
Patent Holder Strategies for Leveraging Letters and Avoiding DJ Actions; Defense and Response Strategies for Alleged Infringers

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Today’s faculty features:

Kirupa Pushparaj, Head IP Counsel, Square, San Francisco

Bobbie Wilson, Partner, Perkins Coie, San Francisco

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Patent Infringement Letters
Considerations and Strategies for Sender and Recipient
June 18, 2015
Overview

I. Introduction & Background
II. Considerations for Patent Owners
III. Strategies & Best Practices for Patent Owners
IV. Considerations, Strategies & Best Practices for Recipients of Infringement Letters
V. Q&A?
Introduction & Background
Patent Infringement Letters

• Important step prior to litigation; implications for both patent owners and recipients of letters

• Statistics
  • 73% of letters consume founder time
  • 89% of letters distract from the core business
  • 63% of letters cause a financial impact
  • 22% of recipients take no action to resolve the demand

Increasing Policy Scrutiny

- Policy concerns about “trolls” that rely on patent infringement letter campaigns

- Example: MPHJ Technologies (notorious “scanner” troll)
  - Sent 16,000+ patent infringement letters
  - Accused manufacturers successfully used *inter partes* review proceedings to challenge underlying patents
  - FTC used its Section 5 authority to reach a settlement with MPHJ for deceptive acts

Pending Legislation Implicating Patent Threat Letters

- **TROL Act**  
  (Introduced by Michael Burgess (R-TX))  
  - Gives FTC enforcement authority for demand letters  
  - Preempts state laws  
  - Punishes “bad faith” demand letters

- **Demand Letter Transparency Act**  
  (Introduced by Jared Polis (D-CO))  
  - Creates national database of demand letters  
  - Minimum content requirements for demand letters

Countervailing Policy Considerations – Benefits of Patent Threat Letters

- Provide notice to infringer
- Encourage licenses and design-arounds, which lead to innovation
- Legislative disclosure requirements may impose undue burden on patent owners
- First Amendment of the Constitution protects communications regarding patent rights

State Statutes – Vermont Model

- Some states have adopted statutes governing patent infringement letters (AG & private right of action)
- Few different models
  - Vermont model
    - Core of the statute is simple: “A person shall not make a bad faith assertion of patent infringement.”
    - Thirteen other states have adopted (Alabama, Georgia, Idaho, Louisiana, Maine, Maryland, Missouri, New Hampshire, North Carolina, Oregon, South Dakota, Utah, and Virginia)
  - Provides examples of bad faith
    - Unreasonable license request
    - Deceptive assertion of infringement
    - Does not contain patent number or specific factual allegations

Sources: VT. STAT. ANN., Tit. 9, § 4197(a); http://docs.house.gov/meetings/IF/IF17/20150226/103029/HHRG-114-IF17-Wstate-GugliuzzaP-20150226.pdf
• Outlines in detail the information that a demand letter must include
  • Identification of each patent claim being asserted
  • Identification of allegedly infringing product or service
  • Factual allegations and an analysis setting forth in detail the patent holder’s theory of infringement
• Target may notify sender that letter is incomplete; 30 days to remedy

Sources: WIS. STAT. § 100.197(2)(a); http://docs.house.gov/meetings/IF/IF17/20150226/103029/HHRG-114-IF17-Wstate-GugliuzzaP-20150226.pdf
State Statutes – Illinois / Oklahoma / Tennessee

• Different model
  • Prohibits specific acts or omissions, rather than general “bad faith” assertions of patent infringement

• Examples of prohibited acts or omissions
  • Falsely stating that litigation has been filed
  • Seeking compensation for infringement of a patent that has been held invalid or has expired
  • Failing to include factual allegations concerning specific areas in which recipient’s product infringe the patent

Considerations for Patent Owners
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- Think about letter as a “notice” to preserve enforcement rights
  - Per Supreme Court, “[p]atents would be of little value if infringers of them could not be notified of the consequences of infringement”

- Patent Act Section 287(a)
  - “In the event of failure [to properly mark patented products], no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.”

- Know the state statutory scheme
  - Be prepared to defend legitimacy and “good faith” of letter, particularly if sending a series or campaign.
Strategies & Best Practices for Patent Owners
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- Keep state statutory scheme and policy environment in mind
  - Ensure letter is specific enough
  - Include all required language
  - Watch out for signs of “bad faith” (e.g. expired patents, disproportionate licensing requests)
• **Important**: Be careful to avoid creating jurisdiction for a declaratory judgment!

