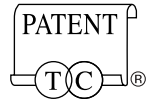


# RATNER & PRESTIA

# INSIGHT



INTELLECTUAL PROPERTY LAW AND PRACTICE

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*This newsletter is provided with our compliments. Its purpose is to inform our readers of developments within the firm and in the legal field of intellectual property law. We invite your comments, questions, and opinions.*

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

by Kevin R. Casey

*Kevin's original version of this article appeared in the July, 2001 issue of Intellectual Property Today magazine. That article has been condensed here.*

Corporate counsel "see" a large volume of patents during the course of their work. 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.

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*This beautiful marble sculpture was a gift to Paul Prestia and Allan Ratner on the twentieth anniversary of their founding of the firm. Paul Prestia, who is a friend of the artist, Tony Trezza, has always been interested in Tony's work. The company felt one of Tony's marble sculptures would be the perfect gift from their fellow shareholders to celebrate Ratner & Prestia's 20th anniversary. This marble sculpture was carved in Pietrasanta, Italy, the world's foremost marble sculpture center, by Tony Trezza and shipped back to the United States where he finalized and finished the sculpture.*

*Tony is a graduate of The Philadelphia Museum College of Art and a graduate of The Pennsylvania Academy of Fine Arts. Tony has worked in advertising as Creative Director and Design Director for over 38 years. Upon retirement, he has returned to his passion of fine art. For the past 9 years, he has concentrated solely on painting and sculpting. Every year, he returns to Pietrasanta for a month to initiate new marble sculptures. He has been a long time resident of Valley Forge, Pennsylvania.*



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## Proposed Corporate Procedure

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### Notice or Knowledge of a Patent Sufficient to Begin Time Period to Recover Infringement Damages

There is no intent requirement for direct infringement (distinguish contributory and induced infringement). 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). 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.

The duty placed on the patentee by Section 287 of Title 35 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. Once notice has been given, such as by filing suit, damages do start to accrue. 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, and damages, at least from the time of commencement of the suit.

### 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. 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. 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. 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. An opinion that contains mere bald, conclusory statements of non-infringement will not satisfy the duty of care.

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**

### Proposed Procedure to Minimize the Risk of Liability for Willful Infringement

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 exact steps of the proposed procedure have not

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# Navigating the Labyrinth of Foreign Patent Protection

by Joan Ploszay



*Joan has been with Ratner & Prestia for over 10 years, and has in that time become one of our most valued staff members in the arena of foreign filing. She currently heads our foreign filing department, and daily assists our attorneys with the procedures and handling of the large collection of foreign applications R & P has pending throughout the world.*

You have invented a new product, enlisted the services of Ratner & Prestia (or some other attorney or firm), and filed a patent application with the U.S. Patent and Trademark Office (USPTO). As the anniversary of your U.S. filing date (your “priority date”) approaches, the USPTO typically has not yet begun examination of your patent application, and the commercial viability of your invention may still be uncertain, but you are advised, nevertheless, to make a decision regarding foreign filing of your patent application because of the one-year deadline imposed by the “Paris Convention.”

Under the terms of the Paris Convention, in order to retain rights related to your priority date, any desired foreign filings *must* be effected within twelve months of your priority date. Because this deadline cannot be extended, you should decide whether you wish to pursue foreign patent protection well before the priority date. (This assumes your invention had not been disclosed prior to your original U.S. filing, or priority, date. If it had, foreign patent protection would likely be barred in most foreign countries.)

Generally, in deciding whether to foreign file, you have three options: (1) forego your right to file abroad with the benefit of your priority date and file directly later in countries of interest, assuming the application will not be barred by prior publication in the meantime; (2) speculate that your invention will be commercially viable in one or

more foreign countries, arrange for the application to be translated and filed directly in these countries, and pay *several* expensive fees at the outset (ranging from one to many thousand dollars per country on average); or (3) file your application via the Patent Cooperation Treaty (PCT), in its original language, designating up to as many as 115 (as of 1/01/02) member countries and/or regions which are potentially of interest, and pay one, relatively respectable fee at the outset, with the more costly decisions to be made up to eighteen months later, when you can make a better assessment of your invention's commercial viability. Increasingly, applicants are electing the third of these options.

Again enlisting the services of your attorney, and having decided to proceed via the third option, you file a PCT application. Your application designates several foreign countries, and your costs for this filing, assuming your application is not inordinately lengthy, fall in the \$2500-\$3000 range, significantly less than the costs involved in directly filing your application in a number of countries separately.

After filing, your application becomes subject to a series of deadlines, *most* of which are imposed on the patent offices involved in formalities review, search, and examination; and *all* of which are based on your priority date. As the application approaches nineteen months from priority, you will have an option to request International Preliminary Examination (i.e., examination and determination of patentability rendered by a patent examiner) by then, or if you are ready to pursue nationalization (i.e., direct foreign filing in any of the designated countries) by the twenty-month deadline. If a fair assessment of your invention's chances for commercialization still remains elusive, or if cash-flow is an issue, examination becomes the more attractive route, under current rules, so that nationalization can be deferred. Once examination is requested, the deadline to nationalize

is extended for an additional ten months (or thirty months from the priority date) when an improved assessment will likely be available. The rules are being changed, however, so that nationalization can be deferred without requesting examination. This is discussed in more detail below.

