

Litigation Risk Management for Japanese Companies



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Intellectual Property Law

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Introduction

- Coherent strategy for minimizing U.S. litigation risk has multiple parts
 - Clearance studies and other proactive approaches
 - Establishing internal best practices:
 - Having the right people involved
 - Determining when to obtain invalidity and non-infringement opinions
 - Having procedures to avoid willful infringement
 - Protecting privilege of attorney communications
 - Litigation preparedness
 - Preservation of evidence

A Model Clearance Study

- Objectives of a clearance study:
 - Understand the patent landscape
 - Who are the principal players?
 - How crowded is the art?
 - What areas are open?
 - What IP do you have in the field and how can it be strategically expanded?
 - Minimize infringement risk
 - Identify problem areas *early*
 - Gives time for design-around
 - Gives time for license negotiations
 - Avoids large investment in a product that cannot be sold
 - The best way to avoid infringement is advance planning!
 - Build clearance study into product development cycle
 - Avoid willful infringement
 - Infringement may result in paying reasonable royalty or lost profits
 - Willful infringement may be *three times this amount!!*

A Model Clearance Study

Step 1: Define the Team

- IP issues are often left to only the IP department
 - Broader involvement is important
- Ideal team profile
 - In-house lawyer or IP expert
 - Team leader, responsible for carrying out strategy
 - Management representative
 - Provide objectives
 - Liaison to company executives
 - Sales or marketing person
 - Provide information on the market and competitors
 - Engineer
 - Provide technical information on proposed product
 - Conduct technical analysis of patents

A Model Clearance Study

Step 2: Identify the Issues

- Identify nature of proposed product
 - Specific technical issues
 - Does it use multiple technologies?
 - Which aspects are new?
 - What factors differentiate it in the marketplace?
 - Consumer product or industrial product?
 - Will it be used in combination with other products?
- Identify the market
 - Where will it be sold?
 - What are the channels of sale/export and who controls those channels?
 - Who are the targeted purchasers?
 - Who are the primary competitors?

A Model Clearance Study

Step 3: Define the Search

- Select key technical aspect(s) for search
- Select competitors for search
- Select primary product applications for search
- Consider possible combinations and sub-combinations to search
- Select jurisdictions for search

A Model Clearance Study

Step 4: Conduct the Search

- Select search firm
 - No opinion at this stage!
 - *You decide what opinions are necessary!*
 - Ask for categorized report identifying areas of highest relevance
- Choose financial parameters
 - A search can go on forever
 - Law of diminishing returns applies
 - Financial parameters set boundary of search
 - Spend money to save money!
- Conduct parallel in-house search
 - Google patents
 - USPTO.gov
- Ask project engineers for any patents of which they are aware

A Model Clearance Study

Step 5: Analyze the Search

- Review and prioritize results
- Establish and apply a defined triage process
 - Not only for searches, but for all IP issues that may arise
 - Impossible to give the highest level of review to every issue
- Example triage process:
 - Identify a person or persons with knowledge of U.S. law to perform triage
 - Define tiers
 - third
 - Memo to file; no further action
 - second
 - Solicit technical input
 - Submit to team management for review
 - first
 - Obtain opinion from U.S. attorney

A Model Clearance Study

Step 6: Use the Search

- Review tier one and two items
- Review the results of any opinions
- Consider design changes to strengthen any non-infringement positions
- Consider post-grant challenge to issued patent
- Consider if licenses are necessary
- Consider strategic patenting (including continuation practice) to develop ammunition for “counter-punch”
- Avoid negative conclusions and negative analysis
 - At least not in writing!
- Report results of study to management
 - Allows reasonable and informed business decisions

A Model Clearance Study

Step 7: Update the Search

- The initial clearance study is only the beginning!
- Must continue to monitor the patent landscape
- Patent applications may be pending for a long time
- Options for challenging patents at the patent office are limited in time
- Continuous monitoring of patent landscape, and particularly patents of competitors, is **critical!!**
- IP landscaping and competitor trending tools can be very useful
- Regular up/down citation checks can give insight into competitors' activities (and can identify potential infringers)

Willfulness in General

- Tool used by U.S. Courts to punish a party who does not exhibit proper respect for patent owned by another
 - Encourages good behavior
 - Makes intentional infringement more expensive than taking license
- Willful infringement is a “question of fact”
 - Decided by the jury
 - Actual damages may be increased up to three times
 - Actual damages “no less than a reasonable royalty”

Standard for Willful Infringement

- “[T]o establish willful infringement, 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.” (客観的に侵害している可能性が高いことを明瞭かつ確信的証拠をもって証明する必要有り)

Court's Explanation of the Standard

- “[T]he 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.”
- Not completely objective (完全に客観的な基準ではない)
 - “reasonableness of the actions taken in the particular circumstances” are necessary for applying the standards
- Summary point: Risk of willfulness finding low so long as reasonable business practices are followed (適当な商慣行に従えば、意図的侵害の判決が下されるリスクは少ない)

Risk Factors for Willfulness

- Copying of competitor's product
 - Especially if known to be patented
- Making decisions based upon likelihood of patent holder to sue
- Making decisions based on level of potential damages
- Other “bad acts”
- Jury will look at entire conduct of party in determining willfulness

Good Business Practices

- Establishing a defined triage process:
 - Should support finding of non-reckless behavior even if no opinion obtained
 - Permits efficient use of resources
- Request specifics (*e.g.*, claim charts and accused products) from the patentee if a notice letter is received
 - Consider preemptive action
 - IPR
 - Declaratory judgment of non-infringement or invalidity
- Request opinion if, after application of triage process:
 - Useful to make informed business decision
 - Close case – answer not clear
 - Invalidity/unenforceability position only
 - Notice letter has been received

