

RESOLUTION

PATENT LITIGATION COMMITTEE

CHAIR: JEFFREY I. D. LEWIS; VICE CHAIR: JOHN SKENYON

SUBJECT: PROPOSED RESOLUTION TO AMEND 35 U.S.C. § 284

RESOLVED, that the American Intellectual Property Law Association (AIPLA) favors, in principle, revising the current patent damages statute so that for purposes of determining willfulness, a party is under no obligation to investigate whether the patent-in-dispute creates an issue of infringement unless 1) the party receives a communication from the patentee that is sufficient to create declaratory judgment jurisdiction or 2) the party deliberately copied the patented technology. The duty to investigate includes the duty to obtain an opinion of counsel; and

Specifically, the AIPLA supports adding the following clause to the end of 35 U.S.C. § 284:

For purposes of determining whether to increase damages under this section, the court may consider the willfulness of any infringement. In considering the issue of willfulness, the court shall recognize that a party is under no duty to investigate whether there is an issue of infringement regarding a patent-in-dispute unless (i) the party receives a communication from the patent holder sufficient to create jurisdiction under 28 U.S.C. § 2201, or (ii) unless the party deliberately copied the patented technology. The duty to investigate includes the duty to obtain an opinion of counsel.

PAST ACTION: None.

DISCUSSION:

I. The Proposal

The Committee proposes revising the current patent damages statute so that for purposes of determining willfulness, a party is under no obligation to investigate whether the patent-in-dispute creates an issue of infringement unless 1) the party receives a communication from the patentee that is sufficient to create declaratory judgment jurisdiction or 2) the party deliberately copied the patented technology. The duty to investigate includes the duty to obtain an opinion of counsel. Specifically, the Committee supports adding the following clause to the end of 35 U.S.C. § 284. The complete statutory section would read as follows, with the proposed additions underlined:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

For purposes of determining whether to increase damages under this section, the court may consider the willfulness of any infringement. In considering the issue of willfulness, the court shall recognize that a party is under no duty to investigate whether there is an issue of infringement regarding a patent-in-dispute unless (i) the party receives a notice from the patent holder sufficient to create jurisdiction under 28 U.S.C. § 2201, or (ii) unless the party deliberately copied the patented technology. The duty to investigate includes the duty to obtain an opinion of counsel.

II. History of Enhanced Damages in Patent Cases

The first patent act became law in 1790. That statute provided for monetary damages to the patentee and a forfeiture of the infringing device:

And be it further enacted, that if any person or persons shall device, make, construct, use, employ, or vend within these United States, any art, manufacture, engine, machine or device, or any invention or improvement upon, or in any art, manufacture, engine, machine or device, the sole and exclusive right of which shall be so as aforesaid granted by patent to any person or persons, by virtue and in pursuance of this act, without the consent of the patentee or patentees, their executors, administrators, or assigns, forfeit and pay to the said patentee or patentees, his, her or their

executors, administrators, or assigns such damages as shall be assessed by a jury, and moreover shall forfeit to the person aggrieved, the thing or things so devised, made, constructed, used, employed or vended, contrary to the true intent of this act, which may be recovered in an action on the case founded on this act.

Patent Act of 1790, Ch. 7, 1 Stat. 109-112 (1790) at § 4 (emphasis added).

Shortly after the enactment of the 1790 patent statute, the House of Representatives began to examine how to improve it. One bill that was introduced provided for a number of defenses that could be raised by the alleged infringer. One of those defenses was innocent infringement. The bill provided that no liability would be found against those infringers who had no knowledge of the patent. The bill read as follows:

And any person making or selling the thing so invented without permission as aforesaid shall be liable to an action at law, and to such damages as a jury shall assess, unless he can show that the same thing was known to others before the date of the Treasurer's receipt and can show such probable grounds as the nature of a negative proof will admit that that knowledge was not derived for any party from, through or in whom the right is claimed or unless he can show on like grounds that he did not know that there existed an exclusive right to the said invention, or can prove that (the same is so unimportant and obvious that it ought not to be the subject of an exclusive right, or that) the description, model, specimen

or ingredients deposited in the office of the Secretary of State do not contain the whole matter necessary to possess the public of the full benefit thereof after the expiration of the exclusive right, or that they contain superfluous matters intended to mislead the public, or that the effect pretended to cannot be produced by the means described.

H.R. 121, 1st Cong. (1791) (emphasis added). The 1791 bill was never enacted.

