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# **So You've Received a Patent Infringement Demand Letter, Now What?**

## **Presenters**

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## **Moderator**

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# CLE Credit

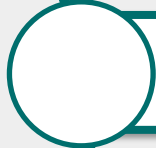
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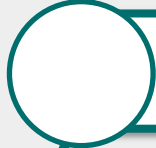
# Agenda



Notice, Notice Letters, and DJ Jurisdiction



Next Steps - Know your adversary



Should you get an opinion?



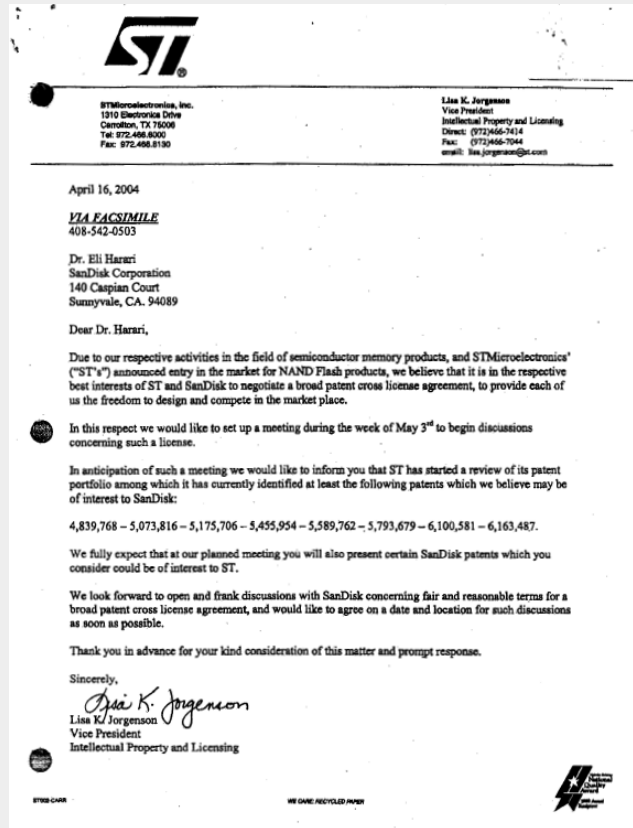
When/how to attack validity (IPR)?

# Notice, Notice Letters, and DJ Jurisdiction

Why do patent owners send letters?

- open licensing negotiations
- warnings to competitors
- notice to begin damages clock under 35 USC 287(a)
- establish willful infringement under 35 USC 284
- establish knowledge for indirect infringement

# Non-threatening Offer to License



## 35 U.S.C. § 287 (Marking and Notice)

- Damages are statutorily limited to infringing acts occurring **after** the alleged infringer has “notice of infringement.”
- Notice can be either **constructive**, by marking the article with the patent number or the address of a website that provides the patent number, or **actual**, such as by notice letter.
- Absent marking, damages may be recovered only after actual notice is given.
- *Actual notice may be achieved without creating a case of actual controversy*

A plaintiff need not comply with the marking statute in every case.

# Willfulness

Willful infringement under §284 allows treble damages if the defendant:

- (1) knew of the asserted patent(s) and
- (2) knew or should have known its conduct constituted infringement of the patent(s)

District courts divided over whether a defendant must have sufficient knowledge before filing of the lawsuit

- Federal Circuit and Supreme Court have not addressed

# Indirect Infringement

Indirect infringement requires pleading that the defendant:

- (1) knew of the existence of the asserted patent(s) and
- (2) knew that a third party's acts constituted infringement of the patent(s)



# What constitutes “notice”?

- To serve as actual notice, a letter must be sufficiently specific to support an objective understanding that the recipient may be an infringer. [\*Gart v. Logitech, Inc.\*, 254 F.3d 1334, 1346 \(Fed. Cir. 2001\)](#).
- The letter must communicate a charge of infringement of specific patents by a specific product or group of products. [\*Amsted Industries, Inc. v. Buckeye Steel Castings Co.\*, 24 F.3d 178, 187 \(Fed. Cir. 1994\)](#) (general letters referring to the patent and including an admonishment not to infringe do not constitute actual notice)

