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## Proposed Corporate Procedure Minimizing Liability for Patent Infringement & Willful Infringement While Handling a Large Volume of Patents

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### PROLOGUE

Corporate counsel “see” a large volume of patents during the course of their work. That volume is especially large for corporations which are involved in “hot” technology areas, including the computer and telecommunications fields, because these fields are very active with respect to patents. Counsel may learn about existing or pending patents from technical employees or management at the company, from third parties, from their own research, or from other sources.

It is clearly not feasible for corporate counsel to obtain assurances from outside patent counsel that none of the many patents which come to the attention of the company create an infringement problem for the company. It is similarly impractical for corporate counsel and staff to evaluate each patent and assure themselves that such is the case. Given that situation, and a good faith desire to avoid infringement liability, corporate counsel need a responsible and practical procedure for minimizing the potential liability for patent infringement and for willful infringement while handling a typically large volume of patents.

Essentially, this need poses three, separate questions:

1. What “notice” or “knowledge” of a patent by a corporation is sufficient to begin the time period during which a patentee can recover infringement damages?
2. When does the duty of care to determine possible infringement arise—the duty which must be met to avoid liability for willful infringement?
3. After notice requiring a duty of care, what must the corporation do to meet that duty to avoid liability for willful infringement?

The following article suggests answers to these three questions and proposes a procedure for companies to incorporate into their present patent-monitoring system.

## INTRODUCTION

At the Constitutional Convention in 1787, a measure was proposed to incorporate as one of the new federal powers the ability to grant patents for limited times to inventors. The measure was adopted without debate and was intended to promote the progress of technology.<sup>1</sup> Thus, at least one purpose of the patent system is to encourage the development of technology by making patent applications public documents, thereby disclosing to everyone information about new inventions. It is “well established” that, in the case of an expired patent, the patent laws create a federal right to copy and use the invention.<sup>2</sup> Even before a patent expires (but after it issues), others may learn from the underlying ideas, theories, and principles to legitimately “design around” the patentee’s useful application.<sup>3</sup> The goal of disclosure is served by the requirement that the specification contain a complete description of the new invention, revealing how it works and how to reproduce it.<sup>4</sup> This effectively discloses advances in an art to those who practice the art.

Thus, everyone has the right to review issued patents, whether expired or not, and to build upon the disclosure in those patents. A routine review of patents which issue in an art relevant to a company’s business might be viewed as good—if not necessary—business practice. In addition, certain business situations arise in which a review of patents may be required.<sup>5</sup> The patent law clearly favors both routine and focused patent reviews.

In addition to its own affirmative efforts to review patents, a company often becomes aware of patents through the actions of others. Some example situations in which a company might become aware of a patent include: circulated literature might discuss a patent; trade show or seminar presentations might refer to a patent; packaging of a competitor’s product might list patents; prosecution of a company’s own patent applications often yields information about other patents; technology licensing discussions often involve patents; individual employees might be aware of a patent (consider especially the case of a new employee who brings knowledge of a patent from a prior employer); or another company might provide notice of its patent.

Whether through its own affirmative actions or through the actions of others, companies may “see,” or become aware of, a large volume of patents. The question arises, then, how should the company deal with such patents? Unfortunately, the patent law fails to provide clear guidelines. There are no guarantees for the company that wants to implement procedures fulfilling its good faith desire to avoid patent infringement liability or, worse, liability for willful patent infringement. Although it cannot offer any guarantees, this article attempts to fill the legal void by providing a suggested procedure after analyzing the relevant legal principles.

## NOTICE OR KNOWLEDGE OF A PATENT SUFFICIENT TO BEGIN TIME PERIOD TO RECOVER INFRINGEMENT DAMAGES

### *Direct Infringement (271(a))*

There is no intent requirement for direct infringement (distinguish contributory and induced infringement discussed below).<sup>6</sup> Thus, innocent direct infringers are liable equally with, although perhaps not in the same amount as, willful direct infringers. In addition, the notice or knowledge of a patent, which a party accused of direct infringement obtains through its own actions, “is irrelevant” for purposes of measuring actual infringement damages (distinguish enhanced damages).<sup>7</sup> This is true because, under the patent marking statute and related case law,

the patentee's actions control when the time period begins during which the patentee can recover infringement damages. The accused infringer does not control that time period.<sup>8</sup>

Sufficient knowledge of a patent to begin the period for recovery of infringement damages depends upon whether the patentee alleges infringement of a product claim or only process claims. If a patent contains only process claims, then issuance of the patent itself provides constructive notice to all potential infringers that patent rights exist. The patentee need do nothing to begin the infringement damages period.<sup>9</sup> No additional notice of any kind is required; even an “innocent” infringer, without any inkling of the patent rights infringed, is liable in damages for the entire period of infringement. (Of course, there is usually no liability until the patent issues and 35 U.S.C. § 286 prevents recovery of damages for any infringement committed more than six years before the filing of the complaint or counterclaim for infringement.) The same is true (no notice required) when a patent contains both product and process claims if the patentee only alleges infringement of the process claims.<sup>10</sup>

If either (1) the patent contains only product claims or (2) the patent contains both types of claims and the patentee asserts infringement of at least one product claim, the patent marking statute, 35 U.S.C. § 287, applies. Section 287 places an affirmative duty on the patentee, if the patentee makes, offers for sale, sells, or imports (the case of using only is unclear) a product covered by the claims allegedly infringed, to either (1) mark the product appropriately or (2) affirmatively give the accused infringer actual notice of the infringement.<sup>11</sup> If neither the patentee, nor another with the patentee's consent, makes, sells, offers to sell, or imports a product covered by the patented product claims, then no notice is required.<sup>12</sup> Apparently, the legal rationale is that it would be impossible for a patentee to mark a nonexistent product.

