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**ALM**

**IP2**

Did the Muffin Man Kill PA's Inevitable Disclosure Doctrine?

**IP3**

False Patent Marking After *Stauffer v. Brooks Brothers*

**IP4**

Patent Pools, Patent Misuse and Antitrust Rule of Reason Analysis

**IP5**

Current Issues in Patent Damages Law

**IP6**

Warning to Corporate Offices: You Can Be Held Personally Liable for Patent Infringement!

# Did the Muffin Man Kill PA's Inevitable Disclosure Doctrine?

BY ALAN R. BOYNTON JR.

*Special to the Legal*

The “inevitable disclosure doctrine” allows a court to bar an ex-employee from working for a new employer even without a non-competition agreement. This injunction can issue even if the employee has expressly rejected any intention to use his prior employer’s trade secrets in the new job. Such good faith is deemed irrelevant if the employee cannot perform the new job without using his prior employer’s trade secrets.

The doctrine recently received some high-profile attention in California, where Hewlett-Packard sued Mark Hurd, its former CEO who had resigned in the midst of a sexual harassment investigation and discovery of inaccurate expense reports. The suit was filed a day after Hurd announced that he had joined Oracle as its “co-president.” HP asserted that Hurd would not be able to do his job at Oracle without using HP’s highly sensitive and confidential information.

In a state that statutorily bars enforcement of noncompetition agreements and whose courts have expressly rejected application of the inevitable disclosure doctrine, HP’s attempt to block Hurd’s employment seemed like a long shot. Yet, within a few weeks, the matter was settled, with Hurd agreeing to waive his right to a \$30 million stock severance package in return for the right to work for Oracle and not use or disclose HP’s trade secrets. By any measure, this would seem to have been a decent outcome for HP.



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Unlike California, Pennsylvania is considered to have adopted the inevitable disclosure doctrine. In 2010, Pennsylvania practitioners also saw a high-profile case on the issue, one that may have rendered the doctrine effectively moot in Pennsylvania. Before discussing this 3rd U.S. Circuit Court of Appeals decision in *Bimbo Bakeries v. Botticella*, though, a little background is appropriate.

The seminal Pennsylvania case in this area is the 1982 decision in *Air Products and Chemicals Inc. v. Johnson*. There, the court affirmed a preliminary injunction barring an ex-employee (Johnson) from working in a specific job for his new employer, even though there was no evidence that Johnson had used or threatened to use any of Air Product’s trade secrets. Indeed, Johnson had been specifically instructed by his new employer not to use or disclose such information, and the court acknowledged that he was “an honest man” and that “there is

no dispute as to his integrity.”

The *Air Products* opinion was ambiguous as to the applicable standard to be applied in such cases. It noted that the trial court had concluded that “it would be impossible [for Johnson] to perform his managerial functions in on-site work without drawing on knowledge of Air Products’ confidential information” and concluded that “we are satisfied that this expression of its determination of the likelihood of disclosure was proper.”

Yet, it also stated that it did “not adopt the reasoning of the trial court or its use of the term “inevitable” and pointed out that an injunction was appropriate where “employment is likely to result in disclosure of [trade secrets].”

Later court decisions have not been particularly consistent in applying the doctrine. Some cases have held that relief is justified only if it would be impossible for the employee to perform the new job without using the information, while others have applied a considerably more employer-friendly standard. To date, the Pennsylvania Supreme Court has not weighed in on any aspect of the doctrine or even acknowledged that it exists.

In 2004, the landscape in this area changed with the adoption of the Pennsylvania Uniform Trade Secrets Act (PUTSA). Under PUTSA, which displaced the common law in the area, a court is authorized to enjoin actual or threatened misappropriation of trade secrets. For the inevitable disclosure doctrine to apply under PUTSA, the definition of “threat-

ened disclosure” under the act would presumably have to be applied in situations where no threat was actually made by the employee but where circumstances of the new employment make the threat an inherent and cognizable one.

Such an approach finds support in decisions from other jurisdictions which have adopted the Uniform Trade Secrets Act. Indeed, in the Hurd case noted above, HP, in one of its two counts, argued that Hurd’s presence at Oracle presented an actual threat of disclosure and was thus actionable under California’s Uniform Trade Secrets Act, even though the inevitable disclosure doctrine had been expressly rejected in California.

The *Bimbo Bakeries* case, a/k/a the “Muffin Man Case,” was tried in the U.S. District Court for the Eastern District of Pennsylvania. The case focused on the inevitable disclosure doctrine and, specifically, the applicable standard to be applied under that doctrine. Bimbo Bakeries is one of the four largest companies in the baking industry in the United States. It sells products under brand names such as Thomas’, Entenmann’s, Stroehmann and Boboli.

Chris Botticella was a top executive for the company. He was one of a select group of executives who had access to all of Bimbo’s code books — containing formulas and process parameters for its products — and “was one of only seven people who possessed all of the knowledge necessary to replicate independently Bimbo’s popular

*Muffin Man continues on IP7*

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# False Patent Marking After *Stauffer v. Brooks Brothers*

BY LYNN J. ALSTADT  
AND DUANE A. STEWART III

*Special to the Legal*

False marking claims are driving the growth of intellectual property litigation in the United States. There were about 175 new false marking cases filed in the third quarter of 2010, compared to no such cases having been filed in the third quarter of last year. The vast majority of those cases involve products being sold that bear an expired patent number.