[\*Funai Electric Co. v. Daewoo Electronics Corp.\*, 616 F.3d 1357, 1373 \(Fed. Cir. 2010\)](#)

# What constitutes “notice”?

	Notice?
Patent # + specific product(s) + license suggestion	Yes, <i>Gart</i>
Patent # + “you might find interesting with respect to your products”	No, <i>Gart</i>
Patent # + “refrain from infringing warning”	No, <i>Amsted</i>
Reference to letter above + specific product + cease and desist demand	Yes

# Declaratory Judgment Jurisdiction

- "The criteria for actual notice under [§ 287\(a\)](#) are not coextensive with the criteria for filing a declaratory judgment action." [SRI Int'l, Inc. v. Advanced Tech. Labs., Inc., 127 F.3d 1462, 1470 \(Fed. Cir. 1997\)](#).
  - offering of license is sufficient for notice but maybe not DJ
    - [Ralston Purina Co. v. Far-Mar-Co., Inc., 772 F.2d 1570, 1577, 227 U.S.P.Q. \(BNA\) 177, 181 \(Fed. Cir. 1985\)](#) ("The offering of a license is actual notice.")





# Declaratory Judgment Jurisdiction

- Declaratory Judgment Act, 28 U.S.C. § 2201

## Totality-of-the-circumstances

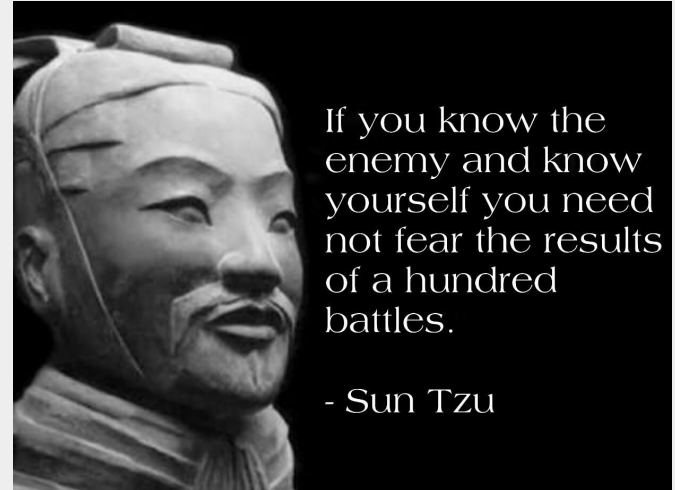
- Test
  - the facts alleged show substantial controversy
  - between parties having adverse legal interests
  - of sufficient immediacy and reality to warrant relief
- Factors
  - notice letter
  - relationship of the parties
  - litigation history of patent owner

# Agenda

-  Notice, Notice Letters, and DJ Jurisdiction
-  Next Steps - Know your adversary
-  Should you get an Opinion?
-  When/how to attack validity (IPR)?

# Know your adversary

- What do they want?
  - Quick cash?
  - Swinging for the fences?
  - Enforcement campaign?
  - Solo target?
  - How big is portfolio?
  - Trial counsel with track record of verdicts?
  - Self-funded or litigation funding?
  
