



PLOUGMANN VINGTOFT®

Freedom to Operate Opinions in the US

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Outline

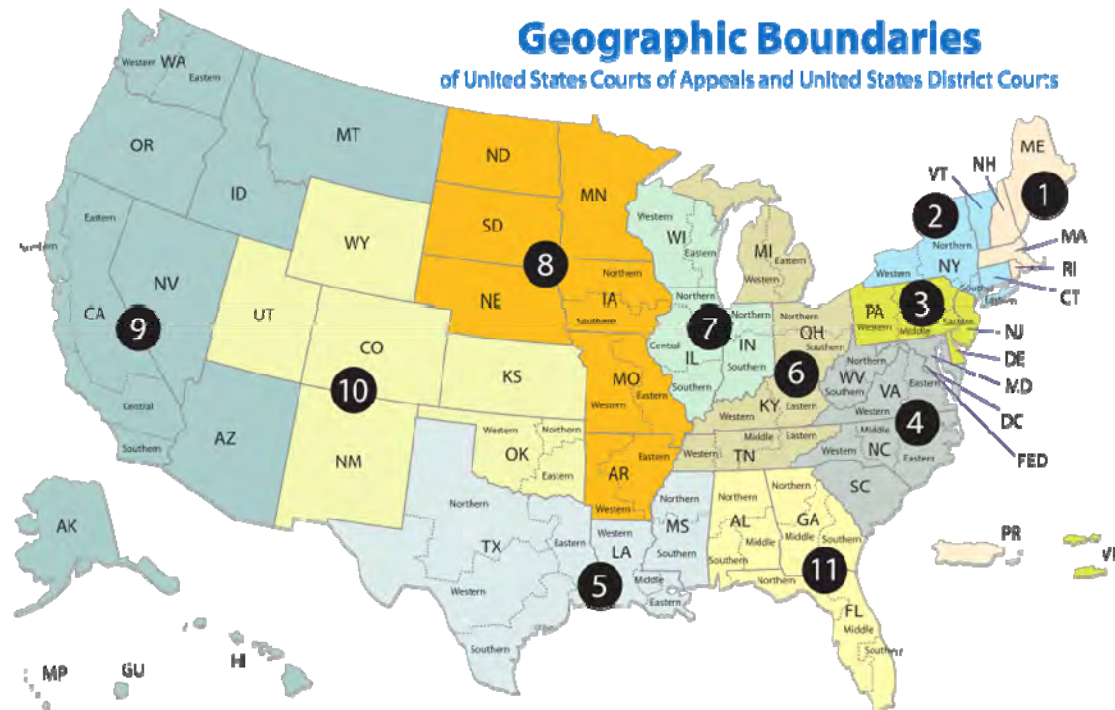
- › What is an FTO?
- › What use is an FTO?
- › Who might need an FTO?
- › A decade of declining US patent value
- › FTO as insurance against adverse litigation outcomes
- › FTO as negotiation and risk assessment tool
- › What makes an FTO “competent”?
- › Summary

What is an FTO?

- A **written** reasoned assessment of whether a **US court**, properly considering the facts and the law, **would be likely to rule** that **certain actions**—e.g., manufacturing, selling or offering to sell a given product within the US; performing a given process within the US, importing a given product or component into the US—**do not infringe** a **valid claim** of one or more specified **US patents**
- FTO can assess **non-infringement** or **invalidity** or **both**.

Infringement rulings made in US district courts

- 94 possible district courts, **generalist** civil and criminal courts with differing procedures for and familiarity with patent cases
- Majority of patent cases heard in a handful of districts (Del., ED Tex., N.D. Cal.)



District court infringement ruling: costs \$2 to 5 million, takes 2 to 5 years

- Patent owner (or potential infringer seeking declaration of invalidity or non-infringement) files **complaint**, followed by reply, motions to dismiss, fact and expert discovery, summary judgment motions, etc.
- **Judge** alone **determines meaning of the claims** (“*Markman* ruling”)
- **Judge**, usually with aid of jury findings, **rules** on **patent infringement/validity** and **compensatory damages**
- **Judge** can **also rule** to halt infringing activities (“*permanent injunction*”) and/or award **punitive damages** (e.g., for willful infringement) and/or **attorneys’ fees** (e.g., for litigation misconduct)
- Final decision appealable to **Federal Circuit** in Washington D.C.

Infringement rulings also possible at the USITC ("Section 337 proceedings")

- Patent owner files complaint at US International Trade Commission ("ITC") in Washington D.C.
- If ITC decides to take case, holds trial-type hearing to determine meaning of the claims, assess patent validity and compare claims to allegedly infringing products
- If patent found valid and infringed, ITC can ***exclude infringing products from US*** but cannot award damages
- Section 337 proceedings are relatively quick, 18 months, but as expensive as district court (~ 50 initiated per year)
- ITC final decisions appealable to ***Federal Circuit***

Patent invalidity determinations at USPTO

- AIA-created Patent Trial and Appeal Board (“**PTAB**”)
 - *Inter Partes Review* (“**IPR**”) ~ 1,400 filings/year
 - Covered Business Method (“CBM”) ~ 50 filings/year
 - Opposition-like Post-Grant Review (“PGR”) ~ 40 filings/year
- *Ex Parte* Reexamination (“EPR”) ~ 300 filings/year



Patent invalidity determinations at USPTO

- Compared to court (and ITC), USPTO interprets claims more broadly, i.e., tends to capture more prior art, and requires lower burden of proof to invalidate
- Therefore, ***if patent likely to be ruled invalid in court (or ITC), even more likely to be ruled invalid at USPTO***
- IPR, CBM, PGR final decisions appealable to ***Federal Circuit***
- EPR appealable to PTAB and, then, ***Federal Circuit***

What use is an FTO?

