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Managing Risk: Recent Developments Regarding I.P. Enforcement in the United States

Fukami Patent Office

Osaka, Japan

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Outline（概要）

1) Willful and Indirect Infringement （意図的、間接侵害）
2) U.S. Patent Litigation in General （米国特許訴訟）
3) Alternate Approaches to Patent Disputes （特許紛争選択肢）
4) Patent Trolls （パテント・トロール）
5) Inequitable Conduct （不正行為）
6) Due Diligence （特許の適正評価手続調査 ）

Section 1: *Willful and Indirect Infringement*
（意図的、間接侵害）

- Standard for willful conduct （基準）
- Role of opinions （鑑定書の役割）
- Good business practices （公正な商慣行）
- Indirect infringement （間接侵害）

Willfulness in General （意図的侵害）

- Tool used by U.S. Courts to punish a party who does not exhibit proper respect for patent owned by another （処罰するための手段）
  - Encourages good behavior
  - Makes intentional infringement more expensive than taking license
- Willful infringement is a “question of fact” （事実問題）
  - Decided by the jury（陪審）
  - Actual damages may be increased up to three times（損害賠償金額が最大3倍に増加される可能性あり）
    - Actual damages “no less than a reasonable royalty” （「少なくとも合理的ロイヤルティー額」）

Old Willfulness Standard （旧基準）

- Once on notice of patent, had duty to exercise “due care” to avoid infringement even when no accusation of infringement was made（侵害告発なくとも適正な注意必須）
- At court
  - Adverse inference if opinion not obtained
  - Adverse inference if opinion not produced
  - Advice of in-house counsel not reliable in most cases
- Created significant burden/risk for potential infringer even when trying to act with due care （適正な注意をもってしても大きなリスク有り）
  - “Patent trolls” and other prospective licensors used to advantage
  - No declaratory judgment standing in absence of actual accusation of infringement （宣言的判決の当事者適格性無し）

Seagate: a New Willfulness Standard （新基準）

- Federal Circuit *en banc* decision (August, 2007) （裁判官全員出席）
  - Willfulness in other areas of civil law means "reckless disregard" （「無謀にも無視」）
  - Due care standard is lower, more like negligence
  - Standard in patent cases will be changed to match that in other areas （新基準：特許を侵害している可能性を無謀にも無視）
- "[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 New Standard

- "State of mind of accused infringer is not relevant to this objective inquiry." (侵害者の心理状態は無関係)
- "[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
- "[L]eave it to future cases to further develop the application of this standard."
- 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)

Good Business Practices （適当な商慣行）

- Establish a defined triage process （行動順位、優先順位決定）
  - 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 letter is received （特許権者から詳細を要求）
- Request opinion if
  - Useful to make informed business decision
  - Close case – answer not clear （際どいケース）
  - Invalidity/unenforceability position only

Example triage process （例：優先順位決定プロセス）

- Identify a person or persons with knowledge of U.S. law to perform triage
- Define tiers （段階を規定）
  - Low risk
    - Memo to file; no further action
  - Medium risk
    - Solicit technical input
    - Submit to risk committee
  - High risk
    - Obtain opinion from U.S. attorney

Risk Factors for Willfulness（危険因子）

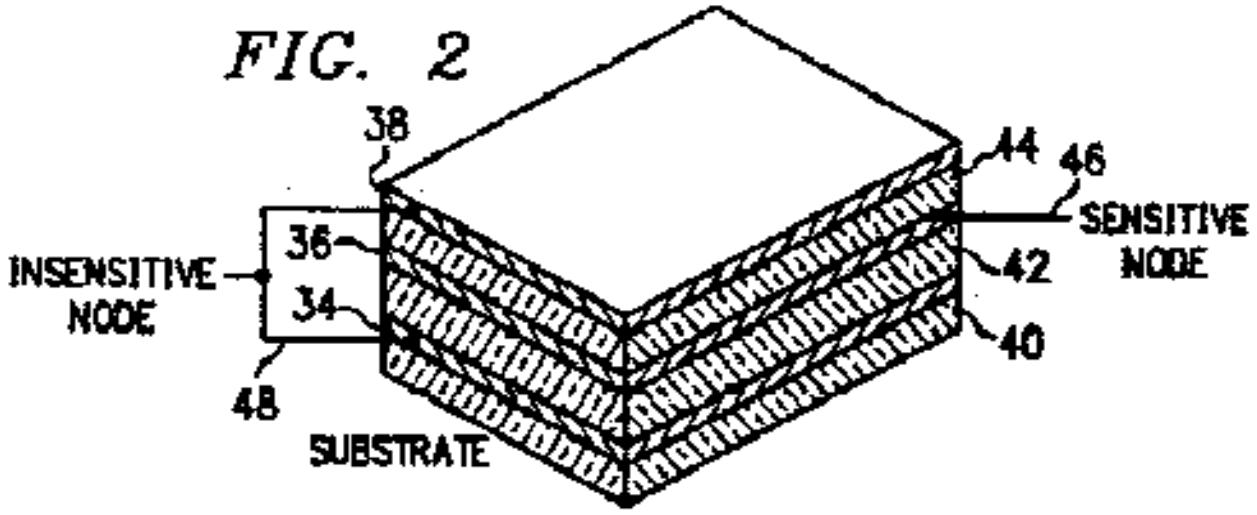
- Copying of competitor's product
  - Especially if known to be patented
- Making decisions based upon likelihood of patent holder to sue
- Making decisions based on level of potential damages
- Other "bad acts"
- Jury will look at entire conduct of party in determining willfulness（陪審は当事者の全ての行為を考慮する）

