Managing Patent Infringement Risk in Product Development

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Managing Patent Infringement Risk in Product Development Post-Halo

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February 22, 2018
Assessing FTO During Product Development

Why?

How?
Why Assess Patent Infringement Risk During Product Development?
Why Assess FTO During Product Development?

• Reduce the Risk of Enhanced Damages Under § 284

• Reduce the Risk of Active Inducement Liability Under § 271

• Make Real-Time Business Decisions
Enhanced Damages Under § 284

35 U.S.C. § 284

“[T]he court may increase the damages up to three times the amount found or assessed.”
Evolution of the Willfulness Standard

**Underwater Devices**
Negligence-type willfulness standard
Affirmative duty to exercise due care to determine whether or not it is infringing once there is actual notice.
**Opinion Required**

1983

**Knorr-Bremse**
Negligence-type willfulness standard
No longer an adverse inference that legal advice would have been negative if it is not obtained.
**Opinion Not Required**

2004

**Seagate**
Objective recklessness and Subjective bad faith
“[W]e also reemphasize that there is no affirmative obligation to obtain opinion of counsel”
**Opinion Not Required**

2007

**Halo v. Pulse**
Egregious cases of culpable behavior
“The subjective willfulness of a patent infringer, intentional or knowing . . . without regard to whether his infringement was objectively reckless”
**Opinion Can Show Subjective Good Faith**

2016
Enhanced Damages Under § 284

Halo v. Pulse

• Rejected Seagate test
  – Objective recklessness irrelevant
  – Focus on subjective willfulness of actor at time of conduct

• Enhanced damages are “generally reserved for egregious cases of culpable behavior”
District Court Discretion Under *Halo*

“[N]one of this is to say that enhanced damages must follow a finding of egregious misconduct. As with any exercise of discretion, courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in what amount.”
Enhanced Damages Under § 284

Post-*Halo* – Two Steps to Enhanced Damages:

1. Establish Willful Infringement (or Egregious Misconduct)
2. Convince District Court Enhancement Is Warranted

“[T]he Court stressed throughout *Halo* that, if willfulness is established, the question of enhanced damages must be left to the district court’s discretion.” *WesternGeco L.L.C. v. Ion Geophysical Corp.* (Fed. Cir. 2016)
Are Enhanced Damages Appropriate?

*Read Corp. v. Portec, Inc.* (Fed. Cir. 1992)

1. Did the infringer deliberately copy the ideas or design of the patent?
2. When the infringer learned of the patent, did it investigate the scope of the patent and form a good-faith belief that it was invalid or not infringed?
3. How did the infringer behave as a party to the litigation?
4. What is the infringer’s size and financial condition?
5. How close was the infringement case?
6. What was the duration of the infringement?
7. Did the infringer take any remedial action?
8. Was the infringer motivated to harm the patentee?
9. Did the infringer attempt to conceal its misconduct?
Reducing the Risk of Enhanced Damages Under §§ 284

• “[I]t is incomprehensible that counsel would refrain from issuing a written opinion of no infringement or invalidity to his client at or near the time that [the infringer] launched the accused products. No reasonable explanation for this highly unusual practice was offered by [the infringer].” Omega Patents, LLC v. Calamp Corp. (M.D. Fla. Apr. 5, 2017)

• “[A]lthough [the infringer] argues it investigated the scope of each of the subject patents and formed a good faith belief in its defenses, it provides no evidence to support a finding to such effect . . . .” Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc. (N.D. Cal. Jan. 13, 2017)

• “[The infringer] presented no evidence that it investigated the scope of [the patentee’s] patents to form a good faith belief about invalidity or infringement prior to trial, let alone at the time it learned about the patents.” Stryker Corp. v. Zimmer, Inc. (W.D. Mich. July 12, 2017)
Reducing the Risk of Enhanced Damages Under § 284

35 USC § 298

“ADVICE OF COUNSEL. The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.”
Reducing the Risk of Enhanced Damages Under § 284

The Failure to Obtain the Advice of Counsel or to Offer Such Advice as Evidence:

- § 298 Says It’s Not Relevant to § 284 Step #1 (Establishing Willful Infringement)

- But § 298 Is Silent on Whether It’s Relevant to § 284 Step #2 (Convincing the District Court that Enhancement Is Warranted)
Reducing the Risk of Active Inducement Under § 271

- § 271(b) – “Whoever actively induces infringement of a patent shall be liable as an infringer.”

