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Patents

The author cautions patent holders about the risk of making public statements alleging patent infringement.

Publicizing Your Patent Rights May Land You in Court

BY GREG A. MCALLISTER

I. Introduction

A patent owner who believes his patent is being infringed may choose not to sue immediately, and instead seek a negotiated solution. In an attempt to gain leverage, the patent owner may notify the infringer, the infringer's customers, or the infringer's investors that the patentee believes his patent is infringed. The patent owner may even issue a press release or web posting concerning the supposed infringement.

A patent owner who does any of these things is probably aware that these communications could create a controversy that would permit the accused infringer to bring an action seeking a declaration of noninfringement or patent invalidity. However, a patent owner may not be aware that these communications also create potential liability for a number of torts, such as federal unfair competition claims, tortious interference with contract, tortious interference with prospective economic advantage, state law unfair competition, and antitrust, among others.

Rather than affirmatively pressing claims of patent infringement, the patent owner instead may find himself defending against claims that arise from his communications. This paper discusses three principal risks to a patent owner from patent publicity that accuses others of infringement. First, the patent owner may have to face these claims in a forum chosen by the recipient of the communications. Second, the author of the communication may be subject to personal liability, despite use of a corporate form of doing business. Finally, the patent owner may face a long and expensive course of litigation to vindicate his right to publicize his patent. Although the Federal Circuit has created a number of safe harbors for communications that assert patent rights, many district courts still permit tort

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claims concerning these communications to proceed to trial.

II. Vindication Can Be Costly and Time-Consuming for the Patentee.

A. Patent Law Preempts Tort Actions Unless the Claimant Shows that the Communications Were Objectively Baseless and Made with Subjective Bad Faith. The Federal Circuit has created substantial protections against tort claims that arise from communications that assert a patentee's rights. In addition to proving the elements of the tort, the plaintiff must prove, by clear and convincing evidence, that the communications lacked an objective basis and were made with subjective bad faith. *Globetrotter Software Inc. v. Elan Computer GroupInc.*, 362 F.3d 1367, 1377, 70 USPQ2d 1161 (Fed. Cir. 2004) (67 PTCJ 502, 4/2/04) (affirming dismissal of tortious interference claim arising from a letter asserting patent rights that allegedly impeded sale of a software company). This requirement applies to ''publicizing a patent in the marketplace as well as to pre-litigation communications.'' *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 n.3, 86 USPQ2d 1480 (Fed. Cir. 2008) (76 PTCJ 14, 5/2/08).

Objective baselessness is a high barrier for a plaintiff to overcome; the challenged statements must be not only wrong, but so clearly incorrect that no reasonable person would have made them. *Cf. Professional Real Estate Investors v. Columbia Pictures Industries*, 508 U.S. 49, 60 (U.S. 1993) (an ''objectively baseless'' lawsuit is one in which ''no reasonable litigant could realistically expect success on the merits'').

In adopting this standard, the Federal Circuit expressly extended the *Noerr-Pennington* doctrine, which immunizes statements made to courts or government agencies from tort liability, to statements made in the marketplace. Its decision was motivated by the court's observation that ''our sister circuits have also applied the *Noerr-Professional Real Estate* line of cases to bar state-law liability (as opposed to federal antitrust liability) for pre-litigation communications.'' *Globetrotter*, 362 F.3d at 1376 (construing application of *E. R.R. Presidents Conference v. Noerr Motor Freight Inc.,* 365 U.S. 127 (1961), *California Motor Transport Co. v. Trucking Unlimited,* 404 U.S. 508 (1972), and *Professional Real Estate Investors Inc. v. Columbia Pictures Industries Inc.*, 508 U.S. 49 (1993) to state law tort claims).