Willfulness and Indirect Infringement

- Indirect infringement （間接侵害）
  - Requires actual infringement by *someone*
  - Inducement （誘惑）
    - Encourage another to infringe a patent
  - Contributory infringement （寄与侵害）
    - Contribute to infringement by supplying a material part that has no substantial non-infringing use
  - A party that induces or contributes to infringement is jointly and severally liable with the direct infringer for all general damages （寄与侵害者は直接侵害者と連帯して責任を負う）

Case Study: *Crystal* （事例研究）

- Crystal was the assignee of 3 patents relating to 16-bit audio CODECs



246 F3d 1336 (2001)

Crystal

- Tritech manufactures audio chips
  - Had facilities in California and Singapore
- Tritech knew of Crystal's patent
  - began manufacturing 16-bit CODECs in Singapore
- Sold world-wide except U.S.
- Some sold to OPTi, who imported to U.S.

Crystal

- Trial Court awarded $10,000,000 damages
- Found Tritech 60% liable （６０％責任を負う）
- Found OPTi 40% liable （４０％責任を負う）
- Found Tritech willfully infringed （Tritechは意図的に侵害したと判断）
- Doubled damage award to $20,000,000（損害賠償金額を２倍）

Crystal

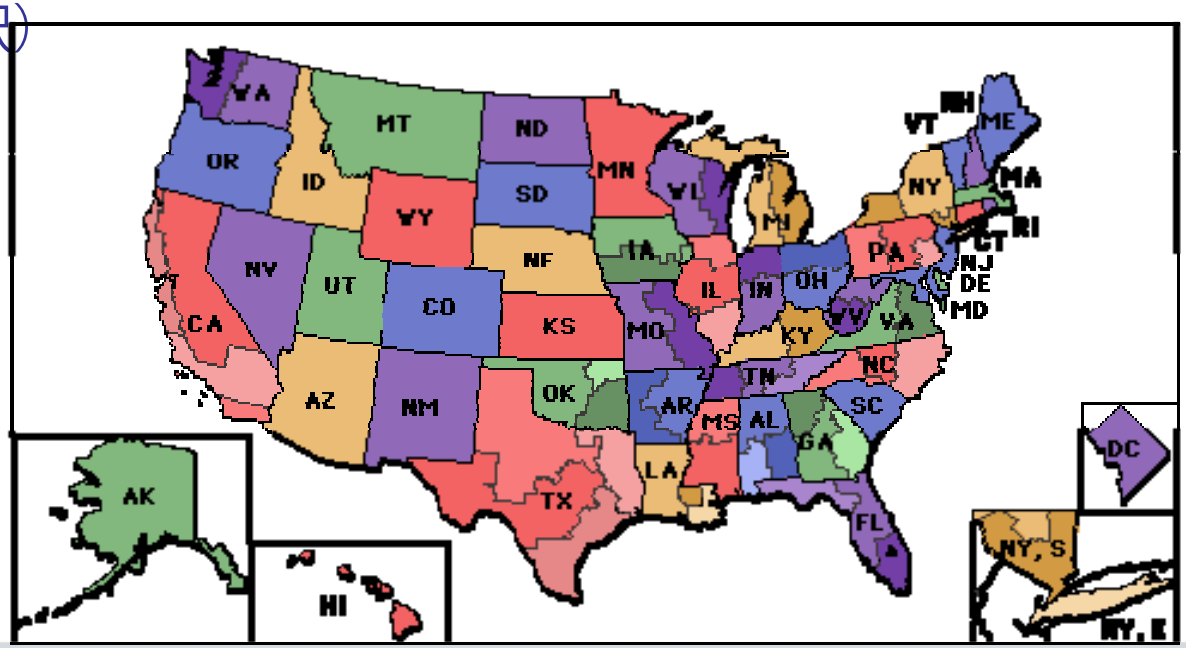
- Why liable if never sold in U.S.?
  - OPTi sold in U.S.; was a direct infringer
  - Tritech induced the infringement by OPTi
- Why is Tritech responsible for all of enhanced damages?
  - Court found only Tritech's conduct to be willful（Tritechの行為のみ意図的と判断されたため、加重された分はTritechが全て負担する）
  - Result is paying damages on customer's sales