In 1792, another House of Representatives bill was introduced. It was similar to the 1791 bill. The 1792 bill was criticized heavily by a citizen named Joseph Barnes. He believed that damages were insufficient under the 1790 patent statute. Mr. Barnes wrote:

'Tis a well-known fact, that the people, in the remote parts of the states, for *wont* of *right* information, are opposed to all patent rights, upon this principle that *they* conceive of them to be *monopolies*: in consequence of which, should one of their neighbors construct, for instance, [and improve mill] by which they are *really* benefited, it naturally follows, they would *not* be disposed to assess damages against such neighbor; therefore, in all probability, a jury of them would bring in a verdict *one dime* damages in favor of the patentee, as an *indication* for him, *not* to visit them again.

E. Walterscheid, To Promote the Progress of Useful Arts: American Patent Law and Administration, 1785 to 1836, 210 (1998) (underlining added).

Mr. Barnes' criticisms likely resulted in a new patent statute in 1793. That statute provided very severe damage penalties for infringing a patent. The 1793 statute mandated that the amount of actual damages be, at a minimum, three times the actual damages:

And be it further enacted, that if any person shall make, devise, and use, or sell the thing so invented, the exclusive right of which shall, as aforesaid, have been secured to any person by patent, without the consent of the patentee, his executors, administrators or assigns, first obtained in writing, every person so offending, shall forfeit and pay to the patentee, a sum, that shall be at least equal to three times the price, for which the patentee has usually sold or licensed to other persons, the use of the said invention; which may be recovered in an action on the case founded on its act in the circuit court of the United States, or any other court having competent jurisdiction.

Patent Act of 1793, Ch. 11, 1 Stat. 318 (1793) at § 5 (emphasis added).

Because the damage provision enacted in 1793 was so severe, courts found ways to avoid its high penalty. One way was to interpret the statute to require that a patentee could only recover treble damages if he made, used and sold the invention. This interpretation apparently was used to restrict the damages that Eli Whitney was able to recover on his cotton gin patent in 1796. M. Powers and S. Carlson, The Evolution and Impact of the Doctrine of Willful Patent Infringement, 51 Syracuse L. Rev. 53, 62-63 (2001) (hereinafter "M. Powers and S. Carlson").

In 1800, the damage provision was amended to provide for damages against those who "shall make, devise, use or sell" the patented invention. Act of April 17, 1800, Ch. 25, 2 Stat. 37 (1800) (emphasis added). This was obviously a reaction to the courts' interpretation of the 1793 statute. At the same time, the actual damages were reduced from a minimum of three times the amount for which the patentee sold his invention to "a sum equal to three times the actual damage sustained." Id. (emphasis added).

The patent statutes were substantially redrafted in 1836. The new damage section eliminated mandatory treble damages and provided that a court could render a judgment for any sum not to exceed three times the amount of damages sustained by the patent holder:

And be it further enacted, that whenever, in any action for damages for making, using, or selling the thing whereof the exclusive right is secured by any patent heretofore granted, or by any patent which may hereafter be granted, a verdict shall be rendered for the plaintiff in such action, it shall be in the power of the court to render judgment for any sum above the amount found by such verdict as the actual damages sustained by the plaintiff, not exceeding three times the amount thereof, according to the circumstances of the case, with costs; and such damages may be recovered by action on the case, in any court of competent jurisdiction, to be brought in a name or names of the persons or persons interested, whether as patentees, assigns, or as grantees of the exclusive right within and throughout a specified part of the United States.

Act of 1836, Ch. 357, 5 Stat. 117 (1836) at § 14 (emphasis added).

Amendments to the patent statutes in 1870 and 1952 did not substantially change the provisions related to willful infringement and enhanced damages. M. Powers and S. Carlson at p. 66.

III. Pre-Federal Circuit Cases on Willfulness

There has always been a feeling that innocent infringers should be treated differently than malicious infringers. In Seymour v. McCormick, 57 U.S. 480 (1853), the Supreme Court noted that the patent law had been changed in 1836 to address that concern. The Court said that under the previous statute there was no distinction made between an innocent infringer and one who acted maliciously: "[t]he defendant who acted in ignorance or good faith, claiming under a junior patent, was made liable to the same penalty with the wanton and malicious pirate." Id. at 488. One article dealing with the history of willfulness has noted that the distinction between an innocent infringer and a malicious one was made consistently by the courts after Seymour until the formation of the Federal Circuit. Cases in which willfulness was found, after Seymour, dealt mainly with conscious and deliberate infringement of a patent:

Until 1983, courts consistently limited the application of increased damages to those cases where the accused party consciously and deliberately infringed the patent-in-suit. Commonly, willfulness issues were litigated in cases in which the defendant had been aware of the patented invention, but asserted the affirmative defense that it had attempted in good faith to design around the patent, or that the patent was

invalid. Frequently, the defendants based their claim of good faith on the fact that they had obtained an opinion of counsel stating that the patent at issue was invalid or non-infringed.

