

Infringement Warning Letters

2010 Intellectual Property Summer Seminar

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Overview of Discussion

- What is a Warning Letter?
- Sending a Warning Letter
 - Declaratory Judgment Jurisdiction
- Receiving a Warning Letter
 - Willful Infringement
- Avoiding Warning Letters
- Cease & Desist Letters – Trademark and Copyright
- Key Takeaways

What is a Warning Letter?

Communication (written, electronic or oral) sent by IP owner informing recipient that its activities may infringe the owner's patent rights.

Components of a Warning Letter

- Parties involved
 - IP owner
 - Recipient - suspected infringer
- Legal representation
- IP at issue
 - patent number/specific mark
- Basis of alleged infringement
 - specific acts of recipient
- What IP owner wants

Purpose of a Warning Letter

Start dialogue with suspected infringer

- Invitation to license; facilitate collaboration
 - Business decision: consider economics
- Pre-litigation strategy
 - Feel out recipient; gauge response

Halt infringement by threatening lawsuit

- Not likely; may work on small companies

Purpose of a Warning Letter

Starting point for litigation

- Notice to alleged infringer

A warning letter meets the **notice requirement** “when the recipient is informed of the identity of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether by license or otherwise.” *SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1470 (Fed. Cir. 1997).

- Start the clock on damages

35 U.S.C. § 287(a) When patentees fail to mark their products properly, “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.”

- Provisional Rights for published, pending patent

Sending a Warning Letter

Determine Goals and Position

- Importance of the patent to overall business
- Protection and outcome desired
- Investigate allegedly infringing entity
 - Nature of recipient's business
 - Prior relationship with allegedly infringing entity?
 - How important is recipient's activities to its overall business?
 - How much has already been invested?

Anticipate the Response

- Be absolutely certain you can prevail
 - Put case together before sending warning letter
 - Confirm your rights in the patent
 - Patent misuse claim
- Consider and prepare for all scenarios
 - Ready for recipient's response?
 - Economic considerations and Market analysis
 - Litigation budget

Counsel Should Draft the Letter

- Attorney experience drafting warning letters and use at trial
 - Draw fine lines/tone; strategic decisions
- Warning letter and any admissions therein may become part of litigation pleadings
 - Signer may be called by recipient as witness; ensure signer will be good trial witness
 - Target recipient - may also be a witness at trial
 - Trial audience - judge and jury

Act in Good Faith

- Ensure good-faith basis to send warning letter
- Liability for False Statements
 - Recipient may bring claims based on false allegations if recipient can show, by clear and convincing evidence, that the allegations in the letter were “objectively false” and that the patent owner made those false allegations in “bad faith” (knowing they were false)
- Liability for Unfair Competition or Tortious Interference with Business Relations claim
 - Can send warning letter to third parties other than alleged infringer (infringer’s customers/vendors), but consult attorney and use extreme caution

Establish Time Frame for Plan of Action

- If recipient does not respond right away, don't wait
- Avoid laches defense
 - IP owner unreasonably delayed in filing lawsuit after it knew or should have known of the infringing activity, therefore, no damages for infringement prior to date of lawsuit
 - File suit within 6 years of warning letter to avoid rebuttable presumption of laches
- Avoid equitable estoppel defense
 - IP owner sends warning letter, recipient responds, patent owner fails to reply, and accused infringer continues activities
 - If equitable estoppel established, lawsuit barred

KEY CONSIDERATION

Sending Warning Letter

DECLARATORY JUDGMENT JURISDICTION

- Declaratory Judgment Act, 28 U.S.C. §§2201-2202: federal courts may declare the rights and legal relations of parties **where an “actual controversy” exists**
- Declaratory Judgment (DJ) jurisdiction gives warning letter recipient standing to file for declaratory judgment to have the patent declared invalid, not infringed, and/or unenforceable
 - Recipient selects forum - can haul sender into inconvenient jurisdiction; expensive defense
 - Recipient able to strike first; becomes plaintiff

DJ Jurisdiction - Before *MedImmune*

- Federal Circuit “reasonable apprehension of suit” test to determine whether federal court has DJ jurisdiction in patent case:
 - (1) Action by patent holder that creates a reasonable apprehension of infringement lawsuit, and
 - (2) Activity by declaratory judgment plaintiff that could constitute infringement
- Hostile, threatening warning letter could create a “reasonable apprehension” of infringement suit
 - IP owner had to choose words carefully when drafting warning letter

MedImmune, Inc. v. Genentech, Inc., 127 S. Ct. 764 (2007)

- Discarded “reasonable apprehension of suit” test
- Now Totality of the Circumstances analysis
 - Whether the facts alleged, under all the circumstances, show that there is a **substantial controversy**, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment
- *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372 (Fed. Cir. 2007)
 - A party may bring DJ action before it receives explicit threats of litigation
 - Most patent infringement warning letters will create DJ jurisdiction

DJ Jurisdiction - After *MedImmune*

- Warning letter recipient can easily establish declaratory judgment jurisdiction
- Use extreme caution before sending warning letter, and be prepared to defend DJ action by recipient
- To avoid DJ jurisdiction
 - Draft bland letter merely requesting information
 - Convey lack of analysis/infringement determination
 - Do not offer to license the patent
- Consider whether warning letter is necessary

Receiving a Warning Letter

Act Quickly

- Respond within time requested
 - Timing – nothing statutory, but damages clock is running if continue acts alleged
 - Timely response sets good tone for negotiations
- Side Note: Ensure incoming warning letters will be routed to appropriate person
 - Address of record on your IP?
 - Company mail policy?
 - Patent trolls may address warning letter to Company Name

Perform First-Level Search, Review and Analysis

- First-Level search
 - Look up patents on www.uspto.gov
 - Order all related patents
 - Order all file histories
- First-Level review and analysis
 - Review ownership
 - Review accused product and asserted patent claims in light of prosecution history
 - Does your accused product fit the elements of the asserted claims?
 - Make initial determination of infringement
 - No infringement? Possible infringement?

