Patent Webinar Series

Techniques For Achieving an Efficient And Effective Freedom-to-Operate Analysis

June 3, 2020

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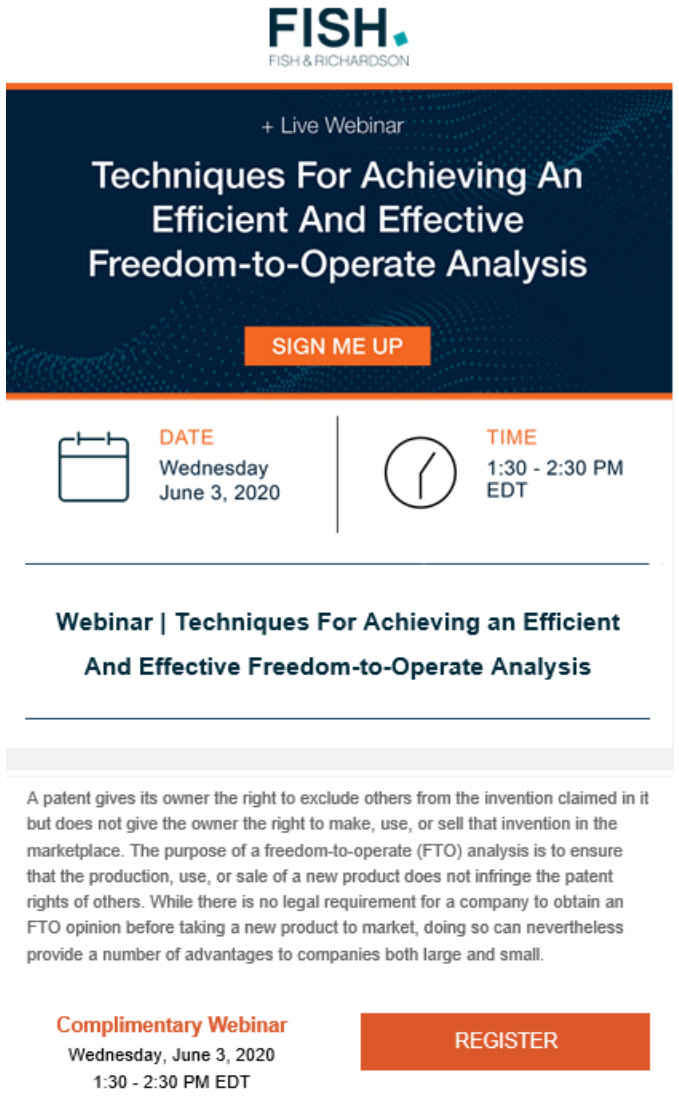
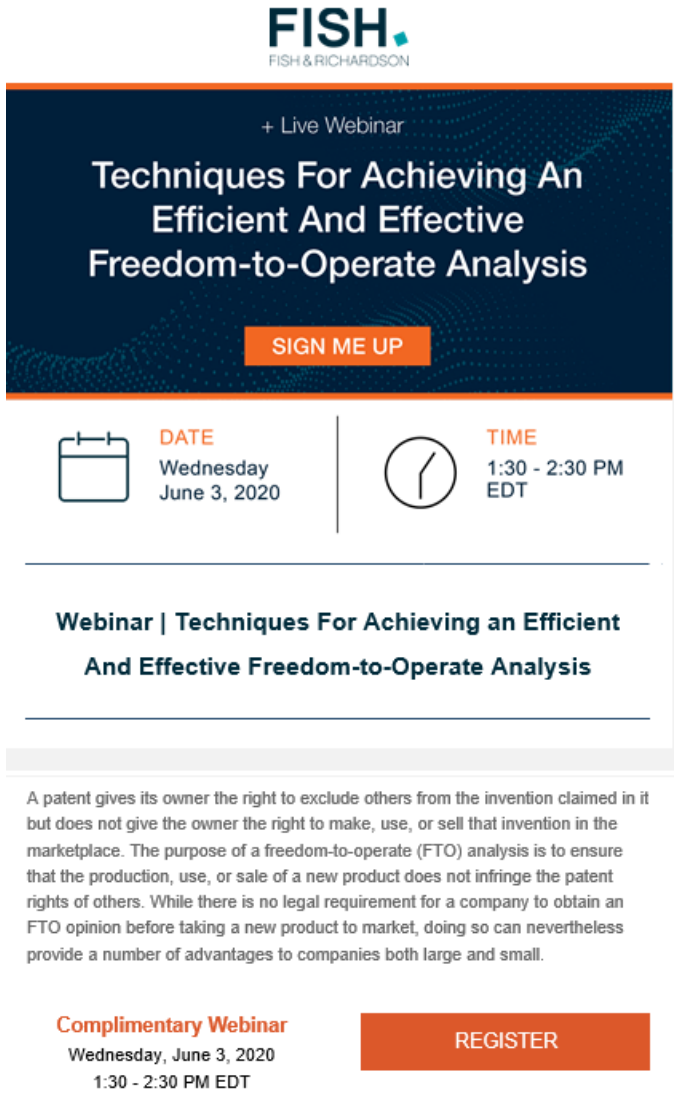
Overview