The duty placed on the patentee by Section 287 arises from the policy against deception of the public by distribution of unmarked patented products. Absent marking or actual notice received from the patentee of patent rights, the public is entitled to copy products in the public domain. That policy supports the following otherwise curious result: if the patentee fails to either mark the product or affirmatively notify the accused infringer of infringement, then the patentee cannot recover damages—even if the accused infringer actually knows that the patent exists and that it is infringing the patent.<sup>13</sup> The failure of the patentee to mark or actually notify the accused infringer constitutes a limitation only on a possible damages recovery. The patentee still might obtain an injunction against further infringement.<sup>14</sup>

The accompanying flow chart (Appendix A) clarifies the principles discussed above. The legal principles can be summarized into the following guideline: a company faces no risk, and gains much benefit, from a routine review of all possible patents when the issue of actual infringement damages for direct patent infringement alone is considered. The knowledge of the company obtained through its own review actions is irrelevant for purposes of determining actual infringement damages. Thus, there is no risk of incurring damages from that knowledge. On the other hand, the knowledge which the company gains may allow it to design around or avoid entirely a particular patent, identify technology of interest for possible licensing, or gain new knowledge useful to its own research and development efforts. Thus, there are many benefits to a routine review of all technologically relevant patents.

### ***Induced & Contributory Infringement (271(b),(c))***

Distinguish liability for direct patent infringement from liability for induced or contributory infringement. Under 35 U.S.C. §§ 271(b) and (c), knowledge of the asserted patent is generally required to create liability for contributory infringement or inducement of infringement.<sup>15</sup> The knowledge requirement has a statutory basis for contributory infringement.<sup>15</sup> The courts have required that a party knowingly aid and abet another's direct infringement, and actual knowledge of the asserted patent is necessary to demonstrate the requisite intent, before liability for inducing infringement arises.<sup>16</sup>

To show induced or contributory infringement, the patentee must prove by a preponderance of the evidence that someone has directly infringed the patent.<sup>17</sup> It is not necessary to show, however, that the defendant itself has directly infringed. The statute also requires, before liability for contributory infringement can exist, that the defendant “offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use . . . .” Section 271(c) (emphasis added).

To show induced infringement, the patentee must also prove by a preponderance of the evidence that the defendant actively and knowingly aided and abetted the direct infringement of another. The patentee must show that the defendant actually intended to cause the acts which constitute direct infringement and that the defendant knew or should have known that its actions would induce direct infringement. The defendant cannot be liable for inducing infringement if it had no reason to be aware of the existence of the patent.<sup>18</sup> A defendant might induce another to infringe a patent if it provides instructions and directions to perform the infringing act through labels, advertising, or other sales methods. Alternatively, a defendant might induce infringement by supplying the components or ingredients which are used in an infringing method or apparatus with the knowledge and intent that its customer would directly infringe by using the components or ingredients to make, use, sell, offer to sell, or import the patented invention.<sup>19</sup>

Thus, knowledge of a patent is a prerequisite for liability for either induced or contributory infringement. The type of awareness of a patent which might constitute the requisite “knowledge” is unclear. Regardless, something more than mere knowledge of a patent is required of the defendant before liability can attach for induced or contributory infringement. The defendant must act with a bad intent and the courts do not find such intent easily.<sup>20</sup> Consequently, little risk arises merely from a routine review of all possible patents when the issue of actual infringement damages for induced or contributory patent infringement is considered.

### **WHEN DOES A DUTY OF CARE TO DETERMINE POSSIBLE INFRINGEMENT ARISE?**

Distinguish liability for patent infringement, whether the liability is based upon direct, induced, or contributory infringement, from increased damages for willful infringement. Any proposed procedure to minimize the possibility of infringement liability must address the question of how best to avoid liability for increased damages for willful infringement under 35

U.S.C. § 284. Under that section of the patent statute, a trial court exercising its own discretion may increase damages awarded to the patentee up to three times when it appears that an infringer had no reasonable basis for believing that it had a right to act as it did.<sup>21</sup>

A company with actual notice or knowledge of a patent is under an affirmative duty to exercise due care to determine whether it will infringe valid patent rights before it initiates possibly infringing activity.<sup>22</sup> Suggested actions which tend to satisfy the duty to diligently investigate patent infringement are discussed in the next section of this article. That duty usually entails obtaining competent, independent legal advice because an infringer must have an “honest doubt” of validity, infringement, or enforceability to avoid a finding of willful infringement.<sup>23</sup> Nevertheless, obtaining an opinion of counsel does not necessarily preclude a finding of willful infringement.<sup>24</sup> The important inquiry is the nature of the opinion and the effect that the opinion had on the alleged infringer’s activities.<sup>25</sup> There is no clear legal rule as to when an infringement defendant has actual notice of a patent sufficient to trigger the duty of care. The case law in this area merely provides reference points, in light of the particular facts of each case, illustrating what the courts consider sufficient notice. The attached table (Appendix B) provides a continuum of court decisions in this area and summarizes the facts which were found sufficient or insufficient to trigger the duty of care.