Section 2: *Patent Litigation in the United States*

- Unique aspects of patent cases （特有な側面）
- Venue issues （裁判地）
- Electronic discovery （電子ディスカバリ）
- Cost issues （コスト）
- Remedies （救済手段）

Jurisdiction & Venue （裁判権と裁判地）

- Patent cases heard in Federal Courts
  - 94 Federal Districts （連邦区）
  - Plaintiff normally gets to choose the District （通常は原告側が選択）



- Two requirements for choice of district
  - Personal Jurisdiction: Minimum Contacts （対人管轄権：最小限の接触）
    - Purposeful availment; （利用意図）
    - Nexus; （関係、繋がり）AND
    - Fairness & reasonableness. （公平性、妥当性評価）
  - Venue: 28 U.S.C. § 1400(b)
    - Venue is proper in a judicial district where

      the Defendant resides; （被告人の居住地）OR

      the Defendant has committed acts of infringement AND has a regular and established place of business.*

      （被告人が事業所で侵害行為を犯した）

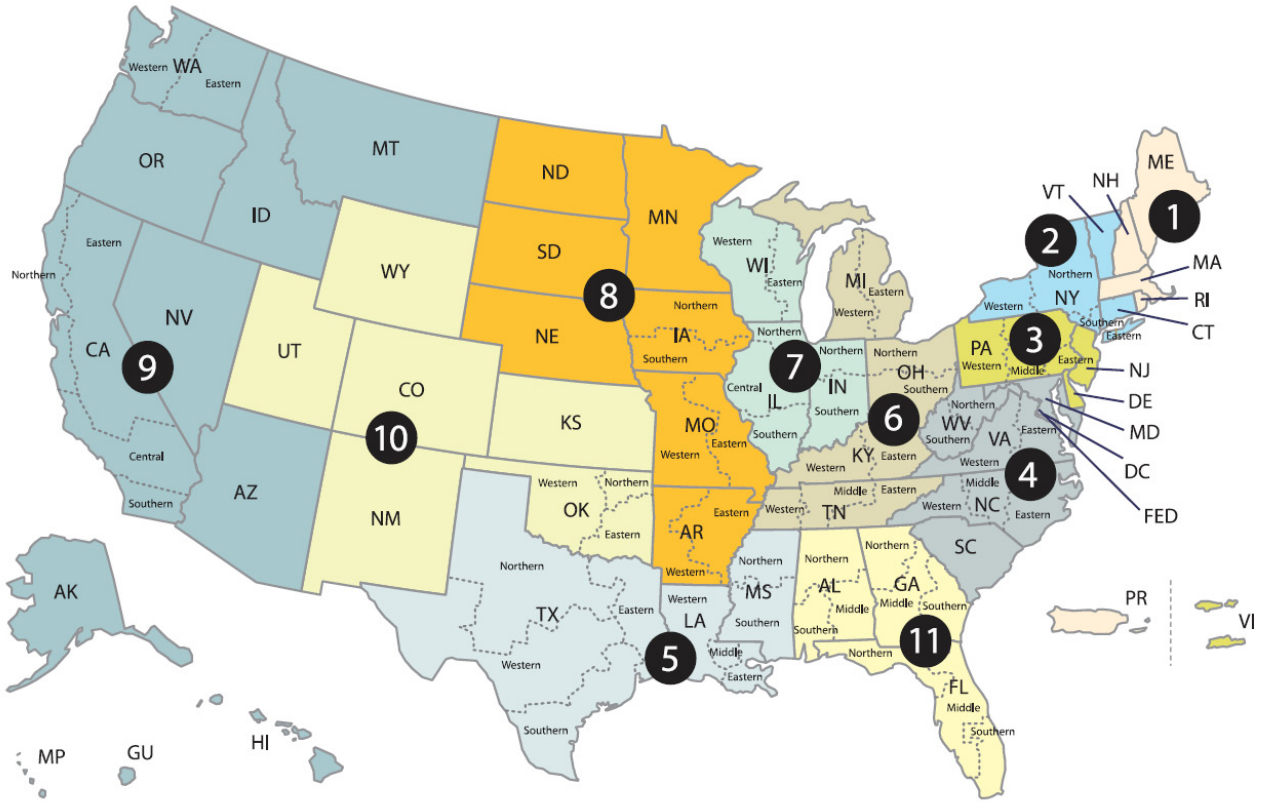
      **Interpreted broadly*（広義に解釈される）

- Importance of choice of district （連邦区選択の重要性）
  - Plaintiff is first to open and last to close argument (冒頭陳述と最終弁論は原告側が行う)
  - Convenience （利便性）
    - Location relative to plaintiff rather than defendant
  - Characteristics of chosen district （選択した区の特徴）
    - Time to trial
    - Experience in patent cases
    - Local procedures for patent cases
    - Typical jury pool

- Declaratory Judgment Action （宣言的判決訴訟）
  - Allows pre-emptive suit by potential defendant （潜在的被告が先手を取ることが可能）
  - Actual controversy （現実紛争）
    - Reasonable apprehension; （訴訟提起の合理的懸念）AND
    - Actual production OR preparation for production （生産または生産の準備）
  - Recent cases have lowered standard for reasonable apprehension
    - Ability to file DJ action under broader range of circumstances （最近の判例により「訴訟提起の合理的懸念」の基準が下げられ、宣言的判決訴訟を起こしやすくなった）
      - "Friendly" letter no longer a safe option

Appellate Jurisdiction （上訴管轄権）

- Normal appeals from Federal District Courts go to the Court of Appeals for the corresponding “Circuit”



Appeals in Patent Cases （特許訴訟上訴）

- All patent appeals go to a single court of appeals
  - U.S. Court of Appeals for the Federal Circuit