- **Topics/Agenda**
  - Legal and practical considerations
  - Options that impact efficiency of an FTO analysis
    - **Factor #1: Timing/When to conduct an FTO analysis**
    - **Factor #2: Search/Categorization Techniques**
    - **Factor #3: Selected format of the final results**
  - Effective use of the FTO results going forward
- **Housekeeping**
  - CLE
  - Questions
  - Materials
    - http://www.fr.com/webinars



Overview

The purpose of this presentation is to provide educational and informational content and is not intended to provide legal services or advice. The opinions and other statements expressed by the presenter are merely educational examples/summaries, and do not necessarily represent the opinions and statements of Fish & Richardson P.C.



Legal and Practical Considerations

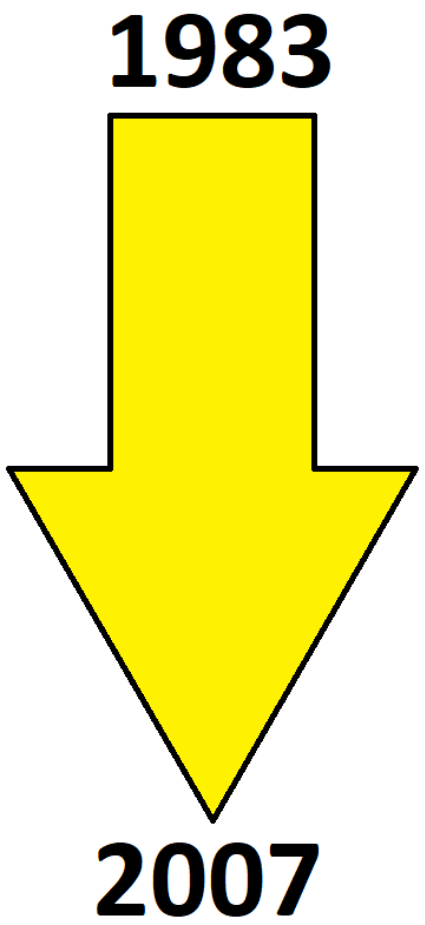
Legal Implications: Historical Changes

Underwater Devices Inc. v. Morrison-Knudsen Co., 717 F. 2d 1380 (1983)

- Described an "affirmative duty" on accused infringers upon receiving notice of a patent. This included a duty "to seek and obtain competent legal advice from counsel" before the initiation of any possible infringing activity
- Those who became aware of patent barriers routinely sought formal opinion letters (e.g., non-infringement, invalidity, etc.) to avoid facing an adverse inference with respect to "willful infringement" and enhanced damages under 35 U.S.C. § 284

In re Seagate Technology LLC, 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*)

- Eliminated the "duty" described in *Underwater Devices* and attempted to align the willfulness test with other areas of the law having a "willful" element
- The *Seagate* decision emphasized that there is no affirmative obligation to obtain opinion of counsel in order to avoid a finding of "willfulness"