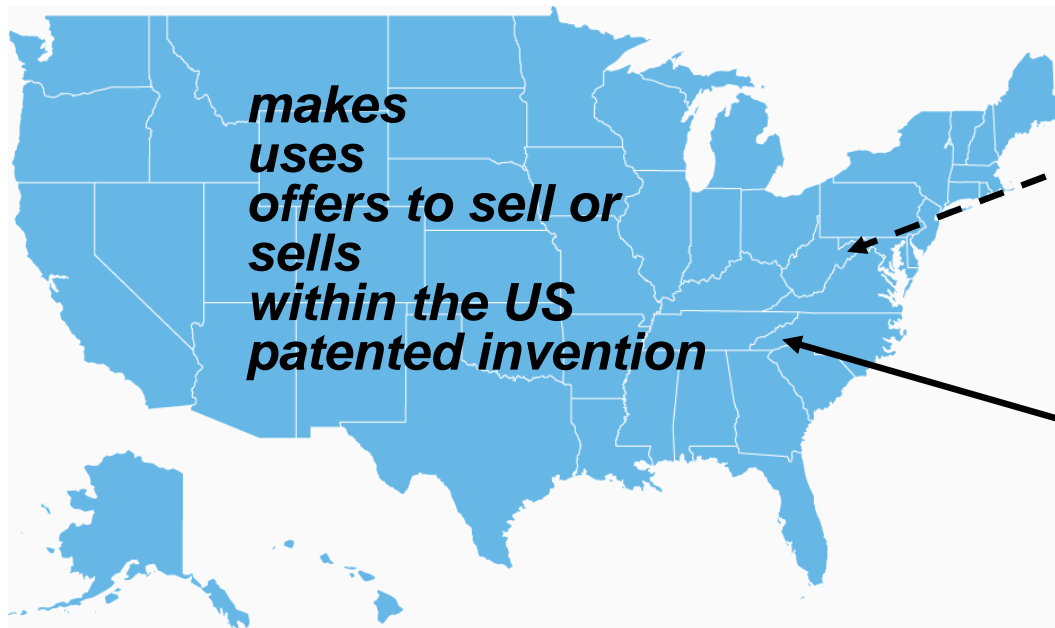
- FTO that court (ITC) is likely to rule that certain actions **do not infringe** any claim of one or more US patents can effectively eliminate **potential infringer's** risk of liability for **indirect or extraterritorial infringement**, since liability would require potential infringer to have **knowledge of infringement**
- FTO that court is likely to rule that certain actions do not infringe any **valid** claim of one or more specified US patents, in the event of an award of compensatory damages, can effectively eliminate **adjudged infringer's exposure to enhanced damages**
- Reduces **value** of potentially infringed patent in license negotiations and increases value of potential infringers enterprise in investment, joint venture, acquisition, etc., negotiations

Who needs an FTO? A potential infringer

- **Direct:** makes, uses, offers to sell or sell within US, or imports into US, patented invention § 271(a)
- **Indirect: actively induces,** § 271(b), or **knowingly contributes,** § 271(c), to direct infringement by others
- **Extraterritorial:** supplies or causes to be supplied from US, **component(s)** used to practice patented invention outside US, § 271(f), or imports into US **product made by process patented in US,** § 271(g)

Direct infringement: § 271(a)

> **No knowledge** by infringer of patent or infringement required



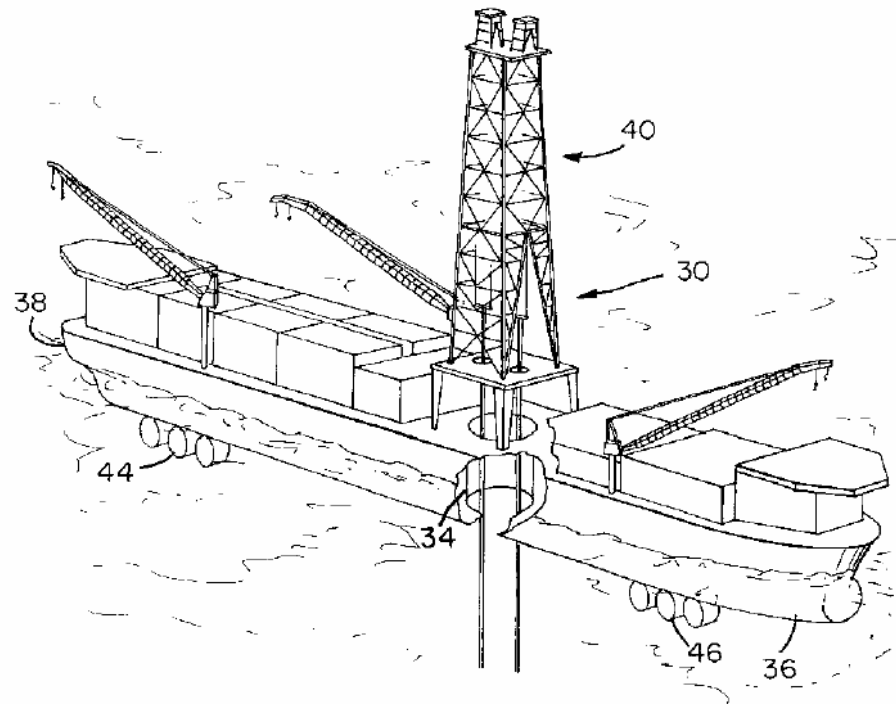
**makes
uses
offers to sell or
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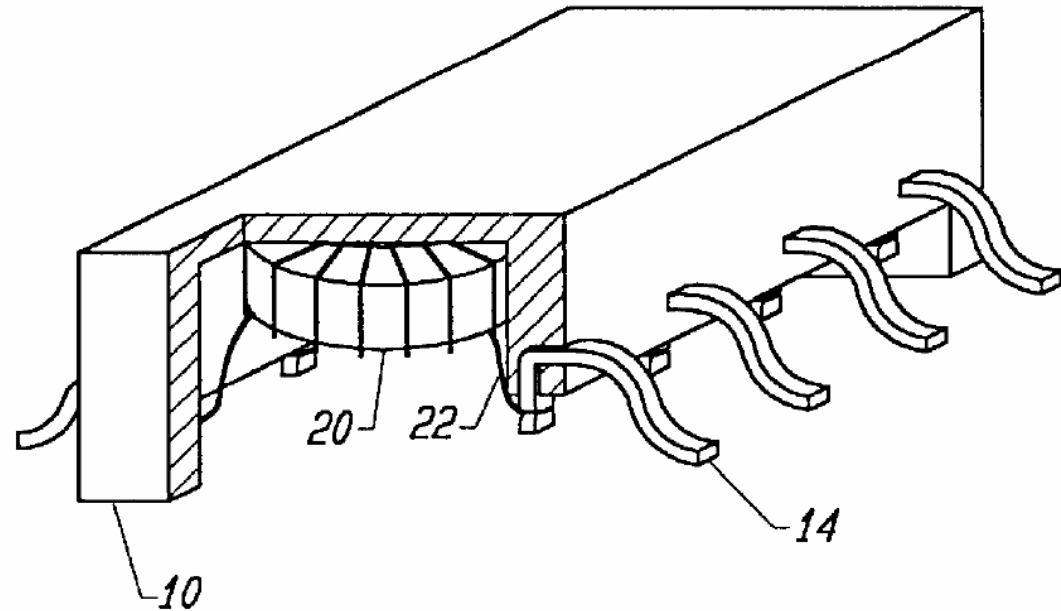
Offering for sale or selling: performance inside US