Prior to 2010, allegations of false patent marking were most often made in suits between competitors, often as a counterclaim in a patent infringement suit. These suits are not being brought by competitors, but instead are being brought as qui tam suits by people hoping to profit from half of a \$500-per-article bounty that is the maximum that may be obtained in a successful false marking action. The dramatic increase in these types of cases can be attributed to some recent decisions of the U.S. Court of Appeal for the Federal Circuit.

This article discusses those decisions, the responses by Congress and patent owners, and what lies ahead for this type of litigation.

## FALSE MARKING PRIOR TO BON TOOLS

Since 1870, the United States has penalized false patent marking. The current version of the false marking law, 35 U.S.C. § 292, penalizes anyone who “marks upon, or affixes to, or uses in advertising in connection with any unpatented article the word ‘patent’ or any word or number importing the same is patented, for the purpose of deceiving the public ... .” The penalty for false marking is set by the statute at not more than \$500 “per offense.” The statute includes a qui tam provision, allowing “any person” to stand in the shoes of the government to enforce the statute; if successful, these private attorneys-general are entitled to half of the amount recovered.

Despite the long history of the statute and the availability of a qui tam enforcement provision, few false marking cases were brought prior to 2008. Likely this was because the possibility of a large recovery was far outweighed by the likelihood that a successful plaintiff would receive only half of the \$500 maximum reward. Although some courts interpreted “per offense” to apply to each unit that was falsely marked, many courts interpreted “per offense” to limit the recovery to some lesser amount.

Interpretations included measuring the number of offenses by number of lots marked, number of days, weeks or months in which false marking occurred. Other courts determined the number of offenses by estimating the number of times that the false marking had been advertised. In the most restrictive view, some courts limited the recovery to a single penalty based on the theory that continuous markings constituted a single offense.

## A ‘PER ARTICLE’ BASIS

The number of false marking suits significantly increased after the Federal Circuit’s



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December 2009 decision in *Forest Group Inc. v. Bon Tool Company*, in which the court held that the “not more than \$500” penalty was to be applied on a “per article basis.” The court qualified its holding somewhat by noting that the maximum penalty was not always appropriate, and that for inexpensive mass-produced articles a penalty of a fraction of a penny per offense might be sufficient.

With the prospects for a recovery that outweighed the costs of bringing suit having increased, a number of plaintiffs filed false marking actions throughout the United States. Many of the plaintiffs were patent attorneys or corporations formed by patent attorneys for the apparent purpose of bringing suits for alleged false marking. In many of these cases a number of issues emerged.

First, what was the threshold level of “intent to deceive” that would be necessary for a plaintiff to show to survive summary judgment? Second, were products that were marked with the number of an expired patent “unpatented” and therefore potentially falsely marked? Finally, despite the statute’s permissive language that the suit could be brought by “any person,” did an individual who had suffered no competitive injury from false marking have constitutional standing to bring the action?

The Federal Circuit answered these questions in the summer of 2010 with decisions in *Pequignot v. Solo Cup Co.* and *Stauffer v. Brooks Bros.*

In *Pequignot*, the Federal Circuit held that previously patented products bearing the number of an expired patent were “unpatented” for the purposes of false marking liability. The court also affirmed the district court’s grant of summary judgment in favor of the defendant, Solo Cup, on the basis that the plaintiff had failed to show that Solo had made the false markings with an intent to deceive the public. Instead, the court held that there was no dispute that Solo Cup had left the accused markings on its products “in good faith reliance on the advice of counsel and out of a desire to reduce costs and business disruption.”

Prior to the Federal Circuit’s decision in *Brooks Bros.*, a number of district courts had dismissed false marking actions after holding that the plaintiff lacked a particularized

injury necessary to confer standing under Article III of the Constitution. A number of other courts had stayed false marking actions while awaiting the *Brooks Bros.* decision. The *Brooks Bros.* court held that Congress, by enacting Section 292, had defined an Article III injury to the United States, and that the plaintiff had standing to bring suit as the assignee of the United States.

Although the *Brooks Bros.* decision limited or eliminated lack of a standing as a potential grounds for dismissal of false marking suits, a number of potential grounds for dismissal remain. Many defendants have asserted a defense under Federal Rule of Civil Procedure 9(b) by arguing that the plaintiff’s complaints are insufficiently specific to support their allegations of fraud. The Federal Circuit recognized that defense when it remanded *Brooks Bros.* to the district court for consideration of whether the plaintiff had made allegations of “intent to deceive the public” with sufficient specificity to survive a Rule 9(b) challenge.

In addition to challenging the sufficiency of the plaintiff’s complaint under Rule 9(b), some defendants have attacked the constitutionality of Section 292. Those defendants argue that assignment of the rights of the United States to “any person” violates the “take Care” clause of Article II, Section 3 of the Constitution, which requires that the executive branch “take Care that the Laws be faithfully executed.” The clause is violated, defendants assert, because Section 292 includes none of the procedural safeguards

found in other qui tam statutes such as the False Claims Act.