Pursuing examination has always been an attractive option for PCT applicants interested in deferring decisions and costs, and this option has historically been exercised in eighty percent of all foreign applications. However, the increasing popularity of the PCT system (*91,000 applications filed in 2000*) and pursuit of the examination route has resulted in difficulties for both the searching and examining authorities to meet the increasing demand for their services.

In a continuing quest for improvement of the international patent process, the World Intellectual Property Organization (WIPO), which administers the PCT application system, has announced procedural changes involving search and examination which will begin to be implemented shortly. One of the more significant changes, and one which provides for almost immediate benefit to many applicants, allows for examination to become an *optional* step. Effective April 1, 2002, examination will no longer be required to defer nationalization until thirty months, and the twenty-month nationalization deadline, which was previously imposed on unexamined applications, will cease to exist. Because some member countries may have to enact new laws to implement this rule change, there may be a delay in full-member participation. If nationalization is desired at thirty months in any not-yet-compliant countries, examination will be required to extend the deadline for nationalization in these countries. Further changes in the PCT process are anticipated as WIPO endeavors to make the process simpler and more effective.

Regardless of any improvements WIPO may make to the filing process, venturing into the foreign

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## Speakers Forum

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*Ken Nigon*

- Ken Nigon, a shareholder with Ratner & Prestia, moderated the eighth annual Partnering in Patents Seminar on October 17, 2001. The seminar was jointly sponsored by the Electrical Cluster of the U.S. Patent and Trademark Office and the Electronic and Computer Law Committee of the American Intellectual Property Law Association. As a part of the seminar, Ken participated as a speaker with other practitioners in a panel discussion entitled, "Pet Peeves of the USPTO and Patent Bar."

Ken also spoke at the annual International Law weekend of The American Branch of the International Law Association in New York City on October 25-27, 2001. He also joined in a panel discussion titled, "Business Method Patents: Are There Limits to Subject Matter Patentability?" The panel discussed recent developments in patent protection for business-related inventions in the online and information technology environment and their impact on the growth of electronic commerce.

- W. Mark Mullineaux, a shareholder with Ratner & Prestia, recently spoke at a roundtable program entitled, "Insurance Coverage for IP Litigation." The roundtable was



*W. Mark Mullineaux*

held on January 18, 2002 in Philadelphia. The program was organized by the Intellectual Property Litigation Committee of the American Bar Association Section of Litigation.

- On February 21, 2002, Kevin Casey addressed the Philadelphia Intellectual Property Law Association as part of its annual review of trademark, copyright, and unfair competition issues. Kevin discussed certain "problem"



*Kevin Casey*

trademarks, specifically those designations characterized as descriptive, misdescriptive, and deceptive. ■

## Navigating the Labyrinth..

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arena to pursue patent protection can be confusing and expensive. You can control your costs, to some degree, by making early decisions regarding filing and nationalizing in order to avoid expedited instructions and translations, and by reviewing your domestic and foreign portfolios regularly to cull those applications (and issued patents) of questionable value.

Ratner & Prestia has successfully, and cost-effectively, guided hundreds of clients through the foreign patent labyrinth. Please contact us at any time for more information. ■

- Ratner & Prestia welcomes Stanley Weinberg, formerly Counsel with Schnader Harrison Segal & Lewis. Stan has extensive experience both



*Stanley Weinberg*

## Announcing

- Kevin Casey was involved in organizing an honorary dinner for the Judges of the U.S. Court of Appeals for the Federal Circuit at the Four Seasons Hotel on February 6, 2002. The dinner was held after the Court heard arguments at the University of Pennsylvania and was attended by over 100 judges, attorneys, and court personnel.

in litigation and in patent prosecution. His practice with Ratner & Prestia will include all areas of intellectual property law with an emphasis on preparing and prosecuting electrical patent applications. He received his Bachelor of Science Electrical Engineering degree from Drexel University and his Juris Doctor with honors from George Washington University. ■

## Speakers Forum



*Paul Prestia*

- Paul Prestia spoke on Professional Responsibility for Intellectual Property Practitioners at the Patent and Trademark Office Day on December 3, 2001. This annual event, presented this year at The Ronald Reagan International Trade Center in Washington, D.C., brought members of the IP profession together for interaction on issues important to IP practice. The focus of Paul's remarks centered on potential conflict of interest issues in an intellectual property practice.

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## Proposed Corporate Procedure

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received the sanction of any court, however, nor do they find support for their specific provisions in any statute or regulation.

### “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.

### 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.

### 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 vis a vis the product or activity in question. If this results in a good faith opinion that the patent is invalid, unenforceable, or not infringed, the opinion should constitute competent, independent, legal advice. It should 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 and respond to any questions in the opinion of counsel once it is rendered.

### 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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*Ratner & Prestia specializes in patent, trademark, and copyright matters and realizes an obligation to keep its clients, and others, informed in those areas. The articles in this newsletter are intended to provide only a brief, general overview of each subject and are not necessarily the opinion of this firm. Nothing herein should be construed as legal advice. R & P recommends that readers seek specific information and/or legal advice on particular matters of concern.*

*INSIGHT is published by Ratner & Prestia. The firm welcomes your articles, ideas for articles, comments, and suggestions. Please contact Jonathan H. Spadt, the editor, at our Valley Forge Office.*

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