    （特許訴訟は全て連邦巡回区控訴裁判所に上訴される）
- Choice of law
  - Substantive issues （実体法）
    - Federal Circuit law applies
    - Examples:
      Statutory bars on patentability (*e.g.*, § 102)
      Enjoining patent infringement
  - Procedural issues （訴訟法）
    - Regional Circuit law applies
    - Example:
      Federal Rules of Civil Procedure

Defenses （抗弁）

- Substantive defenses （実体法）
  - Invalidity, non-infringement, *etc.*
- Defenses in equity （衡平法）
  - Equitable Estoppel （禁反言）
    - Defendant substantially **relied** on misleading conduct of the patentee; AND
    - Suffered material prejudice as a result.
    - *Complete bar to recovery*
  - Laches （消滅時効）
    - Patentee delayed filing suit for an unreasonable and inexcusable period of time; AND
    - The delay resulted in material prejudice to the infringer.
    - *Bars past damages*

Remedies （救済手段）

- Injunctions （差し止め命令）
  - Preliminary （仮差し止め）
    - If irreparable harm is shown
  - Permanent （終局差し止め）
    - No longer automatically granted
- Monetary damages （賠償金）
  - Reasonable royalties （合理的ロイヤルティー額）
  - Lost profits （利益損失）
  - Enhanced damages (willful infringement)
- Attorney fees （弁護士費用）
  - Prevailing party + Exceptional case

Issues specific to patent cases （特許訴訟に特有な議題）

- Claim construction （クレーム解釈）
  - Often dispositive of the case
  - Question of law decided by Judge （法律問題）
    - Usually during pre-trial *Markman* hearing
- Special local patent rules in some districts （地元の特別ルール）
- Special masters / technical experts used in some districts
- Inequitable conduct and willful infringement claims （不正行為および意図的侵害告発）
- Electronic discovery (電子ディスカバリ)

The *Zubulake* Case (SDNY 2005) （電子ディスカバリ）

- Held that any accessible electronic data relating to claims/defenses of the suit must be produced
- Accessible = stored in a readily usable format
- Duty to preserve evidence arises when the party has notice that the evidence is related to litigation （訴訟に関連するデータと気づいた時点で、そのデータの証拠を保持する義務有り）
- Even before case is filed!
- E-Discovery Federal Rules in force 12/06