The Federal Circuit has applied the objectively baseless requirement in a number of cases. *See, e.g., Golan v. Pingel Entertainment*, 310 F.3d 1360, 1371, 64 USPQ2d 1911 (Fed. Cir. 2002) (65 PTCJ 50, 11/15/02) (party raising tortious interference claim must present clear and convincing evidence ''that the infringement allegations are objectively false, and that the patentee made them in bad faith, viz., with knowledge of their incorrectness or falsity, or disregard for either'').

Early Federal Circuit decisions in this area emphasized that federal preemption required a patentee's ''good faith belief'' in the accuracy of his communication. Subsequent decisions require that a plaintiff establish that a communication lacked an objective basis before the patentee's subjective beliefs may be examined at all.

Mikohn Gaming Corp. v. Acres Gaming, 165 F.3d 891, 49 USPQ2d 1308 (Fed. Cir. 1998), for example, appeared to endorse a subjective inquiry. That case stated that ''[f]ederal precedent is that communication to possible infringers concerning patent rights is not improper if the patent holder has a good faith belief in the accuracy of the communication.'' *Id.* at 897.

While this good faith belief is sufficient to invoke patent law preemption, more recent cases such as *Globetrotter* and *Dominant Semiconductors* make clear that the lack of an objective basis is a threshold element which the plaintiff must establish.

B. The Objectively Baseless Standard Protects Marketplace Communications, and Is Determined on the Entire Record of the Case. The primacy of the objective inquiry is exemplified by *Dominant Semiconductors*. In that case, the Federal Circuit affirmed the district court's grant of summary judgment in favor of Osram on Dominant's claims for unfair competition and interference with prospective economic advantage, among others. *Dominant Semiconductors,* 524 F.3d at 1255.

Dominant alleged that various letters and press releases asserted Osram's patent rights in bad faith. *Id.* at 1258.

The Federal Circuit first held that ''the 'objectively baseless' standard applies to publicizing a patent in the marketplace as well as to pre-litigation communications.'' *Id.* at 1260 n.5. The Federal Circuit established the universe of evidence for the inquiry into objective basis as follows:

> [O]bjective baselessness requires a determination on the record ultimately made in the infringement proceedings and the record of the state tort action, and not on the basis of information available to the patentee at the time the allegations were made.

Id. at 1264.

Applying this rule, the Federal Circuit held that the district court properly considered events that took place after the communications to determine that the statements did not lack an objective basis. *Id.* at 1262-63 (results of subsequent ITC proceedings and appeals provided an objective basis for the statements).

The Federal Circuit rejected Dominant's argument that the same standards for a presuit investigation under Rule 11 should apply to the objective baselessness inquiry. *Id.* at 1262. The court then held that Dominant's contentions that the letters were based on inadequate research ''might be probative of subjective baselessness, but do not help to show . . . that Osram's infringement allegations were objectively baseless.'' *Id.* at 1263.

C. Despite These Protections, District Courts Are Reluctant to Grant a Patentee's Motion to Dismiss. Despite the protections provided to patent owners by these cases, district courts may decline to dismiss state law torts, leading to costly trials and the possibility of expensive judgments. Vindication at the Federal Circuit may arrive only after years of uncertainty.

A recent example is provided by *800 Adept Inc. v. Murex Securities Ltd.*, 539 F.3d 1354, 88 USPQ2d 1065 (Fed. Cir. 2008) (76 PTCJ 661, 9/12/08). There, the plaintiff sued on its own patents and brought claims for tortious interference that arose from the defendant's assertion of patents against the plaintiff's customers. *Id.* at 1357. A jury awarded the plaintiff $7,000,000 on the tortious interference claim in addition to damages for patent infringement. *Id.*

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On appeal, the Federal Circuit applied the *Globetrotter* standard to the tort claims: ''Adept was required to offer clear and convincing evidence that [the defendant] had no reasonable basis to believe its patent claims were valid or that they were infringed by Adept's customers.'' *Id.* at 1370.

