



INTELLECTUAL PROPERTY

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Opinion Letters and Risk Management For Businesses With Patented Technology

EXECUTIVES WHOSE BUSINESSES INVOLVE PATENTS — either their own or competitors' — need to be aware of a recent court decision. While some language in the ruling seems to indicate that businesses can do away with getting expensive opinion letters from lawyers concluding that the business' actions don't infringe competitors' patents, execs would be wise to think twice before taking that step.

On Aug. 20, the Federal U.S. Circuit Court of Appeals decided *In Re: Seagate Technology*. The decision introduced a new legal standard for proving and avoiding charges of willful patent infringement — allegations that, if proven, can result in triple damages, significantly impacting a business' bottom line.

The court defined willfulness as "objective recklessness" regarding whether one is infringing another's patent. That's in contrast to the old standard, which defined it as failure to exercise due care.

From the perspective of the accused infringer, the new standard is more favorable; it's harder for patent holders to prove that someone willfully infringed their patents.

But does this new standard change basic decision-making in handling a competitor's patents? Not really. Opinion letters are still an important part of risk management in any business involving patents.

Patent problems show up on most executives' radar screens in one of two ways:

1. The company discovers existing patents internally, typically either recently issued patents that disclose newly developed technology or older patents against which workers can compare a company's new inventions for patenting. Engineers may try to learn from old patents or use them to determine whether their invention has enough of a new wrinkle to warrant a new patent.

2. The company discovers patents from external sources. This awareness might dawn, for example, when a cease-and-desist letter appears, threatening litigation if the company doesn't stop making an allegedly infringing product, or when a license offer appears, promising not to sue if the company pays royalties to the patent owner.

In the past, this knowledge triggered the duty to use what courts call "due care" not to infringe someone else's patents. Now, after *Seagate*, the standard is lower: The accused infringer doesn't have to try as hard to avoid infringement; he or she just has to avoid being "objectively reckless."

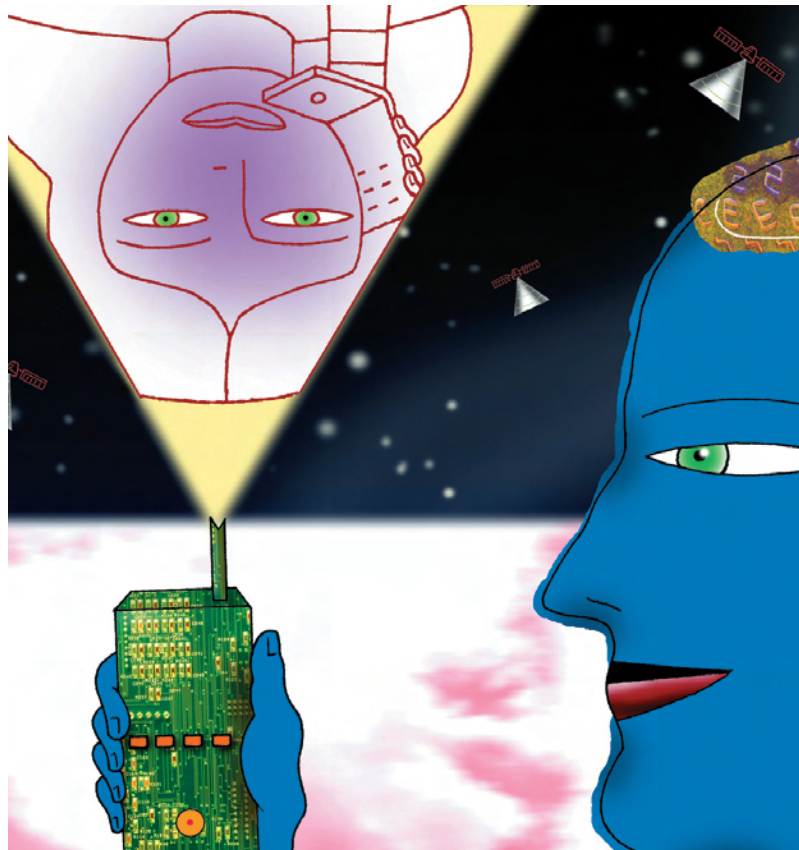
The new *Seagate* standard involves a two-part test.

As a threshold inquiry, the patent holder "must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." While the court did not provide examples, one likely candidate that would meet the "objectively high likelihood" test would be if a business shamelessly duplicates a device shown in one of its competitor's patents or follows the literal language of the patent.

If the patent holder satisfies the first part of the test, it must then demonstrate that the accused infringer knew about the objectively defined risk of infringement or that the risk was so obvious that the accused infringer should have known about it.

PENNY WISE, POUND FOOLISH

- A NEW COURT DECISION MIGHT LEAD EXECs TO THINK THEY CAN SAVE MONEY BY NOT GETTING LAWYERS' OPINIONS ON WHETHER THEIR COMPANIES' NEW PRODUCTS OR METHODS INFRINGE COMPETITORS' PATENTS.
- DESPITE THE BUZZ, IT'S STILL A GOOD IDEA TO SEEK AN OPINION FROM A LAWYER, BECAUSE THE NEW STANDARD IS STILL VAGUE.
- EXECs SHOULDN'T TAKE THE \$5,000 TO \$50,000 COST OF PATENT LAWYERS' OPINION LETTERS OUT OF THEIR BUDGETS YET.



Here too, the Federal Circuit didn't specify what would meet this second prong. However, memos and e-mails discussing the patented invention and the company's technology side by side would probably go a long way toward meeting this part of the test.

While the first part of the test is entirely objective, the second part is subjective: Did the accused infringer know, or should he have known, of the objectively defined risk?

WORTH AN OPINION?

Under the Federal Circuit's old standard for willfulness, an accused infringer with knowledge of a pre-existing patent had an affirmative duty to use due care to avoid infringing the patent. In practice one popular strategy for avoiding a finding of willfulness was to commission a well-reasoned legal opinion from competent outside patent counsel, which can cost anywhere from \$5,000 to as much as \$50,000 or more.

Against that backdrop, in one portion of *Seagate*, the court wrote that "there is no affirmative obligation to obtain opinion of counsel." Execs learning of that statement might conclude that they don't need to get an opinion letter saying their companies' technology doesn't infringe on others' patents, but that's a risky strategy.

Undoubtedly, without further guidance from the court, the safest policy is to continue obtaining legal opinions to determine whether a company's activities pose a risk of infringement. Otherwise, without

such an opinion, knowledge within a business of an existing patent could result in accusations that the business also knew about its own technology, as well as how the technology matched up with the patent, indicating a known risk of infringement.

Under the new objective-recklessness standard, a timely, well-reasoned opinion that a patent is not infringed or is invalid or unenforceable is still an important asset for defending against a claim for enhanced damages or attorneys' fees. An opinion letter appears to address the subjective prong, or part two, of the willfulness test, relating to actual or constructive knowledge of the "risk of infringement."

In any patent case, particular issues almost certainly will fall within the ambit of things known by the accused infringer prior to the suit, such as knowledge of the specific technology in question and often the existing patent itself, including the claim language that defines the protected property. A competent opinion letter offers a vehicle by which an accused infringer can argue that it did not know about — and should not have known about — the risk of infringement itself.

Conversely, the absence of an opinion letter might provide the patent owner's trial counsel with a clear path to proving that the accused company knew or should have known that its conduct created a high risk of infringement. Therefore, securing opinion letters should still be considered an appropriate course of action for any business involved in patented technology. ELA

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