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Patent **Notice** Letters: Manage With **Care**

Indeed, their very receipt triggers a duty that, if not discharged, can result in punitive damages.

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YOU HAVE ALL seen them. It could have been sent directly to you, or maybe to your client, who quickly routed it to your desk. It may be termed a “cease and desist letter,” a “patent notice letter” or an “offer of a patent license.” Each has a different style, but all have some things in common: they reference a patent or groups of patents owned by the author of the letter or her client, make mention of your company’s products or processes and, while perhaps not rising to the level of an express threat, raise at least the spectre of patent litigation.

These letters, which we’ll generically call patent notice letters for ease of reference, are much more than mere nuisances, and must be taken seriously and managed with great care. Because patent infringement is a strict liability tort, your company can be found to be an infringer even when it developed its technology completely on its own, and had no knowledge of the patent whatsoever.

What’s more, and as will be discussed in greater detail below, the very receipt of the letter will generally trigger on the part of your organization a duty of care which, if not discharged, can result in punitive damages — as much as a trebling of actual damages and an award of attorney’s fees. Thus, it is imperative that the matter be studied promptly by a skilled patent attorney, to develop defenses, assess risks and formulate strategies for response.

Bruce M. Wexler and **Michael P. Sandonato** are partners with Fitzpatrick, Cella, Harper & Scinto, which authored briefs for both the Federal Circuit Bar Association and the New York Intellectual Property Law Association as *amici curiae* in the Knorr-Bremse case discussed in this article.

As a threshold observation, patent notice letters generally come in one of two flavors: those that are sent by your competitors, and those that are sent by other entities, often ones you have never heard of, which do not compete with your company.

While many of the practice tips provided in this article will certainly have applicability to both types of letters, some are more specifically geared to the latter, which are the more common of the two for many in-house counsel. Very often, such letters will come from or on behalf of an individual or an organization whose entire business model is based upon the enforcement of its patents. In such cases, taking a license under the patent in exchange for payment is almost always an option, and is in fact typically the goal of the letter’s author. This does not mean, however, that these parties are any less likely to bring a lawsuit than a competitor, or that the notice letter should be taken any less seriously.

Lines of Defense

Step one of the process is to build your lines of defense. Depending on the level of expertise of your in-house staff, you may need to retain outside patent counsel. In any case, a lawyer who specializes in patent matters — in-house or outside — is certainly required.

Although there are others, your two most likely defenses will be first that the patent does not cover your technology and is therefore not infringed, and second, that the patent should not have been granted by the U.S. Patent and Trademark Office (USPTO) and is therefore invalid. To develop these defenses, a detailed study of the patents themselves, their prosecution histories (that is, the trail of correspondence between a patent applicant and the USPTO) and the prior art (the body of technical or scientific knowledge that pre-dates a patent’s filing) is a must.

You’ll also need a thorough understanding of the company technology that the notice letter implicates. Gaining this knowledge typically requires a meeting or series of meetings with the people who developed the technology, individuals whose availabilities can often be limited, especially when it comes to legal matters. In trying to free them up for some time for you, stress the seriousness of the matter at hand. Stress also the fact that their schedules will be much more taxed should the matter devolve into a litigation, an eventuality which their good efforts may help to avoid.

The prior art can often be a tremendous aid in developing your defenses, both in terms of narrowing the scope of the patents and providing an invalidity position. Prior art can come in many forms, from prior patents and publications in technical journals, to products that have been sold or processes that have been used. The best prior art searches tend to be two-pronged, with patent counsel coordinating the search of the patent and other literature, and your in-house technical people coordinating the search of what has been actually practiced in the industry.

Keep in mind, however, that your technical folks telling you that a product or process is commonplace or that “everybody is doing that” does not make the patent invalid. Patents have filing dates, and there are specific rules for determining whether a given item or activity qualifies as prior art. What you are generally looking for is a document or activity that is dated before the patent was filed (preferably more than a year before) and that shows or embodies all aspects of the invention that the patent claims.