M. Powers and S. Carlson at p. 68.

IV. Post-Federal Circuit Cases on Willfulness

In Underwater Devices Inc. v. Morrison-Knudsen Co. Inc., 717 F. 2d 1380 (Fed. Cir. 1983), the Federal Circuit, for the first time, created an affirmative duty on the part of the alleged infringer to obtain a written opinion of counsel once it received notice that it may be infringing a patent. According to M. Powers and S. Carlson, "a written opinion letter, thus, ceased to be merely one factor relevant to willfulness, but became a legal duty." M. Powers and S. Carlson at p. 71.

M. Powers and S. Carlson analyzed the cases on which the Federal Circuit relied in Underwater Devices and concluded that those cases did not require an affirmative duty to obtain an opinion of counsel. They also note that these cases on which the Federal Circuit relied involved situations in which the accused infringer intentionally copied the patented technology. Id. at p. 75-79.

After the Federal Circuit created the affirmative duty to obtain an opinion of counsel, it created a rule that the failure to disclose the opinion during litigation created a negative inference against the accused infringer. Kloster Speedsteel AB v. Crucible, Inc., 793 F. 2d 1565 (Fed. Cir. 1986). Underwater Devices in conjunction with Kloster

Speedsteel virtually assures that an accused infringer will produce the opinion of counsel to defend against a willfulness charge.

M. Powers and S. Carlson note that because of the liberal pleading requirements, willful infringement can be pled in almost any patent case with very little basis for the allegation. M. Powers and S. Carlson at pp. 83-84. Thus, the attorney opinion is produced during discovery in practically every patent case.

If the opinion is produced, then questions arise as to the scope of the waiver with respect to both the attorney-client privilege and work product. The Federal Circuit has noted these difficulties and suggested that a bifurcated trial may be appropriate. Quantum Corp. v. Tandon Corp., 940 F. 2d 642 (Fed. Cir. 1990). Bifurcated trials, however, also have problems associated with them. They may be inefficient and, in the case of a jury trial, they may be impractical.

V. Problems With the Current Statute

Numerous problems have arisen with the enhanced damages provision of the patent statute, particularly as that provision has been interpreted by the Federal Circuit. Under Federal Circuit precedent, a party who has knowledge of a patent is under a duty to reasonably avoid infringement of the patent. The Federal Circuit has said that this usually entails the obtaining of a competent legal opinion. Underwater Devices Inc. v. Morrison-Knudsen Co., 717 F. 2d 1380 (Fed. Cir. 1983). Subsequent cases have held that the non-disclosure of the opinion during the course of trial can lead to a negative inference that the opinion obtained was adverse to the infringer. Kloster Speedsteel AB v. Crucible, Inc., 793 F. 2d 1565 (Fed. Cir. 1986). These cases have led to the

inescapable conclusion that an alleged infringer must obtain an opinion of counsel in virtually every instance of alleged infringement, and that the opinion must be produced during the course of litigation. M. Powers and S. Carlson at 83-84.

Once the opinion is produced, issues then arise regarding the scope of the attorney-client waiver and work product immunity waiver. This has led the Federal Circuit and other courts to comment on the dilemma faced by the infringer. Should the infringer produce the opinion of counsel or not? If the opinion will be produced, courts then must determine the timing of that production, such as at the end of discovery, or after the first phase of a bifurcated trial in which willfulness is left for the second phase. Id. at 94-95.

The requirement that an alleged infringer must have a legal opinion in almost every patent case also leads to problems with attorney disqualification. Some states, such as the state of Virginia, do not allow the attorney trying the patent infringement case to be even in the same law firm as the attorney who drafted the opinion for purposes of willfulness. As a result, a company's chosen counsel cannot act as both its counselor and its trial attorney. Long-term relationships between attorneys and clients can be lost because the law firm is not able to assume this dual role.

