

Memorandum

To: The Community Patent Review Steering Committee
From: Yeen C. Tham, Student Research Fellow, Institute for Information Law and Policy,
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Date: September 11, 2006
Re: Willful Infringement

Introduction

This memorandum addresses whether **participation in the Community Patent Review** pilot project could give rise to liability for peer reviewers for willful infringement and how best to design the system to avoid exposure to the risk of treble damages. Specifically, “participation” may include but is not limited to reading, submitting, commenting, ranking/rating of prior art with respect to a published but ungranted patent application.

In short, a defendant may be held liable for damages for willful infringement if he/she:

- (a) *knew* of the patent;
- (b) *deliberately copied* the ideas or designs of the patentee; and
- (c) failed to *affirmatively exercise due care*, which may include the duty to seek competent legal advice before engaging in any activity that may result in infringement. *Chaparral Industries, Inc. v. Boman Industries, Inc.*, 697 F. Supp. 1113, 1124 (C.D. Cal. 1988); *Vulcan Eng’g Co. v. FATA Aluminum, Inc.*, 278 F.3d 1366, 1378 (Fed. Cir. 2002).

The mere knowledge of an invention prior to the grant of a patent application does not give rise to an act of willfulness. The Community Patent Review System, in and of itself, does not increase the risk of liability over the status quo. One way to encourage participation in the peer review system is to ask participants who submit pending applications for review to consent not to file a claim of willful infringement against peer reviewers on the basis of participation in the Community Patent Review. Furthermore, a disclaimer should be affixed by the Patent Office acknowledging that participation does not increase the risk of liability.

Summary of Participation in the Community Patent Review

Designed to promote quality in the patent examination process, the Community Patent Review will allow peer-reviewers to (1) review published but not-yet-granted patent applications; and (2) submit relevant prior art and commentary on that prior art. The level of participation will vary according to user.

At the Community Patent Review planning discussion on June 7, 2006, it was identified that the Community Patent site intends to attract the following groups:

- (a) Anonymous users – Those who can browse prior art and commentary on the Community Patent site without registering or logging in;
- (b) Pseudonymous users – Those who can subscribe to feeds, browse the site, submit, comment on, and rank prior art but only upon registering and logging in with a pseudonym;
- (c) Non-Anonymous/Identifiable Users – Those who choose to register and logon with their real name.

Discussion

The current patent law provides for an award of damages in the event of an infringement but does not specify situations that give rise to the award of treble damages for willful infringement. 35 U.S.C. § 284 (2004). However, as the court states in *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, “[a]lthough the statute does not state the basis upon which a district court may increase damages, ‘it is well-settled that enhancement of damages must be premised on willful infringement or bad faith.’” 923 F.2d 1576, 1578 (Fed. Cir. 1991). To determine willfulness, the courts have considered the totality of the circumstances. *Chaparral Industries, Inc. v. Boman Industries, Inc.*, 697 F. Supp 1113, 1124 (C.D. Cal. 1988). To prove willful infringement, the plaintiff/patentee must prove, by clear and convincing evidence, that the defendant/alleged infringer:

- (a) *knew* of the patentee's patent rights;
- (b) *deliberately copied* the ideas or designs of the patentee; and
- (c) failed to *affirmatively exercise due care* to determine whether or not his/her actions constitutes an infringement (by seeking legal counsel). An affirmative duty to exercise due care includes the duty to seek and obtain competent legal advice before engaging in any activity that may result in infringement. *Chaparral*, 697 F. Supp. at 1124 - 1125.

While the current statute is silent as to the definition of willfulness, it is worth noting that reform proposals such as the Patent Act of 2005 propose to identify and codify in § 284 such requirements for determining willfulness. Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 6(b)(2) (2005).

Issues

The threshold question to address is whether participation, as defined above, constitutes an act of knowledge for purposes of willfulness. The issues of whether a defendant/alleged infringer has deliberately copied the ideas/designs of another and whether it affirmatively exercised due care, while important factors in triggering liability, remain outside the scope of this memo since they are not implicated by Community Patent Review.