The case law indicates that any contact between the company and another party (typically the patentee, but occasionally a third party), involving a patent, may constitute notice of the patent sufficient to trigger a duty on the part of the company to investigate possible infringement of the patent. Examples of such contacts include “cease and desist” or even “softer” notice letters from the patentee to the company, license offers between the patentee and the company, purchase by the company from the patentee of the patented product marked with notice of the patent, and employment by the company of a former employee of the patentee having knowledge of the patent. In these situations, the company receives notice of the patent through its contacts with others outside the company. Such situations tend to trigger a duty of care on the company receiving the notice. When the company learns about the patent on its own, without contact with an outside party, it is less clear when the duty of care attaches.

If the company takes affirmative steps to consider the patent after it acquires knowledge of the patent, even though the company acquired that knowledge on its own, the courts tend to find that the duty of care has begun. Examples of such affirmative steps include attempts made to copy or design around the patent and analyses discussing non-infringement of the patent (perhaps made by technical personnel and perhaps memorialized in a written document). Thus, if the company learns about a patent and believes it to be relevant to an actual or prospective product or process of the company, the duty of care would seem to attach.

In contrast, the duty of care would not seem to attach if the patent is in the company’s technical files, even if the patent has been substantively reviewed, as long as it was not considered specifically relevant to any product or process of the company. The U.S. Court of Appeals for the Federal Circuit has specifically stated that awareness of a patent which was only “technical,” arising from monitoring areas of technology, is insufficient to trigger a willfulness inquiry.<sup>26</sup> Finally, awareness that a patent application is pending does not trigger the duty of care.

In his article titled “Willful Infringement and ‘Magic Words’—the Effect of Opinions of Counsel on Awards of Increased Damages and Attorney Fees,” 66 J. Pat. Trademark Off. Soc’y 598 (1984), C. Gholz responds to the request that he teach what a company must do to protect itself against a charge of willful infringement by saying such a request is “a tall order.” His advice: “if you are aware of a patent which your proposed corporate activities might infringe (either because you have received a ‘ding’ letter from the patentee or because you have actual knowledge of the patent in some other way), get an opinion from a competent, independent, outside patent attorney sanctioning your proposed course of conduct.” Gholz recognized, however, that his answer subsumes more questions than it answers.

## **SATISFYING THE DUTY OF CARE TO AVOID WILLFUL INFRINGEMENT**

Decisions granting and denying increased damages under Section 284, based on a charge of willfulness, are legion.<sup>27</sup> A considerable body of case law has developed, although neither of the Federal Circuit’s predecessor courts (the Court of Customs and Patent Appeals and the Court of Claims) had any applicable precedent under Section 284. The case law has established that such awards are punitive, not compensatory, in nature.

Whether an act is “willful” is by definition a question of the actor’s intent. To determine whether infringement is willful, a court must make an inference after considering the totality of the circumstances, including (1) whether the infringer deliberately copied the ideas or design; (2) whether the infringer, when it knew of the other’s patent protection, investigated the scope of the protection and formed a good faith belief that the patent was invalid, unenforceable, or not infringed (was an opinion obtained and what was its content?); and (3) the infringer’s behavior as a party to the litigation.<sup>28</sup> Other factors considered by courts include: (4) the defendant’s size and financial condition, (5) the closeness of the case, (6) the duration of the defendant’s misconduct, (7) any remedial action by the defendant, (8) the defendant’s motivation for harm, and (9) whether the defendant attempted to conceal its misconduct.<sup>29</sup> Circumstantial evidence can be used to prove an infringer’s knowledge of a patent and the ultimate determination of willfulness is highly fact-based.

The act of obtaining competent legal advice before initiating possible infringing activity is commonly cited as an important factor in determining willful infringement. Some of the factors to be considered in evaluating a legal opinion are whether it is competent, appears authoritative, and contains sufficient internal indicia of reliability to justify the infringer’s belief that the opinion is competent.<sup>30</sup> An opinion that contains mere bald, conclusory statements of non-infringement will not satisfy the duty of care.<sup>31</sup>

The courts seem reticent to find willfulness when there is no copying (e.g., an honest attempt to “design around” exists) or when the infringing activity begins before the patent issues. Given the “totality” test, however, there are no *per se* rules. Not every failure to seek an opinion of competent counsel will mandate an ultimate finding of willfulness; conversely, the existence of an opinion does not always and alone dictate a finding that the infringement was not willful. (Note the problem that offering an attorney opinion to defend a charge of willfulness may waive the attorney-client privilege as to related subject matter.) Moreover, the issue of willfulness does not rest solely on the timing or knowledge of the patent. In the end analysis, willfulness determinations are unpredictable.

## PROPOSED PROCEDURE TO MINIMIZE THE RISK OF LIABILITY FOR WILLFUL INFRINGEMENT

### *Introduction*

A company cannot be a willful infringer of a patent if it has no knowledge of the patent. When a company has “notice or knowledge” of a patent, however, an affirmative duty arises to exercise due care to determine whether it will infringe valid patent rights before initiating possibly infringing activity. This legal principle might counsel a company to avoid, to the extent possible, all knowledge of any patents. Such a procedure is impractical for a number of reasons. First, the company forfeits the benefits (discussed above) provided by both routine and focused patent reviews. Perhaps more important, the courts have stated that companies cannot intentionally remain ignorant of another’s patent rights to avoid liability. Almost forced to consider patents in the arts relevant to its business, therefore, the company must develop and follow some procedure by which it gains the benefits of patent reviews while minimizing the risk of a finding of willful patent infringement.