Reliability of Opinions

- No *per se* standard exists for determining adequacy of opinion
- Jury must look at totality of circumstances; may be influenced by other acts
- Possible to state some basic minimum requirements for reliability
- The more thorough, the better
 - “summary” opinions may not protect against willfulness
- Reliability of opinion comes from the document itself, not the reputation of the author
 - However, opinion should be written by an independent, licensed U.S. patent attorney

Attorney-Client and Work Product Privilege

- Litigation in U.S. allows parties to “discover” information in possession of adverse party
 - Written discovery
 - Requests to produce documents
 - Requests for admissions
 - Request to answer interrogatories
 - Oral discovery
 - Oral deposition of a witness

Attorney-Client and Work Product Privilege (cont'd)

- Privilege exists to protect certain communications between attorney and client
 - Enables the party to refuse to disclose the communication to the adverse party
 - Existence of communication is disclosed
- Privilege may be “waived”
 - Waiver applies to all related communications

Avoiding unintentional waiver of privilege

- Privilege is between client and attorney (or attorney's assistant)
- Showing privileged documents to third parties will result in waiver
 - Confidentiality does not cure!!
- If the client is a company, must restrict circulation within the company

Maintaining privilege within your own company

- Officer
- Director
- In-house lawyer
- Employee, if:
 - Possesses knowledge needed by lawyers
 - Acting under direction of corporate superiors
 - Consistent with scope of employee's corporate duties

Privilege as it applies to Opinions

- Request for opinion and opinion itself are clearly privileged communications
- Possible to unintentionally waive the privilege in various ways
 - Showing to a customer, even with a confidentiality agreement
 - Broadly distributing within your own company
 - Summarizing the results in non-privileged communications

Privilege as it applies to Opinions

- You may want to be able to produce the opinion to defend against claim of willfulness
 - Results in intentional waiver of privilege
 - Waiver is not selective: **includes all communications relating to seeking an opinion**
 - Must carefully control communications relating to the request for opinion
 - This allows waiver of the privilege to produce the defensive opinion, without being forced to produce harmful communications
 - Must control access to opinion to avoid unintentional waiver

Solutions to problems of privilege

- Be diligent about controlling distribution of opinions (and all privileged communications)
- If must show opinion to customer or investor, use “common interest agreement” drafted by a U.S. lawyer
 - Allows to entities to cooperate for a narrowly defined purpose without destroying privilege
- Do not put negative conclusions in writing!!!
 - This is a big problem for many companies
 - Stresses importance of management participation in the “team”

Hurricane Plans: Be Prepared!



- Customized for particular company / division
- Preservation of electronic and documentary evidence
- Notification of involved employees
- Location and assessment of other key individuals
- Hiring of the appropriate trial team
- Saves time and money, and makes trial team's job easier

What to do if you are sued for patent infringement

- U.S. companies use litigation as a negotiating strategy
 - Declaratory judgment rules encourage patent owner to shoot first and ask questions later
 - Good, honest companies are sued all the time
- Many infringement cases are filed by small companies or NPEs represented by contingent fee lawyers
 - Seek payment that is small relative to cost of litigation
- Show a strong face to the other side unless or until settlement is reached
 - Spend money to save money!!

What to do if you are sued for patent infringement (cont'd)

- Identify which type of plaintiff you are dealing with
 - If plaintiff is an operating company, business resolution may be possible
 - Injunction is not guaranteed
 - Plaintiff is using litigation as leverage to impose high license rate
 - Countersue if possible
 - If plaintiff is an NPE
 - Must make the case look long and expensive to the contingent fee firm

What to do if you are sued for patent infringement (cont'd)

- Litigation preparedness is key
 - Once litigation is filed, there is no time to get organized
 - Plaintiff will use lots of time before filing suit to prepare
 - Defendant has a limited time after filing to make its preparations for defense
- Willful infringement is always alleged
 - Good business practices will be extremely useful for defense
- Place immediate “litigation hold” on all documents, both paper and electronic
- Be extremely aware of privilege issues

Litigation Hold should be Implemented Immediately upon Notice of Litigation

- Parties are required to implement a litigation hold – stop all auto-delete and/or any policies implemented in the company related to electronic clean-up
- Follow-up with preservation of electronic data – monitor efforts to comply and ensure preservation of relevant electronic data
- Identify and interview key custodians – communicate directly with key players and understand each person's data management procedures

Risks Involved with Non-Compliance

- Failure to comply results in:
 - Sanctions
 - With increasing severity and frequency
 - If willful spoliation of electronic data, lost information is presumed to be relevant
- *Micron Technology, Inc. v. Rambus Inc.* (D.Del. 2009)
 - Rambus' portfolio at issue found unenforceable due to pre-filing document spoliation

Summary: Practical Advice for minimizing litigation risk in the United States

- Create IP teams with proper representation from within the company
 - Effective link to management is critical
- Conduct appropriate clearance and monitoring studies
- Avoid negative conclusions in writing
- Protect privilege of attorney communications
- Control or at least understand the channels of export to the U.S.
- Spend money to save money
 - Applies to both clearance studies and litigation defense
- If threatened with an infringement suit, consider preemptive action
- Develop “Hurricane Plans” for litigation
- If sued in a U.S. Court, immediately preserve electronic evidence and contact counsel

ご清聴ありがとうございました



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