Involve U.S. Counsel at Outset if U.S. Sender or U.S. Patents

- Evaluate with in-house counsel first
 - Is sender a patent troll?
 - If weak/lacking, give it due attention and respond
- If complex and requires in-depth analysis, contact outside counsel

Determine Strategy & Respond

Negotiate with warning letter sender

- Royalty arrangement
- Cross-license

Reply letter requesting additional information

- Ask sender to identify all patents and IP at issue
- Ask sender the basis of alleged infringement
 - e.g., What claims of the patents are you asserting?
- Clarify reasons why you don't infringe

Determine Strategy & Respond

Provide a substantive response drafted by counsel

- If you have strong answers/arguments in response to warning letter, fight it
 - Seek Declaratory Judgment on validity or enforceability of asserted patent(s)
- If there are false misrepresentations in the warning letter, consider legal action
- In any event, take action to avoid willful infringement

Determine Strategy & Respond

Design around

- Depends on the complexity and breadth of the technology
- Generally, the more features added to the definition of an invention, the easier it is for competitors to design around it by eliminating or modifying its features

Cease production (last resort)

KEY CONSIDERATION

Receiving Warning Letter

WILLFUL INFRINGEMENT

- When a potential infringer is on notice of another's patent rights, but does not perform duty to avoid infringement, patent holder entitled to treble damages and attorneys' fees
- Totality of Circumstances analysis
 - whether infringer deliberately copied the ideas or design; whether infringer, when knew of patent, investigated its scope and formed a good-faith belief of non-infringement or invalidity; infringer's conduct in the litigation; infringer's size and financial condition; closeness of the case (e.g., whether the infringement was literal or under doctrine of equivalents); duration of the infringement; whether there was any remedial action by infringer; infringer's motivation for harm; whether infringer attempted to conceal its misconduct

See “Opinion Practice/Willful Infringement” D. Cotta, Friday July 23

See “Attorney-Client Privilege” A. O'Connor, Wednesday July 21

Willful Infringement - Before Seagate

To avoid willful infringement and create shield against enhanced damages, alleged infringer had an **affirmative duty to exercise due care** to determine whether or not he is infringing, which usually included the **duty to seek/obtain competent legal advice from counsel** before initiating any possible infringing activity.

- Duty of Due Care – seek legal help before continuing business plans
- Legal Opinion Letter of non-infringement and/or invalidity a major factor
 - Reasonable opinion letter by attorney usually meant no willful infringement

In re Seagate Technology, L.L.C., 497 F.3d 1360 (Fed. Cir. 2007)

- Federal Circuit overturned 24 years of affirmative duty to exercise due care
- New “Objective recklessness” standard for willful infringement, 2-pronged test:
 - “a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”
 - “If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.”
- State of mind of the accused infringer is irrelevant
- No affirmative obligation to obtain an opinion of counsel

Willful Infringement - *After Seagate*

- Objective recklessness not likely where defendant has reasonable arguments of non-infringement/invalidity or has conducted due diligence to avoid infringement
- Opinions of counsel may help defeat willful infringement claims
- Totality of the circumstances is still considered

Avoiding Warning Letters

Maintain Your IP and Monitor Field

- Obtain opinion on product clearance for new products to ascertain if others have patent coverage that might be an impediment to the making, using or selling of the company's products
- Search closest competitors
- Develop patent libraries
- Keep good records
- Problem? Consider design change

Cease & Desist Letters Trademark and Copyright

Cease and desist letter (C&D) is a demand or request to halt activity, usually accompanied by the threat of legal action.

Different from Patent Infringement Warning Letters

- C&D letters mean what they say - IP owner wants recipient to immediately stop use of their IP
- Can be more aggressive
 - Less at stake: less time and money spent developing TM than patent
- May work better
 - Different types of companies using trademarks; smaller companies

Similar to Patent Infringement Warning Letters

When you receive a cease and desist letter, follow the same steps:

- Investigate and evaluate claims
 - Search federal and state trademark databases
- Involve U.S. counsel at the outset if U.S. based companies or registrations involved
- If U.S. based subsidiary is the allegedly infringing party, review insurance coverage to determine if insurance carrier must be notified of a potential claim to not waive coverage

Similar Potential Resolutions

- Discontinue infringing use
- Negotiate license and continue use of IP
 - Fee for prior use and future use
 - Negotiate other terms like any other license (territory, term, approvals, ownership, etc)
- Possible litigation
 - Injunctions
 - Damages

Avoiding Cease & Desist Letters

- Preliminary search for proposed trademarks, service marks and domain names in jurisdictions that matter to the business
- When creating materials that feature photos, graphics or images, purchase such works
- Avoid comparative advertising unless you consult with counsel first

Key Takeaways

- Sending a warning letter is risky business
 - Must have legal strategy for all scenarios
 - Warning letters not always prudent
- Don't ignore or delay response to warning letters, tackle head on
- First contact with alleged infringer is important – can go a long way to resolution or litigation

Thank You

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