The Federal Circuit rejected the plaintiff's invitation to conclude that the defendant lacked a reasonable basis because it ''did not succeed at trial on its infringement claims against Adept.'' *Id.* at 1371. ''Courts [] must resist the temptation to engage in *post hoc* reasoning by concluding that an ultimately unsuccessful action must have been unreasonable or without foundation.'' *Id.* (internal quotations omitted).

The Federal Circuit reversed the tortious interference judgment. *Id.* at 1372.

The scope of evidence discussed in the opinion shows how exhaustively the defendant labored to justify its actions. With respect to validity, the defendant countered challenges to its representations to the patent examiner, including expert testimony concerning the disclosures of a prior art reference. *Id.* at 1371. With respect to its infringement position, the defendant showed similarities between its commercial embodiment and the targets of its infringement suit, as well as disclosing pre-litigation ''claim charts explaining [the defendant's] infringement theories. *Id.* at 1372.

Recent district court cases confirm a reluctance to dismiss torts that arise from assertion of patent rights. For example, in *Soilworks LLC v. Midwest Industrial Supply Inc.*, No. CV-06-2141-PHX-DGC, 2008 U.S. Dist. LEXIS 72899 (D. Ariz. Aug. 7, 2008), the defendant sent letters to one of the plaintiff's customers and issued a press release concerning infringement of one of the defendant's patents. The plaintiff responded with a suit seeking declaratory judgment of patent invalidity and noninfringement, as well as claims for false representation under the Lanham Act, tortious interference with business relationships, and common law unfair competition, among others. *Id.* at *2-*3.

The district court denied the defendant's motion for summary judgment on the false representation and unfair competition claims. *Id.* at *46. The court scrutinized the defendant's communications and found that they ''reasonably can be construed as making exclusive source statements.'' *Id.* at *8.

According to the court, these statements implied that competitors could not design around the patents. Such statements ''are inherently suspect.'' *Id.* (internal quotations omitted).

The court construed the Lanham Act as prohibiting a patentee from ''exaggerat[ing] the scope and validity of his patent.'' *Id.* at *9. The court construed *Globetrotter* as limited to statements ''made to an alleged infringer,'' and never addressed the *Dominant Semiconductor* case. *Id.* at *11-*12.

D. Patentee Should Conduct a Reasonable Investigation Before Sending Communications That Assert Patent Rights. In light of the risk that a communication that asserts patent rights can give rise to a suit seeking a declaration of noninfringement or invalidity, a patentee is wise to conduct and document an investigation of the scope of its patent claims, the validity of its patent, and application of the patent claims to accused devices. This investigation has both practical and legal benefits.

As a practical matter, the investigation should reveal whether the patentee should send an accusation of infringement at all. The investigation may reveal shortcomings in the patentee's understanding of the accused product or service, or it may reveal limitations on the patent claim scope that were not previously understood.

The investigation is also beneficial if the communication results in litigation. If a declaratory judgment action is brought, the patentee will have only 20 days under the rules to decide whether to bring counterclaims of infringement; such counterclaims must have a Rule 11 basis. *See, e.g., Q-Pharma Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1300-01, 70 USPQ2d 1001 (Fed. Cir. 2004) (67 PTCJ 450, 3/19/04)(''In the context of patent infringement actions, we have interpreted *Rule 11* to require, at a minimum, that an attorney interpret the asserted patent claims and compare the accused device with those claims before filing a claim alleging infringement.'')

A patentee is in a much stronger position if it has conducted that investigation before triggering the risk of litigation. If tort claims are brought against the patentee, the investigation may be used to refute claims that communication lacked an objective basis. This may require waiving attorney-client privilege over communications that relate to the investigation, so the patentee should keep future discovery in mind when it communicates with its counsel concerning the investigation.