- Agreement negotiated **outside the US** for **delivery to the US** can be an **infringing** offer to sell or sale under § 271(a) *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296 1308-12 (Fed. Cir. 2010)

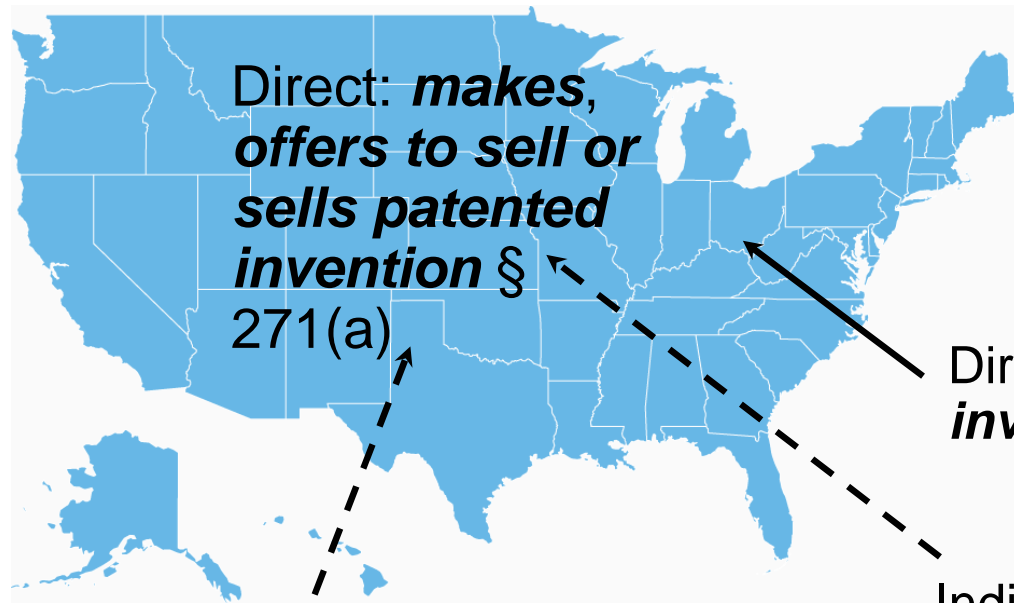


Offering for sale or selling: performance outside US

- Agreement negotiated **inside the US** for products to be manufactured, ordered, invoiced and shipped **outside the US** not an **infringing** offer or sale under § 271(a)
Halo Electronics, Inc. v. Pulse Electronics, Inc.,
831 F.3d 1369, 76-81
(Fed. Cir. 2016)



Indirect infringement: actions outside US



Direct: **makes, offers to sell or sells patented invention § 271(a)**

Indirect: **actively Induces, § 271(b)**, by contracting B to import patented invention **knowing of possible infringement**

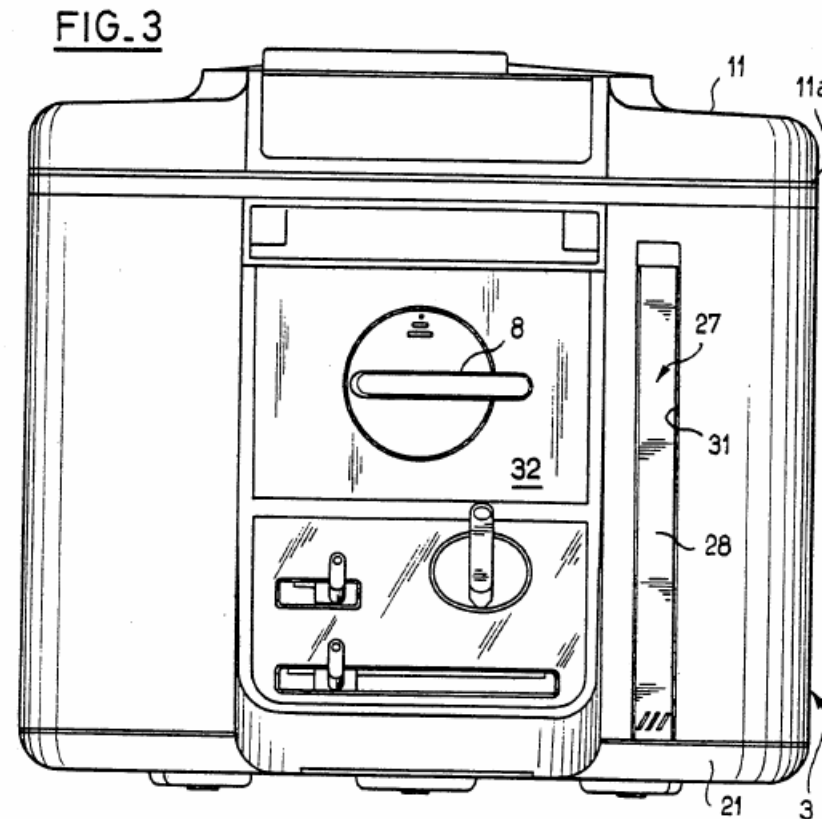
Direct: **imports patented invention into US, § 271(a)**

Indirect: **actively Induces, § 271(b)**, by contracting B to sell patented invention **knowing of possible infringement**

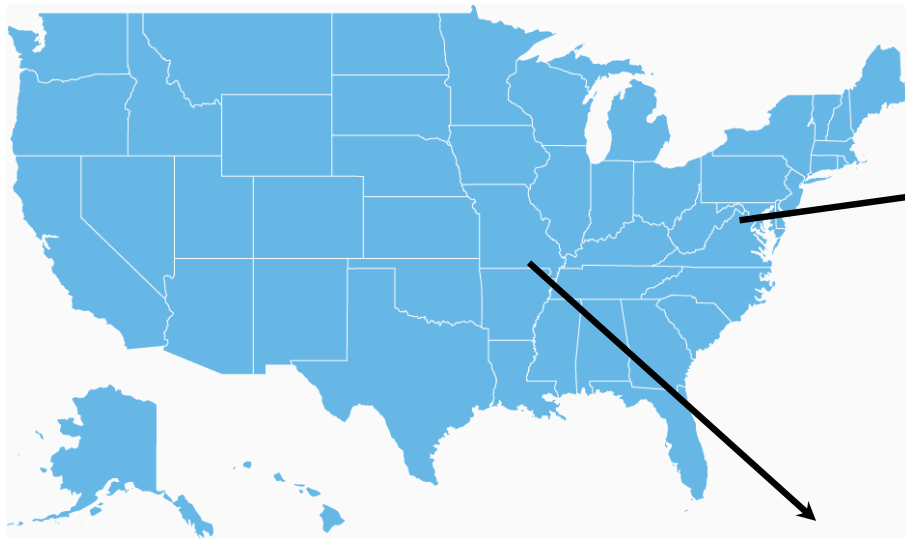
Indirect: **imports component especially adapted for use in patented invention into US, knowing of possible infringement § 271(c)**

