

Willful Infringement = Punitive Damages!

The threat of punitive damages in a patent infringement suit can be removed by evidence of good faith. F. Jason Far-hadian, Esq., Principal of Century IP Group, discusses how to counter allegations of willful infringement.

Clean technologies that harness wind, solar and hydraulic energy provide environmentally friendly alternatives to traditional sources such as oil, coal and nuclear fission. According to studies, the clean energy market will grow to \$92 billion by 2013, roughly seven times its present size.¹ As such, it is not surprising that many venture capitalists are investigating and investing in companies that research and develop clean technologies or related products.

Due to the highly technical nature of the problems in this area and the costs associated with developing the corresponding innovative solutions, most companies seek to legally protect their investment by registering the novel aspects of the technology and enforcing the respective intellectual property rights. In this manner, they either remove a competitive threat from the market or, alternatively, generate substantial licensing revenue, a major portion of which goes directly to the bottom line.

An illustration of the above is Celerity Inc., a developer of fluid distribution systems, which filed a patent infringement suit against Ultra Clean Technology Holdings Inc. in 2005. Celerity claimed that Ultra Clean had copied seven of its designs for manifold blocks and gas panels.² Celerity publicly vowed to “vigorously defend [its] technology portfolio against unauthorized use.” In turn, Ultra Clean responded that it did not willfully copy any of the patented products and that “Ultra Clean Technology has its own intellectual property that covers its independently developed... technology.”

To prevail in the infringement suit, Celerity will have to prove that Ultra Clean infringed its patents either “literally,”³ or under what is known as the Doctrine of Equivalents.⁴ A patent is literally infringed if the accused device or process contains every element and feature that has been claimed as a part of the invention.⁵ Thus, if Ultra Clean can show that its products do not include at least one of the claimed elements, Celerity will be precluded from pursuing a cause of action for literal infringement.⁶

If Celerity cannot prove literal infringement, it can alternatively prove infringement under the Doctrine of Equivalents by showing that the differences between the claimed invention and the accused devices are insubstantial⁷. Thus, the

essential inquiry in *Celerity v. Ultra Clean* may be whether the accused devices contain elements that, if not identical, are “equivalent” to the elements of the asserted claims. The legal test for equivalence has been articulated as whether the accused device performs “substantially the same function, in substantially the same way, to achieve substantially the same result.”⁸

Presuming that Celerity is successful in proving infringement under either of the above two theories, the issue that will ultimately further fuel the legal battle will be whether Ultra Clean acted “willfully” in infringing the patents. Willfulness of the act, if proven, will allow Celerity to not only recover actual damages (e.g. loss of profits), but also punitive damages that are often calculated at three times actual damages.⁹ Contrary to other areas of law in which proving actual intent requires meeting a high burden of proof, in patent infringement suits, the publication of the patent in itself may be sufficient to provide the level of notice required to prove willfulness.

Publication of a patent can arguably provide constructive notice of the scope of the patented technology.¹⁰ Therefore, the fact that an infringer was unaware of the publication itself, or that he was aware of it but did not read it, may be irrelevant to the inquiry re willfulness. Thus, in many cases, the patentee may be entitled to recover punitive damages simply by proving publication and that the other party did not act reasonably or diligently to discover and avoid infringement, despite the notice provided in the publication.

Of course, the level of notice provided will depend on the quality of the drafted patent application and claims, and the date of publication, among other things. Nevertheless, it is important for companies that are active in competitive or new technology areas to take special precaution to ensure that their products do not infringe any patents. Furthermore, it is essential for each company to seek to protect itself from allegations of “willful” infringement by taking affirmative action.

Many IP-savvy companies such as IBM and Hewlett-Packard pursue building and managing an intellectual property portfolio early on, particularly during the research and development phase, and well before their products are due to enter the market. In the meantime, most companies hire IP counsel to perform due diligence searches by regularly monitoring issued patent and published patent applications in their technology space, and more importantly request their counsel to draft right-to-use opinions when appropriate.