• Walk the tightrope between “actual notice” and an “actual controversy”

• An “actual controversy” must exist in order for an accused infringer to bring a declaratory judgment action seeking a declaration of non-infringement and/or invalidity of the patent at issue

• Consider past actions taken, which may inform DJ
  • Have you sued in the past?
  • Threats against accused infringer’s customers?
  • Is it a competitor?


• Standard

• To show an actual controversy, a DJ plaintiff (accused infringer) must prove that it
  
  1. has a “reasonable apprehension” of an infringement lawsuit, and
  
  2. produces or is prepared to produce the allegedly infringing device (or practices or is prepared to practice the allegedly infringing method)

• Note: An explicit threat of litigation may satisfy the “reasonable apprehension” test *per se*


- Express “concern” instead of definitively asserting that a product “infringes”
  - Say it “may infringe” or “may be covered by” or “fall within” the patent

- Use conditional language
  - If you infringe, we would …

- Consider softening “litigation” language
  - Careful with “damages” or “liability” talk, citing statutes, mentioning past lawsuits, or mentioning a jury


- **Offer a license:** License negotiations may help establish that no controversy exists.

- **Caveat:** License offer may compromise ability to obtain a preliminary injunction.
  - “When there are proposed or ongoing license negotiations, a litigation controversy normally does not arise until the negotiations have broken down.”
  - “[T]he evidence shows that [the patentee] offered a license to [the accused infringer], so it is clear that [the patentee] is willing to forgo its patent rights for compensation. That evidence suggests that any injury suffered by [the patentee] would be compensable in damages assessed as part of the final judgment in the case.”
Considerations, Strategies & Best Practices for Recipients of Infringement Letters
Considerations for Recipients of Letters

• Assess the situation
  • Business interruption risks?
    • 73% of letters consume founder time
    • 89% distract from the core business
    • 63% of letters cause a financial impact

• Think about litigation
  • Receive opinion of counsel

• Evaluate the threat letter
  • Does it meet statutory requirements?
Best Practices for Recipients of Infringement Letters

• Ask:
  • Who sent it? The patent owner? A competitor? A licensee? A firm paid on a contingency fee basis?
  • Is the sender interested in a licensing agreement?
  • What is the tone of the notice? Is the sender threatening you to leave the market?
  • Are you infringing?
  • Is there any indication that preliminary relief will follow?
Recipients – Consider Response Strategies

- Defenses
  - Invalidity
  - Non-infringement
  - Equitable defenses
- Modify the product; design-around
- License Agreement
- Litigation
  - Seek opinion of counsel
Recipients – Evaluate Claim Value

- Consider outcome scenarios
  - Precedent of settlement? Is there a risk of drawing in other threat letters?
  - Are there any policy or principle reasons to respond more aggressively?

- Recognize bluster (may be the sign of a troll)
  - “As background, our firm practices nationally and specializes solely in patent litigation and licensing.”
  - “As you know, a United States patent grants its owner the right to exclude others from using products that fall within the scope of the claimed invention and collect damages not less than a reasonable royalty.”

Recipients – Declaratory Judgment Jurisdiction

• Does the threat letter create an “actual controversy”?
  • Are there aggressive threats of litigation?
  • How strident are the infringement accusations?
  • Is there a license offer?
    • *Note:* As discussed, leverage a license offer to combat preliminary injunctions
  • What is the history of the entity sending the threat letter? Aggressive litigant? Competitor?
Recipients – Patent Trial and Appeal Board (PTAB) Options

- Challenge validity: District Court or PTAB?
  - PTAB
    - *Inter partes* review
    - Post-grant review
    - Covered business method patent review
    - *Ex parte* reexamination

Recipients – Consider “Bad Faith” Remedies

- Does the threat letter violate a state statute?
- Stay current on policy and federal legislative changes
- Examples of things to watch out for
  - Vagueness as to patent numbers infringed
  - Expired patents
  - Disproportionate license fee requests
  - Sensationalized language
Recipients –
Consider Product Modifications

• Is there a business solution?
  • Can you design around the patent?
  • Can you make an innovation in your product that is more defensible against a claim?
  • Can you invent an alternative product?
Thank you for your time.