Unlike Section 292, which requires only that a claim be brought by “any person,” the False Claims Act operates in the context of a complete statutory scheme that requires notice to the government and that gives the government rights of intervention and settlement. This position has been opposed by the United States. Although no circuit court has ruled on the issue, Judge Leonie Brinkema in *Pequignot* and a number of other district courts have held that Section 292 does not violate the “take Care” clause.

## SETTLEMENT OF FALSE MARKING CASES

When faced with a false marking claim one might immediately think about settlement. Several false marking cases have been settled for an amount comparable to the cost of litigation, namely between \$50,000 to \$75,000. While any settlement is subject to government review, the Justice Department has never rejected a settlement that was negotiated by counsel for the claimant and the defendant.

Settlement of a false marking case will preclude other claimants from making a similar claim. Ideally, the settling defendant should write two checks, one payable to the claimant for half the settlement amount and the second check payable to the U.S. Treasury.

Bills that would limit false marking suits have been introduced in both the House of

*False Marking continues on IP7*

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# Patent Pools, Patent Misuse and Antitrust Rule of Reason Analysis

BY MICHAEL B. FEIN

*Special to the Legal*

The Court of Appeals for the Federal Circuit (CAFC) recently decided a very important case at the intersection of patent and antitrust laws. It presented the question of whether it was “patent misuse” to tie together, for purposes of licensing, a group of the patents owned by different companies who were competitors.

The case involved pools or packages of patents covering alternative technologies, joint ventures, industry technical standards, antitrust “quick look” and “rule of reason” analysis, competitors acting in concert and anti-competitive conduct. In *Princo Corporation v. Int’l Trade Commission*, the CAFC decided 8-2 that the owners of the patents could require licensees to license a pool or package of patents rather than one patent out of the pool or package, and it was not patent misuse even if the competitors had agreed to suppress one of the alternative technologies.

Philips and Sony owned patents relating to recordable compact discs and rewritable compact discs (CD-R and CD-RW), specifically how to encode position information on the discs so a consumer’s reader/writer could work properly. Sony’s solution was set forth in its Lagadec patents and Philips’s solution was set forth in its Raaymakers patents.

Because the Lagadec solution was prone to errors, the companies agreed to Raaymakers method as the technical standard and published the standard in a document called “Recordable CD Standard,” informally known as the “Orange Book,” to ensure that discs made by different manufacturers would be compatible.

Philips and Sony offered licenses to Philips’ Raaymakers and Sony’s Lagadec patents and those of several other patentholders that they regarded as being required to meet the Orange Book standard as a package of patents. Princo became one of the licensees. Philips and Sony did not offer to license individual patents, but only offered to license a package of the patents.

Subsequently, Princo stopped paying the royalty, which resulted in Philips filing a complaint with the International Trade Commission (ITC) to prevent importation by Princo of infringing CD-Rs and CD-RWs.

An ITC administrative law judge (ALJ) found that Princo infringed six valid Philips patents but denied relief on the ground that the patents were unenforceable because of patent misuse due to tying, price-fixing, price discrimination and restraint of trade. The tying ground was because Philips forced manufacturers such as Princo to license extraneous patents in order to license the relevant ones. The ITC itself upheld the ALJ’s finding of patent misuse on the tie-in ground but did not address the other grounds.

Philips appealed and, in a 2005 opinion, the CAFC rejected the ITC’s holding of patent misuse due to improperly tying the nonessential Lagadec patents to essential Raaymakers ones because the licensees had



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the option of using any of the patents for a uniform fee, were not required to use any particular technology — including patents Princo claimed were nonessential — and there was an economic advantage of minimizing transaction costs and assuring against risk. The CAFC applied a “rule of reason” analysis for holding no misuse.

However, the CAFC remanded the case to the ITC because it had not addressed the other grounds of misuse found by the ALJ, namely price fixing, price discrimination and restraint of trade. The CAFC directed the ITC to determine whether Philips and Sony agreed not to license Lagadec in a way that would allow a competitor to use or license that technology to create a competing product, i.e., one not complying with Orange Book technical standards. On remand, the ITC held that Philips and Sony had not so agreed and found no misuse.

Princo appealed again to the CAFC, where a panel rejected some of Princo’s tying-based misuse argument but remanded to the ITC again. The CAFC ordered the ITC to re-examine the record to determine whether Philips and Sony had agreed to prevent the development of alternatives technologies, since that would be a misuse under the theory of elimination of competition or price fixing, with no proper benefits and therefore an antitrust violation. The CAFC panel found that misuse depended on whether the Sony Lagadec technology could have been viable.

Philips, Princo, the ITC, Sony as intervenor and amicus curie all requested a rehearing en banc. A rehearing was granted, but it was confined to Philips’ argument that “regardless of whether Philips and Sony agreed to suppress the technology embodied in the Lagadec patent, such an agreement would not constitute patent misuse and would not be a defense to Philips claim of infringement against Princo.”

The en banc opinion discussed the history of the patent misuse doctrine, which originated with the famous 1917 *Motion Picture Patents Co. v. Universal Film Mfg. Co.* U.S. Supreme Court decision, which held it was patent misuse that rendered patents unenforceable during the misuse to require patented motion picture projectors to be used to project only films distributed by the patentee. It was an illegal tie-in to force the users of the projectors to project only certain films.