III. Patentee May Be Forced to Litigate in a Forum Chosen by the Recipient of the Communications.

The means by which a patentee publicizes his belief that his patent is infringed, or communicates his belief concerning the scope of his patents, are limited only by the patentee's creativity. The means of communication include press releases, web postings, and letters or e-mails to the accused infringer, the accused's customers and investors. The communication may demand a license, make accusations of infringement, or indicate an intention to enforce patent rights at some time in the future.[1]

[1] *See, e.g., Hunter Douglas Inc. v. Harmonic Design*, 153 F.3d 1318, 1322, 47 USPQ2d 1769 (Fed. Cir. 1998)(56 PTCJ 488, 8/27/98) (patentee informed purchasers that his licensees have an exclusive right to sell products covered by patents), *overruled on other grounds by Midwest Industries Inc. v. Karavan Trailers Inc.*, 175 F.3d 1356, 1358-59, 50 USPQ2d 1672 (Fed. Cir. 1999) (58 PTCJ 28, 5/13/99); *Golan v. Pingel Entertainment*, 310 F.3d 1360, 1364, 64 USPQ2d 1911 (Fed. Cir. 2002)(65 PTCJ 50, 11/15/02(patentee sent cease and desist letter to accused infringer, followed by letters to 22 customers of infringer informing them that patentee was ''taking immediate action to halt the production and sale of'' the accused product); *GP Industries v. Eran Industries*, 500 F.3d 1369, 1371, 84 USPQ2d 1604 (Fed. Cir. 2007)(74 PTCJ 643, 9/28/07)(patentee informed distributors of its belief that a competitor infringed its patent and informed them that it planned to ''focus its enforcement efforts'' against the infringer and not the distributors); *Zenith Electrics Corp. v.* , 182 F.3d 1340, 1343 (Fed. Cir. 1999) (licensees were informed that they would not be able to design around particular patent; plaintiff claimed that patentee deliberately misrepresented the scope of its patents); *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 1370 (Fed. Cir. 2004) (patentee sent e-mail and letters that alleged infringement, including communications to a person acquiring all of the stock of the alleged infringer); *Mikohn Gaming Corp. v. Acres Gaming*, 165 F.3d 891, 893-894, 49 USPQ2d 1308 (Fed. Cir. 1998)(56 PTCJ 176, 1/7/99) (informing

Each of these communications may subject both the individual who sent them and the corporate entity for whom he works to personal jurisdiction in the state to which these letters were sent. Generally, sending allegedly tortious communications into a state creates personal jurisdiction.

For example, for allegedly defamatory communications, personal jurisdiction is proper in a forum where the communication affected the plaintiff. *See Calder v. Jones*, 465 U.S. 783, 788 (1984) (citing *International Shoe Co.* v. *Washington*, 326 U.S. 310, 316 (1945)) (upholding exercise of personal jurisdiction over author of a magazine article in Florida alleged to harm a plaintiff in California; jurisdiction was proper ''based on the 'effects' of their Florida conduct in California''). Such communications satisfy state long-arm statutes as well. *See FMC Corp. v. Varonos*, 892 F.2d 1308, 1313 (7th Cir. 1990) (sending ''messages to Illinois, if accompanied by the defendant's intent to affect Illinois interests'' satisfied the Illinois long-arm statute).

A patentee whose communications are the only contact with the forum has a basis to contest personal jurisdiction under Federal Circuit law, however. Despite the effects test endorsed by *Calder v. Jones*, the Federal Circuit has declined to exercise personal jurisdiction based on communications alone. *Red Wing Shoe Co. v. Hockerson-Halberstadt Inc.* 148 F.3d 1355, 47 USPQ2d 1192 (Fed. Cir. 1998) (56 PTCJ 299, 7/16/98), held that multiple letters into the forum state asserting possible patent rights did not suffice to establish personal jurisdiction. ''A patentee should not subject itself to personal jurisdiction in a forum solely by informing a party who happens to be located there of suspected infringement.'' *Id.* at 1361 (affirming dismissal where contacts with forum consisted of three (3) letters plus revenue derived from activities of licensees who were not incorporated in the forum).

