

## Top Ten Ways to React when You Just Received a Demand Letter Accusing Your Company of Patent Infringement

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Being sued for patent infringement can strike fear into the heart of the most seasoned in-house counsel. But some patent owners seek to resolve issues of alleged infringement outside of litigation, and this typically starts with a demand letter. While receiving such a letter is not the same as being served with a complaint, such allegations should be taken seriously and considered carefully.

Demand letters can take any number of forms: from a short statement alleging infringement of a single patent to a lengthy list of patents and an array of claim charts. While each situation is different and will require thoughtful assessment, here are some general steps and considerations that companies can take when faced with a pre-litigation allegation of infringement.

### **1. Investigate the Nature and Scope of the Assertion.**

As an initial matter, it is important to understand the scope and scale of the threat posed by the patent assertion. For example, how many patents are asserted in the letter? Does the patent owner specifically allege that your company infringes, or does the letter merely invite you to engage in licensing discussions? Is the accused technology core to your business or tangential? Is the asserted patent active or recently expired? Does your company actually make, sell, offer, use, or import the accused product/technology or enable a customer to do so (e.g., is it your company's product or a customer or supplier's product)? Are the patents granted in the jurisdiction in which your company's relevant activities occur? Has your company sold accused products in the past 6 years? (Note: infringement claims are usually limited to the 6 years preceding the filing of a complaint.) Are there grounds for an equitable estoppel defense? Has your company already stopped selling the accused products and has no inventory left, so a simple settlement may be possible without detailed analysis? These are just a few of the issues to consider early in the process.

Factors such as these will impact the urgency and scope of your analysis of the assertion. For example, a large portfolio asserted by a litigious patent owner against your core business should certainly be prioritized.

### **2. Investigate Potential Indemnity/Insurance and Provide Timely Notice to Indemnitor(s) or Insurers.**

If the patent owner accuses a product or service that is provided in whole or in part by a vendor, then move quickly to investigate whether that vendor owes an indemnity obligation. Typically,

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most agreements require timely notice in order for the indemnity obligation to attach. Also, some vendors limit their exposure for indemnity based on intellectual property infringement, so be sure to read the relevant agreement(s) carefully. In addition, some vendors and service providers include caveats, limiting indemnity in cases where the accused product has been modified or combined in some way. As a general rule, however, if there is a reasonable claim that a vendor or other service provider owes an indemnity obligation, it is wise (and likely required by contract) to provide notice early so that the indemnitor cannot credibly claim that notice was not timely.

If you are directly the subject of the allegation, review your insurance coverage. Some insurance policies may cover patent infringement, and timely notice to the carrier and/or using the carrier's counsel may be required. If you are uncertain, ask your insurance broker for guidance. You may want to consider asking about the coverage in advance, because it may require you to provide certain documentation to ensure coverage, or pre-employ certain law firms or investigators.

### **3. Investigate and Assess the Sender of the Patent Assertion.**

In addition to assessing the nature and scope of the assertion, details about the person or entity sending the assertion letter can be relevant to when and how you respond. The sender could be an individual—such as the named inventor on a patent—or a large law firm, or anything in between. For example, if you receive a patent assertion on the letterhead of a prominent plaintiff-side law firm, then you may reasonably conclude that the patent owner is signaling an aggressive posture. If the letter comes from an entity whose business it is to license/litigate the patents of others – often referred to as a non-practicing patent entity (NPE) and sometimes as a “patent troll” – then care should be taken to assess the risk as many NPEs are unlikely to drop their claims without dialogue or interaction with your company.

On the other hand, a letter directly from the patent owner may at times convey a lower degree of sophistication. But this does not mean that all such letters should simply be ignored. In fact, sometimes individuals asserting their own patents can be less open to substantive rebuttals of their arguments. In short, each assertion is different and should be considered on its own, but the sender should be included as part of the risk calculus.

You may also check public patent assignment records to find out whether the sender is the actual patent owner. If they are not the owner (or representative of the owner) – perhaps they are a licensee - you may want to consider contacting the owner too. (In some cases, patent licensees can assert patent rights, but this may leave open the issue of resolution with the actual owner.)

In the U.S. (and certain other locations), check if the patent owner has constructively given notice of its patent by marking its products with the relevant patent number or website listing the relevant patent numbers. For example, if the patent owner practices or licenses the patent (in other words, has their own product covered by the patent), buy a sample to see if it is properly marked per the patent marking statutes. If not, your damages may start at the time of actual notice (when you received the letter), instead of when you first sold an infringing product. This may drastically decrease potential damages.

Additional research into the patent owner may include reviewing whether your company and their company have had any previous interactions, their litigation history, whether any of their products infringe your company's rights, other intellectual property rights they hold, and other company information such as their size, structure, location, or affiliates.

#### **4. Decide Whether to Acknowledge the Letter.**

As a general matter, unless you do not intend to send a substantive response at all, sending a short acknowledgment soon after receiving the assertion is often a good idea. The nature and timing of the acknowledgement will depend upon factors such as the level of detail provided in the assertion. Often, more sophisticated patent owners will provide claim charts detailing their allegations of infringement. On the other hand, some patent owners will send a short opening letter, perhaps identifying their patents by number and alleging that certain of your products or services infringe one or more of these patents.

In the first case (in which the patent owner provides claim charts), acknowledging receipt and advising that you are reviewing the materials and will respond in due course may be useful. This may buy you some additional time in order to investigate the claims and perform thorough due diligence to determine their strength or weakness.