Legal Implications: The Unanimous *Halo* Decision

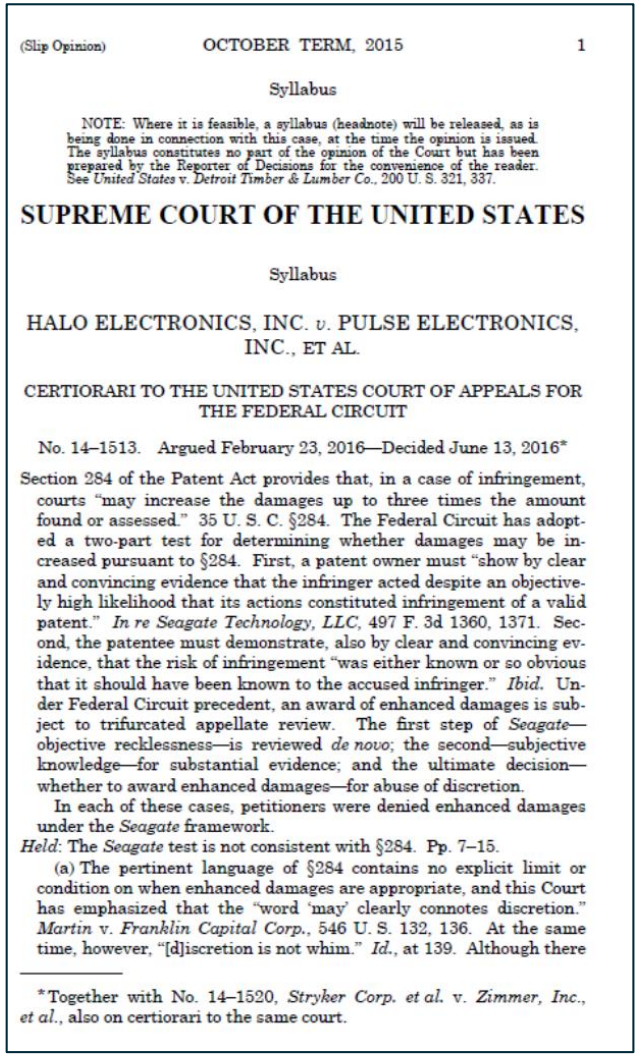
Halo Electronics Inc. v. Pulse Electronics Inc., 136 S.Ct. 1923 (2016)

- **Unanimous decision by the Supreme Court, which sought to address "unduly rigid" barriers to a finding of willful infringement.**
- **Focuses on the accused infringer's knowledge <u>at the time of infringement</u>, and whether conduct was "egregious":**

  "subjective willfulness, whether intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless. The *Seagate* test further errs by making dispositive the ability of the infringer to muster a reasonable defense at trial, even if he did not act on the basis of that defense or was even aware of it."

Practical Impact

- **Patent Owners are often more aggressive in alleging/pursuing willful infringement, and**
- **Those parties who might be accused of infringement are more incentivized to obtain timely and reliable advice from counsel regarding freedom to operate**



(Slip Opinion) OCTOBER TERM, 2015 1

Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

HALO ELECTRONICS, INC. *v.* PULSE ELECTRONICS, INC., ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 14–1513. Argued February 23, 2016—Decided June 13, 2016*

Section 284 of the Patent Act provides that, in a case of infringement, courts "may increase the damages up to three times the amount found or assessed." 35 U. S. C. §284. The Federal Circuit has adopted a two-part test for determining whether damages may be increased pursuant to §284. First, a patent owner 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." *In re Seagate Technology, LLC*, 497 F. 3d 1360, 1371. Second, the patentee must demonstrate, also by clear and convincing evidence, that the risk of infringement "was either known or so obvious that it should have been known to the accused infringer." *Ibid.* Under Federal Circuit precedent, an award of enhanced damages is subject to trifurcated appellate review. The first step of *Seagate*—objective recklessness—is reviewed *de novo*; the second—subjective knowledge—for substantial evidence; and the ultimate decision—whether to award enhanced damages—for abuse of discretion.

In each of these cases, petitioners were denied enhanced damages under the *Seagate* framework.

