Bloomberg.com

Court Weakens Patent Owners' Rights to Higher Damages (Update1)

By Susan Decker

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Aug. 20 (Bloomberg) -- A U.S. appeals court that specializes in patent law made it harder for owners to argue that improper use of their inventions was ``willful'' and that damages should be tripled.

In a case involving Seagate Technology, the U.S. Court of Appeals for the Federal Circuit in Washington today overturned a 24-year-old standard that patent owners merely need to show the accused infringer knew about the patent and failed to take steps to avoid use of the invention. Patent owners will find it harder to collect enhanced damages by arguing that a violation of their rights was intentional, under the decision.

Ruling in a lawsuit against Seagate by Massachusetts Institute of Technology, the appeals court said there must be proof an infringer ``acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.'' Allegations of willful infringement are made in about 90 percent of patent lawsuits.

``This is good news for defendants in patent cases,'' said Brad Wright, a patent lawyer with Banner & Witcoff in Washington who teaches patent law at George Mason University. ``It's going to be harder for patent owners to get enhanced damages. It no longer is sufficient to say you knew about the patent and didn't do anything. It requires something more.''

Three Patents

MIT and its partner, patent licensing firm Convolve Inc., claimed Seagate, the world's biggest maker of computer disk drives, infringed three MIT patents for data storage devices. The case hasn't gone to trial. The appeal centered on whether MIT and Convolve were entitled to details of what Cayman Islands-based Seagate's trial attorneys told their client about the issue of willfulness.

The full Federal Circuit took the appeal to review what information must be turned over and to revisit its standard for willful infringement.

``This is a change in the law that will be very welcome by companies that are regularly charged with patent infringement,'' said Seagate lawyer Brian Ferguson of McDermott, Will & Emery in Washington. ``This is recognition that patents are being used in an abusive manner and is a straightforward rejection of that by the Federal Circuit.''

Convolve and MIT lawyer Debra Brown Steinberg of Cadwalader, Wickersham & Taft in New York declined to comment on the ruling.

On the issue of legal advice, the Federal Circuit ruled there's a difference between what information is given to an accused infringer by a lawyer hired to assess the patents and discussions between a trial lawyer and his client. The infringement assessment is often used to counter allegations of willfulness.

Echostar's Support

The Federal Circuit said Seagate's willingness to turn over documents related to the assessment by an outside lawyer didn't extend to information it shared with its trial lawyers.

``The effect clearly is to remove a cloud that existed over the trial lawyer and the client,'' said Charles Barquist of Morrison & Foerster in Los Angeles, who filed court papers on behalf of Echostar Communications Corp., which sided with Seagate. ``Clients didn't refuse to talk to us, but before there was definitely some cautiousness. You had to tread carefully.''

The case is In Re: Seagate Technology LLC, Misc. 830, U.S. Court of Appeals for the Federal Circuit (Washington).

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Last Updated: August 20, 2007 20:16 EDT