In the second case (in which patents are identified but no claim charts are provided), consider sending a short response stating that the letter has been received, that you take third party IP rights seriously and thus investigate infringement allegations, and pointing out that the letter contained no detailed allegations of infringement. After sending such a response, it may be wise to perform some due diligence on the identified patents in the event the patent owner responds with claim charts or other detailed infringement allegations. Also, check your state's laws to determine whether a claim chart or other information was required to comply with any relevant anti-troll legislation (some states have a presumption of "bad faith" in the absence of a claim chart and/or certain other information included in a patent demand letter).

#### **5. Perform Due Diligence on the Assertion.**

A key component of addressing an infringement assertion is to perform due diligence. In other words, assessing the strength of the assertion and the potential risks. This is typically done in coordination with outside counsel. The depth of the dive undertaken at this point depends on various factors, including those discussed above.

Due diligence typically involves at least the following: an assessment of the infringement allegation itself, identification of potential non-infringement arguments, identification of potential invalidity arguments, and an assessment of the financial or business risk associated with the assertion. If the patent owner is an NPE, you may want to investigate whether it has a history of sending flurries of this type of letter, or even of filing petitions in court, and how the other recipients or the courts have responded to or disposed of them.

Evaluating the infringement allegations and identifying potential non-infringement and/or invalidity arguments may require coordination with the relevant engineers/scientists who work on the accused product or service. But as your company's engineers/scientists are likely busy, consider what you (or outside counsel) can ascertain first. For example, to the extent that there is publicly-available information regarding the accused product/service—or information that you as in-house counsel can access—then it is often best to consult that information first in evaluating the infringement allegations. Even if you eventually have to consult the relevant engineers or scientists, having an understanding of the otherwise-available information will allow you (or outside counsel) to focus your discussions.

#### **6. Correspondence Tip: Try to Avoid Taking Claim Construction Positions in Writing.**

When drafting a response to a patent assertion, consider how that correspondence would be viewed by a judge or jury—and how it could be used by opposing counsel at trial. To that end, it is generally advisable to avoid taking explicit claim construction positions. Consider the impact on the jury if the assertion results in litigation and the court construes the claims differently than you do in your letter. In such a case, opposing counsel could argue at trial that the non-infringement/invalidity arguments are meritless because they rely on an improper claim construction. Rather than taking an explicit claim construction position, one approach is to use the patent owner's claim interpretations as inferred from the claim charts or other correspondence.

#### **7. Correspondence Tip: Consider Pending Continuations in the Patent Family.**

Part of any due diligence on a patent assertion should include investigating whether there are any open continuations in the famil(ies) of the asserted patent(s). If so, then be cognizant of this fact, particularly when making invalidity arguments. For example, suppose you find a strong piece of prior art that likely invalidates the claims of the asserted patent. If you disclose that prior art to the patent owner, that creates an obligation for the patent owner to disclose the prior art to the patent office in related pending applications. In practice, this often means that the prosecuting attorney will include the prior art in an Information Disclosure Statement, and the pending application may then issue with the prior art now printed on its face, signifying that the Patent Office considered that prior art before issuing the patent and potentially weakening a future invalidity attack using that prior art.

In order to avoid this situation, consider reserving your best prior art findings for potential future litigation or *inter partes* review ("IPR") proceedings and instead making invalidity arguments based on prior art already on the face of the asserted patent.

#### **8. Consider a Declaratory Judgment or IPR Proceeding.**

If the patent owner is particularly litigious or if during the pendency of the discussions it becomes clear that the matter is unlikely to resolve without litigation, then consider pursuing a declaratory judgment or filing an IPR proceeding. Some factors that may weigh in favor of considering a declaratory judgment action include (a) you have strong non-infringement arguments, (b) you are vulnerable to being sued in an unfriendly jurisdiction, and (c) you have standing and jurisdiction to sue in a venue that is more favorable to you. Also, you may want to consider filing an IPR

proceeding before the Patent Trial and Appeal Board if you have strong prior art. This may be a tool to bring about a quick resolution, particularly if you discern that the patent owner does not want to spend the money required to defend an IPR proceeding.

#### **9. Consider an Opinion of Counsel.**

If you continue the allegedly infringing actions (especially if they are key to your business) and are concerned about a potential finding of willful infringement (with its associated triple damages), consider seeking a written opinion of counsel regarding non-infringement, invalidity, or both. This can be particularly valuable if you choose not to respond to an infringement allegation but nonetheless assess a reasonably high likelihood that the patent owner will file suit. If you seek an opinion of counsel, it is important to have it completed before the patent owner files suit. Thus, if you intend to take this approach, it is advisable to get the process started early.

#### **10. Consider Settlement Options - Taking a License, Paying a Royalty, and/or Ceasing Sales or Use.**

Sometimes the best approach, in the end, is to take a license. When evaluating whether to do so, consider factors such as the strength of the patents, the potential exposure, the likelihood of litigation, the disruption to your business, and of course the cost of the license. Also, in patent litigation, non-litigation licenses to comparable technology can be very probative evidence when it comes to damages. Thus, if you are (or expect to be) a frequent target of patent litigation in the particular technology area and are able to acquire a license for a low rate, then the future use of the license as a comparable in future litigation may provide additional value.

Another option is to stop sales or use of an infringing product or technology. Sometimes, you can negotiate a short period to sell existing inventory, which may be accompanied by a license fee as well. A settlement may also include a payment (such as a “reasonable royalty” – a typical remedy when patent infringement is found) to resolve past infringements as well or entering into a royalty-free cross license if your company has technology of interest to the accuser and there is business justification to do so.