- Respond by attacking their pressure points

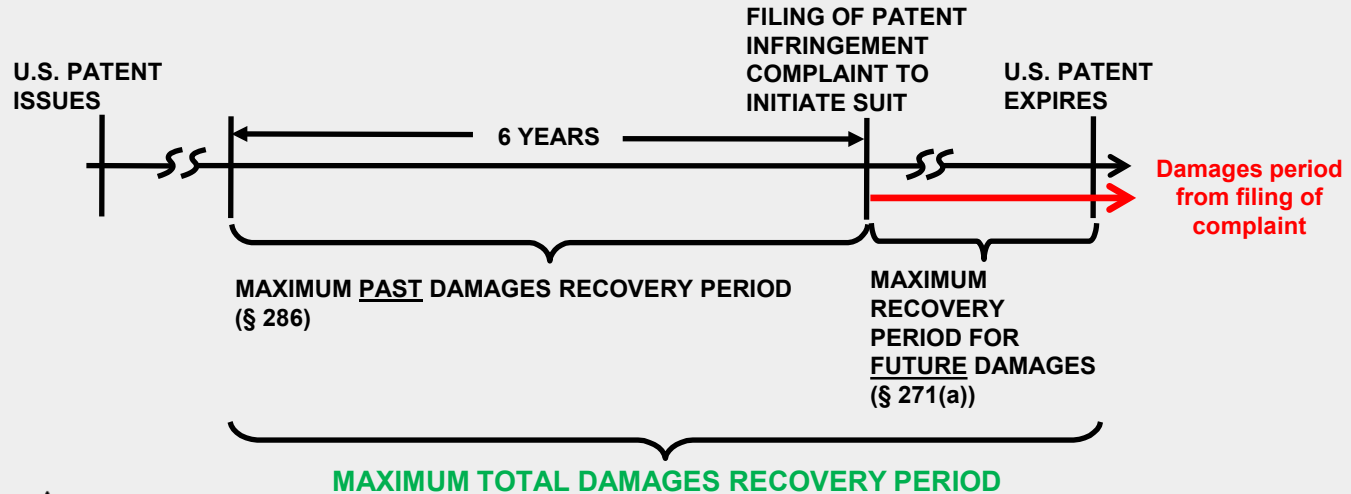


# Typical strategies in response

- Mount strong challenge to asserted patents
  - Delay ultimate resolution, diminish value of assets
  - Imposes costs
- Seek transfer to alternative forum
  - Delay ultimate recovery of damages
- Build case for low damages recovery
  - Record of non-infringing alternatives / design arounds
  - Quantify alleged infringing uses
- Build record of compliance with discovery obligations
  - Many would rather score victory by discovery sanctions than merits

# What if an NPE sends a warning letter?

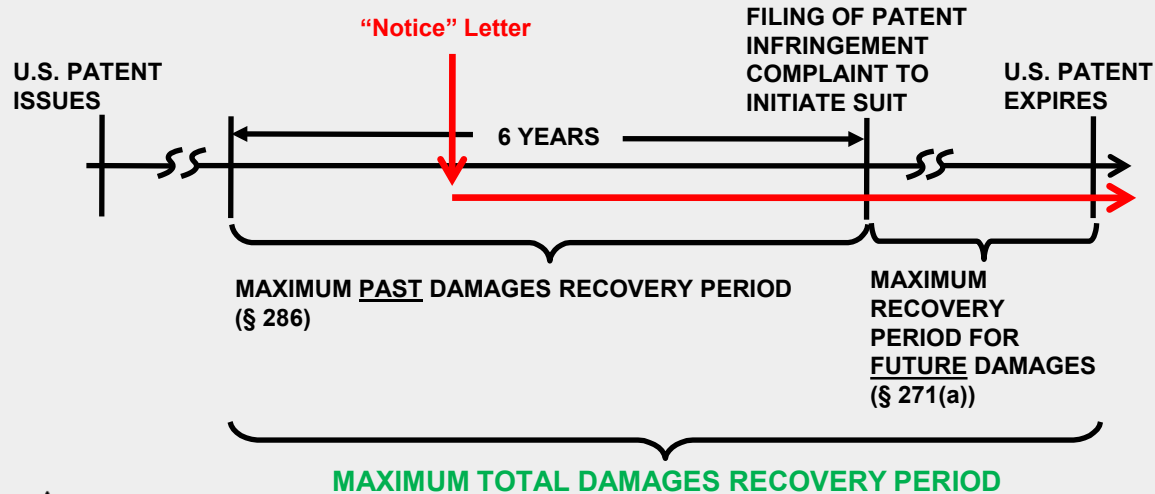
- An NPE usually sends a warning letter when it is not complying with the U.S. “marking” statute and wants to start the clock on damages:





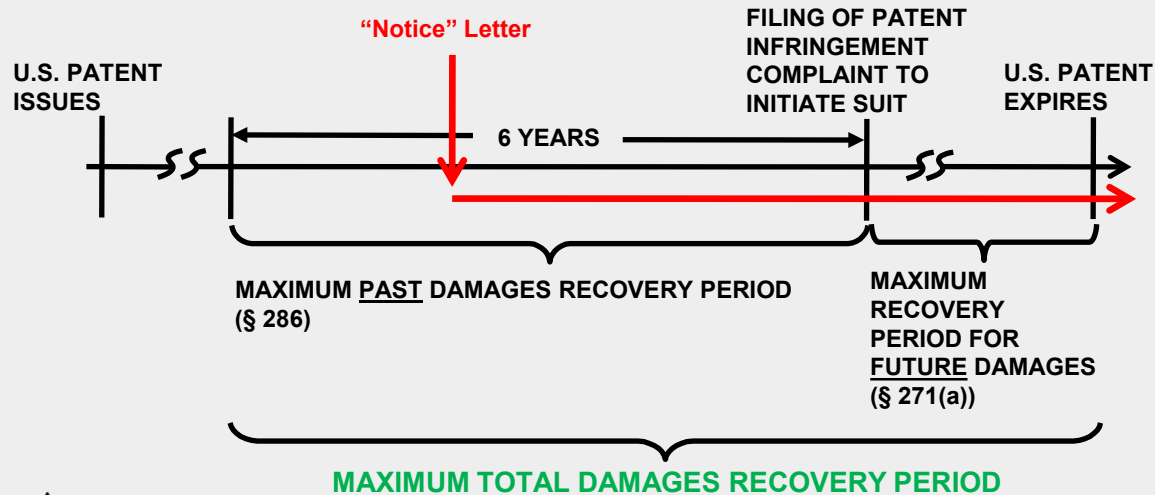
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**Up to 3X \$\$\$ if  
“willful”  
infringement**

# Arsenal For Responding to NPE Assertions

Declaratory Judgement Actions (if pre-suit contact)

Early Motions to Challenge the Pleadings

Early Inter Partes Review Petitions at U.S.P.T.O.

Rule 11 challenges

Limit Discovery to a Reasonable Scope as Permitted by U.S. Federal Rules

Claim Construction

Section 101 (Patentable Subject Matter) Motions Challenging Validity

Dispositive Motions

Section 285 Sanctions

Complaint

Answer

Claim Construction  
Hearing

Trial

Final  
Judgment

Appeal

Discovery

Pre-Trial  
Motions

Post-Judgment  
Proceedings

# Pre-litigation scenario

- Hypothetical: NPE sends letter on law firm letterhead identifying patent and accused product. NPE alleges willful infringement and offers to discuss.
- NPE strategy
  - Start clock for damages (notice)
  - Place marker for possible willful infringement
  - Potentially skirt DJ jurisdiction
  - Use you as example of willing licensee



# Pre-litigation strategy: Early Defensive Strategy

- Obtain time for diligence (ignore arbitrary deadlines), but be responsive
  - Investigate patentee, patent, accused product, design arounds, damages exposure
- Build record that you take allegation seriously, have a commitment to R&D and IP that protects it, you respect IP developed by others, but will aggressively defend against baseless allegations
- Consider responding on law firm letterhead
  - Explain (high level) position to correct their misunderstanding
  - Express willingness to meet if they disagree
- Consider preparing post-grant challenge and/or DJ action
- Consider possible license (record of “comparable” licenses)
- Consider formal opinion (non-infringement / invalidity)