Also, any documents created during this process may need to be produced in a downstream lawsuit, either because they are non-privileged or because their privileged

status may be deemed to have been waived. Keep this in mind as documents are created.

Your Next Moves

Once you've built your best lines of defense, it's time to make a candid assessment as to how strong they are, so that you can weigh your options and decide on your next steps.

Perhaps you'll conclude that your defenses are extremely strong, and that you are willing to be sued and rely upon them. On the other hand, you might conclude that while your defenses are sound and should prevail, there is enough of a risk element that negotiating for a license is the best course of action.

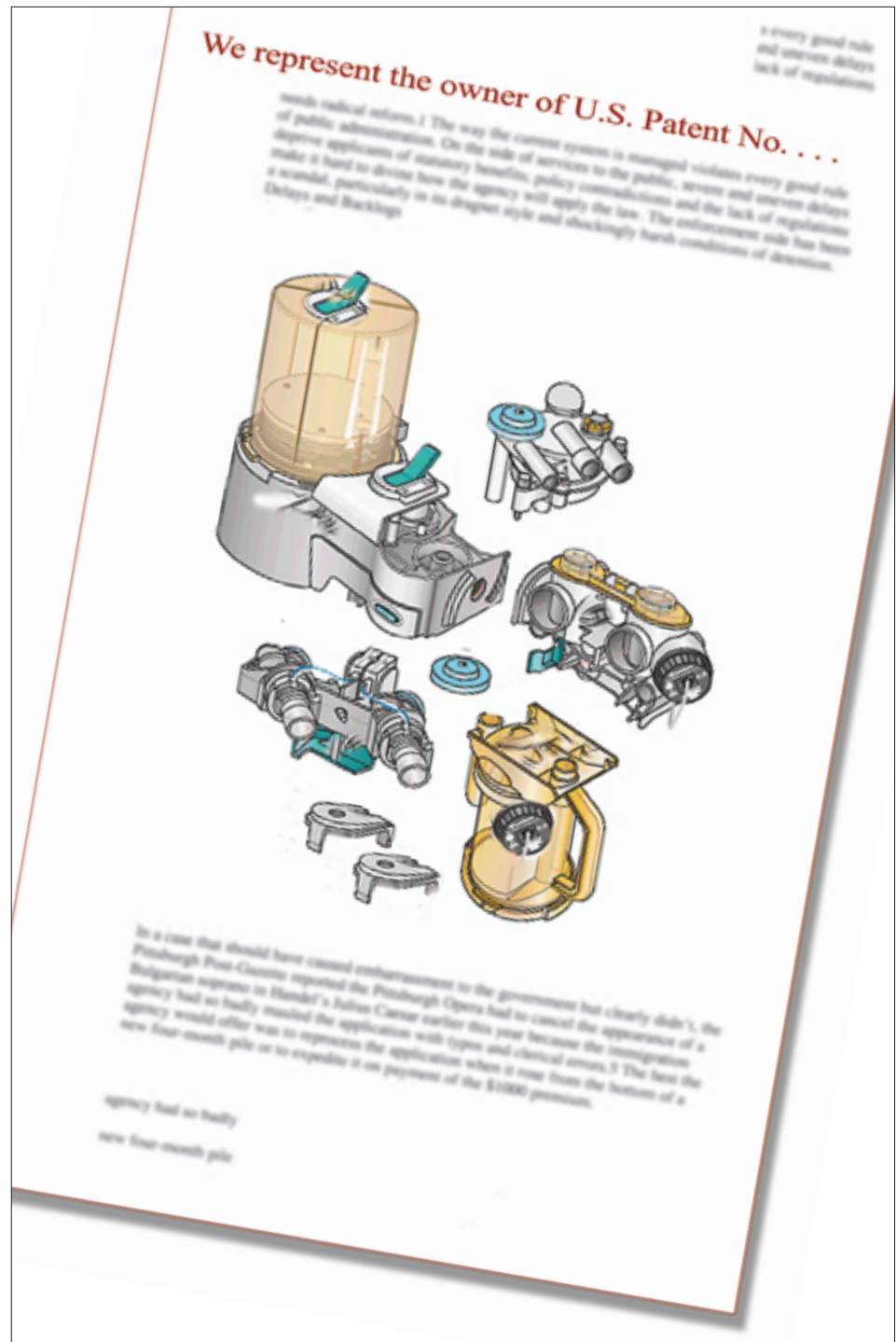
You might also decide, after the analysis, that a product redesign is in order, to take it outside or even further afield from the patents at issue. This latter approach, while not providing any protection with respect to any past damages that may have accrued, may at least remove the issue of future damages and an injunction from the dispute, and may also eliminate the issue of punitive damages.