The following procedure represents a good faith, responsible, and practical balance which, if followed, should minimize the company’s potential liability. In addition, if followed, the procedure should demonstrate an honest and sincere effort to fulfill the company’s obligations. The suggested procedure is based on the legal research outlined in this article. The exact steps of the proposed procedure have not received the sanction of any court, however, nor do they find support for their specific provisions in any statute or regulation.

### ***Proposed Three-Step Procedure***

#### Step 1: “Technical” or “Bare” Notice (No Duty)

If a company has bare notice of a patent, without more, then no duty to determine whether the company’s activities might infringe that patent should arise. The following circumstances constitute examples of “bare” notice:

(a) The patent is in the company’s files from work unrelated to the potentially infringing activities or to an analysis of those activities;

(b) A company employee obtains a copy of the patent or is informed of the patent in an unrelated context (for example, he or she picks up a copy at a seminar or trade show or learns that the patent exists in a trade article); or

(c) The company obtains a copy of the patent or learns that it exists as part of a routine search (for example, the company might routinely order all patents which issue in a particular technology classification).

Under such circumstances, there should be no need to analyze the patent or to obtain an opinion of counsel. No “duty of care” should arise; therefore, there should be no “notice” for purposes of infringement and, consequently, little risk of willfulness if the company is later found to infringe that patent.

Step 2: More Than Bare Notice  
(Intermediate Duty)

If the company has more than just bare notice of the patent, then it would appear to have a duty to exercise some care to determine whether its activities might infringe that patent. Circumstances which constitute more than bare notice are those suggesting that infringement might be a concern. Then, “due care” might reasonably be satisfied by having the company’s inside counsel analyze potential infringement of the patent and draft a standardized, short memorandum detailing the results of that analysis. If, as in most cases, the result of counsel’s analysis is an opinion that infringement liability is of little or no concern, then the duty of care should be satisfied by such a memorandum. Should counsel opine that infringement might be a concern, however, a more extensive analysis would be warranted (see Step 3 below).

The following circumstances constitute examples of notice which might raise an intermediate duty of care:

(a) Company patent counsel reviews the patent in preparation for a patentability opinion (counsel should probably consider potential infringement of the inventive product or process concurrently);

(b) A company employee has sufficient knowledge of the patent to make a statement such as, “This patent might be relevant to our product.”; or

(c) A patentee says to a company employee, “Have you seen my patent?”.

Under such circumstances, an intermediate “duty of care” seems to have arisen and there is probably some need to analyze the patent and to obtain at least a brief opinion of counsel. Although an opinion drafted by outside counsel is preferable, a competent opinion from inside patent counsel should suffice.

Step 3: Warning Notice (*High Duty*)

Finally, the company may receive notice or knowledge of a patent in the context of a warning that its activities might infringe. The following circumstances constitute examples of “warning” notice:

(a) The patentee sends the company a “ding” letter asserting infringement or otherwise directly asserts infringement;

(b) An employee of the company has sufficient knowledge of the patent and of the company’s product to ask a question such as, “Don’t we infringe this patent?”; or

(c) Counsel for the company is evaluating the patent in another context (e.g., a patentability analysis) and should be aware that the company’s activities might constitute infringement.

Such circumstances include some of those which are typically present in cases which have found willful infringement. When they exist, the company would appear to have a high



duty of due care to determine whether it will infringe valid patent rights. That duty is met by having patent counsel conduct a thorough investigation of the patent's scope and form a good faith opinion that the patent is invalid, unenforceable, or not infringed. The opinion should constitute competent, independent, legal advice and be reduced to a document containing a complete analysis (as opposed to conclusory statements). Although not necessary, it is helpful to have counsel outside the company provide the opinion. Finally, the company should be careful to follow any parameters in the opinion of counsel once it is rendered.

### ***Application of Proposed Procedure to a Watch Service***

Many companies use a watch service, consisting of inside or outside patent counsel who monitor United States patents as they issue in certain areas of technology. These patents may be summarized and the summaries forwarded to appropriate personnel such as development managers. The three-step procedure proposed above applies well to such a watch service and subsequent distribution. Proposed below, therefore, is a course of conduct which companies might follow to gain the benefits of their watch service and subsequent distribution while minimizing the risk of a finding of willful patent infringement.

It appears from the analysis provided above that notice of patent rights sufficient to trigger the need for a willful infringement analysis requires more than just possession of a patent as mere technical literature. Accordingly, if none of the individuals who review the monitored patents and related summaries—such as in-house counsel (perhaps in both the United States and abroad) and development managers—identifies a patent as of more than mere technical interest, then the company would seem to have no obligation to do anything further. To memorialize the (at first assumed, then confirmed by inaction) determination that the patent was not found particularly relevant to any company product or process, an initial summary prepared by inside counsel might include a statement such as: “Unless a company representative raises a concern, upon review of this summary or of the summarized patent itself, that the patent is relevant to a particular product or process of the company, then the patent is determined to be of only general interest with respect to the company's business and does not pose any significant risk of infringement.” No duty to do more would seem to arise from mere “technical” or “bare” notice of the patent.

Should the person conducting the watch service, or a person reviewing a patent or its summary, find a patent possibly relevant to a particular product or process, in-house legal personnel should review the patent with respect to the actual or prospective product or process of the company and determine if there is any risk of infringement of the claims of that patent. If there is very little or no risk, as discussed in the Proposed Procedure, Step 2, counsel should prepare a document confirming non-infringement and briefly stating the basis or bases for that determination. This action should be sufficient to obtain closure and to thwart a risk of a willfulness finding for a patent deemed to be of possible relevance.