# Joint Defense Group (JDG)

- Defendants facing an infringement suit by the same plaintiff may form a JDG
  - Each defendant may have own counsel / law firm
- JDG Formation
  - Common legal interest, not commercial interest
  - Written agreement preferred (Joint Defense Agreement)
  - Necessary to preserve privilege and assert work-product immunity

# Considerations for joining a JDG

- Potential for reduced costs
- Coordinated strategy for common issues, e.g., claim construction, invalidity, discovery, motions
- Sharing information and expertise
- Make sure business objectives are served by a joint defense / joint counsel
- Identifying potential conflicts upfront
- Maintaining a unified front
- Need to ensure interests are adequately represented

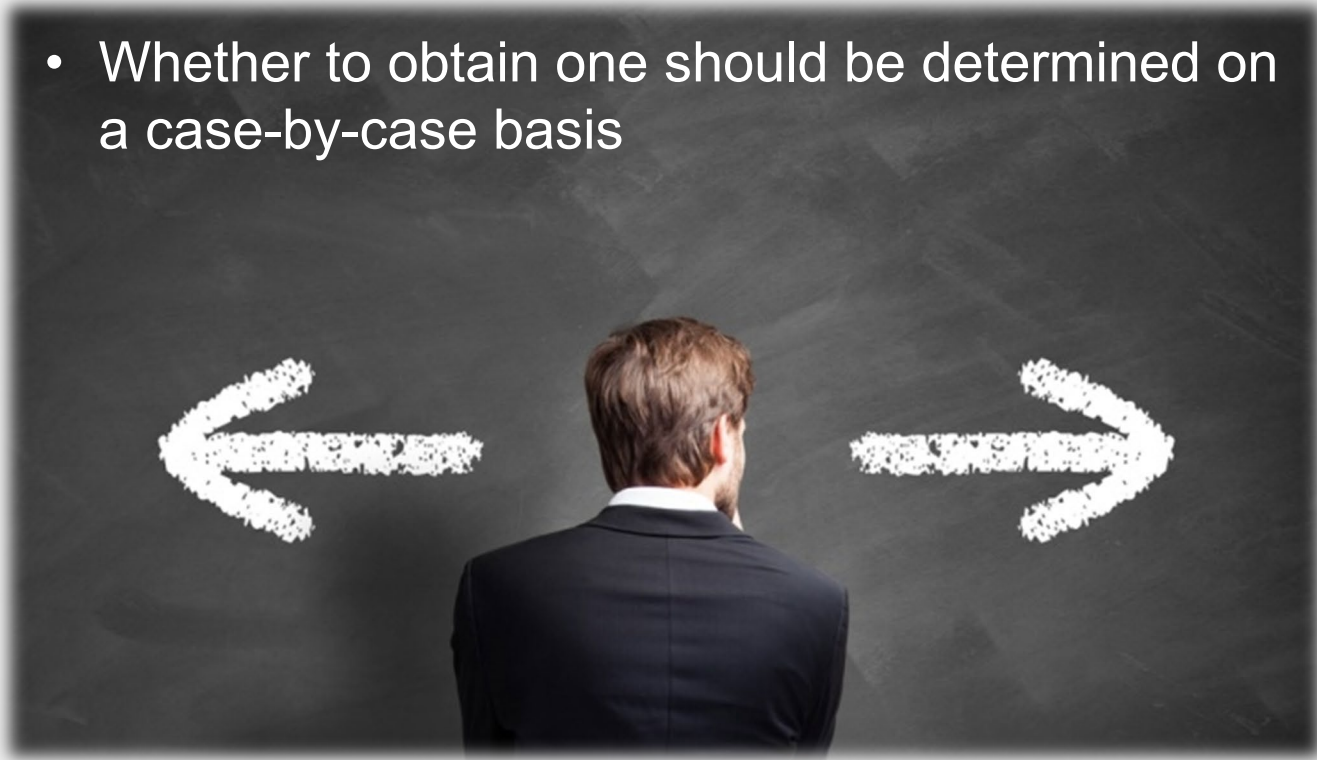
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# Whether to obtain a legal opinion?

