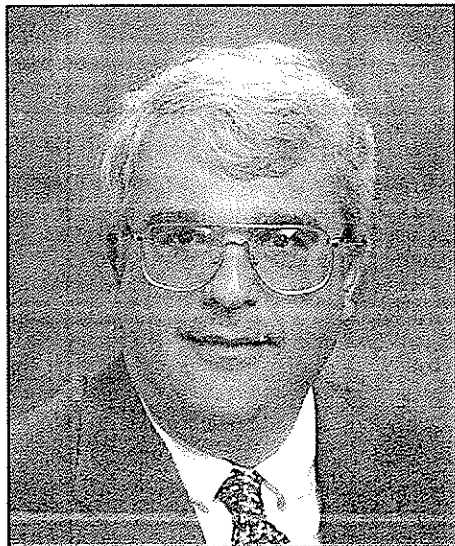


A Patent Owner's Duty to Police

Infringement



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COURTS HAVE LONG HELD that a trademark owner has a duty to prevent others from using its mark, a duty that includes even an obligation to file suit if necessary to prevent an infringement.¹ This duty to police is rooted in fundamental principles of trademark law. A trademark is by definition a word, symbol or other device that identifies a *single* source of goods. If a trademark owner fails to prevent others from using its mark, the mark may cease to serve its function of identifying the unique source of the goods to which the trademark is affixed. Accordingly, a trademark owner that does not police infringement may find that consumers no longer recognize its mark as a trademark, and that it no longer has any enforceable rights in its trademark.²

Patent law, however, is rooted in fundamentally different policies. Patent law is intended to encourage the creation and public disclosure of new inventions.³ A patent owner that chooses not to enforce its patent against an infringer may forego the full measure of the reward that

the patent laws provide to inventors for their innovations. However, a patent owner's tolerance for infringement does not undermine the patent law's basic policies of encouraging innovation and public disclosure. For this reason, patent law historically has not imposed a duty to police infringement upon patent owners.

Recent cases, however, suggest the existence of at least a limited duty to police infringement of a patent, and perhaps a much broader duty as well. The consequences of a breach of this duty are not as severe as in the trademark context. Failure to police infringement of a patent will not result in forfeiture of the patent. However, failure to police infringement can result in a loss of rights against a particular infringer or group of infringers.

This duty to police patent infringement is rooted in the equitable defense of laches. Under the doctrine of laches, a patent owner may forfeit its right to sue an infringer for past damages when the patent owner unreasonably and prejudicially delays filing suit against the infringer.⁴ Critically, "[t]he period of delay is measured from the time the plaintiff knew or reasonably should have known of the defendant's alleged infringing activities."⁵ This "should have known" standard suggests that a patent owner may have an affirmative obligation to learn facts about infringement in the marketplace that it does not actually know. In other words, it suggests that a patent owner may have an affirmative duty to police the marketplace for patent infringement.

The Federal Circuit has addressed this issue directly on three occasions. The first such case was *Hall v. Aqua Queen Mfg., Inc.*⁶ In *Hall*, the plaintiff Hall

was the inventor and owner of a patent relating to waterbeds, and the founder of the largest retailer of waterbeds.⁷ The Federal Circuit described Hall as "a central and active figure" in the waterbed industry, and noted that he had attended numerous industry trade shows.⁸

For the first 16 years after issuance of his patent, Hall made no effort to enforce it. Then, during the patent's final year, Hall sent a form licensing letter to essentially the entire waterbed industry, mailing his letter to approximately 3,000 manufacturers in all.⁹ He received no favorable responses and, four more years later, he filed suit against eight defendants.¹⁰

The district court held on summary judgment that Hall's claims were barred by laches because he knew or should have known of the defendants' infringement. The Federal Circuit affirmed with respect to all defendants except for one that had entered the market relatively recently.¹¹ The Federal Circuit explained that the defendants had advertised heavily in trade magazines, had attended the same trade shows as Hall, and had even met with Hall at the trade shows.¹² Despite these facts, Hall denied that he had any actual knowledge of the defendants' sales of their allegedly infringing waterbeds.¹³ The Federal Circuit, however, concluded that this denial did not matter. The defendants' activities were "pervasive, open, and notorious" in an industry in which Hall was a "central and active figure."¹⁴ Accordingly, the court held, Hall would be deemed to have "constructive" knowledge of the defendants' activities, even if he lacked actual knowledge.¹⁵

The *Hall* court never explicitly stated that Hall had a duty to police or

investigate the marketplace for possible infringement. Moreover, the court's finding of "constructive" knowledge may have simply been a convenient way of avoiding the need to brand Hall a liar. Nevertheless, the *Hall* court's holding clearly implies at least a minimal duty to police the marketplace. Hall was obligated to obtain and act upon knowledge that he claimed to lack, and his failure to do so resulted in a complete loss of rights to damages from the defendants.