- § 271(f)(1) – “Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.”
Reducing the Risk of Active Inducement Under § 271

Elements of Active Inducement:

– Knew of the Asserted Patent

– Induced a Third Party to Take Action that Directly Infringed the Asserted Patent

– Intended to Induce Infringement
Reducing the Risk of Active Inducement Under § 271

Two Benefits of FTO Assessments:

• A Good-Faith Noninfringement Belief Negates Intent to Induce

• Negating Intent to Induce Avoids All Damages, Not Just Enhanced Damages
Reducing the Risk of Active Inducement Under § 271

Two Limitations of FTO Assessments:

• A Good-Faith Invalidity Belief Does NOT Negate Intent to Induce

• § 298 – “ADVICE OF COUNSEL. The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.”
Relying on Opinions of Counsel

• Attorney-client privilege protects confidential communications between client and attorney

• “Once a party announces that it will rely on advice of counsel … the attorney-client privilege is waived.”

Relying on Opinions of Counsel

• “[S]elective waiver of the privilege may lead to the inequitable result that the waiving party could waive its privilege for favorable advice while asserting its privilege on unfavorable advice. ... In such a case, the party uses the attorney-client privilege as both a sword and a shield.”

• “[W]hen a party defends its actions by disclosing an attorney-client communication, it waives the attorney-client privilege as to all such communications regarding the same subject matter.”

Scope of Waiver

• “There is no bright line test for determining what constitutes the subject matter of a waiver, rather courts weigh the circumstances of the disclosure, the nature of the legal advice sought and the prejudice to the parties of permitting or prohibiting further disclosures.”

  *Fort James Corp. v. Solo Cup Co., 412 F.3d 1340, 1349–50 (Fed. Cir. 2005)*

• Focusing opinion of counsel may limit scope of waiver
  – Infringement
  – Invalidity over Prior Art
  – Enablement / Written Description
  – Enforceability
  – Exhaustion / License
Scope of Waiver

• “[A]s a general proposition, relying on opinion counsel's work product does not waive work product immunity with respect to trial counsel.”

  *In re. Seagate Tech.*, 497 F.3d 1373 (Fed. Circ. 2007) (*en banc*) (abrogated on other grounds).

**BUT:**

• “By allowing opinion counsel to take an active role in ongoing litigation, the alleged infringer eliminates the safeguards justifying the omission of trial counsel ... ”

Making Business Decisions in Real Time

• Make Each Go/No-Go Decision in Accordance with Corporate Risk Tolerance

• Reputational Ramifications
  – Externally
  – Internally
Best Practices: How to Assess Patent Infringement Risk During Product Development
<table>
<thead>
<tr>
<th>Main Objective</th>
<th>Finding and defining the opportunity</th>
<th>Proving the opportunity</th>
<th>Commercialisation</th>
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<tbody>
<tr>
<td>Commercialisation Status</td>
<td></td>
<td></td>
<td>Built Team, Implement Marketing &amp; Production Plans</td>
</tr>
<tr>
<td></td>
<td>Broad product specifications known</td>
<td>Initial IP advice sought</td>
<td>Production Plans established / implemented (agronomy &amp; post harvest / processing)</td>
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<tr>
<td></td>
<td>No / little research completed</td>
<td>Potential customers identified</td>
<td>Market segments identified for different types &amp; grades of product</td>
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<td></td>
<td>No clear idea of competitors</td>
<td>Competition identified</td>
<td>Costings finalised &amp; confirmed</td>
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<td>Unsure if idea can work</td>
<td>Know that / how production works</td>
<td>Business plan finalised</td>
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<td></td>
<td>Unsure what to do next</td>
<td>Rough production plan outlined</td>
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<tr>
<td>Commercialisation Status</td>
<td>Look carefully at market to see what is going on</td>
<td>IP protection</td>
<td>Determine financial needs</td>
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<td></td>
<td>Compare with existing products</td>
<td>Market research, customer segmentation</td>
<td>Distribution arrangements</td>
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<td>IP assessment to ensure idea is unique / IP can be protected</td>
<td>Analyse competition / competitive strengths</td>
<td>Commercialisation Strategy</td>
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<tr>
<td></td>
<td>Get basic understanding of commercialisation task</td>
<td>Product description, why attractive</td>
<td>Negotiate with co-operators, sub-contractors etc as appropriate</td>
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<tr>
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<td>Look at skills required</td>
<td>Production procedures &amp; costings</td>
<td>Plan / commence sales activities as appropriate</td>
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<tr>
<td></td>
<td>Identify knowledge gaps /research needs</td>
<td>Product development outline</td>
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<td>Production under license /subcontract etc?</td>
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<td>Business plan draft</td>
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Clients Are Busy

**IP Focus Areas**

1. **IP creation** to differentiate product to create value
2. **IP Risk** identification and mitigation

**Engineer working**

1. **Commercialization**
2. **Technology Research**

**Engineer with a customer problem statement**

**Engineer with an idea to solve a customer problem**

Submit invention record

**Review by Patent Committee**

1. Business aligned?
2. Is it Patentable?
   - Patentably Requirements
     - Subject Matter
     - Novel = Never been done before
     - Not Obvious
3. Business impact?
4. Detectable and Enforceable?

