WL 5067678 at *8. Instead, the court based its finding of no willful infringement on the closeness of the infringement analysis. The court held that there was no objectively high likelihood of infringement and therefore no willful infringement, stating that "[g]iven the significant support in the language of the patent, the specification and prosecution history for defendant's non-infringement position, plaintiff cannot meet its burden to prove objective recklessness by clear and convincing evidence." *Id.*

Abbott Labs v. Sandoz, Inc., 532 F.Supp.2d 996 (N.D. Ill. Dec 4, 2007)

Abbott amended its complaint to include allegations of willful infringement based on sales made by Sandoz after the filing of the initial complaint. The court granted Sandoz's motion to dismiss Abbott's claims of willful infringement. Sandoz had relied on a Federal Circuit decision questioning the validity of the Abbott patent claims when it first began marketing the product, and did not stop marketing the product once a second Federal Circuit decision, without discussing validity, disavowed any preclusive effect of the first decision on Abbott's ability to seek preliminary injunctions against other parties. The district court, after recognizing *Seagate* as the standard for willful infringement, went on to state that "when determining whether

continued on page 10

Willful Infringement and the Opinion of Counsel: A Survey of District Court Applications of *In re Seagate*

continued from page 9

infringement was willful, ‘the primary consideration is whether the infringer, acting in *good faith* and *upon due inquiry*, had sound reason to believe... that the patent [at issue] was not infringed or was invalid or unenforceable, and would be so held if litigated.” 532 F.Supp.2d at 999 (citing *SRI Int’l. Inc. v. Adv. Tech. Lab., Inc.*, 127 F.3d 1462, 1464-65 (Fed. Cir. 1997) (*emphasis added*)).

Although the district court dismissed Abbott’s willfulness claim, it recited the standard stated in *SRI Int’l*, which is closer to gross negligence than to objective recklessness. *SRI*’s consideration of whether the infringer acted in good faith calls for a determination of the subjective state of mind of the infringer, contrary to *Seagate*. Moreover, requiring the infringer to act “upon due inquiry” seemingly mandates the infringer to seek the opinion of counsel or otherwise risk its conduct later determined to be willful. This analysis is of doubtful validity after *Seagate*.

Depomed, Inc. v. Ivax Corp., 532 F.Supp.2d 1170, 1173 (N.D. Cal. Dec. 12, 2007)

In this case, the district court denied Ivax’s motion for summary judgment of no willful infringement. The court reasoned that Ivax did not demonstrate by clear and convincing evidence that the claims were invalid and thus “a reasonable party in Ivax’s position would not have believed that Depomed’s patents were invalid.” 532 F.Supp.2d at 1185-86. The court further reasoned that “a reasonable party in Ivax’s position would or should have known of the existence” of the patent because the

patent issued almost two years before Ivax began selling the product and thus Ivax had “ample time to investigate and discover the patent.” *Id.* at 1186. The

court mentioned *Seagate*, but seemingly applied a different standard. First, failure to demonstrate by clear and convincing evidence (a very

high threshold) that patent claims are invalid can hardly be said to show that a party could not have reasonably believed that the claims were invalid. Second, the court stated that Ivax should have known of the existence of the patent. However, it is the high risk of infringement, not the existence of a patent, of which the alleged infringer must have known or should have known. *Seagate*, 497 F.3d at 1371. Thus, the analysis in this case seems flawed.

QPSX Developments 5 PTY LTD. v. Nortel Networks, Inc., 2008 WL 728201, *2 (E.D. Tex. March 18, 2008)

At trial, Nortel argued no actual knowledge and no copying of the patent as a defense to willful infringement. The court upheld the jury’s finding of willful infringement by Nortel after Nortel motioned for JMOL. The court stated that Nortel failed to request that the jury be “instructed to apply a higher standard of proof.” 2008 WL 728201 at *2 (citing *Seagate*). The court then awarded QPSX enhanced damages after weighing various factors, most importantly the duration of the infringement, and the closeness of the infringement and validity cases (not close), under a totality of the circumstances analysis.

Eaton Corp. v. ZF Meritor LLC, 2008 WL 1931920 (E.D. Mich. April 3, 2008)

The court had originally granted summary judgment to Eaton of invalidity of one of ZF Meritor’s patents, but later reconsidered its decision based on testimony from plaintiff’s expert. The court denied Eaton’s motion of summary judgment of no willful infringement and distinguished the case from *Franklin Electric*, discussed above, stating that in this case the court’s original finding of invalidity was not final.

This decision seems at odds with *Seagate*. It would seem that where invalidity was a close enough case for the court to originally grant summary judgment and later change its mind, willful infringement should not be found because the likelihood of infringement could not have been relatively high and it would not have been objectively reckless for the accused infringer to proceed with marketing of the accused product.

Energy Transp. Group, Inc. v. William Demant Holding, 2008 WL 114861 (D.Del Jan. 7, 2008)

The district court held that *Seagate* does not eliminate the totality of the circumstances analysis and does not forbid the jury from considering a defendant’s failure to seek the opinion of counsel on infringement as part of the totality of the circumstances in determining willfulness.

Conclusion

Objective recklessness is now the standard for willful infringement. However, district courts are divided on the application of the standard. Some courts apply a strictly objective test, while others take into account the subjective state of mind of the accused infringer. Some district courts have used a totality of the circumstances analysis when deciding whether the defendant acted willfully, whereas others use the

totality of the circumstances to determine whether to award enhanced damages only after willful infringement has been decided using the two-prong *Seagate* test. Some of the circumstances that district courts take into account are the closeness of the infringement and invalidity cases, the patentee's expediency in enforcing its patent rights, and, even though *Seagate* instructs that

no inference is to be drawn from the lack of it, whether the accused party obtained an opinion of counsel.

An objective and well reasoned opinion of counsel may help the potential infringer avoid infringing a valid and enforceable patent. The opinion of counsel may also help an accused infringer show that it did not know and it could not have known of a high risk of

infringing the patent. Thus, opinions of counsel remain helpful to accused infringers to avoid a finding of willful infringement or at least to avoid an award of enhanced damages where willful infringement is found.

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