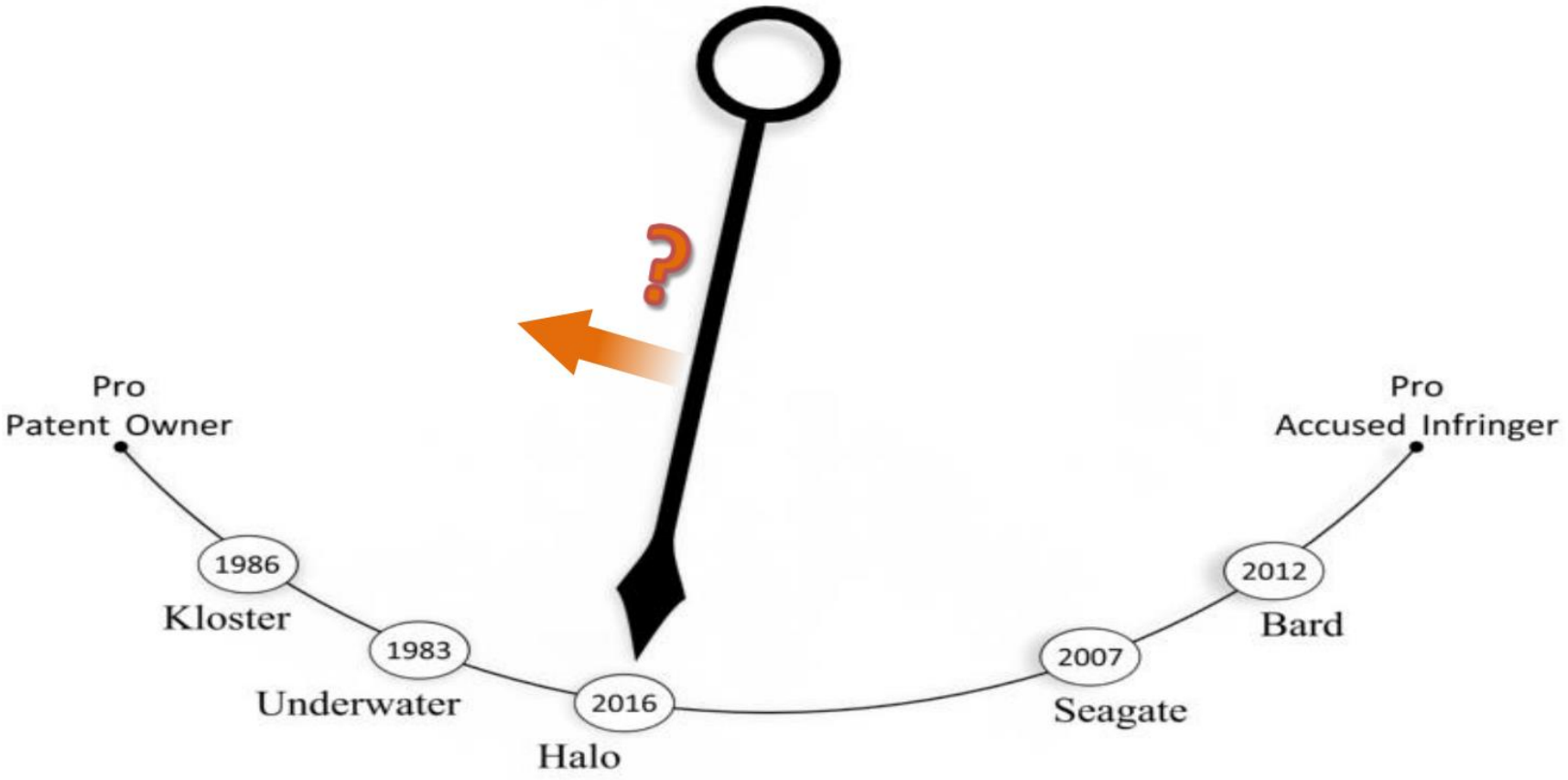
Held: The *Seagate* test is not consistent with §284. Pp. 7–15.

(a) The pertinent language of §284 contains no explicit limit or condition on when enhanced damages are appropriate, and this Court has emphasized that the "word 'may' clearly connotes discretion." *Martin* v. *Franklin Capital Corp.*, 546 U. S. 132, 136. At the same time, however, "[d]iscretion is not whim." *Id.*, at 139. Although there

*Together with No. 14–1520, *Stryker Corp. et al.* v. *Zimmer, Inc., et al.*, also on certiorari to the same court.

Legal Implications: The Unanimous *Halo* Decision

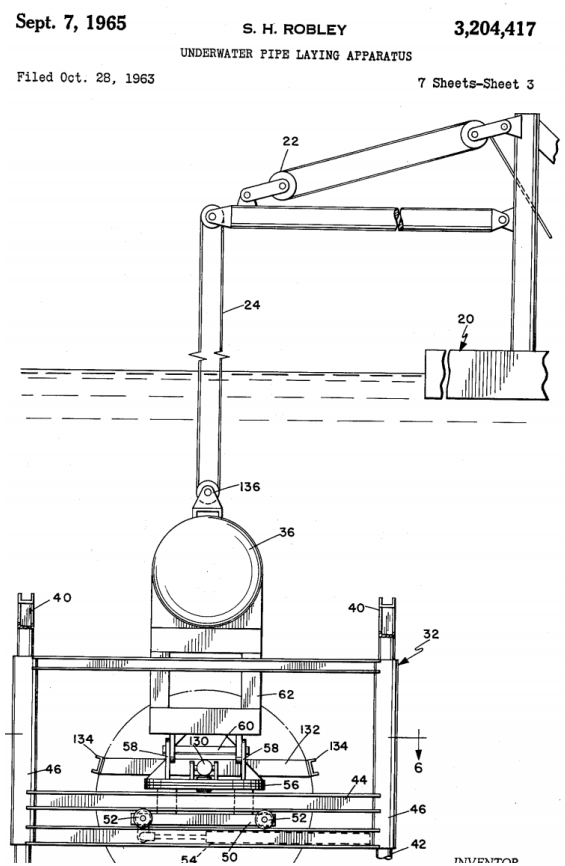
***Halo Electronics Inc. v. Pulse Electronics Inc.*, 136 S.Ct. 1923 (2016)**