Other Supreme Court cases held it to be patent misuse for an owner of a patent on refrigerating transportation packages for transporting and storing dry ice require

licensees to purchase their dry ice from the patent owner, and for an owner of a patent on a machine to add salt to canned foods to require purchasers of the machine to buy their salt tablets from patentee. Another Supreme Court decision held that patentees could not require licensees to pay royalties beyond the term of the patent. CAFC jurisprudence characterized the misuse doctrine as impermissibly broadening the physical or temporal scope of the patent with anticompetitive effect.

The court discussed the doctrine of patent exhaustion, wherein the sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device. But that doctrine does not apply to a conditional sale or license, and so field of use limitations on such a sale have been upheld, and price-fixing and tying have not.

In addressing the issue before the court, “regardless of whether Philips and Sony agreed to suppress the technology embodied in the Lagadec patent, such an agreement would [or would] not constitute patent misuse and would not be a defense to Philips claim of infringement against Princo,” the CAFC held that it was not misuse, even if the patentee Philips had engaged in anticompetitive conduct because the misuse must be of the patent itself.

In 1988, the patent code was amended to limit the doctrine of patent misuse, setting forth five types of conduct which may not provide the basis for finding misuse or illegal extension of the patent.

According to 35 U.S.C. §271(d), “No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the

following: ... (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.”

The majority and dissenting opinions disagreed as to the intent of Subsections (4) and (5). The majority determined the congressional intent to be to confine patent misuse with respect to certain licensing practices to conduct having anticompetitive effects, whereas the dissent argued that congress intended the patent misuse doctrine to extend to a refusal to license technologies by parties acting in concert, and that such acting in concert could be patent misuse.

The majority pointed out that the statute did not mention “acting in concert” and the dissent referred to the legislative history

where covenants not to compete were previously held to be misuse. Reminiscent of a Talmudic debate, the majority found the legislative history to be referring to covenants not to compete “in patent licenses,” not concerted refusals to license among horizontal competitors. Furthermore, as a coup de grace on that issue, the majority stated that Section 271(d) was not even implicated directly because the conduct in question was not within any of the five categories.

The CAFC concluded that Philips was not imposing restrictive conditions on the use of the Raaymaker patents to enlarge the physical or temporal scope of those patents. The alleged misuse was a horizontal agreement between Philips and Sony not to license the Lagadec patents separately. The en banc court held that even if they did that, it would not have been a patent misuse so as to excuse Princo’s infringement.

The court agreed with Philips that the Lagadec technology was not a viable competitor to the Raaymaker technology.

As applied to joint ventures, the court stated that an agreement among joint venturers to pool their research efforts is analyzed under the Rule of Reason, as is an agreement not to compete against their own joint venture. The dissent advocated a “quick-look” Rule of Reason analysis on the ground that any agreement not to compete is inherently suspect and that competitive harm should be presumed.

The majority determined that quick-look analysis only applies when an arrangement is so plainly anticompetitive that courts can impose liability after only a cursory examination, which would be justified in the present case if the joint venture were a sham or if the alleged agreement was a naked restraint, not rea-

sonably necessary to achieve the efficiency-enhancing benefits of the joint venture.

The court concluded that even if Philips and Sony had agreed not to license the Lagadec patent for non-Orange Book purposes, that would have had no bearing on the physical or temporal scope of the patents in suit, nor did have anticompetitive effects in the relevant market.

This case has been decided first by the ALJ, then by the first ITC panel, then by the first CAFC panel, then back for a second ITC opinion, back to the CAFC where a first panel decided to remand but a 10-member en banc court rendered a majority opinion with one dissent and one concurring opinion. In all, more than 20 judges have analyzed the issues with many disagreements.

It can hardly be said that the law is clear regarding patent pools packaging patents covering alternative technologies, research joint ventures, licensing agreements among competitors, and the antitrust consequences. •

*The court discussed the doctrine of patent exhaustion, wherein the sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device. But that doctrine does not apply to a conditional sale or license.*

# Current Issues and Developments in Patent Damages Law

BY NICOLE D. GALLI

Special to the Legal

In recent years, large damages verdicts in patent cases have caused concern among business people and commentators. This has been one of the driving factors behind patent reform, which is still in the works.

In the absence of patent reform, some of the most interesting developments for patent litigators in the last few years have come from the Federal Circuit, which has issued several decisions in the patent damages area clearly designed to rein in some of these verdicts and provide stronger underpinnings to the damages analysis performed in the district courts.

The focus of the Federal Circuit's efforts has been in the area of reasonable royalty. Under the Patent Act, 35 U.S.C. § 284, a patent holder who has demonstrated infringement is entitled to at least a reasonable royalty to compensate it for infringement of its patent. A reasonable royalty is the amount of royalty payment that would have been agreed upon by the patent holder and the infringer in a hypothetical negotiation taking place just prior to when the infringement first began.

Traditionally, a fact-finder considers the 15 so-called "Georgia-Pacific" factors in evaluating the hypothetical negotiation, a name derived from the 1970 case *Georgia-Pacific Corp. v. U.S. Plywood Corp.* These factors include considerations such as the extent to which the invention is contribut-



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ing to the value of the product being sold by the accused infringer, as well as comparable royalties and licenses for the technology in suit. These two considerations, in particular, have been the focus of attention by the Federal Circuit and its judges.