The *Red Wing Shoe* court based its decision on the ''fair play'' component of due process limits on personal jurisdiction. *Red Wing Shoe* holds that ''[p]rinciples of fair play and substantial justice afford a patentee sufficient latitude to inform others of its patent rights without subjecting itself to jurisdiction in a foreign forum.'' *Id.* at 1360-61. Therefore, ''[g]rounding personal jurisdiction on such contacts alone would not comport with principles of fairness.'' *Id.* at 1361. *See also Breckenridge Pharmaceutical Inc. v. Metabolite Laboratories Inc.*, 444 F.3d 1356, 1366, 78 USPQ2d 1581(Fed. Cir. 2006) (71 PTCJ 670, 4/14/06)(''the due process inquiry should focus first on whether the defendant has had contact with parties in the forum state *beyond the sending of cease and desist letters or mere attempts to license the patent at issue*.'') (emphasis added); *Hildebrand v. Steck Manufacturing Co.*, 279 F.3d 1351, 1353, 61 USPQ2d 1696 (Fed. Cir. 2002) (63 PTCJ 332, 2/15/02)(finding no personal jurisdiction in suit for declaratory judgment and tortious interference arising from patent owner sending letters to three (3) separate potential infringers in the forum state, and placing follow-up phone calls to the same entities).

In addition, if the communication's author is sued personally, he should investigate whether the forum state recognizes the fiduciary shield doctrine, which may limit exercise of personal jurisdiction over corporate agents.[2]

Despite these Federal Circuit protections, a patentee runs a considerable risk that a district court will exercise jurisdiction under more general state long-arm and federal due process principles. A defendant who loses a motion to dismiss for lack of personal jurisdiction cannot generally appeal immediately; he must litigate in the forum and preserve the issue for appellate review upon conclusion of the case. A defendant who seeks immediate appeal must request that the district court certify its decision for interlocutory appeal under 28 U.S.C. § 1292(b). *See Lucas v. Natoli*, 936 F.2d 432, 433 (9th Cir. 1991) (per curiam) (court has no jurisdiction to reach issues of personal jurisdiction not certified for interlocutory appeal).

Sending allegedly tortious communications into a state may subject the patentee to personal jurisdiction there. If the communications are the only contact with the state, a patentee may be able to dismiss for lack of personal jurisdiction. The patentee will not generally be permitted to take an immediate appeal of an order granting jurisdiction.

A small company that does not have contacts in every state should carefully consider whether to risk jurisdiction in an out-of-state forum before publicizing its patent rights there. If the patentee has performed a proper pre-suit analysis, and expects litigation to result from its communication, the patentee should consider filing, but not serving, a complaint for patent infringement in its desired forum. As federal suits are commenced by filing and not by service, this will probably give the patentee his choice of forum, should he choose to serve the complaint within the 120 days allowed by the rules.

IV. Recipient of the Communication Has the Initiative in the Litigation.

Once the recipient of your communication decides to sue, the patentee has ceded the opportunity to select the time and forum for the suit. While choosing a forum is frequently derided as forum shopping, some writers defend the practice as part of a lawyer's role. *See, e.g.,* Mary Garvey Algero, *In Defense of Forum Shopping: A Realistic Look at Selecting a Venue,* 78 Neb. L. Rev. 79, 82 (1999) (''forum shopping is an intrinsic part of the American judicial system.''); Richard Maloy, *Forum Shopping? What's Wrong With That?,* 24 Quinnipiac L. Rev. 25 (2005).

Other writers focus more narrowly on the effect of choosing a forum. Several studies find that a plaintiff is more likely to win in his chosen forum. For example, Kimberly A. Moore, now a Federal Circuit Judge, concluded that ''despite the creation of the Federal Circuit, choice of forum continues to play a critical role in the outcome of patent litigation.'' Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 892 (2001).