The requirement of a legal opinion in almost every patent infringement case can also lead to problems within larger companies. Larger companies may have numerous employees, many facilities and operational units. A patent known by only a single individual in that company may impute knowledge of the patent on the company for purposes of willfulness. Yet, the actual decision maker who should decide whether to

obtain a legal opinion may never be aware of the patent. A company can "know" of a patent for purposes of willfulness and yet not realize that it should obtain a legal opinion to absolve itself of willfulness allegations.¹

Another problem results from the varying notice standards for 1) willfulness, 2) patent marking and 3) declaratory judgment jurisdiction. Messrs Chu and Barselo, in an article presented the Intellectual Property Owners at its 2002 annual meeting wrote that a potential infringer receiving a letter from a patentee must consider a number of possibilities and scenarios because of this disparity. These include:

- Does the letter constitute proper notice for damages purposes? If so, for which products?
- Does the letter establish a reasonable apprehension of suit for declaratory judgment purposes?
- Does the letter trigger the "duty of due care" for willfulness purposes? If so, should the opinion of counsel be sought?

M. Chu and R. Barselo, Actual Notice of Patent Infringement: Are Changes needed in the Law?, presented at the Intellectual Property Owners 2002 Annual Meeting, November 3-5, 2002, in Los Angeles, California, at p. 4 (hereinafter "M. Chu and R. Barselo").

¹ It is questionable whether treble damages provide a deterrent even if the infringement issue is known to the infringer. M. Powers and S. Carlson relate an interview with a district court judge in their article. That judge believes that treble damages do not act as the main deterrent in patent infringement cases. Rather, the judge believes that the threat of a permanent injunction is the biggest deterrent offered by a patent infringement lawsuit. M. Powers and S. Carlson, pp. 100-101.

Any exposure to or knowledge of the infringed patent may be held to be sufficient to meet the notice requirement for willfulness. In Great Northern Corp. v. Davis Core and PadCo, 782 F. 2d 159, 167 (Fed. Cir. 1986), a patentee was found to have had notice of a patent sufficient to trigger its affirmative duty to obtain an opinion of counsel when the infringer's president learned of the patent from a third party who, at the same time he mentioned the patent, also stated that it was invalid. The Federal Circuit found that the infringer's "failure to fulfill that duty is clearly an adequate basis for the district court, in its discretion, to assess treble damages Id. at p. 167.

The criteria regarding notice for willfulness are not coextensive with the criteria for filing a declaratory judgment action. Notice sufficient to create an affirmative duty of care "may be achieved without creating a case or controversy in terms of 28 U.S.C. § 2201". SRI Int'l., Inc. v. Advanced Tech. Labs., Inc., 127 F. 3d 1462, 1470 (Fed Cir 1997). Thus, a skillfully crafted letter from a patentee, which puts an infringer on notice of the patent--and probably the infringement issue for willfulness--might not create declaratory judgment jurisdiction. This leaves the alleged infringer in an unfair position. It must obtain an opinion of counsel without being able to defend itself in court against the charges of infringement made by the patentee.

The cost to alleged infringers is immense. Because of the low knowledge threshold required to start the affirmative duty of obtaining an opinion, and because of the negative inference that attaches to the nondisclosure of the attorney opinion, infringers must inevitably err on the side of caution and obtain attorney opinions when there is even the smallest possibility that they may be sued for infringement of the patent. M. Powers and S. Carlson point out that companies may receive hundreds of

allegations of patent infringement annually and that thorough investigations can be costly especially when legal opinions can run from \$20,000 to \$100,000. M. Powers and S. Carlson at p. 102. Tens of thousands of dollars can be spent on each one of these opinions, particularly because the Federal Circuit has enumerated such rigid and comprehensive requirements for them.

There also is a disparity between the standards of notice under the patent marking statute, § 287, and notice of a patent sufficient to create a duty to obtain a legal opinion for willfulness purposes. Under § 287, the notice must be of infringement, not merely notice of the patent. M. Chu and R. Barselo reviewed the case law and concluded that the following situations did not constitute proper notice under § 287:

- Mere prior knowledge of the accused infringer of the patent at issue.
- Prior belief by the accused infringer of possible infringement.
- A general announcement by the patent owner that a patent has issued and that the patent owner intends to enforce it.
- Letters sent by the patentee asserting infringement of a specific patent, but only informing accused infringer of the general type of product that would infringe rather than identifying a specific accused device.
- Notice by a letter sent by the patent owner suggesting that the recipient might be interested in taking a license to a patent.

- Notice by "a letter which is merely informational" and does not demonstrate an intent to charge infringement.
- A casual assertion of infringement in a social context.
- Notice given to an employee having inappropriate authority.
- Notice given only to an accused infringer's licensor.
- Publications by the patent owner bearing a patent number and allegedly delivered by the patent owner's licensee to a customer of the accused infringer.
- Trade journal advertisements about the patent.