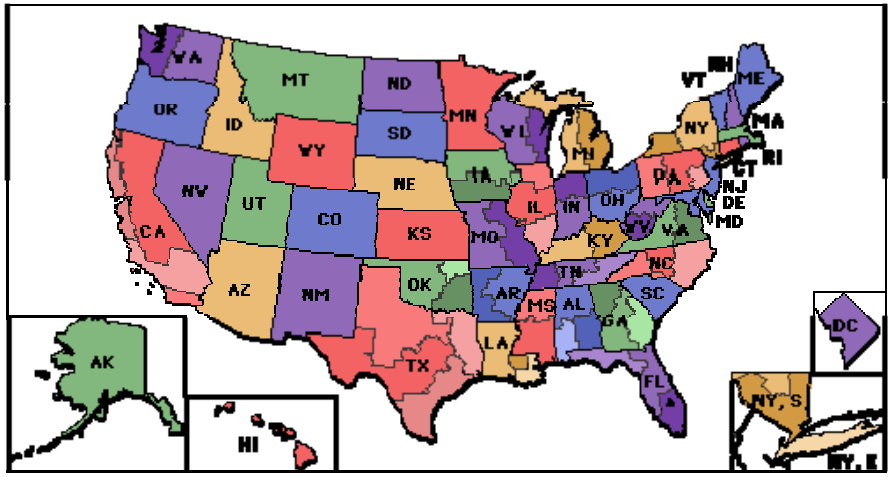
Litigation Hold should be Implemented Immediately upon Notice of Litigation

- 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 （訴訟に関わったらデータの自動削除等をストップ）
- Follow-up with preservation of electronic data – monitor efforts to comply and ensure preservation of relevant electronic data （電子データの保持）
- Identify and interview key custodians – communicate directly with key players and understand each person's data management procedures

Risks Involved with Non-Compliance （電子ディスカバリのルールに従わない場合のリスク

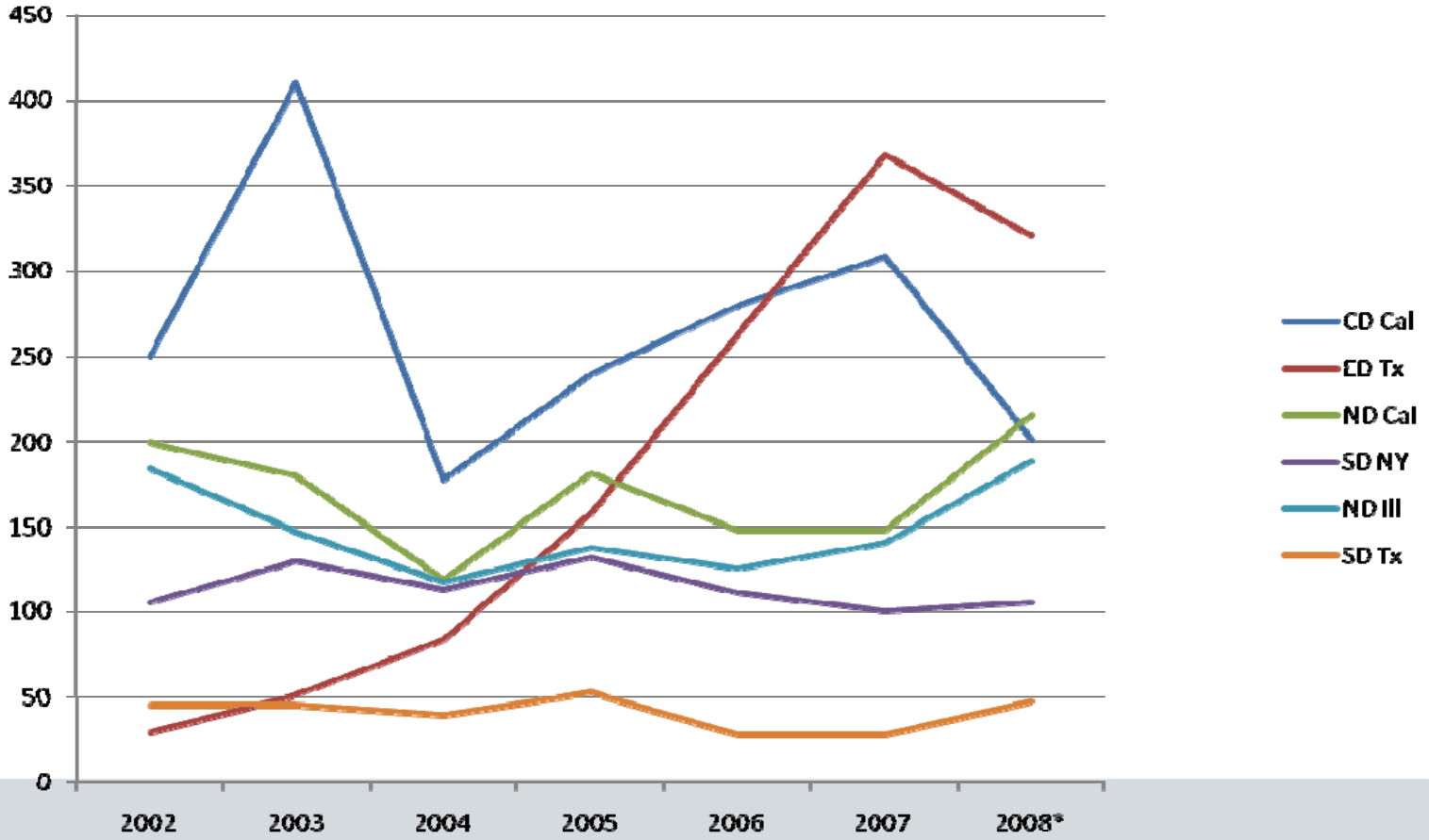
- Failure to comply results in:
  - Sanctions （制裁）
    - With increasing severity and frequency
  - If willful spoliation of electronic data, lost information is presumed to be relevant （意図的に削除されたデータは不利なデータと推定）
- *Micron Technology, Inc. v. Rambus Inc.* (D.Del. 2009)
  - Rambus' portfolio at issue found unenforceable due to pre-filing document spoliation