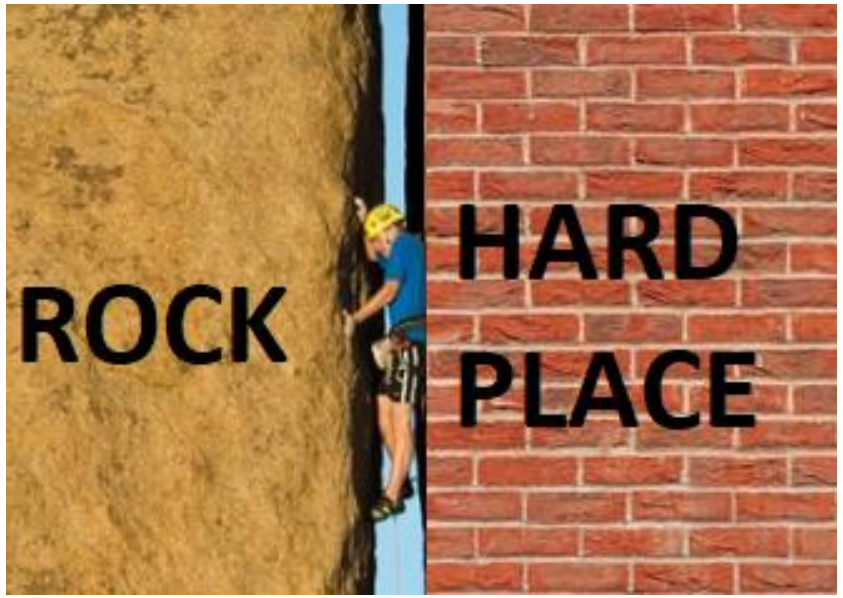


What is a Freedom-to-Operate Analysis?

35 U.S.C. § 271

- **"[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefor, infringes the patent."**





- **A Freedom-to-Operate (FTO) analysis seeks to identify potential patent barriers to commercializing a particular product/service, and to provide legal advice regarding avoidance of infringement of any valid claim of the identified patent(s).**

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Example tasks for an FTO Analysis

1. **Identify active patent(s) claiming an invention that may be considered similar to the proposed product.**
   - This is often achieved through an iterative search process, or through receiving notice of particular patent(s).

2. **Compare the claims of the patents to the proposed product:**
   - "**Literal infringement**" means the proposed product includes every element of a claim.
   - The "**doctrine of equivalents**" (DOE) expands the coverage of claims to include equivalents of the claim elements. Use the "triple identity" test (same function, way, result).

3. **In some circumstances, categorize the identified patents based upon a level of infringement risk for each patent.**

4. **Optionally, consider invalidity issues in addition to non-infringement issues.**

What an FTO Analysis is NOT

- Not an assessment of the proposed product's patentability
- Not a guarantee that the results will remain fixed in time (e.g., unpublished applications; newly issued patents)
- Not necessarily applicable to new changes/updated product designs
- Not necessarily applicable to patents in foreign countries (unless those countries are searched too).
- Not unlimited and without "gray areas" (time constraints, claim interpretations, etc.)

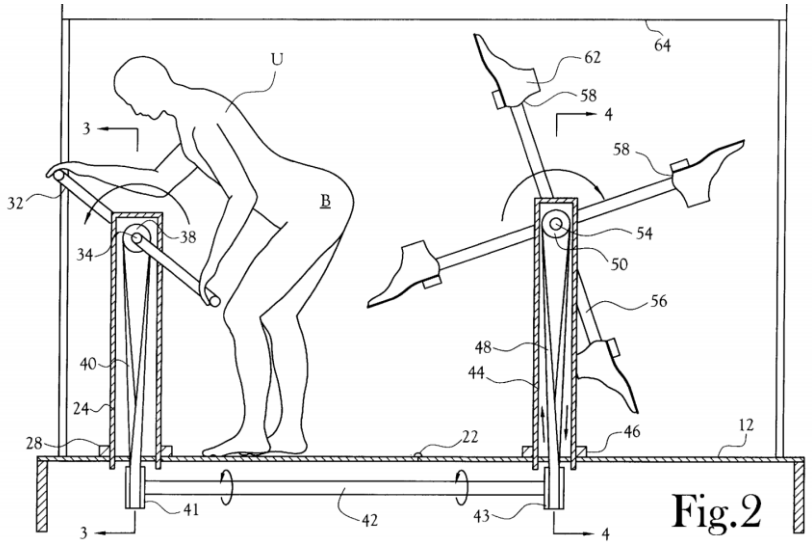

Fig.2

Factor #1: When to Conduct an FTO Analysis

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Your choice of "when" to conduct an FTO analysis can have a significant impact upon the cost/efficiencies of the process. There are several timing options:

- **When a new product is being seriously considered (early design phase)**
  - Actually more of a patent "landscape" analysis
  - How "crowded?" A mine field? Lots of "white space" from expired patents?
  - Are companies still actively filing, or has the pace slowed?
  - Identify key patents to keep in mind during product development
  - Licensing opportunities?
  - **Recommendation**: consider instructions to limit the scope
- **Prior to new product design freeze (nearing end of design phase)**
  - Important time to confirm that the final design has FTO
  - Make "design around" changes if needed
  - **Recommendation**: probably reasons to seek a more expansive scope

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Factor # 1: When to Conduct an FTO Analysis (continued)

There are several timing options (continued):

- **Before/during period of seeking early investment (start-up company)**
  - Many institutional/strategic investors will specifically inquire whether an FTO analysis was performed
  - In many cases, it can be advantageous for the startup company to preemptively perform an FTO analysis (without disclosing written opinion/legal opinions).
    - avoid embarrassing "surprises"
    - enhance innovation/market disruption narrative
  - **Recommendation**: consider instructions to limit the scope while still answering questions in minds of investors (e.g., to particular assignees or known litigants)
- **In response to receiving a "cease-and-desist" letter**
  - Consider the impact of the *Halo* decision and subsequent decisions regarding formal opinions from patent counsel
  - The scope of the FTO is limited to particular patent(s), but the analysis of non-infringement and invalidity positions may be more exhaustive.

Factor #2: Search/Categorization Techniques

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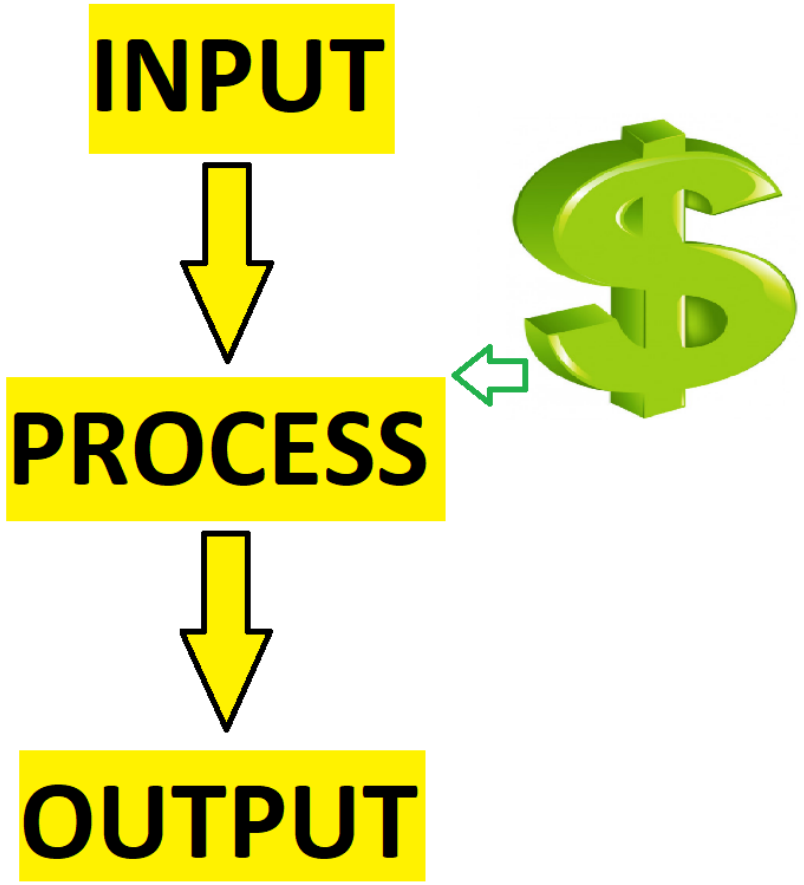
Your instructions to counsel regarding the scope of the patent searching and the granularity of categorization can dramatically impact the cost/efficiencies.