- Whether to obtain one should be determined on a case-by-case basis



# Whether to obtain opinion of counsel:

- Business considerations for obtaining written opinion of counsel
  - Closeness of case
  - Importance of business / product line
  - Size of potential damages award
  - Likelihood of litigation
  - Who is patent owner?
    - active NPE?
    - direct competitor?
    - the North Dakota grandmother?
  - Any evidence of copying
  - Prior licensing negotiations



# Avoid Willful Infringement

- Although not required, a timely **opinion of counsel** can serve as a defense to willful infringement.
  - Document subjective belief of non-infringement or invalidity of the patent **at the time you first become aware** of the potential infringement.
  - Non-Infringement Opinion
    - Only need to show one claim element missing
  - Invalidity Opinion
    - Requires showing all claim limitations met by prior art

# First, A “Refresher” on U.S. Willful Infringement

- A finding of willful infringement may entitle the patent owner to **enhanced damages** and/or an award of fees. See 35 U.S.C. § 284.
  - Damages may be increased **up to three times**
- In *Halo v. Pulse* (2016), the Supreme Court:
  - **Lowered standard of proof** to only preponderance of the evidence (making it easier to prove willfulness)
  - **Raised standard of review** on appeal (making it harder to have a willfulness ruling overturned)
  - Focus on accused infringer’s actions **after learning of a competitor’s patent** – so, **timing** is important



# Willful Infringement – *Halo* Decision

- Subjective bad faith is enough for willfulness
  - “[C]ulpability is measured against the knowledge of the actor at the time of the challenged conduct”
  - Enhanced damages can be awarded where the risk of infringement was known or so obvious that it should have been known to the accused infringer
  - Only requires proof by a preponderance of the evidence
  - *In this case, an engineer reviewed the patents and concluded they were invalid*



*Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S.Ct. 1923 (U.S. 2016)

# Avoiding Increased Damages





- Courts will focus on the actions of the accused infringer ***after learning of a competitor's patent***
- Patent clearances and advice of counsel have become important again
- Administrative and post-grant proceedings in the Patent Office also provide a way to deal with the risk of increased damages

# Opinions of Counsel

- Experienced patent counsel can help assess the risk associated with a competitor's patent
- Opinions of counsel, while not required by *Halo*, can show reasonableness of accused infringer's actions and avoid willfulness
- **Timing is important** because of focus on the accused infringer's actions after learning of a competitor's patent



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# AIA Proceedings Can Drive Settlement

- Filing—or even threatening to file—an AIA proceeding (such as an IPR) can prompt settlement.
  - Litigation PAEs will often settle, so that the patent remains available for use against less-sophisticated defendants.
  - Depending on the jurisdiction, institution can lead to a stay of the litigation, which can drive settlement.

District	Patent Holder Win Rate	Contested Stays Granted
Eastern District of Texas	54%	42%
District of Delaware	41%	40%
Northern District of California	26%	63%