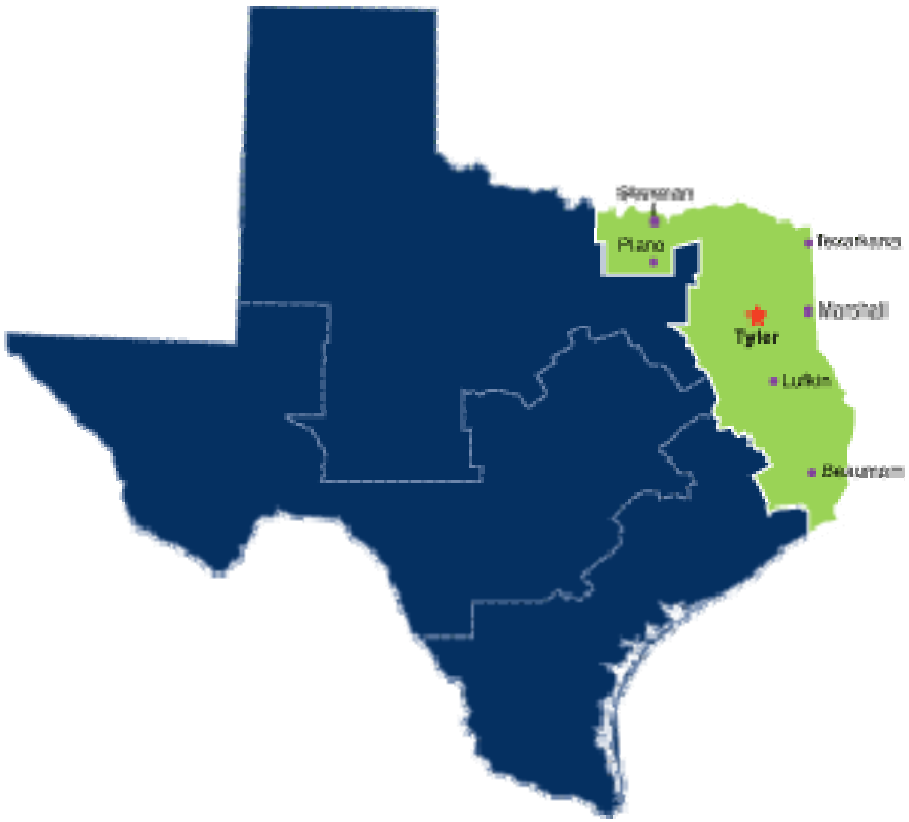
Eastern District of Texas: Patent Litigation Capital of America （テキサス州東部地区地方）



- 94 federal districts, all of which hear patent cases
- 11% of <u>all</u> U.S. patent lawsuits filed in 2008 have been filed in Eastern District of Texas
- For patent cases filed by “patent trolls,” probably over 40%

Patent Lawsuits Filed, 2002-2008 （特許訴訟数）





- Six divisions extending from Dallas suburbs to Houston suburbs
- Sparsely populated; mostly small towns and rural areas
- Patent cases filed primarily in Marshall Division

Marshall, Texas

- Population: 25,000
- Fourth largest city in Texas in 1860; has been declining since the 1960's
- No commercial air service; 3 hour drive from Dallas; 4 hours from Houston
- One resident federal judge: Judge John Ward

Why Marshall?