Indirect infringement: actions outside US

- > Hong Kong company contracting with **US retailers** to sell deep fat fryers it **knows infringe** is active inducement under § 271(b)
Global-Tech, Inc. v. SEB S.A., 131 S.Ct. 2060, 2064 (2011)



Extraterritorial: supply of components to outside US



Supplies or ***causes to be supplied*** from US ***substantial portion of components of patented invention*** and ***actively induces*** infringing combination outside US § 271(f)(1)

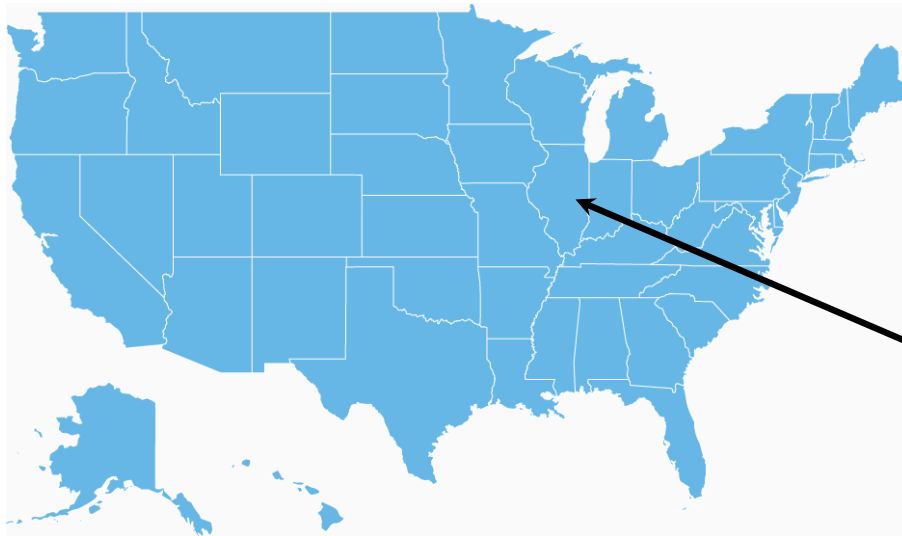
Supplies or ***causes to be supplied*** from US ***especially adapted component of patented invention***, not staple article of commerce suitable for substantial noninfringing use, ***knowing*** so adapted and ***intending*** infringing combination outside US § 271(f)(2)

Supply of especially adapted component outside US: patent owner can recover lost overseas profits

- A patent owner may recover **lost overseas profits** for infringement under § 271(f)(2). *WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011 (S.Ct., June 22, 2018)



Extraterritorial: product by process



Imports into the US **product** made outside US by **process patented in US**, unless product (1) **materially changed** by subsequent processes or (2) **trivial and nonessential component** of another product US § 271(g)

Extraterritorial: product by process

- > “**Product**” is manufactured **physical article**, not intangible **information produced** or **transmitted** by patented process
– See *NTP, Inc.*, 418 F.3d 1282
- > Chemical is “**materially changed**” if “significant change in the compound’s structure and properties” – *Eli Lilly & Co. v. Am. Cynamid Co.*, 82 F.3d 1568,1583 (Fed. Cir. 1996)

US patent law always evolving

- **Statutes** enacted by **US Congress** – Title 35 U.S.C. – notably Leahy-Smith America Invents Act (“AIA”) of 2011
- Statutes provide **broad framework**, gaps filled by court decisions and USPTO regulations (not binding on courts)



US patent law evolves as courts resolve actual disputes

- US Court of Appeals for the ***Federal Circuit*** – three-judge panel or, important cases, “en banc”, all active judges – ***usually has final say***



US patent law evolves as courts resolve disputes

- **US Supreme Court** can **elect** to hear patent appeals from Federal Circuit – typically no more a handful each year



US patent law evolves as courts resolve disputes

- **District Courts:** generalist criminal and civil courts of limited jurisdiction that may hear only actual disputes—no advisory opinions—including patent cases
- **Federal Circuit:** specialist in patent appeals—from District Courts, USPTO/PTAB and ITC—with rulings binding parties and applicable reasoning binding District Courts, USPTO/PTAB and ITC
- **Supreme Court:** generalist court that can elect to hear patent appeals from the Federal Circuit, with rulings binding on parties and reasoning binding Federal Circuit and District Courts, USPTO/PTAB and ITC

Decade of Declining US Patent Value

2006: More difficult to obtain permanent injunctions against infringers

2007: Licensee in good standing allowed to challenge validity of licensed patent

2010 to 2014: Creation of broad exceptions to patent eligible subject matter

2012: USPTO begins IPR and CBM proceedings

2016: Infringement cases displaced from courts favored by patent owners

2016: Limits on design patent damages

2006: More Difficult to Obtain Permanent Injunctions Against Infringers

- > “[I]n nearly every patent case up until 2006, a **victorious patent owner could count on and obtain a permanent injunction**”, thereby halting infringement across entire US. Menell et al., *Patent Case Management Judicial Guide* 3-2 (3d ed. 2016)
- > A patent owner seeking a permanent injunction must demonstrate: (1) irreparable injury; (2) **inadequacy of legal remedies such as monetary damages**; (3) balance of hardships favors injunction; and (4) **no disservice to public interest** from injunction. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006)
- > eBay decision intended result, **fewer permanent injunctions for Non-Practicing Entities** (“NPEs”), but also unintended consequences, **medical device and other health-related companies also strongly affected**. Clugston & Kim, 99 J. Pat. & Trademark Off. Soc’y 249, 35 (2017)

2007: Licensees in Good Standing Allowed to Challenge Validity of Licensed Patent