The Federal Circuit was far more explicit when the issue next arose two years later in *Wanlass v. General Electric Co.*¹⁶ (*Wanlass I*). In *Wanlass I*, the plaintiff was the owner of a patent for a particular type of motor useful in refrigerators and air conditioning systems.¹⁷ Shortly after the patent issued in 1977, Wanlass offered General Electric a license, but GE declined.¹⁸ In its written response to Wanlass, GE acknowledged that it was using motors of the general type described in the patent, but stated that it had been doing so for a long time and did not believe the idea was new.¹⁹ Over the next five years, Wanlass tested

Thus, a duty to investigate does survive Wanlass II.

some of GE's products but uncovered no infringement.²⁰ Ten years later, Wanlass again tested one of GE's products. This time, he believed he found infringement, and three years later he filed suit.²¹

As in *Hall*, the district court ruled on summary judgment that the claim was barred by laches.²² As in *Hall*, the Federal Circuit affirmed. This time, however, the Federal Circuit relied explicitly upon a duty to police the marketplace for infringement, discussing the duty at great length.

The springboard for the Federal Circuit's discussion of the duty to police

was its prior holding that "[t]he period of delay [for laches] begins at the time the patentee has actual or constructive knowledge of the defendant's potentially infringing activities."²³ This, the Federal Circuit held, gives rise to a duty to police the marketplace for infringement. As the Federal Circuit explained:

The availability of delay based on constructive knowledge of the alleged infringer's activities imposes on patentees the duty to police their rights.²⁴

Citing *Hall*, the Federal Circuit explained that this duty includes a duty to investigate "pervasive, open and notorious activities that a reasonable patentee would suspect were infringing."²⁵ "For example," the Federal Circuit explained, "sales, marketing, publication, or public use of a product similar to or embodying technology similar to the patented invention, or published descriptions of the defendant's potentially infringing activities, give rise to a duty to investigate whether there is infringement."²⁶

Moreover, the Federal Circuit stated that the duty to investigate includes a second component. Even when the patentee is unaware of the open and notorious activities which should raise his suspicions, the patentee is obligated to become aware of those activities. As the Federal Circuit explained

[C]onstructive knowledge of the infringement may be imputed to the patentee even where he has no actual knowledge of the sales, marketing, publication, public use or other conspicuous activities of potential infringement if these activities are sufficiently prevalent in the inventor's field of endeavor.²⁷

"The law," the Federal Circuit continued, "imputes knowledge when opportunity and interest, combined with reasonable care, would necessarily impart it."²⁸ The Federal Circuit then explained the degree of care it deems to

be reasonable. "[A] reasonable patentee," the Federal Circuit stated, "motivated by his interest in recovering for and preventing infringement, keeps abreast of the activities of those in his field of endeavor."²⁹ Similarly, a patent owner has a duty "to examine readily available information."³⁰

The Federal Circuit also set forth the policies it believed justified the imposition of a duty to police upon patent owners.

Allocating the burden to patentees to seek out infringers is proper...because compared to potential infringers, they are in the best position to know the scope of their patent protection and, therefore, also to know likely places to find infringement. This superior knowledge generally allows them to incur comparatively lower costs in investigating potentially infringing activities than competitors would incur conducting patent searches on every aspect of their products and notifying the patentee of their results.³¹

The facts of *Wanlass I* further illustrate the breadth of the duty envisioned by the court in that case. GE marketed between 800 and 900 motorized products.³² Thus, just to monitor GE's activities, Wanlass would be required to purchase, disassemble, and test more than 800 motors to assess whether they infringe. The Federal Circuit, however, was unmoved by Wanlass' claim that this was an unreasonable burden. According to the court, despite the number of products, "the natural course of action would have been to examine GE motors from time to time to determine whether they had begun to use run capacitors in an infringing way."³³ The court did acknowledge that "[t]he frequency with which these types of investigations should have occurred is a function of their difficulty and cost."³⁴ However, because the testing of products

was “easy and inexpensive,” the court concluded that it was unreasonable for Wanlass to conduct no tests over a ten year period.³⁵

The *Wanlass I* decision thus established, as clearly as any court decision could, a broad duty on the part of patent owners to police the marketplace for infringement by inspecting or testing products that are openly marketed or described in readily available publications. That clarity, however, was short-lived. Just 10 days later, the same three-judge panel of the Federal Circuit held in *Wanlass v. Fedders Corp.*³⁶ (*Wanlass II*) that the very same plaintiff, Mr. Wanlass, did *not* have a duty to inspect or test motors openly marketed by a leading air conditioning company and designed, ironically, by GE, the same company whose motors were declared

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beyond the reach of Mr. Wanlass in *Wanlass I*.