- Plaintiff-friendly juries （陪審が原告優位という評判）
- Historically, lighter docket conditions meant cases could be brought to trial within one year
  - Currently, due to the huge number of patent cases, time to trial is 30-34 months.
- Court has developed a reputation as extremely sophisticated on patent law （特許訴訟の経験豊富）
- Ruthless enforcement of deadlines and discovery rules （期限、ディスカバリ・ルールの厳しい施行）
- Historical unwillingness to transfer venue

Motions to transfer out of EDTX （裁判地移転の申し立て）

- Historically denied （当時は却下される可能性大）
- Recent 5th Circuit and Federal Circuit cases improve chances of successful transfer （最近の判例により、申し立てが認められる可能性が多少上昇）
  - If case does not have meaningful connection to district AND some connection exists elsewhere
- Plaintiffs may simply establish place of business in EDTX

Practical Advice （実践的アドバイス）

- If threatened with an infringement suit, consider filing a preemptive declaratory judgment action in a more “friendly” venue
  （宣言的判決で先手を取る）
- Beware that “notice letters” can now support a declaratory judgment action against you
- If filing suit in Eastern District of Texas (or another district that uses the same patent rules), have claim charts and initial disclosures prepared before filing suit
- If sued in a U.S. Court, immediately preserve electronic evidence and contact counsel
  （米で訴えられた場合、電子データ・証拠を至急保持）
- Develop “Hurricane Plans” for litigation
  （訴訟での「ハリケーン対策」）

"Hurricane Plans" for Litigation

- 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

Patent Litigation Costs （特許訴訟のコスト）

- $25 million or less in damages
  - $600,000 to $2 million if settled before trial
  - $1.2 million to $3.5 million through trial and appeal
- More than $25 million in damages
  - $1.4 million to $4 million if settled before trial
  - $2.4 million to $6 million through trial and appeal
- Entry of non-patent litigators drives up costs
- Strong client control of trial team important
  - Limit on attorneys at depositions, *etc*.

Section 3: *Alternate Approaches to Patent Disputes* （特許紛争選択肢）

- International Trade Commission Proceedings
  （国際貿易委員会の手続）
- Reexaminations
  （再審査）

ITC Proceedings （国際貿易委員会の手続）

- Known as “Section 337 Investigations”
- Imported products only
- Injunction/Exclusion order are the only remedies
- Fast-track action (15-18 months)
- Plaintiff must show domestic industry and use of technology

Reexamination （再審査）

- Conducted by U.S. Patent Office
  - New central group handles requests
  - Request must raise "substantial new question of patentability"
    - Important recent case: *Swanson*
      - Standard for what is a "new question" lowered
      - USPTO can invalidate a patent found valid by a court
- *Ex Parte* （一方的手続き）
  - May be requested by third party
    - Third party has no further involvement
- *Inter Partes* （当事者間手続）
  - Mini-litigation
    - Requester remains involved

Swanson – Analysis （事例研究）

	Litigation	USPTO Examinations
Presumption of Validity	Patent is presumed valid under 35 U.S.C. 282	No presumption of validity
Standard of Proof	Clear and convincing evidence standard to overcome presumption	A preponderance of evidence (substantially lower standard)
Claim Construction	Claims construed to sustain validity (*In re Yamamoto*)	Claims given broadest reasonable interpretation, consistent with the Specification (*Trans Tex. Holdings*)

Reexamination – Warning （警告）

- **Reexamination may invoke *de facto* estoppel:**
  （事実上禁反言が働く可能性有り）
  - Any claim held valid under reexamination will be significantly more difficult to invalidate in subsequent litigation or proceedings
  - Ideally, reexamination should be requested based on prior art that the examiner failed to adequately consider

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Section 4:
Patent Trolls

- What is a “patent troll”?
- Effects of patent trolls
- Efforts to stop patent trolls
- Strategies for dealing with trolls

What is a “patent troll”? （トロールとは？）

- According to Peter Detkin, who coined the term, a patent troll is:
  - “[S]omebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced.”
    - Brenda Sandburg, *Trolling for Dollars*, Recorder, July 30, 2001, at 1 (quoting Peter Detkin, co-founder and managing director of Intellectual Ventures, L.L.C.).

    （自らは事業せず、保有している特許権を行使して大企業から多額な損害賠償金やライセンス料を求め、莫大な利益を上げようとする者）

Types of Patent Trolls （パテント・トロールの種類）

- Individual inventors who do not produce or commercialize the patented invention but sue corporations for infringement
- Patentees who patent technologies for the sole purpose of collecting license fees
- Companies who purchase patents as tools for licensing and enforcement and not for commercial production

Good faith vs. Bad faith “patent trolls” （誠実 vs. 不誠実なパテント・トロール）

- Sharply derogatory connotation now associated with the term “patent troll”
- Many believe that a patentee should not be pejoratively labeled a “troll” simply because the patentee does not commercialize the patented invention
  - These include non-profit enterprises such as research institutes and universities
- “NPE” becoming popular