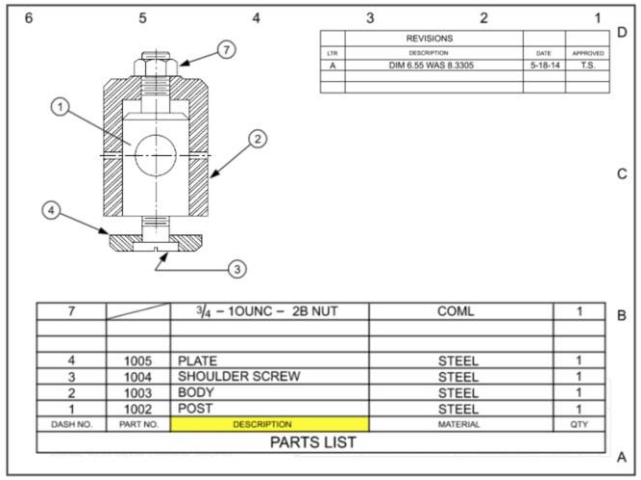


Do your goals/purposes for requesting the FTO analysis align with your inputs?

- **Foundational Issues and Planning**
- **Scope of patent searching/Search strategies**

Foundational Issues and Planning

- **Understand the following about the proposed product:**
  - Design (in detail)
  - Launch date (offer to sell)
  - Countries in which the product will be sold
  - Known competitors/litigants?
- **Planning → based on the budget for the FTO analysis**
  - Use a search firm?
  - Review pending applications, or limit search to issued patents?
  - **Practitioners Tip**: consider setting cost-based/time-based project plan:
    - searching ~10% (hours = ____),
    - initial screening ~15% (hours = ____),
    - claim analysis ~50% (hours = ____),
    - detailed claim analysis ~15% (hours = ____),
    - other ~10% (hours = ____)



Scope of Patent Searching/Search Strategies

Depending upon the circumstances of your case, did you consider the following?

- **Search by assignees (known competitors/litigants)**
- **Search by patent classification codes**
- **Search by key words**
  - Summarize the proposed product in one sentence to identify key words
  - Reviewing a few close patents can help to identify key words
  - Iterative approach (start broad and gradually narrow as needed)
  - Use Boolean search terms, synonyms
- **When key patents have been identified:**
  - Review forward and reverse cites
  - Patents cited during prosecution
  - Family members
  - Inventors
  - Background section may list prior art

Techniques for Quick Initial Screening

Did the search capture patents that are clearly not relevant?

- Some practitioners have proposed a “minute per patent” rule of thumb for initial screening, depending upon the complexity of the technology

For each patent:

- **Review the figures (if available) for context**
- **Review the independent claims**
- **If the patent is plainly not relevant/off topic - discard it**
- **If there is any uncertainty regarding relevance at this initial stage - keep it!**

Techniques for Claim Analysis

Does each independent claim recite something the proposed product does not have?

- Some practitioners have proposed making efforts for an intermediate screening in about 10-15 minutes per patent, depending upon the complexity of the technology and claim language

- **Review all of the figures**
- **Review the specification, especially the portions that are needed to understand the figures**
- **Start with the shortest independent claim**
- **Think about claim terms broadly**
  - What would an aggressive patent owner argue?
  - Remember the doctrine of equivalents (DOE)/prosecution history estoppel
- **Dependent claims may shed light on the meaning of claim terms**
- **Refer back to the specification as needed to more fully understand the claim term/context**

If reasons for clearing each independent claim cannot be identified in allotted time, mark it for detailed review

Techniques for Detailed Claim Analysis

Does each independent claim require something the proposed product does not have?

- Some practitioners have proposed making efforts for a reasonable decision in about an hour per patent (after initial screening and intermediate screening), depending upon the complexity of the technology and claim interpretation issues

- **Read the patent *closely***
- **Review the prosecution history, especially parts characterizing claim elements**
- **Review the prosecution history of patent family members (if any)**
- **Review IPR and litigation documents (if any)**

After that, if not all independent claims can be cleared, categorize the patent at a level of risk that should be considered seriously