The language used by the Federal Circuit in *Wanlass II* was as emphatic as the contradictory language used in *Wanlass I*. For example, the *Wanlass II* court explicitly denounced the existence of any duty to police an industry by testing all openly marketed products:

Wanlass did not have a duty to police the room air-conditioning industry by testing all questionable products.³⁷

Such a duty, the *Wanlass II* court held, would be unreasonable:

[P]olicing the industry would require testing of an unknown number of models. Imposing a duty upon Wanlass to monitor the air-conditioning industry by periodically testing all others' products, therefore would be unreasonable.³⁸

Furthermore, the court explained, “Wanlass’s companies could not afford to purchase and dismantle every air-conditioner model on the market and test the single phase motor found inside.”³⁹ Accordingly, the court held that Wanlass had no duty to police the market and was not guilty of laches.

The *Wanlass II* court went to some length to distinguish its earlier decision in *Hall*, explaining that Mr. Wanlass was not active in the industry and that infringement of the Wanlass patent could not be determined from a cursory inspection of an air conditioner.⁴⁰ However, the *Wanlass II* court made essentially no effort to distinguish *Wanlass I*, decided by the very same panel of judges just 10 days earlier. In fact, the only reference to *Wanlass I* is contained in a brief footnote, where the court mentions that GE had rejected a licensing offer a decade earlier and therefore should have been regarded as a potential infringer.⁴¹ However, as Judge Rader noted in his concurrence, Wanlass tested GE’s products after GE rejected his license offer and found they did not infringe.⁴² Thus, if anything, it would have been reasonable for Wanlass to regard GE as less of an infringement threat than the rest of the industry.

In the final analysis, it appears that the *Wanlass II* court made no serious effort to distinguish its own work in *Wanlass I* because the two cases are indistinguishable. Both cases involved the same plaintiff, the same patent, the same types of products (designed by the same designer—GE), and the same delay. Yet, the cases reach opposite results, based upon completely irreconcilable statements of the law. As Judge Rader observed in his concurrence in *Wanlass II*:

Unfortunately, patentees, potential infringers, and courts will have difficulty applying the laches doctrine in light of this opinion and [*Wanlass v. General Electric*].⁴³

In the years since the two *Wanlass* decisions, the lower courts have indeed struggled to apply the law of laches in patent cases. Four published district court decisions since the *Wanlass* cases have addressed the issue of whether a patent owner has a duty to police infringement. Two have concluded that there is a duty to police and two have concluded that there is not.

For example, in *Rockwell Int’l Corp. v. SDL, Inc.*,⁴⁴ the district court, citing *Wanlass I*, held that “[c]ourts impose a duty on patentees to police their rights.” However, the court rejected the laches defense in that case because the patent owner had diligently policed its rights.⁴⁵

In *Beam Laser Systems, Inc. v. Cox Communications*,⁴⁶ the district court, citing *Wanlass I*, again found that a patent owner had a duty to police its rights. Moreover, the court held that the patent owner failed to fulfill its duty.⁴⁷ However, the *Beam Laser* court could have found an unreasonable delay on the facts of its case without relying upon any duty to police. It was undisputed that the patent owner believed the defendant had infringed for many years, and chose not to act upon his belief for the specific purpose of allowing his potential damages to grow sufficiently to warrant the expense of an infringement suit.⁴⁸ Nevertheless, the *Beam Laser* court did side with the *Wanlass I* court and relied upon a duty to police.

In contrast, in *Itron, Inc. v. Benghiat*,⁴⁹ the court rejected the defendant’s argument that the patent owner had “a duty to patrol [the accused infringer’s] products for infringement.” The court chose to follow *Wanlass II*, which it described as having “characteristics similar to the case at bar.”⁵⁰ The *Itron* court did not explain why the case before it lacked characteristics similar to *Wanlass I*.

Similarly, in *Acushnet Co. v. Dunlop Maxfli Sports Corp.*,⁵¹ the district court rejected the defendant’s argument that the patent owner “had a duty to

police its competitors' [products] for infringement."⁵² Like the *Iron* court, the *Acushnet* court concluded that "[i]n several respects, the present case resembles *Wanlass II*."⁵³ The *Acushnet* court attempted to distinguish *Wanlass I*, relying upon the same purported distinction set forth in footnote 3 of *Wanlass II*.⁵⁴ However, as discussed above, GE's rejection of *Wanlass*' license offer a decade earlier, followed by its years of marketing non-infringing products, is not a rational basis for distinguishing the two cases.