Effects of Patent Trolls （パテント・トロールの効果）

- Negative Effects　（マイナス効果）
  - Unreasonable licensing fees
    - Threat of injunction outweighs value of patent
    - Lack of proper apportionment of damages
  - Litigation expenses
    - Plaintiff's attorneys on contingent fee
    - Inconvenient forum (ED TX)
  - Hinder technological and industrial growth
  - Negative public perception of patents
- Positive Effects　（プラス効果）
  - Create a secondary market for patents
  - Opportunity for small inventors to obtain return on investment in their inventions

Efforts Directed (in part) at Patent Trolls

- Legislative Action （法的措置）
  - Proposed patent reform
    - Changes to venue rules for patent cases
    - Post-grant opposition and “second window”
    - Apportionment of damages
    - Move to “first to file” system
    - Simplified definition of “prior art”
    - Inequitable conduct moved to separate proceeding
- Patent Office Rule Changes （特許庁ルール修正）
  - Limit number of continuations and claims
    - Stayed by court order

Efforts Directed (in part) at Patent Trolls

- Judicial Action （司法措置）
  - *eBay v. MercExchange* (2005)
    - Injunction requires application of a reasonableness test
  - *KSR v. Teleflex*
    - Obviousness standard raised
  - *MedImmune*
    - Licensee can sue for invalidity without breaching license
  - *Seagate*
    - Willful infringement standard raised

Strategies for dealing with Trolls （トロール対策）

- Prophylactic procedures （トロール予防法）
  - “Triage” process for evaluating problem patents and obtaining opinions
  - “Hurricane plan” for patent litigation
  - E-Discovery SOP in place
- When confronted （トロールに迫られた場合）
  - Review the troll’s litigation history and weigh the risks
  - Expect aggressive behavior
  - Look into quality of patents being asserted, and attempt to invalidate patents through reexamination or DJ action
  - Negotiate running royalty and consider *MedImmune* attack post-license

Section 5: *Inequitable Conduct* （不正行為）

- Definition
- Avoidance

Inequitable Conduct （不正行為）

- Patent held unenforceable if inequitable conduct is found （特許無効）
  - Misleading the examiner or other bad acts （審査官を惑わす行為）
  - Violation of duty of disclosure （開示義務違反）
- 37 C.F.R. § 1.56
  - Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability.
    （特許性の判断に重要な情報を全て開示する義務）
  - Information is material to patentability when it is not cumulative to information already of record or being made of record in the application.
- NOTE: compliance with Rule 56 is a widespread problem for Japanese companies （日本の企業にとって深刻かつ広範な問題）

What is material （特許性の判断に重要な情報とは）

- Information is material to patentability when:
  - It establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of a claim; or
  - It refutes, or is inconsistent with, a position the applicant takes in:
    - Opposing an argument of unpatentability relied on by the Patent Office, or
    - Asserting an argument of patentability.

Who has the duty （義務がある者）

- (c) Individuals associated with the filing or prosecution of a patent application within the meaning of this section are:
  - (1) Each inventor named in the application
  - (2) Each attorney or agent who prepares or prosecutes the application; and
  - (3) Every other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee, or with anyone to whom there is an obligation to assign the application.

Third party submissions （第三者提出）

- (d) Individuals other than the attorney, agent or inventor may comply with this section by disclosing information to the attorney, agent, or inventor.
  - Can be used to cite prior art in third-party cases.

Section 6: *Due Diligence*（特許の適正評価手続調査）

- Importance
- Proper Procedures
- Ownership

Importance of Due Diligence （重要性）

- Companies are often purchased, or investments made, without full understanding of scope, status, and ownership of IP
  - Can be of critical importance to value of investment
  - Errors easier to address before transaction is completed
  - Litigation is expensive and often counter-productive

Procedures for Due Diligence （手順）

- Start early!
- Identify “crown jewels”
  - Employ two-level analysis for large portfolios
- Use technically qualified persons to evaluate scope and quality
  - Avoid negative written comments
- Check dates and Rule 56 compliance
- Investigate inventorship carefully
  - U.S. rules not the same as other countries
  - Make sure contracts signed with all inventors and potential inventors

Procedures for Due Diligence （手順）

- Verify status of international and foreign national applications; verify prior art has been cited
- Determine existence of laboratory notebooks
- Review IP policy
- Verify procedures for confidentiality of documents and trade secrets
- Review trademark registrations, common law trademarks, and verify current use
- Search court records for suits
- Check background of principals for criminal action

Verifying Ownership （所有権を実証）

- Make sure all inventors and potential inventors have assigned to the company
- In the case of joint ownership, make sure agreement is specific in terms of duties and rights to enforce / license
  - U.S. law treats co-owners of a patent as owners of undivided interests

Thank You