

Warn Potential Patent Infringers

But Do Your Homework First

Part One of a Two-Part Article

By Michael M. Murray
and Michael D. Kurzer

Patent owners generally understand the benefits to be realized from sending notice letters out to potential infringers. Such notice may increase damages that can be collected down the road in the event of litigation, both by increasing the period of time for which damages can be obtained, and by subjecting the infringer to a claim for increased damages if the infringement is willful. Notice also often brings the alleged infringer to the table to discuss a possible licensing arrangement, which can create revenue streams for the patent owner.

Michael M. Murray is a partner and **Michael D. Kurzer** is an associate with Milbank, Tweed, Hadley & McCloy LLP. The focus of the authors' practice is intellectual property litigation. The views expressed herein are solely those of the authors and may not be attributed to Milbank Tweed or its clients.



While the benefits of notice are clear, the pitfalls should also be considered. A baseless assertion of infringement can subject the patent owner to an array of claims, such as tortious interference with business relationships. These risks can be substantially reduced if the proper steps are taken before the notice letters go out. In order to better understand the required level of care that must be taken before issuing such a notice, and the legal standard under which that care may be later judged in court, we address two recent Federal Circuit cases on this topic.

THE 800 ADEPT CASE

In *800 Adept, Inc. v. Murex Secs., Ltd. et al.*, 539 F.3d 1354 (Fed. Cir. 2008), the Federal Circuit reversed

a jury verdict that defendant Targus Information, Inc. (“Targus”) committed tortious interference in connection with Targus’ alleged threats of patent infringement to customers of Adept, Inc. (“Adept”). Targus and Adept are competing providers of telephone routing services. Vail Systems, Inc. (“Vail”) was a customer of Targus and, in turn, provided routing services to its own customers, including Allstate Motor Club (“AMC”). AMC was also a customer of Adept and the routing services that Vail was providing to AMC included the use of certain Adept databases. Vail approached AMC on more than one occasion and attempted to convince AMC to discontinue the use of Adept’s database services and switch over to Targus’ database services. In spite of Vail’s efforts, AMC continued to use Adept’s services. Adept brought suit against Targus asserting, among other claims, tortious interference with its business relationships with its customers (including AMC) and seeking a declaratory judgment that it was not infringing the Targus patents. Targus then brought a

third-party claim against Vail for infringing the Targus patents because the system that Vail was providing to AMC continued to use Adept's databases. Targus dismissed its infringement claim against Vail after AMC terminated its relationship with Adept.

A Florida jury found that Adept had not infringed Targus' patents, that those patents were invalid, and that Targus had tortiously interfered with Adept's business relationships with AMC and other customers. The jury awarded Adept \$2 million in compensatory damages plus \$5 million in punitive damages. Targus appealed that verdict to the Federal Circuit and argued, among other things, that Adept's tortious interference claims were pre-empted by federal patent laws.

In its opinion, the Federal Circuit reiterated the "now well-established" rule that state law tort claims against a patent holder based on enforcing the patent in the marketplace are pre-empted by federal patent laws, unless the claimant can show that the patent holder acted in "bad faith"

in the publication (*i.e.*, notice) or enforcement of its patent. To show "bad faith" a party must demonstrate that the infringement allegations were "objectively baseless." The objectively baseless standard has been interpreted to mean that "no reasonable litigant could realistically expect success on the merits."

The Federal Circuit found that Targus could have had a reasonable belief that its patents were valid and infringed by Adept's customers, even though Targus' patents were ultimately found to be not infringed (a ruling that the Federal Circuit affirmed). Judge S. Jay Plager wrote that courts "must 'resist the temptation to engage in post hoc reasoning by concluding' that an ultimately unsuccessful 'action must have been unreasonable or without foundation.'" Evidence relied on by the Federal Circuit to find that Targus' belief may have been reasonable included the following: 1) Adept admitted that the routing database it provided to two of its customers was in the same format as the one used in

the Targus system; 2) Targus did not assert its claims against one Adept customer until after Targus' in-house counsel had prepared claim charts explaining Targus' infringement theories; 3) Adept did not cite any evidence introduced at trial that contradicted (1) or (2); and 4) Adept's claim that Targus and Vail colluded to pressure AMC notwithstanding, Adept failed to cite any evidence showing that Targus' belief that Vail infringed its patents was unreasonable. Ultimately, the Federal Circuit found no clear and convincing evidence on which a reasonable jury could conclude that Targus' actions were objectively baseless and overturned the jury verdict on Adept's tortious interference claim as pre-empted by federal patent law.