One study of forum shopping for all federal causes of action found that plaintiffs succeeded twice as often

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customers that plaintiff's system ''infringes at least some of the claims'' of an issued patent and that the patentee will begin enforcement when additional pending applications issue).

[2] *See, e.g., ISI International Inc. v. Borden Ladner Gervais LLP*, 256 F.3d 548 (7th Cir. 2001) (fiduciary shield applicable in Illinois: a person who enters a jurisdiction only as an agent does not submit to suit in a personal capacity).

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when the case was litigated in their original forum compared to cases that were transferred. Kevin M. Clermont & Theodore Eisenberg , *Exorcising the Evil of Forum-Shopping*, 80 Cornell L. Rev. 1507, 1511-12 (1995) (analyzing cases from 1979 to 1991 and concluding that in "federal civil cases, the plaintiff wins in 58% of the nontransferred cases that go to judgment for one side or the other, but wins in only 29% of such cases in which a transfer occurred").

Statistical analysis of patent cases confirms the importance of forum selection, although the impact is not quite as severe. Moore observes that "[w]ho selects the forum (patentee or alleged infringer) is a statistically significant predictor of who wins patent claims. When the patent holder selects the forum, the patent holder wins 58% of the claims. When the accused infringer brings a declaratory judgment action and thereby chooses the forum, the patent holder win rate drops to 44%." *See* Moore, *supra*, at 921 (internal footnotes omitted).

V. The Communication's Author May Be Personally Liable.

Respect for the corporate form as a distinct legal entity protects shareholders from liability for the corporation's acts. This protection is far from absolute, however.

Often referred to as the "corporate veil," this legal doctrine may not protect a corporate officer who personally participates in creating or sending the challenged communication. The rule of personal liability for personal participation is set out in *Northern Laminate Sales Inc. v. Davis*, 403 F.3d 14, 22 n.5 (1st Cir. 2005), which notes that the "general rule [under Massachusetts law] is that an officer of a corporation is liable for torts in which he personally participated, whether or not he was acting within the scope of his authority." (Internal quotations omitted.)

Decisions applying the law of other states reach the same result. *Prince v. Zazove*, 959 F.2d 1395, 1401 (7th Cir. 1992) concluded that, under Illinois law, corporate officers are liable for torts if they "participated in the conduct giving rise to that liability." *See also A&M Records Inc. v. M.V.C. Distribution Corp.*, 574 F.2d 312, 315 (6th Cir. 1978) (corporate officer personally liable for torts committed by him even though acting for corporation); *Powe v. Miles*, 407 F.2d 73, 82 (2d Cir. 1968) (agent responsible for own torts); *Perry v. Frederick Investment Corp.*, 509 F. Supp. 2d 11, 18 (D.D.C. 2007) (even absent grounds to pierce the corporate veil, "[c]orporate officers are personally liable for torts which they commit, participate in, or inspire, even though the acts are performed in the name of the corporation." (Internal quotations omitted.)

A person tasked with sending an accusation of infringement, particularly for a small company, should consider the risk of personal liability. The author should confirm that the statements in the letter are supported by an adequate investigation.

In a small company, the author should consider seeking a resolution of the board of directors or a management committee authorizing the letter before it is sent. Such a step will not eliminate personal liability, but will ensure that the author's employer does not subsequently accuse him of exceeding his authority in sending the communication.

VI. Conclusion

A patent owner may use a variety of channels of communication to publicize his patent rights. While these communications may further a patentee's ability to enforce or license his patent without litigation, the communications themselves may subject the patentee to a wide variety of legal claims. These claims may be litigated in a forum chosen by the recipient of the communication, and may be brought personally against the author of the communication.

Even though the Federal Circuit bars tort liability unless there is proof that the communication was objectively and subjectively flawed, a patentee may require long and costly litigation to vindicate itself. Publicity concerning patent rights should be drafted with these risks in mind.