If, on the other hand, there is a real risk of infringement, a detailed opinion of patent counsel (preferably outside counsel, but not required) should be obtained to determine the risk of infringement. Patent counsel should advise the company how it can avoid infringement. Of course, the company must take steps to follow any advice given. This situation corresponds to Step 3 of the Proposed Procedure outlined above.

Finally, the efforts of the watch service should be coordinated with patent prosecution to identify patents which might be relevant as prior art to a particular invention of the company. Counsel who review the patent or its summary should notify attorneys prosecuting applications in the particular area of technology relating to the patent that the patent exists. Such action will allow the prosecuting patent attorney to determine whether the patent is “material” to the patentability of the subject matter of the patent application and, in turn, whether an Information Disclosure Statement should be filed disclosing the patent to the U.S. Patent and Trademark Office. The prosecuting patent attorney will also be in a more informed position to assess patentability of the subject matter and the scope of any patent which might issue covering the subject matter.

## Conclusion

Which of the procedural steps outlined above should apply depends upon the context in which the company obtains notice or knowledge of a patent. A company may be notified of a patent unrelated to possible infringement of the patent (no duty of care), merely suggesting that infringement might be a concern (an intermediate duty of care), or strongly indicating that infringement might be a concern (a high duty of care). The degree of “due care” which the company should exercise to minimize potential liability for willful infringement is commensurate with the context in which notice or knowledge was obtained.

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## ENDNOTES

- <sup>1</sup> Const. art. I, § 8, states: “Congress shall have Power ... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and Discoveries.”
- <sup>2</sup> “For almost 100 years it has been well established that in the case of an expired patent, the federal patent laws do create a federal right to ‘copy and use.’” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 165, 9 USPQ2d 1847, 1856-57 (1989); see also *Elmer v. ICC Fabricating, Inc.*, 67 F.3d 1571, 1578, 36 USPQ2d 1417, 1423 (Fed. Cir. 1995).
- <sup>3</sup> See *Slimfold Mfg. Co. v. Kinkead Industries, Inc.*, 932 F.2d 1453, 1457, 18 USPQ2d 1842, 1845 (Fed. Cir. 1991). Even Sir Isaac Newton, who is credited with, among other things, the formulation of differential calculus, conceded that he traded in prior ideas, stating, “If I have seen further it is by standing upon the shoulders of Giants.”
- <sup>4</sup> 35 U.S.C. § 111 (1996).
- <sup>5</sup> See T. Moran, How to Conduct an Intellectual Property Due Diligence Study, 12 AIPLA Selected Legal Papers 57 (April 1995) (a due diligence study is undertaken as part of a business transaction contemplated by a client; the study is an evaluation of specified assets of an organization, including patents, to help determine the value of those assets to the transaction) (includes a checklist).
- <sup>6</sup> 35 U.S.C. § 271(a) (1996); *Intel Corp. v. United States Int’l Trade Comm’n*, 946 F.2d 821, 832, 20 USPQ2d 1161, 1171 (Fed. Cir. 1991).
- <sup>7</sup> See *Devices for Medicine Inc. v. Boehl*, 822 F.2d 1062, 1066, 3 USPQ2d 1288, 1292 (Fed. Cir. 1987).
- <sup>8</sup> 35 U.S.C. § 287 (1996).
- <sup>9</sup> *Wine Railway Appliance Co. v. Enterprise Railway Equipment Co.*, 297 U.S. 387, 392, 28 USPQ 299, 302 (1936); *Bandag, Inc. v. Gerrard Tire Co.*, 704 F.2d 1578, 1580-81, 217 USPQ 977, 979 (Fed. Cir. 1983).
- <sup>10</sup> *Devices for Medicine*, 822 F.2d at 1066, 3 USPQ2d at 1292; *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1080, 219 USPQ 679, 685 (Fed. Cir. 1983).