A favorable right to use opinion can technically remove the threat posed by allegations of bad faith



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infringement, because willfulness can be proven only after the court has evaluated the related factors in each case. Some of these factors include (1) whether the infringer obtained opinion of counsel, (2) the infringer's litigation behavior, (3) duration of the infringer's misconduct and (4) whether the infringer attempted to conceal its misconduct. The courts have emphasized that one of the most important factors is whether the alleged infringer relied on "competent opinion" of counsel.¹¹

An opinion is considered competent *only* if it is thorough enough, combined with other factors, to lead a person to reasonably believe a court would hold the patent either invalid or not infringed¹². Only if these conditions are satisfied can an alleged infringer overcome the presumption of willfulness. The Court of Appeals for the Federal Circuit has referred to certain factors that may be determinative as to whether or not an opinion is competent. For example, it has been held that oral opinions are disfavored¹³, that competency hinges on full disclosure of all relevant facts to the attorney drafting¹⁴ the opinion and whether the opinion is both authoritative and objective.¹⁵

So what happens if a potential infringer does not obtain a competent opinion of counsel? In the landmark case of *Kloster Steel v. Crucible*,¹⁶ the court

of appeals held that an inference can be made that an accused party "willfully" infringed if the party failed to secure a competent opinion of counsel on the issue of infringement. In a later decision, this was considered as not applicable in every case per se, but considered as a part of the totality of circumstances.¹⁷ Thus, presenting other evidence of good faith effort not to infringe may be sufficient to prove that infringing actions were not intentional, but having a competent opinion of counsel is the easiest and most accepted way to accomplish this task.

A company that is highly active in developing cutting edge technologies would be well advised to diligently seek to protect itself by monitoring published patent applications in the related technology area and by obtaining competent opinion of counsel. Both of these actions can be used effectively as evidence of good faith to overcome any allegation of willful infringement. ■

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1 Climate Biz Website, *New Index Fund Brings Investor Power to Clean Energy Sector*, 4 Apr. 2005 Available at: http://www.climatebiz.com/sections/news_detail.cfm?NewsID=27900

2 III-5's Review, *Celerity Files Suit Against Ultra Clean*. 19 Sept. 2005, Available at: http://www.three-fives.com/business_market_news/Sept05/190905Celerity_vs_UltraClean.htm

3 35 USC 271(a)

4 *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 608 (1950)

5 *Biovai Corporation Intl v. Andrx Pharmaceuticals, Inc.* 239 F.3d at 1302 [citing *Enercon GmbH v. Int'l Trade Commission*, 151 F.3d 1376, 1384 (Fed. Cir. 1998)]

6 *Litton Systems, Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1454 (Fed. Cir.)

7 *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 608 (1950).

8 *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 39-40 (1997)

9 *SRI International, Inc v. Advanced Technical Laboratories, Inc.*, 127 F3d 1462, 1469 (Fed Cir 1997)

10 The first publication of a patent application filed in the US and the European Union takes place 18 months from the date of filing.

11 *Kemin Foods v. Pigmentos Vegetables*, 357 Fed. Supp.2d. 1105, (S.D. Iowa 2005)

12 *Ortho Pharmaceutical Corp. v. Smith*, 959 F.2d 936, 944 (Fed Cir 1992)

13 *Minnesota Mining & Mfg Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F 2d 1559, 1580 (Fed Cir 1992)

14 *Westvaco Corp v. International Paper Co.*, 991 F 2d 735, 744 (Fed Cir 1993)

15 *Jurgens v. CBK, Ltd.*, 80 F 3d 1566, 1572 (Fed Cir 1996)

16 793 F.2d 1565 (Fed. Cir. 1986)

17 *Knorr-Bremse System Fuer Nutzfahrzeuge GMBH v. Dana Corporation*, 383 F.3d 1337 (Fed Cir 2004)

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in both the use of PV cells and in government support of energy research. Ben-Yaakov hopes the government wakes up soon. "All expectations are that it won't take long before solar energy from PV

cells becomes competitive with fossil fuels. The question is: Will it be two years or five? There is still time for Israel to do a lot." ■

Opportunities in deep, uncharted, waters

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neering), but who as a result of the job opportunities of the past 10-15 years acquired significant management skills and experience in high growth and successful IT, software or telecom companies. Like a returning diaspora, many of these individuals who take leading positions in Israeli cleantech companies are coming back to their true passions with strong conviction and a sense of mission. They are joined by other successful high-

tech entrepreneurs who have no previous background in cleantech markets, but are attracted to them by the growth opportunities. If these entrepreneurs remain mindful of the differences in their new markets, we believe they will be able to leverage their experience in high growth companies to help build a franchise in cleantech as strong as that which exists in more traditional Israeli venture-backed sectors. ■