- Before 2007, licensee in good standing blocked from challenging patent validity in court, must terminate license first. *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376 (Fed. Cir. 2004)
- ***Licensee allowed to challenge validity of the licensed patent in court without*** first terminating license agreement and ***being liable for infringement.*** *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007)
- After *MedImmune*, licensees may need to add ***“no challenge”*** and ***“penalty challenge”*** clauses in agreement. Server & Singleton, 3 Hastings Sci. & Tech. L. J. (2011)

2010 to 2014: Judicially Created Exceptions to Patent Eligible Subject Matter

- US patent eligible subject matter constitutes “any new and useful **process, machine, manufacture, or composition of matter**, or any new and useful improvement thereof” §101
- Supreme court recognizes judicially created exceptions for “**abstract ideas**”, “**natural phenomenon**”, or “**law of nature**”. *Bilski v. Kappos*, 561 U.S. 593 (2010); *Mayo v. Prometheus*, 132 S. Ct. 1289 (2012); *AMP v. Myriad*, 133 S. Ct. 2107 (2013); *Alice Corp. v. CLS Bank*, 134 S. Ct. 2347 (2014)
- Under *Alice-Mayo* test, claim encompassing an exception is patent eligible if it contains **significantly more** than the **exception**

2010 to 2014: Judicially Created Exceptions to Patent Eligible Subject Matter

- “[T]hese four decisions...have injected ***tremendous legal uncertainty***...undermining the ability of inventors, universities, venture capitalists, and companies to make long-term investment decisions in R&D.” Madigan & Mossoff, 24 GEO. MASON L. REV. 939, 946-47 (2017)
- Identify thousands of applications found ***not patent eligible in US*** but patentable in ***Europe*** and ***China***. *Id.* at. 953-59
- ***Biotechnology*** and ***high-technology*** sectors particularly badly affected, reportedly driving away US investment and R&D

2012: USPTO PTAB begins IPR and CBM proceedings

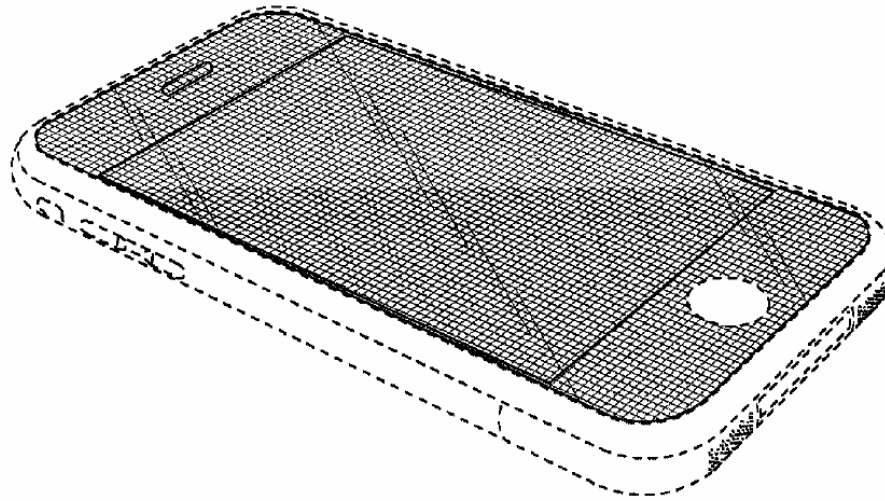
- AIA-created PTAB “***death squads killing property rights***”:
CBMs, ~ 100% invalidation; IPRs “only” ~ 70%
- With IPRs in 80% of district court cases, can increase cost (\$ 250k per party per IPR) and prolong resolution
- Despite “raised or reasonably could have raised” bar on any future USPTO and court validity challenges by same party, IPRs allow serial attacks on same patent
- Patent owner often must overcome multiple IPRs to reach infringement ruling

2016: Infringement cases removed from courts favored by patent owners

- Patent infringement against **US** corporations must be brought in (1) in **state of incorporation** or (2) where it **committed acts of infringement and** has a **regular and established place of business**. *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S.Ct. 1514, 1516-17 (2017)
- Limits patent owners' from choosing patent-friendly districts, e.g., E.D. Tex.
- Increases case load in D.Del. (common state of incorporation)

2016: Limits on design patent damages

- **Design patent** damages limited to value of **component**, not market value of entire device comprising component. *Samsung Elec. Co. v. Apple Inc.*, 137 S. Ct. 429, 434–36 (2016)
- Apple D618,677:



Reversing the Decline?

- PTAB “**death squads**” and § 101 “**tremendous legal uncertainty**” blamed for precipitous and **substantial** drop in patent value 21 Jan. and 13 Feb. 2018 IP Practice Group Teleforums available at fedsoc.org
- 2018: Federal Circuit begins clarifying *Alice-Mayo* and places limits on early dismissal of cases under § 101 *Berkheimer v. HP Inc.*, 881 F.3d 1360 (Fed. Cir. 2018)
- 2018: USPTO **proposed** PTAB rule change (83 FR 21221-26, 9 July 2018): (1) apply same claim construction standard as courts/ITC and (2) will consider earlier PTAB/court/ITC claim constructions

Reversing the Decline

- 2018: Trump-appointed USPTO director Andrei Iancu promises **further PTAB reform** and **revised §101 guidance** after *Berkheimer* (2 Aug 2018 PPAC)



Reversing the Decline

- 2018: Supreme Court requires PTAB to render judgement on all contested patent claims in IPR. *SAS Institute, Inc. v. Iancu*, No. 16-969 (April 24, 2018)
- 2016: Supreme Court returns decision to award **punitive damages** for **willful infringement** and attorneys' fees to discretion of district judges. *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S.Ct. 1923, 1933 (2016)

FTO as insurance against adverse litigation outcomes

- Competent and timely FTO that reasonably informs potential infringer that he is unlikely to be ruled to infringe a valid patent removes potential infringer's “***knowledge of infringement***” as required for ***enhanced damages award*** and liability for ***indirect*** and ***certain extraterritorial infringement***.

