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INNOVATION



PATENT RIGHTS

BEST PRACTICES FOR RESPONDING TO PATENT DEMAND LETTERS

In today's economy, savvy companies use patents to gain an upper hand on the competition by stopping copycat competitors in their tracks or monetizing innovations through patent licensing. Either goal requires an enforcement campaign to secure the competitive advantage. These days, patent owners are turning to the courts less and less to enforce their patents. Instead, patent owners increasingly use offers to license or "patent demand" letters sent to companies they believe are infringing their patents.

It can be intimidating to receive one of these letters. They typically accuse your company of infringing a patent, often provide few or ambiguous details and demand a response by a certain deadline or threaten legal action. The good news is that there are a series of steps that you can take to mitigate the risk to your company. Above all, if your company receives one of these letters, it is important not to ignore it. The consequences can be significant.

Below, the authors, a patent attorney with experience as in-house counsel and a patent litigator, provide some best practices to help you evaluate a patent demand letter and suggest strategies to develop the strongest response. It is important to note that, while you can perform many of these steps using company personnel, it is strongly recommended that you consider getting counsel involved as soon as you receive any demand or offer to license patent rights. Good legal advice received early in the process combined with a company's knowledge of the industry and the technology at issue will produce the most effective response and will help you sort the frivolous claims from those that have merit.

WHAT IS A PATENT DEMAND OR OFFER TO LICENSE LETTER?

Patent owners typically send one of two types of letters when enforcing patent rights. Both types typically identify the patent and describe how the patent owner claims that the target company is infringing the patent. The difference is that a patent demand letter demands that the company cease infringement by a date certain or face legal action, while an offer to license generally explains how the

patents may apply to the target company's business and offers to discuss a business resolution. As the law has evolved, patent owners and licensing entities have adapted their approach in these letters – some are careful to avoid an outright allegation of infringement and instead emphasize how taking a license would be beneficial to a company.

Often, these letters come from non-practicing entities (called NPEs), which are companies that do not sell a product or service or intend to do so. Instead, their primary business is patent licensing and litigation, usually through aggressive enforcement. Many times, NPEs purchase patents and patent rights from others – often from distressed companies – and will license or sue many companies. Their goal is to use their patent portfolio to

gain leverage over operating companies and obtain the maximum return on their investment while minimizing effort. As a result, NPEs often are willing to settle large numbers of claims quickly for low value to recoup their investment, though some NPEs have significant licensing programs and are willing to litigate their claims to establish the value of their patent rights.

WHY YOU SHOULD PAY ATTENTION

By putting a company on notice of its patent rights, a patent owner can start accruing damages for infringement. If a recipient ignores a patent demand letter, it can also be used as a basis for a claim of willful infringement, which can result in triple damages and an award of attorney's fees. For example, a California court recently found a company guilty of

willful infringement in a case involving a patent for opening and closing window blinds. The court tripled the amount of damages from \$1 million to \$3 million based on evidence that the infringing company continued to sell thousands of infringing products even after receiving multiple cease and desist letters. In another recent case involving a patent on a steering system for a personal watercraft, a Florida court awarded triple damages of more than \$46 million because the infringing company conducted only a cursory analysis after it learned of the patent and waited several years before seeking an attorney's advice.

DEVELOPING A RESPONSE

As part of your company's strategy, you should seriously consider



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KNOWLEDGE OF TECHNOLOGY IN AN INDUSTRY IS IMPORTANT TO DEVELOPING AN EFFECTIVE RESPONSE, AND EMPLOYEES WILL HAVE A UNIQUE PERSPECTIVE.

consulting an attorney early on to discuss your options and limit your risks. Your goal in any response is to make clear that the company respects the intellectual property rights of others and will negotiate in good faith, while also setting a tone that you do not plan to cower to demands and will push back on frivolous claims.

LEARN ABOUT THE PATENT OWNER AND OPPOSING ATTORNEY

As an early step, you should learn everything you can about the patent owner and any attorney who sends the demand letter. Review their websites and press coverage to determine whether they are interested in substantive conversations or just patent holdup. Investigate whether the patent owner is a newly formed entity with few patents or an established licensor with a large and sophisticated portfolio in multiple technologies. Look to see whether the attorney has a track record of aggressively pursuing litigation and trying cases or files and settles many suits quickly.

You can also check assignment records on the U.S. Patent and Trademark Office (PTO) website to confirm that the sender of the letter owns the patent rights that it claims. The assignment history will also reveal the previous owners of the patent and how long the patent owner has owned

the patent. For example, if an established technology company developed the patent, it may indicate that the claim has more substance.

ANALYZE THE STRENGTHS OF THE PATENT OWNER'S CLAIMS

You should review the patent thoroughly to understand the targeted technology and the claimed invention. While patents are often very detailed and challenging to read, someone with experience in the technology or industry will understand the subject matter. Thus, you are well positioned to assess whether the invention described in the patent is a true advance in technology, just an incremental step that has little value or something already known or obvious to those in the field.

Be cautious, though, about conducting a technical comparison of your product to the claimed invention or producing any written analysis of the invention claimed in the patent without first consulting counsel. It is important that an attorney direct any detailed review of

the patent and the product accused of infringement.

A company should also gather information on prior art, similar inventions or older technology that may show that the patent owner was not the first to invent or use the technology described in the patent (or at least how the patent owner claims it applies to your company). Knowledge of past and current technology in an industry is important to developing an effective response, and your employees will often have a unique perspective on technological developments in your field.

EVALUATE YOUR COMPANY'S EXPOSURE

It is important to consider the relevance of the invention claimed in the patent to your business. Ask yourself whether the patent threatens a core product or service and what you would do if you were forced to stop selling the product or service that is accused of infringement.

You should also explore ways to avoid the patent. The ability to make



product changes to design around the patent is often an effective rebuttal to a demand letter and gives your company a strong advantage in any licensing negotiations.

Finally, you should investigate whether you have any indemnity rights from a supplier of the targeted technology. If so, make sure to comply with any requirement for notice of an infringement claim. Indemnity rights often require notice to the supplier within strict time periods that run from the time that your company first learns of a patent demand.

ASSESS YOUR OPTIONS

If you receive a form letter directed to many companies, a response may be unnecessary, but if you receive a letter directed specifically to your company, a response is more important. If you respond, be circumspect in your statements. Your goal should be to de-escalate the situation and to open good faith negotiations or convince the patent owner that they are wrong and should move along.

Other options include obtaining a



formal opinion of counsel that you do not infringe the patent or that the patent is invalid because earlier technology or prior art already practiced the invention claimed in the patent. An opinion of counsel can often provide a strong defense to a claim of willful infringement.

You should also evaluate whether to take a license to the patent. A company can often negotiate favorable deals by pushing back in a substantive way while showing a willingness to negotiate.

There are also options that put your company on the offensive. You can gain control of the playing field by filing a declaratory judgment suit in your home forum asserting that your product does not infringe and that the patent is invalid. You may also be able to file a proceeding in the PTO

to challenge the validity of the patent without having to file suit.

CONCLUSION

The growth of patent licensing companies, especially NPEs, and the increasing focus of companies on the value of their intellectual property rights has increased the use of patent demand letters and offers to license. These letters require prompt attention and evaluation, and these best practices can help your company develop an efficient and effective response plan. **mt**

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