# Why Are PTAB Proceedings Popular?

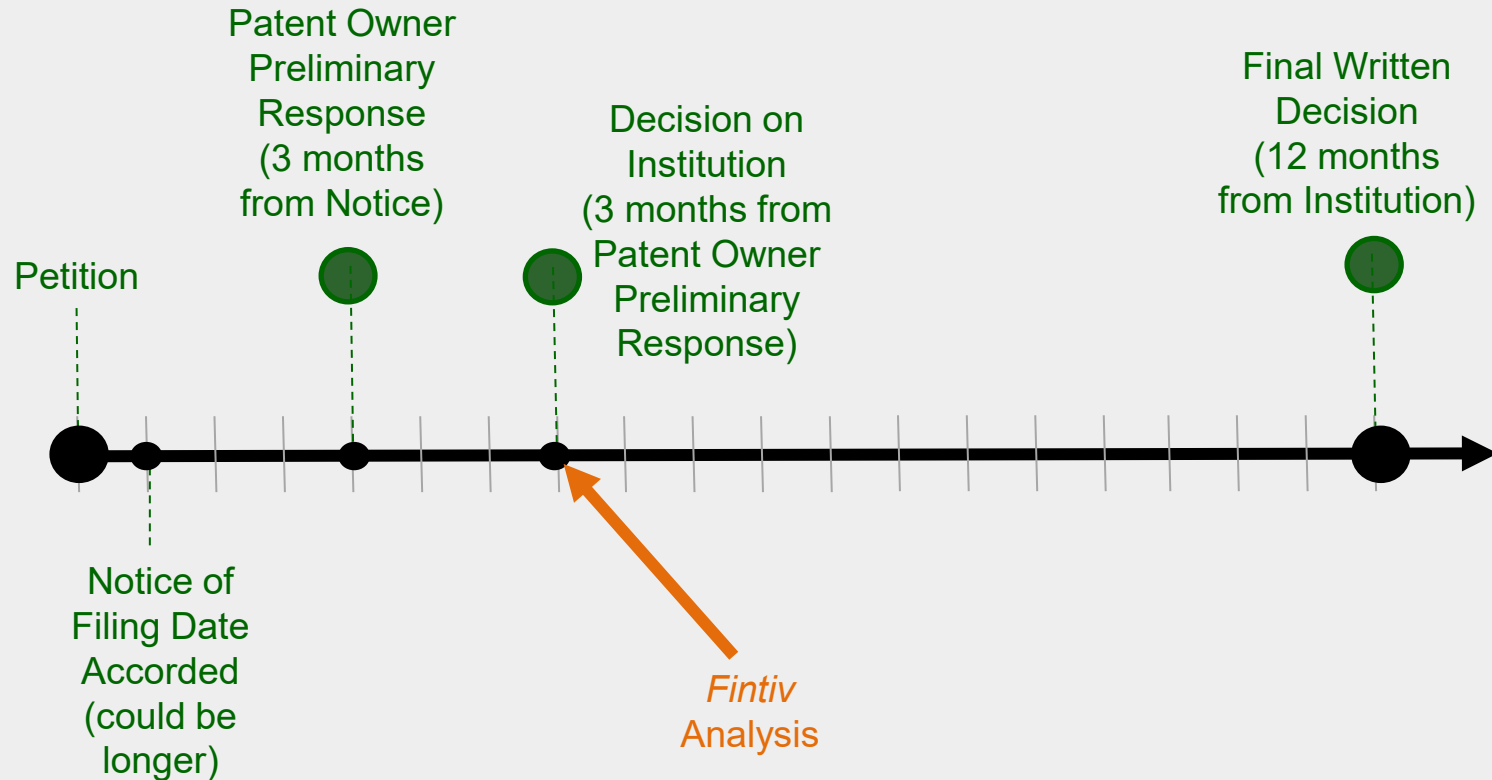
- Lower-cost alternative to litigating validity in district court
  - Possibility of staying district court proceedings
- Speed—statutory 12-month deadline\* from institution
  - \*18 months from filing
- Specialty forum
- Lower burdens and higher chance of success

# Petition Timing and *Fintiv*

“These factors relate to whether **efficiency**, **fairness**, and **the merits** support the exercise of authority to deny institution in view of an earlier trial date in the parallel proceeding.”

1. Whether the court granted a **stay** or evidence exists that one may be granted if a proceeding is instituted;
2. Proximity of the court’s **trial date** to the Board’s projected statutory deadline for a final written decision;
3. **Investment** in the parallel proceeding by the court and the parties;
4. **Overlap** between issues raised in the petition and in the parallel proceeding;
5. Whether the petitioner and the defendant in the parallel proceeding are the **same party**; and
6. **Other circumstances** that impact the Board’s exercise of discretion, including the merits.

# The IPR Timeline



Questions?

# Your Presenters



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**Benjamin Brown**  
Onto Innovation

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