Punitive damages for *willful* patent infringement

- Historically, punitive damages recoverable in cases of *willful* or *bad-faith* infringement. *Halo v. Pulse*, 136 S.Ct. 1923, 1930 (2016)
- “The sort of conduct warranting enhanced damages has been variously described in our cases as *willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant*, or — indeed — *characteristic of a pirate*.” *Id.* at 1932 citing *Seymour v. McCormick*, 16 How. 480, 488 (1854).
- “[T]he *court shall award* the claimant *damages adequate to compensate for the infringement*, but [not] less than a reasonable royalty...together with interest and costs as fixed by the court...[and] *may increase the damages up to three times*.” § 284

Willful infringement: 1983 to 2007

- > “[P]otential infringer [with] **actual notice** of another's **patent rights**...has an **affirmative duty** to exercise **due care to determine whether or not he is infringing** [including] **to seek and obtain competent legal advice from counsel** before the initiation of any possible infringing activity.” *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) overruled *Knoerr-Bremse v. Dana Corp.*, 383 F.3d 1337, 1345-46 (Fed. Cir. 2004) (en banc) and *In re Seagate*, 497 F.3d 1360, 1371 (Fed Cir. 2007) (en banc)
- > **Great for patent attorneys! Bad for potential infringer!** must seek “competent legal advice from counsel”, also disclose?

Willful infringement: 2007 to June 22, 2016

- “[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**....must also demonstrate that **this objectively-defined risk...was either known or so obvious that it should have been known to the accused infringer.**”
In re Seagate, 497 F.3d 1360, 1371 (Fed Cir. 2007) (en banc) overruled by *Halo v. Pulse*, 136 S.Ct. 1923, 1933 (2016)
- **Objective standard very difficult to meet**, in part, because accused infringer can create objective defenses after the fact, including at trial

Willful infringement: after June 22, 2016

- “The **subjective willfulness** of a **patent infringer**, intentional or knowing, **may warrant enhanced damages**, without regard to whether his infringement was objectively reckless.”
Halo v. Pulse, 136 S.Ct. 1923, 1933 (2016)
- Enhanced damages “should generally be reserved for **egregious cases typified by willful misconduct**”. *Id.* at 1934
- “Willful misconduct **does not mean** that a court may award **enhanced damages simply because the evidence shows infringer knew about the patent and nothing more.... Willful is a word of many meanings** whose construction is **often dependent on the context** in which it appears.” 136 S.Ct. at 1936 (concurrency)

FTO and willful infringement

- ***Willful patent infringement***, in support of an enhanced damages award, may be ***found by jury***, but ***judge*** ultimately decides whether to enhance compensatory damages, or whether to dismiss an allegation of willful infringement even before it reaches a jury
- ***A timely and competent FTO*** – by eliminating potential infringer’s knowledge of infringement” – ***may preclude a finding of willful infringement*** and, therefore, enhanced damages, ***in the event the potential infringer has become an actual infringer*** liable for compensatory damages

Apparent increase in *willful* infringement rulings immediately post-*Halo*

- *Polara Engineering v. Campbell*, Case No. SA-cv-13-0007 (C.D. Cal. June 30, 2016) – willful
- *CH2O, Inc. v. Meras Engineering, Inc. et al.*, Case No. CV-13-8418 (C.D. Cal. Sept. 6, 2016) – willful
- *Cellular Communications Equipment, L.L.C., v. Apple, Inc.*, Case No. 14-cv-251 (E.D. Tex. Sept. 14, 2016) – willful
- *Finjan, Inc. v. Sophos, Inc.*, Case No. 14-cv-01197 WHO (N.D. Cal. Sept. 21, 2016) – not willful

A competent and timely FTO can persuade a US judge not to enhance a compensatory damage award

- *Tools v. Sears Holdings Corp.* (N.D. Ill. Sept, 2016)
 - non-infringement ***opinion of counsel*** obtained ***before*** infringement suit filed deemed “highly probative of good faith” of alleged willful infringer
 - willfulness allegations ***dismissed before trial***

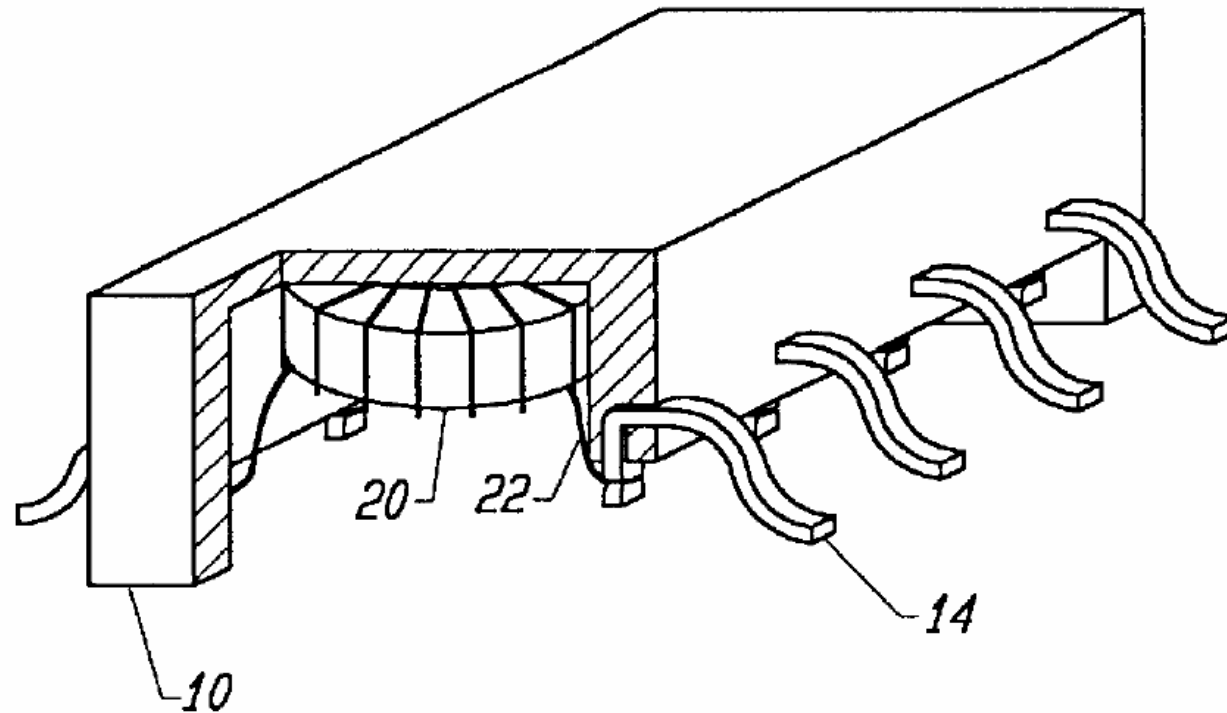
An *incompetent* FTO may not persuade a US judge

- *Arctic Cat, Inc. v. Bombardier Rec Prods, Inc.* (S.D. Fla., July 2016) – jury finding of willful infringement upheld by judge – having **employee patent agent** review **some but not all claims** not sufficient to overcome presumed intent to infringe
- *Dominion Resources v. Alstom Grid*, (E.D. Pa. October, 2016) – jury finding of willful infringement upheld by judge – having allegedly infringed patents **reviewed by non-experts** not sufficient to overcome presumed intent to infringe

FTO and *willful* infringement: context matters

- "[F]ailure of an infringer to obtain the advice of counsel ... ***may not be used to prove that the accused infringer willfully infringed.***" § 298 (response to *Underwater Devices*).
- "It may well be expensive to obtain an opinion of counsel (...tens of thousands of dollars...)....[A]n owner of a small firm, or a scientist, engineer, or technician working there, might, without being 'wanton' or 'reckless,' reasonably determine that its product does not infringe a particular patent, or that that patent is probably invalid....***I do not say that a lawyer's informed opinion would be unhelpful...consulting counsel may help draw the line between infringing and noninfringing uses.***" *Id.* at 1936-37.