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- <sup>11</sup> *American Medical Systems Inc. v. Medical Engineering Corp.*, 6 F.3d 1523, 1533, 28 USPQ2d 1321, 1332 (Fed. Cir. 1993).
- <sup>12</sup> *Wine Railway*, 297 U.S. at 388, 28 USPQ at 300.
- <sup>13</sup> See 7 D. Chisum, *Patents*, § 20.03[71 [c] at 20-525, especially n.122 (1997).
- <sup>14</sup> *Id.*
- <sup>15</sup> 35 U.S.C. § 271(c) (1996); *Trell v. Marlee Electronics Corp.*, 912 F.2d 1443, 1446-47, 16 USPQ2d 1059, 1062-63 (Fed. Cir. 1990) (discussing knowledge requirement; no damages for period before infringer knew patent existed).
- <sup>16</sup> 35 U.S.C. § 271(b) (1996); *Water Technologies, Inc. v. Calco, Ltd.*, 850 F.2d 660, 666, 7 USPQ2d 1097, 1103 (Fed. Cir. 1988).
- <sup>17</sup> Direct infringement is a prerequisite to finding induced or contributory infringement. See, e.g., *Micro Chemical, Inc. v. Great Plains Chemical Co.*, 103 F.3d 1538, 1547, 41 USPQ2d 1238, 1247 (Fed. Cir. 1996) (citing *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 687, 231 USPQ 474, 476 (Fed. Cir. 1986)); *The Carborundum Co. v. Molten Metal Equipment Innovations, Inc.*, 72 F.3d 872, 874 n.4, 37 USPQ2d 1169, 1171 n.4 (Fed. Cir. 1995) (also citing *Met-Coil*); *Water Technologies, Inc. v. Calco, Ltd.*, 850 F.2d 660, 668 n.7, 7 USPQ2d 1097, 1104 n.7 (Fed. Cir. 1988).
- <sup>18</sup> *L.A. Gear Inc. v. E.S. Originals Inc.*, 859 F. Supp. 1294, 1299, 32 USPQ 2d 1613, 1617-18 (C.D. Cal. 1994) (no inducement of infringement found because no knowledge of the patent was proven).
- <sup>19</sup> 4 D. Chisum, *Patents*, § 17.04; *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1468, 15 USPQ2d 1525, 1529 (Fed. Cir. 1990); *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 552, 16 USPQ2d 1587, 1594 (Fed. Cir. 1990); *C.R. Bard, Inc. v. Advanced Cardiovascular Systems, Inc.*, 911 F.2d 670, 674, 15 USPQ2d 1540, 1544 (Fed. Cir. 1990).
- <sup>20</sup> See, e.g., *National Presto Industries Inc. v. The West Bend Co.*, 76 F.3d 1185, 37 USPQ2d 1685 (Fed. Cir. 1996), in which no inducement of infringement was found even though the defendant knew of and had been provided a copy of the patent. In addition, the defendant and its retailers had discussed future liability stemming from the patent. Nevertheless, the court asserted that no inducement of infringement can occur before issuance of a patent, and the actions alleged to constitute inducement of infringement occurred before the patent issued. See also *Dynamis Inc. v. Leepoxy Plastics, Inc.*, 831 F. Supp. 651, 655, 27 USPQ2d 1355, 1358-59 (N.D. Ind. 1993) (evidence that defendant had observed patent number on patentee's product is insufficient to prove "knowledge" or "intent" required to establish liability for contributory or induced infringement). In contrast, see *Drexelbrook Controls Inc. v. Magnetrol International Inc.*, 720 F.Supp. 397, 404, 12 USPQ2d 1608, 1615-16 (D. Del. 1989). The court in *Drexelbrook* asserted that, because the plaintiff marked its patented transmitter with the patent number, the defendant used the plaintiff's specifications in designing its transmitter, and the defendant's customers asked for a transmitter like that of the plaintiff, the defendant had sufficient knowledge of the plaintiff's patent for a preliminary injunction in favor of the plaintiff based on contributory or induced infringement.
- <sup>21</sup> See, e.g., *Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540, 1548, 221 USPQ 1, 8-9 (Fed. Cir. 1984); *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1560, 219 USPQ 377, 388 (Fed. Cir. 1983).
- <sup>22</sup> See, e.g., *Underwater Devices Inc. v. Morrison-Knudsen Company Inc.*, 717 F.2d 1380, 1387, 219 USPQ 569, 576 (Fed. Cir. 1983). An infringer cannot willfully infringe a patent of which it is unaware. *Gustafson, Inc. v. Intersystems Indus. Prods.*, 897 F.2d 508, 511, 13 USPQ2d 1972, 1975 (Fed. Cir. 1990).
- <sup>23</sup> *Underwater Devices Inc.*, 717 F.2d at 1387, 219 USPQ at 576.
- <sup>24</sup> *Amsted Industries Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 181, 30 USPQ2d 1462, 1465 (Fed. Cir. 1994).
- <sup>25</sup> *Id.*
- <sup>26</sup> *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 623, 225 USPQ 634, 644 (Fed. Cir. 1985) (increased damages for willfulness were denied despite the lack of any record of opinions of counsel or any

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reaction to the existence of the patents in suit, factors which would normally give rise to a negative inference against the defendant). *Cf. Nordberg, Inc. v. Telsmith, Inc.*, 82 F.3d 394, 38 USPQ2d 1593 (Fed. Cir. 1996). In *Nordberg, Inc.*, the Federal Circuit clearly rejected the contention that proof that a patent applicant “should have known” of a non-disclosed, prior art reference supports an inequitable conduct defense (the standard is actual knowledge of the withheld prior art). Although a copy of a material patent was in the patent applicant’s corporate files, the files contained several hundred patents and there was no showing that any employee actually searched the files and found a copy of the material patent during the pendency of the patent application. There was no regular searching of the in-house patent files done. Thus, the employees were unaware of the material patent and could not have concealed a prior art reference of which they were unaware.

<sup>27</sup> 35 U.S.C. § 284 (1996) states, “the [trial] court may increase the [actual] damages up to three times the amount found [by the jury] or assessed [by the court in a bench trial].” *See* 7 D. Chisum Patents, § 20.03[4][b][v] (collecting cases).

