Formulate a Nuanced Response to Patent-Notice Letters

By Chris P. Perque

When a patent-notice letter lands on a general counsel’s desk, most wonder what to do next. Most GCs know they cannot ignore the letter, but it can be difficult to assess how to respond and how much due diligence to perform. But the letter itself—more specifically, the nature of the entity claiming to hold the patent—can help determine the appropriate response.

A patent-notice letter is a crucial step in allegations of patent infringement. In patent cases in the United States, a jury typically decides the amount of damages for patent infringement and whether such infringement is willful. If the jury finds the infringement willful, the court decides whether to increase the damages up to three times the jury award.

To prove willful infringement, the patent holder must show that the alleged infringer knew of the patent at issue and was objectively reckless in its continued infringement. A patent-notice letter serves that notice function; continued use of the disputed technology then may constitute willful infringement, raising the prospect of treble damages. A company that receives a patent-notice letter must, at a minimum, take sufficient measures to rebut any allegations that its behavior was objectively reckless.

Given that legal framework, the GC and the legal department must determine the magnitude of the risk the patent poses and the likelihood that the company will become a defendant in a patent infringement suit. If litigation begins, the company likely will incur substantial defense fees and expenses, regardless of the outcome.

Part of the GC’s role is to strike the delicate balance between respecting others’ intellectual property while protecting the company from questionable patent claims. Doing this means determining into which category a putative patent holder falls and, based upon that, what defensive steps are necessary.

Friend or Foe?
Patent holders generally fall into three categories: competitors; universities or other research institutions; and nonpracticing entities (NPEs), such as patent holding companies, small companies and individuals.

Competitors: Sometimes a general counsel will receive a patent-notice letter from a competitor involving an important company product that allegedly infringes the patent. For such high-stakes cases, the proper due diligence and response will vary depending on the circumstances. The competitor sending the letter may want to license its patent or enter into cross-licensing negotiations, or it might want to remove the GC’s company’s product from the market. This is where experienced patent litigation counsel are necessary to assist with due diligence and a response.

Universities and research institutions: When a university or other research institution sends a patent-notice letter, the GC receiving it may be able to turn the situation into a significant business opportunity for her company. The patent at issue may relate to an early-stage technology. Research institutions often use their licensing programs to identify a partner to commercialize and market early-stage technology in exchange for an exclusive license to the patent at issue.

Even if that is not the case, such entities are less likely than the other two to race to the courthouse to file suit, and they usually have established patent licensing programs with reasonable royalty rates. Hence, these letters typically pose a less immediate risk to the recipient company, and the due diligence and response are more straightforward.

NPEs: For NPEs, the GCs appropriate due diligence and response may vary dramatically.

Some NPEs have an established patent enforcement record and may even have a pending suit enforcing the patent at issue. In that situation, options are limited. The NPE likely will sue the GC’s company—or persist in litigation it already has filed—unless the two entities can enter into a license agreement.
If the NPE does not have a history of aggressive patent enforcement, the company may structure its due diligence to perform only those truly necessary analyses. The GC›s company first should assess the strength of its non-infringement defenses and the magnitude of the allegedly infringing sales. If the company has a strong non-infringement defense, counsel may respond to the NPE that investigation reveals no infringement of the patent at issue.

But if the GC›s company has substantial sales of the accused product and no strong non-infringement defense, the next level of due diligence typically involves assessing patent validity. Under 35 U.S.C. §§102 and 103, the most common challenge to a patent›s validity is that the company receiving the patent-notice letter (or another third party) sold or published the technology before the filing date of the patent at issue. While patents enjoy a presumption of validity and defendants must prove invalidity by clear and convincing evidence, in-house counsel may enhance the company›s leverage by marshaling marketing, sales or other evidence supporting a patent validity challenge.

Armed with that evidence, the GC may respond to the letter by stating that the company has not infringed any valid claim of the patent at issue. The legal team can use that evidence during licensing negotiations to dissuade the patent holder from filing suit and to obtain more favorable licensing terms.

In sum, a GC can preserve the company›s defenses and manage its risks, while minimizing fees and costs, by adopting a measured approach in response to patent-notice letters based on the type of entity issuing the letter.

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