- **For some patents in this category, consider an invalidity assessment**

Factor #3: Selected Format of the Final Results

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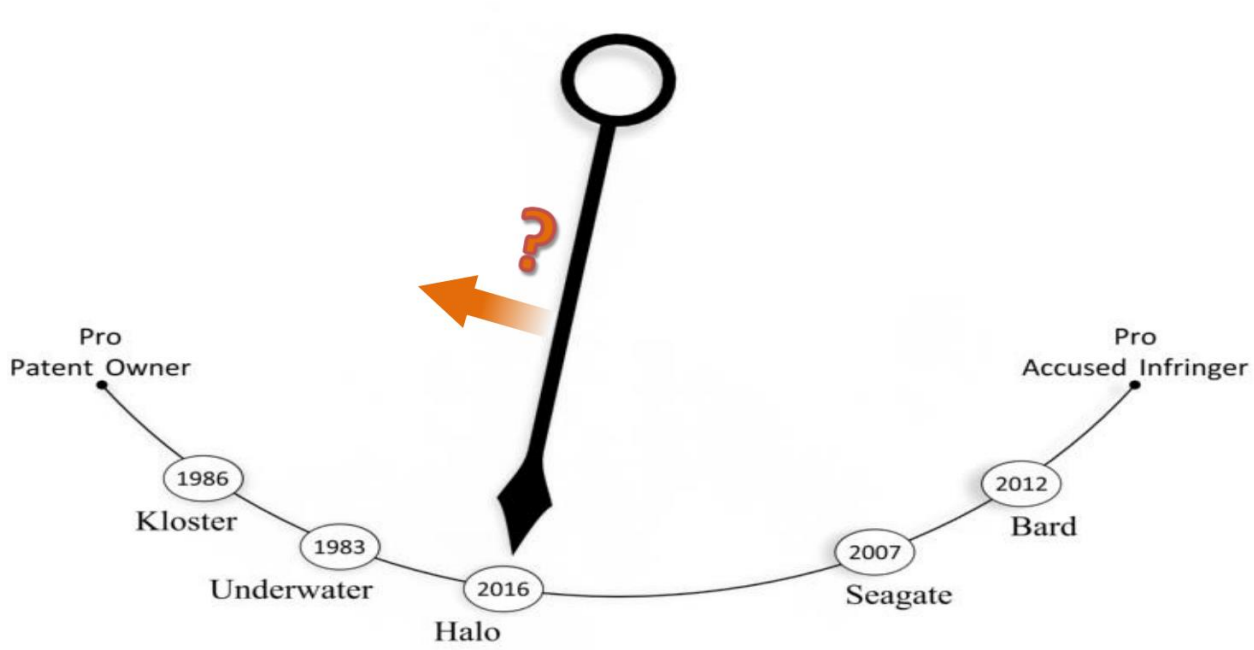
Your instructions to counsel regarding the desired format of the FTO results will impact the cost/efficiencies.



Do your goals/purposes for requesting the FTO analysis align with the output format?

- Oral opinion
- Summary spreadsheet
- Detailed slides/presentation
- Formal opinion letter(s) from counsel

Factor #3: Selected Format of the Final Results

- **Oral opinion**
  - Did the FTO analysis address one patent or a limited number of patents?
  - Can the company's executives/decision-makers fully understand the technology/legal advice so as to reasonably act upon it? Can it be memorialized (internally)?
- **Summary spreadsheet**
  - Addressing a greater number of search results, or different sets of patents for independent features of the product design?
  - Consider supplementing with a formal oral opinion to highlight the details of some or all patents in that were sorted in a different category?
- **Detailed slides/presentation**
  - Is there a need to focus on images/prosecution history from a subset of the patents?
  - Is there a need to provide legal advice on case law/statutory language?
- **Formal opinion letter(s) from counsel**
  - Is the legal advice sought in response to a "cease-and-desist" letter?
  - Are there other reasons to memorialize the legal opinion?

Effective Use of the FTO Results Going Forward

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What next? Did you maximize the value of the work product? Are you protecting it?

- **Periodic/pre-scheduled updates to the FTO analysis**
  - New patents issue "every Tuesday." How much time has passed since the FTO results were delivered?
  - Did any pending applications (identified in the FTO results) issue since that time?
- **Use the FTO results (addressing U.S. Patents) serve as a springboard for a subsequent FTO focusing on foreign patents?**
  - e.g., scope limited to European patents that are related to the already identified U.S. patents
- **Maintaining attorney/client privilege**
  - Make efforts to treat the FTO results as "confidential" and shared only with those in the company itself.
  - In a due diligence project conducted by an acquirer/investor, consider options that avoid sharing the actual documents/opinion letters … or consider whether a "common interest agreement" is appropriate (in additional to regular non-disclosure agreements).

Thank You!

Michael Hawkins
Principal
hawkins@fr.com
612-337-2569

Paul Western
Principal
western@fr.com
612-337-2567

Please send your NY CLE forms or questions about the webinar to Angela Park at park@fr.com

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