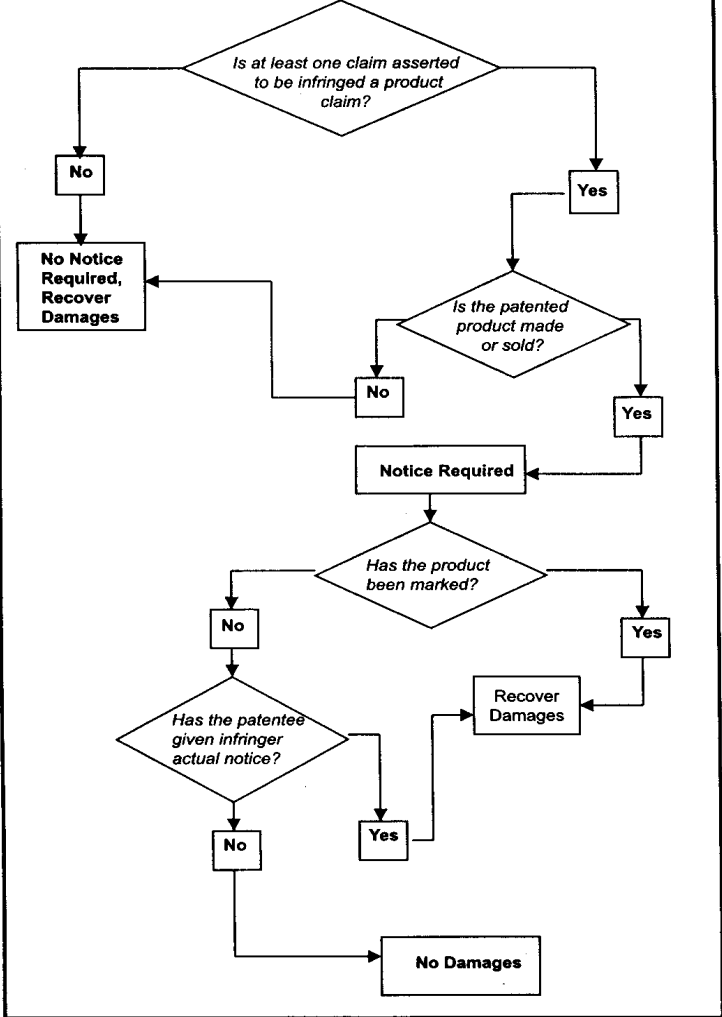
<sup>28</sup> *See, e.g., Bott v. Four Star Corp.*, 807 F.2d 1567, 1571, 1 USPQ2d 1210, 1213 (Fed. Cir. 1986).

<sup>29</sup> 7 D. Chisum, *Patents*, § 20.03[4][b][v] 20-318-19.

<sup>30</sup> *Underwater Devices*, 717 F.2d at 1388, 219 USPQ at 577.

<sup>31</sup> *Id.*

# APPENDIX A FLOW CHART



## APPENDIX B

Chart showing facts which do and do not trigger the duty of care to investigate infringement for purposes of willful infringement:

<b>Notice</b>	<b>Duty</b>	<b>Case(s)</b>
Cease and desist letter from Patentee	Yes	<i>Del Mar Avionics, Inc. v. Quinton Instrument Co.</i>
License offer to Defendant from Patentee	Yes	<i>Power Lift, Inc. v. Lang Tools, Inc.;</i> <i>Underwater Devices Inc. v. Morrison-Knudsen Co.;</i> <i>Saf-Gart Products, Inc. v. Service Parts, Inc.</i>
Notice to Defendant upon each purchase of patented product from Patentee	Yes	<i>Parkson Corporation et al. v. Proto Circuits, Inc.</i>
Defendant asked Patentee for license	Yes	<i>Kalman v. The Berlyn Corp.</i>
Original inventor of patent subsequently worked for Defendant	Yes	<i>Leading Edge Technology Corp. v Sun Automation Inc.</i>
Defendant copied or tried to design around patented product of Patentee	Yes	<i>Armstead Industries Inc. v. Buckeye Steel Castings Co.;</i> <i>Micro Motion Inc. v. Exac Corp.</i>
Defendant circulated an internal letter discussing non-infringement of the patent	Yes	<i>Stryker Corp. v. Intermedics Orthopedics Inc.</i>
Defendant's possible knowledge of the Patentee's pending patent application	No	<i>American Original Corp. v. Jenkins Food Corp.</i>
"Patent pending" marking on Patentee's product	No	<i>State Industries, Inc. v. A.O. Smith Corp.</i>
Technical awareness of patent	No	<i>Shatterproof Glass Corp. v. Libbey-Owens Ford Co.</i>

## APPENDIX C

Summary of cases listed in the Chart of Appendix B.