M. Chu and R. Barselo at pp. 7-8. These authors note that despite the fact a patentee may have sufficient notice of a patent and the infringement issues in order to trigger its duty to obtain an opinion of counsel for willfulness purposes, the notice may not be sufficient to start the damages running under § 287. M. Chu and R. Barselo at p. 8. The disparity in standards can create the odd situation in which an infringer may have the duty to investigate the infringement issues to avoid willfulness and yet not be liable for any damages under § 287. Cf. Gart v. Logitech, Inc., 254 F.3d 1334 (Fed. Cir. 2001). The result would be absurd.

Patent willfulness is charged or alleged in almost every patent infringement lawsuit. Much discovery is taken on the willfulness issue. Many motions are typically filed including a motion to compel the opinion, motions regarding the extent of the

waiver, motions to compel withheld documents under the attorney-client privilege, motions to bifurcate the trial and reconsiderations of these motions. All of these motions make willful infringement litigation expensive.

VI. A Suggestion By Others for Reform

M. Powers and S. Carlson suggest that there should only be an affirmative duty to obtain an opinion of counsel in the case where there is direct copying involved:

Courts will generally impose an award of treble damages only in those cases where there was deliberate copying of patented technology. Thus, it is unclear to what extent Underwater Devices has increased the incidence of treble damages awards. Underwater Devices has, however, subjected all accused infringers, regardless of culpability, to harsh procedural rules that compromise the attorney-client privilege and that may lead to prejudice at trial. To minimize these harms, it may be appropriate to limit liability for increased damages to those cases involving clear and convincing evidence of deliberate copying. Absent such a showing, a defendant's communications with counsel should be irrelevant to any triable issues and should be protected from discovery.

M. Powers and S. Carlson at pp. 107-108.

Powers and Carlson also suggest that it may be appropriate to abandon the affirmative duty to obtain an opinion of counsel and the negative inference rule altogether. Id. at p. 108.

VII. The Current Proposal Eliminates Many of the Problems

Given the above concerns, it appears that the willfulness doctrine is not focused on the most likely situation to create willfulness, direct copying. Instead, the law as it currently exists casts a broad net over almost every alleged infringement and forces litigants into lengthy and expensive discovery on what, in all probability, will not result in a finding of willfulness. The current law is not focused enough to capture the truly willful infringer without ensnaring the remainder of the infringers in its costly procedures.

The need for a formal written opinion is eliminated by this proposal in many situations by requiring specific triggers to the duty to obtain an opinion. Thus, simply learning of the patent as in Great Northern Corp. or during one's own patent prosecution will not trigger the need for a formal written opinion without deliberate copying. Receiving a notice of patent application publication and later learning of the patent issuance will not trigger the need for a formal written opinion unless the required notice is received from patentee. Receiving notification of a patent and an offer of license without more will likewise not trigger the need for a formal opinion. The increased threshold that must be met before an opinion of counsel is necessary should put companies accused of infringement on a more equal footing with the patentee for settlement purposes because the infringer will not bear the added burden and expense of obtaining an opinion during the "negotiation" stage.

The first part of the proposal, which limits the obligation to investigate the infringement issue (and, therefore, to obtain an attorney opinion) to the situation in which declaratory judgment jurisdiction exists, eliminates the disparity between the

declaratory judgment statute and the notice required to start the affirmative duty running for willfulness purposes. There is well-developed case law dealing with which actions confer declaratory judgment jurisdiction and, therefore, this standard should not be subject to much uncertainty. The proposal does not eliminate the disparity with the marking statute. The proposal, however, should drastically reduce those situations in which potential infringers must get an opinion, thereby decreasing costs and ultimately litigation expenses.

The second part of the proposal, requiring an alleged infringer to get an attorney opinion when there is direct copying, recognizes that this is the area in which true willfulness is likely to occur. In that situation, defendants should obtain an opinion of counsel so that the trier of fact can appropriately determine whether there has been willful and deliberate copying or a sincere attempt to design around the patent. Determining whether an infringer has deliberately copied the patented technology is not so ambiguous that it leaves infringers without a sufficiently clear standard. In addition, the issue of copying is generally a central issue in most willfulness discovery and, if present, trial presentations. There should be no added burden associated with this proposed standard.

This proposal is not intended to eliminate the concept of willful infringement or treble damages. It is intended, rather, to limit these concepts to a narrower set of circumstances in order to reduce the inefficiencies and costs associated with a great many cases in which willfulness is alleged, subject to discovery, but ultimately not litigated (or litigated unsuccessfully).

Resolution	For	Against	Abstain	Not Heard From	Total Voting Members
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