In *Lucent Technologies Inc. v. Gateway Inc.*, then-Chief Judge Paul Michel focused upon the use of the "entire market value" rule, which provides a basis for the recovery of damages based upon the value of the patentee's entire product, which contains both patented and non-patented features. In *Lucent*, the Federal Circuit upheld the use of the rule in general, but criticized the plaintiff's analysis because it did not prove that the patented-related feature was the basis for customer demand. Importantly, the court noted "[t]here is nothing inherently wrong with using the market value of the entire product, especially when there is no established value for the infringing component or feature, so long as the multiplier accounts for the proportion of the base represented by the infringing component or feature."

Similar conclusions were reached by Chief Judge Randall Rader, sitting by des-

ignation in two district court cases. First, in *Cornell University v. Hewlett-Packard Co.*, Rader held that the scope of the base to which the royalty applied was inappropriate. Accordingly, Rader held, the base must be "the smallest saleable infringing unit with close relation to the claimed invention."

Second, in *IP Innovation, LLC v. Red Hat Inc.*, Rader excluded the testimony of the plaintiff's damages expert because it "improperly inflates both the royalty base and the royalty rate by relying on irrelevant or unreliable evidence and by failing to account for the economic realities of this claimed component as part of a larger system." The lesson to be learned from these cases is that one's expert needs to be able to support his or her selection of a royalty base in light of the technological relevance of the patent-in-suit to the infringing product, and, further, must select a royalty rate that is appropriate given the nature of the base.

Another area in which the Federal Circuit's influence has been felt is in the consideration of what is a "comparable license" in performing the reasonable royalty analysis. In *ResQNet.com Inc. v. Lansa*, the Federal Circuit opined on this issue, once again focusing on the need to pay careful attention to the particular invention and its relationship to the product as a whole on the one hand, and the scope of the licenses consider in comparison on the other, to be sure that the licenses are relevant.

The court specifically criticized the use of "licenses with no relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels." Instead, the Federal Circuit admonished, licenses must be ones whose rates are "more clearly linked to the economic demand for the claimed technology."

Interestingly, in passing, the Federal Circuit indicated that the most comparable licenses in ResQNet were settlement agreements, which has opened up the possibility — previously closed — of using settlement agreements in the reasonable royalty analysis. Some courts have elected to allow this, such as the Eastern District of Texas in *Tyco Healthcare Group L.P. v. E-Z-EM Inc.*, while others have declined, distinguishing ResQNet on the grounds that the court did not specifically state that such use was permissible; and ResQNET was a bench trial, not a jury trial and, thus, the rules might be different in front of juries. How this will play out, particularly at the Federal Circuit, remains to be seen.

Another area in which the Federal Circuit has been active in recent years is in the area of "on-going royalties," (also referred to by some as "compulsory licenses"). In 2007, in *Paice LLC v. Toyota Motor Corp.*, the Federal Circuit held that a district court has the authority to award "an ongoing royalty for patent infringement in lieu of an injunction," based on a court's power to grant equitable relief. The Federal Circuit then remanded the case to the district court to

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# Warning to Corporate Officers: *You Can Be Held Personally Liable for Patent Infringement!*

BY PATRICIA ROGOWSKI  
AND DAVID MORSE

*Special to the Legal*

In the usual patent infringement case, a patent owner sues a company for patent infringement. Sometimes individuals, particularly corporate officers, are named as co-defendants with their company. Generally, the “corporate veil” shields corporate officers from liability for tortious conduct, such as patent infringement, occurring in the regular course of their employment.

The laws in Pennsylvania, New Jersey and Delaware all provide this safe haven for corporate officers. Personal liability in such instances is imposed only where an officer or director breaches his or her duty of loyalty to the company as a result of self-dealing, willful misconduct or recklessness.

Corporate officers need to be aware that this usual case does not always apply — in some circumstances corporate officers can be found personally liable for patent infringement, right alongside their company. Although courts start from the general rule that a corporate entity should be recognized and upheld, exceptions do exist.

Two exceptions that may be applied by a court are not unique to patent litigation. The first exception is when the accused company appears to be merely the officer’s “alter ego,” such that the officer has acted outside the scope of his employment. The second exception is when the accused company is undercapitalized or has failed to



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comply with the formalities of corporate organization. With these two exceptions, the corporate veil is pierced to prevent fraud, illegality or other injustice.

A third exception exists, which is the main focus of this article, and it occurs when the corporate officer actively aids and abets in the patent infringement committed by the corporation. With this third exception, the corporate officer may be found personally liable for inducing infringement, even if the corporation is not the alter ego of the corporate officer.

The patent infringement statute, 35 U.S.C. 271, provides for liability both for direct infringement and for indirect infringement (active inducement or contributory infringement). Direct infringement is defined by Section 271(a), which states, “whoever without authority makes, uses or sells any patented invention ... infringes the patent.” Indirect infringement is defined by Section 271(b), which states, “[w]hoever actively induces infringement of a patent shall be liable as an infringer.”