- 1) *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 225 USPQ 634 (Fed. Cir. 1985): No willful infringement was found because the defendant's awareness of the patents in suit was only technical, arising from monitoring areas of technology, and insufficient to trigger a willfulness inquiry. Thus, increased damages for willfulness were denied despite the lack of any record of opinions of counsel or any reaction to the existence of the patents in suit, factors which would normally give rise to a negative inference against the defendant.
- 2) *State Industries, Inc. v. A.O. Smith Corporation*, 751 F.2d 1226, 224 USPQ 418 (Fed. Cir. 1985): A judgment of willful infringement was reversed because the defendant had insufficient notice (only a patent pending notice) of the patent. This patent pending label was deemed not to provide notice of the patent for willfulness purposes. The court stated that a patent must exist for there to be any knowledge of it and, therefore, to trigger a willfulness inquiry.
- 3) *Kalman v. The Berlyn Corp.*, 9 USPQ2d 1191 (D. Mass. 1988); *Kalman v. The Berlyn Corp.*, 3 USPQ2d 1065 (D. Mass. 1987): No willful infringement was found when the defendants sought an opinion from outside counsel after finding out about the patent in suit. The defendants knew of the patent and asked for a license, which was denied by the plaintiffs, before the alleged infringing activity took place.
- 4) *Leading Edge Technology Corp. v. Sun Automation Inc.*, 23 USPQ2d 1161 (D. Md. 1991): The court denied summary judgment on the willful infringement issue. The notice of the patents in suit which triggered a willfulness inquiry was provided by the original inventor of the plaintiff who later worked for the defendant. The defendant also obtained opinions on the patents and these factors precluded summary judgment on this issue.
- 5) *Saf-Gard Products, Inc. v. Service Parts Inc.*, 491 F. Supp. 996, 206 USPQ 976 (D. Ariz. 1980): The notice which triggered a willfulness analysis was the plaintiff's offering of a license to defendant.
- 6) *Underwater Devices Inc. v. Morrison-Knudsen Company, Inc.*, 717 F.2d 1380, 219 USPQ 569 (Fed. Cir. 1983): The court found willful infringement largely based on an inadequate opinion from in-house counsel who was not a patent attorney. In addition, the defendant attempted to design around the patent in issue. The notice of the patent given to the defendant was the plaintiffs offer of a license and informing the defendant of the patent when the defendant was bidding on a project involving the technology of the patent.
- 7) *Parkson Corp. v. Proto Circuits, Inc.*, 220 USPQ 898 (D. Md. 1983): Willful infringement was found because the defendant reviewed the technology of the patents in suit and the prior art, but the defendant's patent attorney did not obtain or review the file histories of the patents. Notice of the patents came with every purchase of the patented device by the defendants.
- 8) *Stryker Corp. v. Intermedics Orthopedics Inc.*, 96 F.3d 1409, 40 USPQ2d 1065 (Fed. Cir. 1996): Adequate notice of a patent to commence a willfulness analysis was established by an internal letter of the defendants confirming what they believed to be non-infringement of the patent.
- 9) *Amstead Industries Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 30 USPQ2d 1462 (Fed. Cir. 1994): Willful infringement was found when the defendant knew of the patent, tried to design around it, and then proceeded to copy it. Although the defendant relied upon an opinion of outside counsel, the court found that opinion inadequate.
- 10) *Milgo Electronics Corporation v. United Business Communications, Inc.*, 623 F.2d 645, 206 USPQ 481 (10th Cir. 1980); *Milgo Electronics Corporation v. United Telecommunications, Inc.*, 189 USPQ 160 (D. Kan. 1976): Willfulness was found because the defendants copied the patented product before issuance of the patent and failed to obtain an opinion of counsel. The defendants in this case knew of the patent after its issuance and one of their engineers told officials that they could not get around all of the patent claims and another engineer indicated that there was a risk of possible infringement.
- 11) *Del MarAvionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 5 USPQ2d 1255 (Fed. Cir. 1987): The patentee provided a series of notice letters asserting infringement. The defendant did not consult an attorney regarding the charge. The Federal Circuit affirmed the district court's finding that the defendant had acted in willful and conscious disregard of the patentee's rights.
- 12) *Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478, 227 USPQ 435 (Fed. Cir. 1985): Immediately after the issuance of U.S. Patent No. 4,305,467, the patentee contacted the defendant by telephone and offered it a license, alleging that the defendant was infringing the claims of the '467 patent. The Federal Circuit agreed with the jury's conclusion that the defendant's decision to continue production after such notice was clear and convincing evidence of willfulness.
- 13) *Micro Motion Inc. v. Exac Corp.*, 761 F. Supp. 1420, 19 USPQ2d 1001 (N.D. Cal. 1991): Evidence indicated that the defendant's designers had access to the patented product and to the patent while they were designing the defendant's device. Evidence also indicated that the defendant was attempting to design around the patent. Because the defendant obtained advice of counsel, however, the court did not find the defendant's infringement to be willful.
- 14) *American Original Corp. v. Jenkins Food Corp.*, 774 F.2d 459, 227 USPQ 299 (Fed. Cir. 1985): Notice found when patentee gave defendant verbal notice of infringement accompanied by presentation of a copy of the patent.
- 15) *Great N. Corp. v. Davis Core & Pad Co.*, 782 F.2d 159, 228 USPQ 356 (Fed. Cir. 1986): Notice was found when the patentee offered the infringer a license.
- 16) *Ralston Purina Co. v. Far-Mar Co.*, 772 F.2d 1570, 227 USPQ 177 (Fed. Cir. 1985): Notice was found even though given by a third party and even though that party opined that the patent was invalid.
- 17) *Central Soya Co. v. George A. Hormel & Co.*, 723 F.2d 1573, 220 USPQ 490 (Fed. Cir. 1983): There was no warning letter from the patentee. Hormel's legal department became concerned sua sponte about possible infringement of Central Soya's patent, and Hormel sought and obtained an opinion from outside counsel sanctioning its proposed conduct before beginning what was later found to be infringement. The problem was that Hormel failed to monitor its production to insure that it stayed outside of a particular parameter emphasized in the opinion of counsel; a finding of willfulness resulted.
- 18) *Studiengesellschaft Kohle mbH v. Dart Industries, Inc.*, 666 F. Supp. 674, 689, 4 USPQ2d 1817, 1828 (D. Del. 1987), ("that [the infringer] learned of the patent through its own diligence is a relevant factor in the totality of the circumstances [and confirms the reasonableness of its actions.] Contrary to other cases, the infringer was not notified by the patentee."), *aff'd*, 862 F.2d 1564, 9 USPQ2d 1273 (Fed. Cir. 1988).
- 19) *Alfros S.p.A. v. Krauss-Maffei Corp.*, 671 F. Supp. 1402, 1430, 5 USPQ2d 1145, 1175 (D. Del. 1987) ("An infringer cannot remain ignorant of a competitor's patent rights when it displays a continuing knowledge of the product, awareness of foreign patent proceedings, and concern with that product's effect on its own commercial position.").