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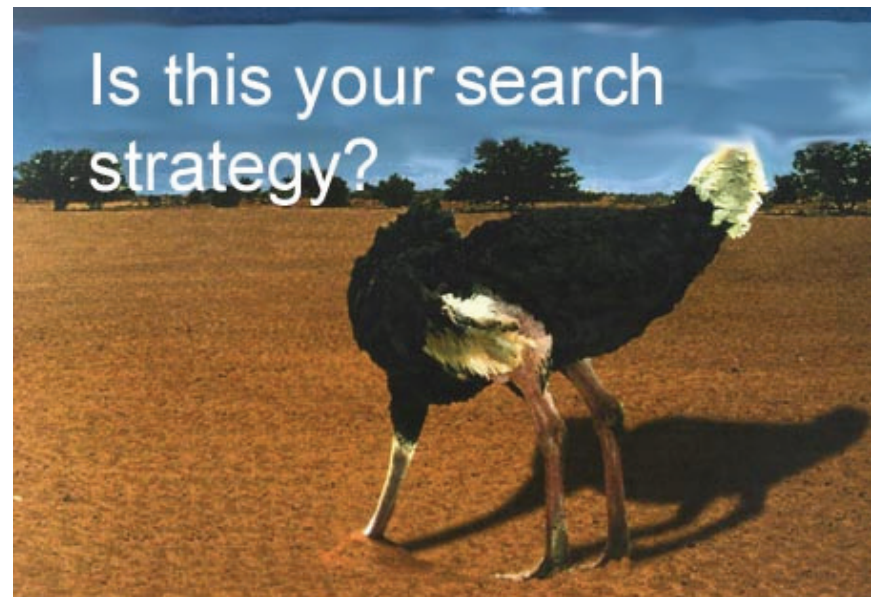


Minimizing Risk of Infringement Liability: Clearing New Products and Enhancements

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Fundamental Questions

- Must a company conduct patent clearance study?
- Should a company conduct a clearance?
- Can a clearance study be conducted effectively?



Presentation Overview

- Costs of infringement liability: remedies and impact on business.
- Legal overview: (1) willfulness and (2) indirect infringement.
- Advantages of clearance analysis.
- Disadvantages of clearance analysis.
- Strategies for effective clearance study.
- Potential impact of changes in case law.
- Potential impact of patent reform legislation.

Costs of Infringement: Compensatory Damages

- Compensatory "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty." 35 U.S.C. § 284; *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1077 (Fed. Cir. 1983).
- Purpose of the damage award is to place the patent owner in the same financial position it would have been in had the infringement not occurred. *Aro Mfg. v. Convertible Top Co.*, 377 U.S. 476, 507, 12 L. Ed. 2d 457, 84 S. Ct. 1526 (1964); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995).

Costs of Infringement: Injunctive Relief

- Preliminary and permanent injunctive relief afforded under patent statute. 35 U.S.C. § 283.
- Injunctive relief intended to preserve patent owner's rights by preventing continuing acts of infringement.
- *eBay* reduces, but does not eliminate risk of permanent injunction.

Costs of Infringement: Enhanced Damages

- Court may increase the damages up to three times the amount found or assessed. 35 U.S.C. § 284.
- Finding of willfulness may result in award of reasonable attorneys fees to the prevailing party under 35 U.S.C. § 285. See *Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418.
- Damage enhancement primarily serves punitive/deterrent role.
- Damage enhancement also intended to quantify equities between the patent holder and the infringer. *SRI Int'l Inc. v. Advanced Technological Labs. Inc.*, 127 F.3d 1462, 1468 (Fed. Cir. 1997).

Costs of Infringement: Business Considerations

- Costs of litigation: attorneys fees, discovery costs, typically > \$1M.
- Uncertainty for shareholders and investors.
- Business disruptions, e.g., loss of time of key employees.
- Potential damage to reputation.
- Interference with customer relations.

Legal Overview: Willfulness

- *Underwater Devices*, 717 F.2d 1380 (Fed. Cir. 1983) imposes an affirmative duty of care.
- Infringement is willful if an infringer "proceeded without a reasonable belief that it would not be held liable for infringement." *SRI Int'l*, 127 F.3d 1462, 1465 (Fed. Cir. 1997).

Legal Overview:

Willfulness Factors

- Bad faith commercial conduct, such as putting off the patentee so as to allow profitable infringement to continue;
- Closeness or complexity of the legal and factual questions presented;
- Whether the infringer promptly sought and obtained competent legal advice;
- Bad faith in litigation;
- Whether there was an independent invention or attempts to design around the patent, as opposed to copying.

-*SRI*, 127 F.3d at 1464, 1468.

Legal Overview:

Willfulness- Actual Notice

Willfulness requires actual notice of patent, e.g.:

- Receipt of a cease and desist letter from the patentee. See *Westvaco*, 991 F.2d 735, 739 (Fed. Cir. 1993).
- Seeing a reference to the patent in suit in USPTO Official Gazette. See *Stryker*, 96 F.3d at 1415.
- Patentee's offer of a license. See *Ralston Purina*, 772 F.2d 1570, 1577 (Fed. Cir. 1985).