A corporate officer may be found personally liable as a direct infringer only if the corporate veil is pierced. In comparison, a corporate officer may be found personally liable as an indirect infringer if sufficient evidence of personal culpability is shown.

A recent case focuses on the distinction between these two types of corporate officer liability. In *Wordtech Systems Inc. v. Integrated Networks Solutions Inc.*, the patent owner Wordtech sued Integrated and two of Integrated’s officers for patent infringement. The asserted patents concerned programable compact disk duplication systems. Integrated, a Nevada corporation, had not filed mandatory annual statements with the state for two consecutive years. However, after suit was filed, Integrated revived its corporate status in Nevada.

Following trial, the jury found that the defendants, Integrated and the two officers, willfully infringed the patents and awarded damages against all three defendants. On appeal, the officers challenged the liability verdicts on

grounds that they could not be individually liable for direct infringement, contributory infringement or inducement. The officers asserted that they were company “employees,” that they had not personally participated in the infringement, and that Integrated was a valid Nevada corporation during all periods of the alleged infringement.

Wordtech claimed that Integrated was “non-existent” during the alleged infringement because Integrated had failed to make mandatory payments to the state of Nevada for two consecutive years. However, Nevada permits corporations to revive active status for up to five years and allows the revival to be retroactive. Integrated had revived its corporate status, thereby establishing itself as a valid corporate entity at the time of the infringing activity. Even though the two officers were the only full-time employees of Integrated and were responsible for product development and sales, because the district court never instructed the jury on Integrated’s corporate status, the Federal Circuit reversed and remanded the direct infringement verdict against the officers.

Importantly, in finding that the corporate veil was not appropriately pierced, the Federal Circuit did not rule out indirect infringement by the two corporate officers. Instead, the court rejected the officers’ corporate veil defense as being irrelevant to the issues of inducement and contributory infringement. Nevertheless, the Federal Circuit also found

*Warning continues on IP8*



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## Muffin Man

continued from IP2

line of Thomas' English Muffins, including the secret behind the muffins' unique 'nooks and crannies' texture."

In September 2009, Botticella accepted a position with Interstates Brands Inc., a competitor of Bimbo, which subsequently changed its name to Hostess Brands Inc. Botticella did not inform Bimbo of his new employment until January 2010, at which time he provided 11 days notice of his resignation. Several days later, when Bimbo learned that Botticella was going to work for Hostess, he was directed to leave the premises.

Although Botticella signed an agreement with Hostess in which he promised not to bring or disclose any of Bimbo's confidential information, the trial court noted suspicious behavior by him in accessing confidential documents and information prior to his leaving Bimbo. The court found his explanations for such conduct "confusing at best" and "not credible." The court determined that there was "a substantial likelihood, if not inevitability" that Botticella would use or disclose Bimbo's trade secrets. Following the grant of a preliminary injunction on Feb. 9, 2010, Botticella appealed to the 3rd Circuit.

On appeal, Botticella, relying on language from another recent 3rd Circuit case, *Victaulic Co. v. Tieman*, argued that the trial court had applied the wrong standard and that Bimbo, to justify the grant of an injunction, had to prove that it would be virtually impossible for Botticella to perform his job without using or disclosing trade secrets. This approach seemed fairly strong since the court in *Victaulic* had stated that "under Pennsylvania law, a broader injunction only lies when it is 'virtually impossible' for the employee to do his job without using or disclosing the trade secrets."

In affirming the trial court decision, the circuit court did not specifically rely on the language of PUTSA but, instead, sought guidance from the pre-PUTSA decision in *Air Products*. Rejecting the *Victaulic* analysis, it noted that decision "did not interpret *Air Products* in a way precisely consistent with Pennsylvania state precedents."

The court then expressly rejected the "virtually impossible" standard, "our sug-

gestion to the contrary in *Victaulic* notwithstanding." The court pointed out that the language in *Victaulic* was not binding because that part of the opinion was only dictum and not dispositive of that decision.

The 3rd Circuit then determined that a plaintiff need only show "a sufficient likelihood or substantial threat of disclosure of a trade secret." The court found strong support for this approach in another pre-PUTSA case, the 1989 Superior Court decision in *Den-Tal-Ez v. Siemens Capital Corp.*, where the court sustained an injunction preventing the defendant from acquiring one company upon collapse of acquisition discussions with that company's competitor.

The court, finding that there was "at least a substantial threat" that Siemens

would provide information obtained in the prior discussions to the newly acquired company, determined that even without any evidence of actual disclosure, the proper inquiry was whether there is sufficient likelihood, or substantial threat, of the defendant using or disclosing the information in the future.

Perhaps the most intriguing part of the circuit court decision was its statement that an injunction without proof that disclosure is inevitable is not actually granted under the inevitable disclosure doctrine. This approach seems to sever the "inevitable disclosure doctrine" from PUTSA, with injunctions granted under PUTSA subject only to the "sufficient likelihood or substantial threat" standard, while those under

the inevitable disclosure doctrine still require inevitability.

With this in mind, there exists a real question as to whether the inevitable disclosure doctrine, as previously believed to exist, functionally survives PUTSA and the standard articulated in *Bimbo Bakeries*. The rejection of *Victaulic* suggests that it does not. If a sufficient likelihood or substantial threat, not inevitability, of disclosure is all that is needed to obtain an injunction, parties are not likely to ever see a need to prove inevitability.