Next month's installment will discuss Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH.

Reprinted with permission from the April 2009 edition of the LAW JOURNAL NEWSLETTERS. © 2009 Incisive Media US Properties, LLC. All rights reserved. Further duplication without permission is prohibited. For information, contact 877.257.3382 or reprints@incisivemedia.com. #055081-04-09-08

Milbank

Milbank, Tweed, Hadley & McCloy LLP is a leading international law firm that has been providing innovative legal solutions to clients worldwide for more than 140 years. Headquartered in New York, the Firm has more than 650 lawyers operating out of 10 offices in the U.S., Europe and Asia. Milbank provides a full and integrated range of legal services to the world's leading commercial, financial and industrial enterprises, as well as to institutions, individuals and governments.

Warn Potential Patent Infringers

But Do Your Homework First

Part Two of a Two-Part Article

By **Michael M. Murray**
and **Michael D. Kurzer**

Part One of this article addressed 800 Adept, Inc. v. Murex Secs., Ltd. et al. and the required level of care that must be taken before issuing notice letters to potential infringers and the legal standard under which that care may later be judged. This second installment discusses Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH.

THE DOMINANT SEMICONDUCTORS CASE

Another Federal Circuit case addressed the issue of whether the standard of care that must be exercised prior to sending a notice letter is the same as the Rule 11 standard that attorneys must satisfy before bringing an infringement claim in court. In *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254 (Fed. Cir. 2008), an OSRAM employee sent an opinion letter from outside patent counsel by e-mail to the company's colleagues, sales, and distribution partners concerning potential infringement of several OSRAM patents by Dominant products. The cover e-mail suggested that the recipients show

the opinion letter to their customers. OSRAM later filed suit against Dominant for patent infringement, with Dominant asserting counterclaims for unfair competition under the Lanham Act and for unfair competition, trade libel, and interference with contractual relations and prospective economic advantage under California statutory and common law. The district court granted summary judgment in favor of OSRAM, evaluating OSRAM's conduct according to the "objectively reasonable standard" and concluding that it was objectively reasonable for OSRAM to rely on an opinion by patent counsel when there was no evidence that the analysis was unreasonable on its face or contained unsupported conclusions. The court further concluded that because Dominant's state law claims also arose out of OSRAM's good faith assertion of its patent rights, those claims were pre-empted by federal patent law.

Dominant appealed to the Federal Circuit, arguing that the standard for determining whether or not communications alleging infringement are objectively baseless should be the same standard applied in the context of sanctions under F.R.C.P. Rule 11 for improper pleadings. The Federal Circuit has often held that F.R.C.P. Rule 11 requires that before filing a suit for patent infringement, a patentee must, at a minimum, perform "a reasonable pre-filing inquiry" in the form of "an infringement analysis." See *Q-Pharma v. Andrew Jergens, Co.*, 360 F.3d 1295, 1302 (Fed. Cir. 2004). "[A]n infringement analysis can simply consist of a good faith, informed comparison of the claims of a patent against the accused subject matter." *Id.* Dominant contended that OSRAM's outside patent counsel failed to meet the

Rule 11 standard, because it did not test Dominant's devices or construe the claims of OSRAM's patents before rendering his opinion. The Federal Circuit disagreed that the Rule 11 standard should be applied in the context of a notice letter. Although Dominant's contentions "might be probative of subjective baselessness," a finding of "objective baselessness requires a determination based on the record ultimately made in the infringement proceedings and the record of the state tort action, and not on the basis of information available to the patentee at the time the allegations were made" as required for pleadings under Rule 11. The Federal Circuit concluded that OSRAM's success in the later filed infringement suit was sufficient to establish that its earlier communications alleging patent infringement were not objectively baseless.

CONCLUSION

As long as infringement allegations were not "objectively baseless" when they were made, federal patent laws will pre-empt state law claims based on those allegations, including claims for tortious interference with business relationships. To minimize the risks associated with providing notice, a patent owner should take reasonable steps to investigate the infringement and be prepared to respond to accusations of "bad faith" assertion of the patent.

Michael M. Murray is a partner and **Michael D. Kurzer** is an associate with Milbank, Tweed, Hadley & McCloy LLP. The focus of the authors' practice is intellectual property litigation. The views expressed herein are solely those of the authors and may not be attributed to Milbank Tweed or its clients.