No Liability Imposed on Acts that Occur Pre-Grant

In *Hoover Group, Inc. v. Custom Metalcraft, Inc.*, 66 F.3d 299, 304 (Fed. Cir. 1995), the court held that a plaintiff may recover for damages only for acts of infringement after the issuance of the patent. "Patent rights are created only upon the formal issuance of the patent; thus, disputes concerning patent validity and infringement are necessarily hypothetical before patent issuance." *GAF Bldg. Materials Corp. v. Elk Corp.*, 90 F.3d 479, 483 (Fed. Cir. 1996).

Although the Community Patent Review site will display information related to ungranted patent applications, a peer reviewer or users of the site will not be subject to liability for any infringing acts that occur prior to the issuance of the patent. We can extrapolate from the decisions of *Hoover* and *GAF* to conclude that reading of the ungranted patent application before the claims have been refined into their final state and prior to allowance also should not be understood to give rise to liability.

No Willfulness Despite Defendant's Knowledge of Pending Patent Application

A defendant does not willfully infringe by modifying and selling his/her invention after legitimately acquiring and examining an applicant's device that is patent pending. *State Indus., Inc. v. A.O. Smith Corp.*, 751 F.2d 1226 (Fed. Cir. 1985). In *State*, Defendant (legitimately) acquired and examined the plaintiff's device after it was introduced into the market prior to August, 1, 1978. Plaintiff's patent application on the device, however, was pending and the patent rights did not mature until June 5, 1979. Although the application was not published, prior to the grant of the patent, Plaintiff affixed a footnote within the literature that accompanied the device stating "Patent Applied For." The Federal Circuit affirmed the District Court's holding of a finding of infringement of specific claims but reversed for a finding of willfulness. The Federal Circuit reasoned that "[t]o willfully infringe a patent, the patent must exist and one must have knowledge of it. A 'patent pending' notice gives one no knowledge whatsoever. ... Filing an application is no guarantee any patent will issue and a very substantial percent of applications never result in patents. What the scope of claims in patents that do issue will be is something totally unforeseeable." *Id.* at 1236.

A defendant's awareness of a pending patent or a "Patent Applied For" coupled with defendant's modification and sale of his/her invention does not constitute "knowledge" for the purpose of finding willfulness. As such, while users of the Community Patent Review who read, submit, comment, or rank/rate prior art may acquire an awareness of a pending patent, such awareness is unlikely to qualify as "knowledge" required for finding willful infringement.

Provisional Royalties

Provisional royalties were established to deter a defendant/alleged infringer from commercially exploiting claimed inventions in published patent applications. Schecter, Roger E. & Thomas, John R., *Principles of Patent Law*, § 9.2.4 (2004). The rights are fixed at an amount of a reasonable royalty accruing from the date the application is published provided that the infringed claims are subsequently issued and are substantially identical to the claims of the infringing. 35 U.S.C. § 154(d) (2004). The patent law, however, provides that "[i]ncreased damages under this paragraph shall not apply to provisional rights under section 154(d)." 35 U.S.C. § 284 (2004). Thus, users who participate in Community Patent Review will not be held liable for treble damages with respect to provisional royalties.

Policy

A peer reviewer or user of the Community Patent Review site who subsequently designs and produces a modified version of an invention whose pending patent application was submitted for peer review should not be held liable for willful infringement as a matter of policy as well as law. The Federal Circuit in *State* pointed out that the patent system is driven by competition. The court stated that "conduct involving keeping track of a competitor's products and designing new and possibly better or cheaper functional equivalents is the stuff of which competition is made and is supposed to benefit the consumer. One of the benefits of a patent system is its so-called "negative incentive" to "design around" a competitor's products, even when they are patented, thus bringing a steady flow of innovations to the marketplace. It should not be discouraged by punitive damage awards except in cases where conduct is so obnoxious as clearly to call for them. The world of competition is full of 'fair fights.'" *State*, 751 at 1236.