Willful infringement: *Halo Electronics v. Pulse Electronics*



Willful infringement: *Halo Electronics v. Pulse Electronics*

- July 2002: Halo writes to Pulse offering license to H patents:
- “We are writing on behalf of Halo ... to ***notify you of certain surface mount packaging patents the company has recently acquired***, copies of which are enclosed for your reference. ***Halo is interested in licensing these patents***, and would like to solicit your company's interest in entering into negotiations for the license of these patented technologies.”
Halo v. Pulse, 810 F. Supp.2d 1173, 1181-82 (D. Nev. 2011)

Willful infringement: *Halo Electronics v. Pulse Electronics*

- August 2002: Halo writes to Pulse again:
- “There is reason to believe that ***surface mount products manufactured by [Pulse Electronics]...may possess features similar to those embodied in the patented devices described in Halo's patents previously provided to you.*** rather Halo has not yet reached any conclusive determinations as to whether your company's products are covered by its patents; ***Halo is devoting its energy to working out suitable arrangements with companies that would benefit from licensing Halo's patented technologies.***” *Id.* at 1182

Willful infringement: *Halo Electronics v. Pulse Electronics*

- Pulse's **reported** actions responsive to Halo's license requests:
 - **Pulse engineer**, based on **around two hours reviewing** Halo patents, concludes all **three Halo patents are invalid** in view of certain Pulse products
 - Pulse does **not** seek opinion of counsel on validity of Halo patents
 - Pulse does **not** consciously decide that continued sale of Pulse products permissible in view of Halo patents
 - Pulse continues to sell surface mount products identified in Halo letters
- *Halo*, Civ. Nos. 2013-1472 and 2013-1656 (Fed. Cir., Aug. 5, 2016)

Willful infringement: *Halo Electronics v. Pulse Electronics*

- **March 2007:** H sues P for patent infringement in District of Nevada
- November 2012: Jury finds high probability that P willfully infringed H patents
- August 2016: Fed. Cir. sets forth standard for awarding enhanced damages, remands back to District of Nevada
- **September 2017:** District of Nevada denies H motion for enhanced damages...

Willful infringement: *Halo Electronics v. Pulse Electronics*

- “Finally, even a jury's finding of egregious or willful conduct does not require an award of enhanced damages...I do not find that Pulse's infringement was ***so egregious and unusual*** that enhanced damages are needed here. True, ***Pulse's defense strategies were questionable*** (and the infringement verdict against it reflects that). But there is ***significant evidence suggesting that at the relevant times when it infringed, Pulse believed that Halo's patents were invalid or not infringed.***” *Halo v. Pulse*, 281 F.Supp.3d 1087, 1094 (D.Nev. 2017)

Willful infringement: *Halo Electronics v. Pulse Electronics*

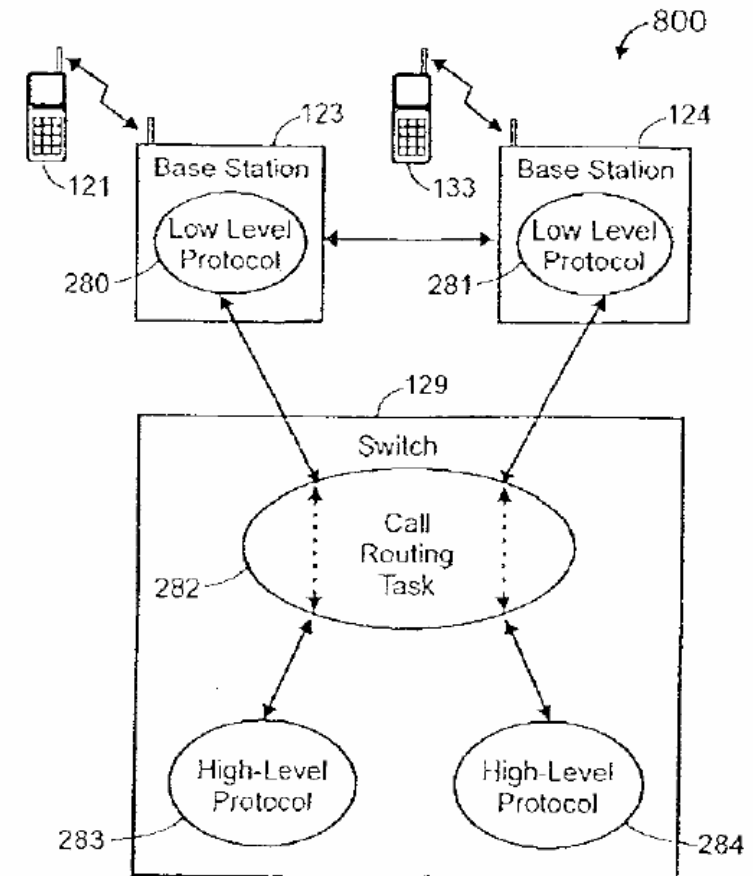
- “Pulse relies, in part, on ***two opinion letters*** it obtained in **1999** and **2003** — ***during the time that it was infringing Halo's patent.*** These opinion letters concluded that Pulse's products did not infringe Halo's patent and that Halo's patent was invalid. ***They are thus powerful evidence that Pulse was not intentionally infringing Halo's patent.*** Pulse notified Halo about these opinion letters early in the case, but Pulse did not disclose their contents because they were ***privileged*** and not yet relevant.” *Id.* at 1092