Legal Overview:

Willfulness- Actual Notice

Other examples of proof of actual notice:

- Citation of patent in one's own patent filing. See *Third Wave Tech.*, 405 F.Supp.2d 991, 1015 (W.D. Wis. 2005).
- Inference drawn from intentional or deliberate copying. See *Central Soya*, 723 F.2d 1573, 1576 (Fed. Cir. 1983).
- Knowledge of patents by R&D personnel.

Legal Overview: Indirect Infringement

- Contributory and inducement also require knowledge of patent by accused infringer.
- Significant issue for manufacturers of components particularly designed for use in systems that may implicate patents from diverse technical areas.

Legal Overview: Conclusions

- Does the law *require* that a company conduct a clearance study?

No.

- *Should* a clearance analysis be conducted?

It depends on the situation. Need to weigh advantages against disadvantages, potential cost and practical limitations.

Advantages of Clearance Searching

- Gain sense of risks associated with introduction of new product/feature.
- Opportunity to design around patents to avoid/minimize risk.
- Even if found to be unsuccessful at design around, provides evidence of exercise of due care.

Disadvantages of Clearance Search

- Once gain knowledge of patent, have affirmative duty to determine no infringement or invalid, design around or obtain a license.
- Failure to comply with duty of care may result in enhanced damages and imposition of attorneys fees.
- In areas of convergent technology, such as wireless industry, difficult to obtain thorough search.
- Difficult to assess infringement or invalidity given uncertainty in claim construction.

Effective Product Clearance

- Develop, implement system for (i) conducting analysis of known patents, (ii) assessing viability of searching, and (iii) analyzing potentially relevant patents.
- Determine whether already prior knowledge of relevant patents.
- Assess feasibility of conducting effective clearance search.
- Assess likelihood of viable design around alternatives.
- Educate key R&D participants on clearance process and scope of immunity from discovery.

Product Clearance: Identify Known Patents

- Horse is already out of the barn: need to clear.
- Obvious sources: (1) prior cease and desist letters; (2) prior offers to license; (3) new adoption of standardized technology known to be covered by patents.
- Commonly overlooked sources: (1) patentability search results; (2) research conducted during product development; (3) overlooked disclosures of patents to SSOs.

Effective Product Clearance: Litigation Considerations

- Communicate known patents to counsel, identifying as request for legal advice.
- Educate non-lawyers to refrain from legal characterizations of patents and communications with other non-lawyers unless obtaining information at request of counsel.

Effective Product Clearance: Assessing Need for Search

- Source of product/enhancement?
 - Does it incorporate technology known to be within prior art (the use of which is authorized), or was it derived from competitor's product?
- Does product/enhancement implicate narrowly defined, easily classified area of technology, or utilize convergent technology potentially covered by wide range of patents?
- Is product/enhancement likely to result in loss of market share by known patent holder?

Effective Product Clearance: System for Conducting Analysis – Part 1

- Compile list of all known potentially relevant patents.
- Review all independent claims to determine whether at least one limitation clearly absent, both literally and by equivalents.
- Review specification and file history for any patents not clearly avoided.
- Document/archive portions of intrinsic record relied upon for conclusions of non-infringement.

Effective Product Clearance: System for Conducting Analysis –Part 2

- In remaining cases, determine availability of “formal” non-infringement opinions with updated citation of relevant authority and verified description of relevant structure and operation.
- Where non-infringement opinion unavailable, assess availability of viable design around.

Effective Product Clearance: System for Conducting Analysis –Part 3

- Where viable design around unavailable, search prior art, particularly art cited in foreign counterparts and obtain thorough, competent invalidity opinion of counsel.
- Where non-infringement and invalidity opinions unavailable, assess licensing or acquisition of patent rights.

Effective Product Clearance: System for Conducting Analysis –Part 4

- Steps should be performed by or in conjunction with patent counsel.
- Conclusions of non-infringement and/or invalidity should be communicated to individuals with authority over introduction of product/enhancement.

Impact of *Seagate*?

- Fed. Cir. Recently invited briefly on whether duty of care standard of *Underwater Devices* should be revisited.
- Seagate argues that *Underwater Devices* inconsistent with requirement that patent owner prove willfulness by clear and convincing evidence and S.Ct. precedent limiting punitive damages to reprehensible acts.
- Unclear if modification of *Underwater Devices* would significantly limit risk of gaining actual notice through clearance search.

Potential Impact of Patent Reform Legislation

- Leahy bill would limit damages to actual value of novel, non-obvious features of invention as opposed to features added by infringer:
 - *discourages* clearance study to extent less incentive to avoid infringement since liability decreased;
 - *encourages* clearance study to extent would limit potential liability for enhanced damages based on actual damages, if gained notice for purpose of willfulness.

Potential Impact of Patent Reform Legislation

- Leahy bill would also limit willfulness liability to instances where patentee establishes by clear and convincing evidence that:
 - (1) infringement occurred after receipt of written notice from patent owner;
 - (2) infringer copied with knowledge of patent; or
 - (3) infringer introduced product that was not colorably different from one already found to infringe, resulting in infringement of same patent.

Conclusions/Questions

- Does current law actually discourage efforts to identify and avoid infringement?
- If conclude there are not strong non-infringement/invalidity positions or viable design around alternatives, how should patent owner be approached for licensing discussions?

Conclusions/Questions

- How will *Seagate* affect behavior in the industry?
- Are legislative changes necessary/helpful to facilitating patent policy with respect to product clearance?



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Thank you.

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