While there is little doubt that the term "inevitable disclosure" will likely continue to be used by courts, counsel and litigants, the practical reality is that the "Muffin Man" may indeed have killed the "inevitability" part of the doctrine. •



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## False Marking

continued from IP3

Representatives and in the Senate, either as stand-alone legislation (in the House) or as part of a comprehensive patent reform package (in the Senate). Both bills would require that the plaintiff in a false marking have suffered some "competitive injury" as a result of the alleged false marking. Both bills would also apply to all cases pending on the date that the statute is enacted, effectively eliminating standing in all non-competitive patent marking cases.

Progress on these bills has been hindered by the requirement that any loss of government revenue from the fine-sharing

*False Marking continues on IP8*

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## False Marking

continued from IP7

provisions of Section 292 be offset by a decrease in spending elsewhere, and their passage is far from certain.

### THE FUTURE OF PATENT MARKING

Because patent marking remains integral to establishing notice and damages in infringement suits, many patentees are considering ways that they might mark their products without inviting a Section 292 suit

after their patent has expired. This is complicated, in part because that under conventional marking programs there is no provision for recall of products that were marked when a patent was pending yet still in commerce after the patent has expired. Because *Solo Cup* apparently requires that litigants proceed at least to the summary judgment stage of a litigation before lack of intent to deceive may be shown, even those patentees legally entitled to mark their products could be subject to expensive, repetitive discovery each time they are sued for alleged false marking.

A number of approaches to marking that would alleviate this problem have been suggested. Products could indicate that they “may be covered” by one or more patents. Products might be marked with a patent number and an expiration date; this approach could be particularly useful after all maintenance fees have already been paid, thereby ensuring that the expiration date does not later become inaccurate with non-payment of fees.

Other patentees have turned to online “marking” repositories that reflect their products and any associated patents, though

the efficacy of these services for providing notice has not been determined. Some companies have decided not to mark patented products.

For those companies currently involved in false marking cases the best defense may be to show a lack of intent to deceive. Since the evidence on intent should be fully within the control of the defendant an early motion for summary judgment should be considered. But even this approach can be expensive. In *Pequignot*, five depositions were taken to establish lack of deceptive intent. •

## Damages

continued from IP5

take evidence and reevaluate the ongoing royalty rate. The court also suggested that the district court might allow the parties an opportunity first to negotiate their own rate.

The Federal Circuit again addressed ongoing royalty rates in *Amado v. Microsoft Corp.*, in which the focus was on the specific amount of the ongoing royalty and the extent to which, if any, it should be higher than the pre-judgment royalty rate. In this regard, the Federal Circuit cited, with approval, the views Rader expressed in his concurrence in *Paice* and held that “[t]here is a fundamental difference ... between a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement,” “because different economic factors are involved.” Accordingly, a different rate may be appropriate.

Since these decisions, district courts have used different procedures and methods for arriving at the rate, without any consistent pattern emerging. Some courts have given the issue to the jury to decide, though also giving the parties an opportunity to confer on the rate prior to entry of final judgment, as in *Cummins-Allison Corp. v. SBM Co.*

Others have required the plaintiff to file a new complaint, as in *Saffran v. Boston Scientific Corp.*, or at least sever the post-judgment damages issue from the main case, so as to keep the issue alive as a continuing action and permit court monitoring of the ongoing royalty payments, as in *Voda v. Cordis*.

Typically, however, districts courts have ordered the parties to first negotiate the rate, and then held an evidentiary hearing should the parties fail to arrive at an agreement. An example is *Boston Scientific Corp. v. Johnson & Johnson*. As for the method to be used by the judge or jury in setting the rate, most district courts have endorsed using the Georgia-Pacific factors, but generally weigh them differently in the context of post-verdict royalties.

The most recent area of activity involves awards of attorneys’ fees to the prevailing party. Recently, on the plaintiff’s side, a decision by Judge Leonard Davis in *ReedHycalog UK, Ltd. v. Diamond Innovations Inc.*, made news when he awarded the plaintiff \$5 million in attorney fees and \$3 million in expenses, as well as treble damages, as a result of litigation misconduct by the defendant.

The list of misconduct was impressive as a lesson in what not to do: improper concealment and withholding of damaging

attorney communications relating to the voluntarily disclosed opinion of counsel; unnecessary motion practice throughout the case; improper objections during depositions; improperly conferring with an expert witness during a deposition, after which he changed his answer, and refusing to allow him to testify about the discussion; and failure to mediate in good faith.

The jury found that the defendant had willfully infringed the patents-in-suit, also contributing to the court’s finding that the case was exceptional and the award of fees, costs and treble damages.

On the flip side, in *Media Queue LLC v. Netflix Inc.*, Netflix was recently denied attorney fees although it prevailed as the defendant. Netflix has asked the Federal Circuit to hear its appeal en banc, challenging the current standard for awarding a prevailing defendant attorney fees, on the grounds that the standard for prevailing defendants is improperly higher than that imposed on prevailing plaintiffs.