Indirect infringement – intent matters

- Contributory infringement under § 271(c) requires **knowledge** of the existence of the **patent** and that the **acts committed infringe the patent** – *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964)
- “induced infringement under § 271(b) **requires knowledge that the induced acts constitute patent infringement**” – *Global-Tech Appliances*, 131 S.Ct. at 2066
- Liability also possible for “**willful blindness**”: (1) subjective belief that there is a high probability that induced act constitute infringement (2) deliberate actions to avoid learning of that fact – *Id.* at 2069-71

Indirect infringement – FTO can negate intent

- > **Accused indirect infringer's belief** that his actions do **not result in patent infringement** can be sufficient to **defeat an accusation of indirect infringement** *Commil v, Cisco*, 135 S.Ct. 1920, 1928 (2015)
- > In contrast, belief that the allegedly infringed **patent is not valid cannot defeat allegation of indirect infringement** – *Id.*



“Supplying from US” – intent matters

- Supplying or ***causing to be supplied*** from US:
 - ***substantial portion*** of ***components*** of patented invention and ***actively inducing*** combination outside US § 271(f)(1) or
 - ***especially adapted component*** of patented invention, not staple article of commerce suitable for substantial noninfringing use, ***knowing so adapted and intending infringing combination*** outside US § 271(f)(2)
- Tracks indirect infringement language in § 271(b) and (c)

“Supplying from US” – FTO can negate intent

- Following *Commil*, potential infringer facing allegation of supplying or ***causing to be supplied*** from US ***substantial portion of components*** or ***especially adapted component*** for ***infringing combination outside US*** in violation of § 271(f):
 - ***Can negate*** § 271(f) infringement allegation with ***non-infringement FTO***
 - ***Cannot negate*** § 271(f) infringement allegation ***with solely invalidity FTO***

FTO as negotiation and risk assessment tool

- A **written** reasoned assessment that a court (or ITC) is likely to rule that certain identified actions do not infringe any valid claim of one or more specified US patents allows potential infringer to
- Though vast majority of ~ 2,000,000 active patents will never be enforced in court (or ITC), or see damages award for infringement, FTO allows potential infringer to:
 - **assess** infringement risk
 - **mitigate** infringement risk with work around

FTO as negotiation and risk assessment tool

- Non-infringement FTO ***minimizes risk of liability for indirect and certain extraterritorial infringement***
- Non-infringement or invalidity FTO ***in the event of an award of compensatory damages, can effectively eliminate risk of enhanced damages***
- ***Reduces value*** of potentially infringed patent in ***licensing*** negotiations
- ***Adds value*** to potential infringer's enterprise, can be useful when negotiating for investment, joint venture, acquisition, etc.

What makes an FTO “*competent*”

- Not merely conclusory – “I can assure you that your product does not infringe” and nothing more
- Shows appreciation of US court procedure, that opinion is an informed analysis of risk, not a guarantee of non-infringement
- Provides reasoning grounded in relevant US law – claim construction taking account of plain language, description and prosecution history; element by element comparison with allegedly infringing product or invalidating prior art – with sufficient detail to support conclusions
- Claim charts, though not strictly required, helpful
- US qualified lawyer, though not strictly required, helpful

AIA v. pre-AIA law

- US patents arising from applications **filed** (or deemed filed):
- **before March 16, 2013 – pre-AIA** “first-to-invent” - complicated definitions of prior art involving, e.g., invention date, one-year grace period, US v. non-US activities
- **on or after March 16, 2013 – AIA** “first-inventor-to-file” – notionally simpler but expands prior art universe (e.g., foreign priority filings for use as “secret” prior art)

AIA v. pre-AIA law

- AIA v. pre-AIA can be dispositive,
- Meaning of AIA prior art is a work in progress: *Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc.*, 855 F.3d 1356 (Fed. Cir. 2017) cert. granted June 25, 2018, Supreme Court to decide (sometime before June 2019) whether AIA considers a “secret sale” to be prior art:
 - Whether, under the Leahy-Smith America Invents Act, an ***inventor’s sale of an invention to a third party that is obligated to keep the invention confidential qualifies as prior art*** for purposes of determining the patentability of the invention.

Relevant US law: claim interpretation

- Terms in the claims are given their customary and ordinary meaning, interpreted in view of the description and the complete record of the **USPTO proceedings**, including cited prior art (the “**prosecution history**”). *Phillips v AWH. Corp.*, 425 F.3d 1303, 1317 (Fed. Cir. 2005) (*en banc*)
- Claims interpreted from viewpoint of hypothetical person having ordinary skill in the art relying on:
 - **Primary sources** – claims, description *and* prosecution history
 - **Secondary sources** – expert and inventor testimony, technical publications, dictionaries, etc.

Relevant US law: claim interpretation

- Applicant's statements during prosecution may be considered a "clear and ***unmistakable disavowal of scope***". *Purdue Pharma, LLP v. Endo Pharm, Inc.*, 438 F.3d 1123, 1136 (Fed. Cir. 2006)
- For example, explicit statements made to overcome prior art cited in rejection by examiner, that data transmission and reception in the claimed invention occurs over a standard telephone line bars later assertion of claims against data transmission and reception across a packet switching network – *Microsoft Corp. v. Multi-Tech Sys., Inc.*, 357 F.3d 1340, 1349 (Fed. Cir. 2004)

Relevant US law: claim interpretation

- ***Narrowing amendments*** during prosecution – e.g., made in order to overcome rejection over prior art – can ***confine amended claims to literal scope*** when later asserted against infringers, by removing any possibility of infringement under ***doctrine of equivalents*** (“prosecution history estoppel”) – *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002)

Relevant US law: claim interpretation

- Statements to USPTO and “foreign patent offices in counterpart filings may be relevant to...demonstrate the **ordinary meaning** of a claim term.” *Starhome GmbH v. AT&T Mobility LLC*, 743 F.3d 849, 858 (Fed. Cir. 2014)
- **Conflicting statements** in related applications to **foreign** and **US patent offices** may demonstrate **inequitable conduct**, remove all value from US patent family – *Therasense v. Becton, Dickinson and Co.*, 649 F.2d 1276 (Fed. Cir. 2011) (*en banc*)

Conclusions

- A **competent** and **timely** FTO is a valuable tool for assessing risk exposure in US market
- A **competent** and **timely** FTO can **insure against enhanced damages** (up to 3X) and liability for indirect and certain extraterritorial infringement (**non-infringement** FTO only)
- Even if US litigation never occurs, a **competent** and **timely** FTO can be useful in **license negotiations** and when negotiating for investment, joint venture, acquisition, etc.
- A **competent** and **timely** FTO can **add value** to potential infringer's enterprise

Questions

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