In many situations, especially when it comes from a non-competitor, the patent notice letter will be extremely vague as to why the author believes there is an issue of infringement, or may provide no such analysis at all. Indeed, we have seen letters that append lengthy "claim charts," which purport to compare the patents with the recipient's products, but do little more than make bald assertions that the elements required for infringement are present, with nothing to back those assertions up. The authors of these letters are usually eager for "business discussions," and equally eager to avoid discussing the merits of their case. In such circumstances, pressing them for more specifics, and perhaps providing some specifics of your own that support your defenses, may be the best course of action.

When you do have strong prior art, an option that is at least in theory available is to request a reexamination from the USPTO. This option should of course be considered. However, due to severe limitations on what can be accomplished in a reexamination proceeding, and due to certain estoppel efforts that can be created, it is more often than not an ill-advised approach.

Another approach that may be considered is to bring a lawsuit in a U.S. District Court for a declaratory judgment (DJ) that you do not infringe the patent or that it is invalid. In order to have standing to do this, the letter you received must be sufficiently threatening, and many patent notice letters are carefully worded to fall beneath that threshold.

When you bring the DJ action, you can



almost certainly expect a counterclaim for patent infringement, and it may be putting you in the middle of a lawsuit that you would have been able to avoid. Nonetheless, the DJ route does offer you the advantage of being able to select the forum for the dispute and bring the dispute to finality, when you are confident that a lawsuit cannot be avoided.

Did You Build It or Buy It?

Sometimes, the products or processes that are accused in the letter were not made by

your company, but rather purchased from a third-party. Unfortunately, simply because you did not make the product at issue does not put the matter to rest, since a patent owner has rights against all who make, use or sell the patented technology, and generally can pick the ones it wants to sue. Nonetheless, the relevant sales or service contracts with the providing party should be scrutinized carefully, and it is usually advisable to let your vendor know about the letter you received.

It may turn out that your vendor is already licensed under the patents, and that the

license flows to you. Even when that isn't the case, vendors are often required to indemnify their customers with respect to patent issues, either by express agreement or operation of law. Indemnification clauses almost always have provisions that require notice of the claim to the indemnitor, and some set hard deadlines, so time may be of the essence.

To receive indemnification you may have to tender the matter to the indemnitor, which means relinquishing control. This news may come as welcome, but keep in mind that if the indemnitor is unable to cover a damage award, your company will remain liable, so the financial soundness of your indemnitor should be considered.

Be forewarned that indemnification may not turn out to be an immediate panacea. In today's world, especially in the high technology arena, the accused products or processes will often be combinations of technology provided by multiple vendors. In such cases, even though you may have indemnification clauses with each of them, the vendors may take the position that the patents at issue do not cover their individual pieces of equipment, because any infringement there may be is caused by the equipment of other vendors and/or by the way your company combines and uses the equipment.

In fact, in many indemnification clauses, combinations are expressly carved out from coverage. Thus, you should be braced for the hard reality that the issue of whether a vendor is obliged to indemnify can be as complex, from both a legal and technical standpoint, as the basic issue of whether there is patent infringement at all.

Get Opinion of Outside Counsel?

As mentioned above, the law is not neutral on the subject of patent notice letters, and a burden is squarely placed on the receiving party.