A number of companies have joined in an amicus brief supporting Netflix, including Amazon.com, Facebook, Yahoo!, Toyota, Samsung, Oracle and Microsoft, and have asked the court to adopt a “party-neutral” legal standard for awarding fees under Section 285. Briefing has recently been

completed and argument has not yet been scheduled. Many observers are watching this decision closely due to its potential impact on the future of patent litigation.

Observers are also waiting to see what, if anything, will transpire on patent reform. This year, little activity has been seen on patent reform in the House of Representatives. On March 4, the Senate Judiciary Committee reached a bipartisan compromise on the Senate bill. In the bill, many of the more dramatic reforms proposed in prior bills have been dropped. Instead, the bill focuses on, among other things, the role of the court as gatekeeper and introduces a new standard for assessing damages, specifically that the fact-finders should consider only “methodologies and factors that are relevant to the determination of damages.” The contours of the proposed standard are undefined.

There has been no activity on the bill since March, although in mid-September, 25 senators sent a letter to Senate Majority Leader Harry Reid, D-Nev., requesting the matter be brought to a vote on the floor as soon as possible. It does not appear that patent reform legislation will pass anytime soon and, instead, we must continue to look to the courts, particularly the Federal Circuit, for further guidance on patent damages. •

## Warning

continued from IP6

the jury instructions flawed on the indirect infringement issue and likewise remanded this issue.

The *Wordtech* case illustrates that even where the corporate veil remains in place, corporate officers cannot assume that they will avoid personal liability for patent infringement.

Whether an officer can be held personally liable for aiding and abetting infringement is intensely fact-dependent. Earlier cases shed some light on the circumstances for which personal liability for indirect infringement is likely to be imposed.

In *Hoover Group Inc. v. Custom Metalcraft Inc.*, the CEO promptly consulted counsel, and the company made a “straightforward commercial response” to the infringement assertions. Because there was no bad faith, no fraud and no culpable intent shown, the court reversed the finding that the CEO was personally liable for infringement.

In *Manville Sales Corp. v. Paramount Systems Inc.*, two corporate officers at Paramount obtained a drawing of the patented design from a state government agency and forwarded this drawing to Paramount’s designer for use in designing a competing device. Although the corporate officers had

knowledge of their acts, these acts were deemed within the scope of their employment, such that the corporate veil was not pierced. Moreover, although some persons at Paramount knew of Manville’s patent prior to the lawsuit, the court found that Paramount’s continued infringement was not in bad faith, based on the advice of counsel that Paramount was not infringing. The two officers were not personally aware of Manville’s patent until after the lawsuit was filed, and they also reasonably relied on the legal advice the company had received.

On these facts, it was error to find the two officers liable for inducing infringement. Similarly, in *Al-Site Corp. v. VSI Int’l Inc.*, an officer who consulted counsel after receiving a cease and desist letter, but before continuing to produce accused infringing products, was found not personally liable for indirect infringement.

Even when a company is found to willfully infringe, an officer will not be held personally liable for inducing that infringement unless the officer had a specific intent to aid and abet the infringement. In *Wechsler v. Macke Int’l Trade Inc.*, Wechsler sued Macke and O’Rourke, Macke’s president, lone stockholder and sole employee, for patent infringement based on a portable drink device for pets. Upon learning of Wechsler’s patent, O’Rourke did not secure an opinion of counsel, but rather he personally ana-

lyzed the patent, the prior art and his own device to form a belief that Macke was not infringing.

Notwithstanding his belief, O’Rourke entered into licensing negotiations with Macke. When those negotiations broke down, O’Rourke redesigned his company’s product, but he kept the product accused of infringement on the market for another eight months. Even though a jury found Macke to be a willful infringer, and even if O’Rourke had acted negligently, the court held this was insufficient to overturn the jury’s finding that O’Rourke was not personally liable for inducing infringement.

The court distinguished the standard for willful infringement (whether the infringer had a good faith belief that the patent was invalid or not infringed) from the standard for imposing personal liability on an officer for inducement of infringement (whether the officer has a specific intent to aid and abet the infringement). In view of the different standards, the court concluded that willful infringement does not automatically lead to personal liability for a corporate officer:

For example, a corporate officer could negligently believe that a patent was invalid and/or not infringed. This might support a finding of willful infringement by the corporation, but not a finding of personal liability for the officer.

To compare, the court found personal liability in *Orthokinetics Inc. v. Safety Travel Chairs Inc.* The officers, who were “directly responsible” for the design and production of the infringing chairs and were the “only ones who stood to benefit from sales” of the infringing chairs, were held liable for both direct and indirect patent infringement.

In summary, to avoid personal liability, corporate officers and directors should:

- Properly maintain the corporation/entity status according to the laws of your state of incorporation. Follow the required formalities. Doing so will make it difficult for a patent owner to successfully assert individual officer liability for direct infringement.

- Seek out qualified legal advice, and follow that advice, when confronted with a potential patent infringement claim. Personal liability for indirect infringement can only be found where there is personal culpability. A company officer should be found to have lacked a specific intent to aid and abet the infringement of the company if that officer acted prudently under the circumstances.

Courts have found indirect infringement where behavior was willful or reckless, and did not find such infringement where behavior was prudent or merely negligent. Acting on advice of counsel has been held to have been prudent by most courts to have considered this question. •