Interestingly, in each of the four district court decisions, the court cited to both *Wanlass* decisions. However, in three of the four cases, the court cited the *Wanlass* decision that it chose not to follow only for a general proposition of law. Only the *Acushnet* court made an effort to distinguish the less favored *Wanlass* decision.

The law of laches in patent cases thus remains in disarray. However, two points do seem clear. First, *Hall* remains good law. Nothing in the *Wanlass II* decision suggests that the Federal Circuit has cut back on the limited duty to police recognized in *Hall*. Thus, when open and notorious infringement occurs at trade shows actually attended by the patent owner, the courts are likely to impose upon the patent owner a duty to see what is occurring in front of him.⁵⁵ However, it is unlikely that even this is a hard and fast rule.⁵⁶ For example, if an infringement occurred at a particularly large trade show, it may be reasonable for the patent owner to fail to notice the activities of a single exhibitor. It may be that infringement will be deemed "open and notorious" only if it occurs repeatedly in the patent owner's presence, as was apparently the case in *Hall*.

Second, the infringer's open and notorious activities need not conclusively establish infringement for the patent owner to be charged with constructive knowledge of infringement. The infringer's activities need only be of a type that

would lead a patent owner to suspect that a particular product infringes. The patent owner then has a duty to investigate that particular product. As acknowledged by the *Wanlass II* court:

Although *Wanlass* did not have a duty to police the room air-conditioning industry by testing all questionable products, it could not ignore evidence of potential infringement for most of the life of the patent, and then, during the patent's twilight, decide to aggressively police its rights by suing manufacturers based on testing evidence that it could and should have obtained several years earlier. *Wanlass* did have a duty to investigate a particular product if and when publicly available information about it should have led *Wanlass* to suspect that product of infringing. For example, any advertisements for high-efficiency air conditioners using single phase motors and having a capacitor capable of operating with specific characteristics [claimed in the patent] should have alerted *Wanlass* to the prospect of infringement and therefore the need to test that specific, advertised product.⁵⁷

Thus, a duty to investigate does survive *Wanlass II*. A patent owner who has information suggesting that a particular product may infringe has a duty to investigate that product to determine if infringement has in fact occurred.⁵⁸ Moreover, if the language of *Wanlass II* is taken literally, the patent owner need not have actual knowledge of any information about the product for this duty to arise. The duty is triggered by "publicly available information," apparently without regard to whether this information is actually known by the patent owner. *Id.*

If this literal interpretation of *Wanlass II* is correct, then a fairly broad duty to police remains in effect. A patent owner has a duty to search for publicly available information about its competitors' products and, if the information sug-

gests infringement, a duty to inspect its competitors' products. Under this interpretation, *Wanlass II* retracted only the duty under *Wanlass I* to inspect competitors' products in the absence of publicly available materials suggesting infringement by those products. In other words, *Wanlass II* rejects the conclusion of *Wanlass I* that the public availability of the product itself creates the duty to inspect that product.

Finally, whether the broader duty to police imposed by *Wanlass I* retains any vitality remains unclear. Clearly, the *Wanlass II* court had no authority to overrule or disregard its own decision 10 days earlier in *Wanlass I*.⁵⁹ In addition, the Federal Circuit has long adhered to the rule that the earlier of two inconsistent precedents is controlling.⁶⁰ Application of these principles suggests that *Wanlass I* remains the controlling law. The Federal Circuit, however, felt free to disregard these same principles in *Wanlass II*. Thus, unless the Federal Circuit reviews this issue *en banc*, the effect of the two *Wanlass* decisions will remain uncertain. ☉

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Endnotes

1. See, e.g., *La Republique Francaise v. Saratoga Vichy Spring Co.*, 191 U.S. 427, 436-37, 24 S. Ct. 145, 146-47 (1903); *Wallpaper Manufacturers Ltd. v. Crown Wallcovering Corp.*, 680 F.2d 755, 766 (CCPA 1982); 1 J. Gilson, *Trademark Protection & Practice* § 3.05[9](a) (2004).
2. *La Republique Francaise*, 191 U.S. at 436-37, 24 S. Ct. at 146-47; *Wallpaper Manufacturers*, 680 F.2d at 766.
3. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51, 109 S. Ct. 971, 977 (1989).