- Be Sensitive to Engineers’ Time
- FTO is Small Part of Job
- FTO is Only Part of IP Issues

**Patent Committees**
- Marketing leaders
- Engineering leaders
- IP lawyers
- Patent portfolio managers

**Budget**

- Strategic Planning
- Technology & product roadmaps
- Marketing
- Existing skills and know-how
- Patent databases
- Training
- Warranty & quality issues

- Information Security
  - Limit disclosure of confidential information, use NDAs etc.
  - Approval for any publication via speech or paper

- Open source software review (OSS)

- Freedom to operate (FTO)
  - ensure product does not infringe 3rd party patents

- Innovation, idea & IP workshops
Managing Client Expectations

- Work Creatively with Client to Find Solution
- Not a Guarantee of No Patent Disputes
Managing Client Expectations

• Client and its Engineering Dept will not come back to you for next project (or will not be completely open with you)
  – If you don’t work creatively to find solution
  – If you always say no
  – If you are not upfront about costs
    • If you don’t stay within that budget
    • If potential overrun, seek change order early
  – If you don’t understand product and history of prior products and technology
  – If you are not reasonable in time input required from R&D
Assessing Industry and Establishing Corporate Risk Tolerance

What Role Do Patents Play in Your Industry?

How High Are the Stakes for a Typical Product of Yours?

What is Your Current Financial Situation?

Indemnification?

Non-Practicing Entities?
How You Found Out About Relevant Patent and Can Inform Level of Opinion Needed

• Written Notice Letter from Patent Holder

• Patent Enforced Against Others
  – Best practice to monitor competitive enforcement activity by IPR databases, Publications such as IPLAW360

• Patent Marked on Competitor Product Label

• Word of Mouth – Trade Show or Sales Reps
Amount of Internal Documentation Can Inform Level of Opinion Needed

Do internal emails discuss patent scope?

- Make inaccurate or harmful statements?

What is Documented in Client’s Formal Development Process?

- Avoid putting patent details in engineering documentation
- Save analysis for a-c privileged material

Encourage Training of R&D on Careful Communications

- Global design centers do not understand U.S. Discovery Process
When Should You Assess FTO?

• Concept Stage, Prototype Stage, or Final Design Stage?

• Product Development Process is complex and timing depends on industry

• Software Agile Methodology may require multiple FTO assessments
What Business Information Should You Collect Before Assessing FTO?

- Are You Already Aware of Potentially Relevant Patents?
- How High Are the Stakes for This Product?
- Can You Rely on Indemnification?
- Might Any Features Be in the Public Domain?
Identifying Potentially Relevant Patents

• To Search or Not to Search? If search, who does the searching, in-house, search firm, OC

• TIP – Integrate Clearance and Patentability
  – Focusing scope of patent search will save resources and reduce client frustration
  – Focus on new and differentiating features

• Which Jurisdictions?

• How to Treat Pending Patent Applications?
Identifying Potentially Relevant Patents
Integration of Clearance and Patentability

1. Plan
2. Design
3. Build
4. Test
5. Review
6. Launch

- Identify Key Features
- Provide Preliminary Opinion; Search Potential Patentable Subject Matter
- Provide Final Feature Listing and Key Algorithms
- Opinion issued
Analyzing Potentially Relevant Patents

Before Substantive Analysis:

• Who is the Current Assignee?
• Has the Patent Expired?
• Will the Patent Expire Before Commercialization?
• Do You Already Have a License?
• Have You Already Analyzed the Patent?
Analyzing Potentially Relevant Patents

Infringement Assessments Based on Missing Elements and Validity Assessments Based on Prior Art:

• Sequence
• Product Design Details
• Claim Terms Susceptible to Broader and Narrower Constructions
• Claim Construction Standard
• History of Patent in Litigation or the PTAB
Analyzing Potentially Relevant Patents

Other Possible Bases:

• 35 USC §112
• 35 USC §101
• Extraterritoriality
• Divided Infringement
• Inequitable Conduct
Documenting FTO Assessments

• Level of Risk – *Read* Factors
• Oral Communication
• Self-Contained Opinion Letter
• Less Formal Memo to the File
Resolving FTO Issues

• Change Product Design
• Seek a License
• Seek to Buy the Patent or the Patentee
  – Buy similar patents for potential cross license
• Saying No
Cleared, Ready to Launch
Questions?

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