The Court of Appeals for the Federal Circuit, which has exclusive subject matter jurisdiction in appeals from patent cases, established more than 20 years ago that when "a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing."¹ This duty of care generally requires that the accused infringer take appropriate steps to form a reasonable, good-faith basis for believing that it has a right to do the acts it is doing.

If due care is not exercised, and the patent is ultimately found in litigation to have been infringed, the court or jury may determine that the infringement was "willful." In "exceptional cases," including those involving willful infringement, the court is permitted in its

discretion to treble infringement damages and to require the infringer to pay the patent owner's attorney's fees and costs.

Factors that the courts consider in deciding culpability and whether to award enhanced damages and attorney's fees include:

- Was there deliberate copying of the patent owner's ideas?
- Did the infringer, upon learning of the patent, investigate its scope and form a good-faith belief that the patent was invalid or not infringed?
- How long did the infringer engage in misconduct, if at all?
- Did the infringer take remedial action?
- Did the infringer attempt to conceal its misconduct?

How then, may an accused infringer satisfy the duty of care? And, just as important, how may an accused infringer ensure a record that would stand up, in later litigation, against a claim of willful infringement?

Assuming the circumstances allow for an

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opinion, the surest way to avoid a finding of willfulness is to have a timely, well-reasoned written opinion of outside counsel that the patent is invalid or not infringed. Of course, as discussed above, if the circumstances do not allow for an opinion of invalidity or non-infringement, the accused infringer must take some affirmative action to avoid infringing the patent. Deliberately failing to act upon a known unfavorable situation can itself result in a finding of willfulness.

The opinion of counsel must be thorough and well-reasoned. Written opinions are favored over oral opinions, and of course provide a concrete record for later litigation. Mere conclusory statements without a discussion of the facts, or superficial or off-the-cuff analyses are not sufficient.

In rendering his or her opinion, the lawyer should consider the patent and its prosecution history if available. In extremely complex cases, it may be necessary for the lawyer to engage an expert to provide independent technical opinions in connection with the subject matter.

Central to the reliability of an opinion of counsel, however, is the information provided by the client to the lawyer. To the extent the

opinion relates to non-infringement, all the relevant facts concerning the nature of the accused product and the circumstances of its development should be disclosed to counsel. A client's concealment of important information from the lawyer can result in a finding of willful infringement, even if the opinion is otherwise well-reasoned based on the facts known to the lawyer.

It is not, of course, always necessary to obtain a written opinion of outside counsel for every patent notice that may be received by the company. The mere failure to obtain an opinion of counsel is not, in itself, willful infringement.

Again, the ultimate issue is whether the company has a reasonable, good-faith belief in the righteousness of its conduct. An internal investigation may reveal that the patent notice is clearly wrong and does not raise even a colorable issue. In such a situation, it may not be necessary to engage an outside lawyer to provide a formal written opinion. Nonetheless, the internal investigation should be performed by personnel competent to undertake the analysis, relying on valid factual information, and documented in the event of future litigation.²

Very recently, the Federal Circuit handed down an en banc decision on the issue of willful infringement, *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*³ Importantly, *Knorr* ruled unequivocally that adverse inferences may not be drawn against a defendant when an attorney-client or work product privilege regarding advice of counsel is invoked, or when no advice of counsel was sought at all.

However, the court made clear that the duty of care is alive and well, and that ultimate outcomes should be based upon the totalities of the circumstances. And it ruled expressly that the existence of a substantial defense is a factor to be considered, but is not necessarily sufficient to defeat a willfulness charge.

Accordingly, even after *Knorr*, it remains prudent to seek the advice of counsel.

1. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

2. *Metabolite Labs. v. Lab. Corp. of Am.*, 370 F.3d 1354, 1370-71 (Fed. Cir. 2004) (internal investigation by person untrained in patent law that failed to consult the patent at issue was insufficient to avoid enhanced damages).

3. Appeal Nos. 01-1357, -1376, 02-1221, -1256 (Sept. 13, 2004).

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