Recent reform proposals such as the Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 6(b)(2) (2005), and the Patents Depend on Quality Act of 2006, H.R. 5096, 109th Cong. (2006), if passed, would eliminate any doubt that Community Patent Review cannot and should not give rise to a finding of willfulness. In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, the court states: "In discussing willful behavior and its consequences, judicial precedent observes that the word willful is widely used in the law, and, although it has not by any means been given a perfectly consistent interpretation, it is generally understood to refer to conduct that is not merely negligent." 383 F.3d 1337, 1342 (Fed. Cir. 2004). It is precisely because of the inconsistency of use that both reform packages would reduce the scope of willful infringement by raising the standard of proof to "clear and convincing" evidence. They would codify the requirements of willfulness and ensure that treble damages apply only when an infringer intentionally copied with knowledge that an invention was patented.

The goal of the patent system is to "promote the progress of science and the useful arts" through the quid pro quo of the patent monopoly exchanged for disclosure of information about the invention. Our patenting process is intended to promote openness and transparency in order that people can share and trade information to encourage innovation. The Community Patent Review program furthers this intent by allowing the public to review patent applications. It would defeat the constitutional mandate of patents to hold someone liable for reading and learning about scientific innovation. While there is no legal basis to conclude that open patent review would contribute to a finding of willfulness, there is clear evidence that, as a matter of public policy, such a finding would be inappropriate and contrary to the constitution purpose.

Of course, a peer reviewer should be careful how he or she subsequently uses patent inventions in his or her own work so as to protect him/herself from incurring liability under the infringement provisions of 35 U.S.C. § 271. But under current case-law, merely reading and, by extension, commenting on published patent applications will not and should not give rise to a finding of willfulness.

Drafting a Disclaimer

To avoid any confusion or doubt, the following disclaimer with a link to a memo such as this one should be included as part of the site:

- TO THE USERS/PEER REVIEWERS:** The Community Patent Review site allows users to (1) review published but not-yet-granted patent applications and to (2) submit relevant prior art and commentary on that prior art. Users may include:
- (a) Those who browse prior art and commentary on the Community Patent Review site without registering or logging in ("**Anonymous Users**");
 - (b) Those who subscribe to feeds, browse the site, submit, comment on, and rank prior art related to published but not-yet-granted patent applications ("**Pseudonymous Users**"); and
 - (c) Those who choose to register and logon with their real name ("**Non-Anonymous/Identifiable Users**").

While participation in Community Patent Review does not shield you from any liability in connection with subsequent acts of patent infringement, participation in Community Patent Review does not constitute an act of infringement nor will it be deemed to contribute to a finding of willfulness for purposes of calculating damages.

A finding of willfulness requires that an infringer:

- (a) *knew* of the patent;
- (b) *deliberately copied* the ideas or designs of the patentee; and
- (c) failed to *affirmatively exercise due care*, where such duty involves seeking the advice of a competent legal counsel before engaging in any activity that may result in infringement.

The mere knowledge of an invention prior to the grant of a patent application or acquiring an awareness of a pending patent does not give rise to an act of willfulness. Accordingly, participation in the Community Patent Review Project does not increase the risk of liability over the status quo.

Participants who submitted pending applications for the Community Patent Review program have agreed and consented to not file a claim of willful infringement against peer reviewers.

Conclusion

Whether a member of the public has willfully infringed depends on various factors, one of which is whether he/she **knew** of the **patentee's rights**. **Knowledge of an ungranted patent application** does not implicate a finding of willfulness. It is, therefore, unlikely that a peer-reviewer will be held liable for treble damages merely for participating in Community Patent Review since the courts have looked to the totality of the circumstances. An analysis of the totality of the circumstances requires the further assessment of whether the defendant/alleged infringer deliberately copied the ideas or designs of the patentee and whether he/she failed to affirmatively exercise due care in seeking the advice of a legal counsel. Upon recognizing a patentee's patent rights, a peer reviewer does not willfully infringe if he/she exercises due diligence by consulting an attorney for legal opinion before engaging in further activities that may result in infringement.