

Responding to Patent Assertions,  
Cease and Desist Letters, and Indemnity Demands

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# Responding to Patent Assertions, Cease and Desist Letters, and Indemnity Demands

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## I. INTRODUCTION

An assertion starts the clock running on the potential exposure of a company to the offered patent. It may start the clock running on damages. It may start the clock running on willful infringement. It may start the clock running on indemnification rights and obligations. It may start the clock running on insurance rights and obligations. It may start the clock running on making claims against an escrow account. It may trigger SEC reporting requirements. It may also trigger duties with respect to counseling of management, public relations, customer relations, and other business relationships. Any missteps in handling an assertion can start your company down the road of increasing corporate exposure. This paper addresses patent assertions, cease and desist letters and indemnification demands, the rights and obligations they trigger, and particularly the duty not to act in willful and deliberate disregard of an asserted patent.

## II. ASSERTION LETTERS

### A. Offer to License – Legal Effect

1. The Damages Clock - An offer to license may start the clock running on the exposure to your company to damages. 35 USC Section 287(a) limits damages for infringement of a *product* to the date of actual notice or the date of marking of a licensed device with the patent number.<sup>2</sup> Accordingly,

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<sup>2</sup> 35 USC §287(a) provides that “[p]atentee, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word “patent” or the abbreviation “pat”, together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the

absent marking of a patented product being sold<sup>3</sup>, there can be no infringement damages recovered for infringement except on proof that the infringer was notified of the infringement and continued to infringe thereafter<sup>4</sup>. In that event, damages may be recovered only for infringement occurring after such notice. 35 USC §287(a).

A notice letter can be in the form of an offer for license. With product claim assertions, the question for any notice letter then becomes what constitutes notice sufficient for damages to run?

The U.S. Supreme Court has held that actual notice “is an affirmative fact, and is something to be proved by the patentee.” *Dunlap v. Schofield*, 152 U.S. 244, 248 (1894).

It is not enough simply to bring the patent to the attention of the alleged infringer. There must be a specific charge of infringement against a specific accused product or device made. As held by the Federal Court in *Amsted Indus. Inc. v. Buckeye Steel Castings*, 24 F.3d 178, 187, 30 USPQ2d 1462, 1469 (Fed. Cir. 1993), “mere notice of the patent’s existence or ownership” is not “notice of the infringement” and was insufficient to comply with Section 287(a). Rather, the burden lay upon the patentee to provide an “affirmative communication to the alleged infringer of a specific charge of infringement by a specific accused product or device.”

The requirement of “a specific charge of infringement” set forth in *Amsted* does not mean the patentee must make an “unqualified charge of infringement.” As held by the Federal Circuit in *SRI Int’l, Inc. v. Advanced Tech. Labs. Inc.*, 127 F.3d 1462, 1470, 44 USPQ2d 1422, 1428 (Fed.Cir. 1997), “[informing the alleged infringer] of the identity of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether by license or otherwise,” was sufficient to comply with the actual notice requirement of the marking statute (distinguishing the criteria for actual notice from the criteria for filing a declaratory judgment action, which requires a threat of suit). As long as the communication from the patentee provides sufficient specificity regarding its

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patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.”

<sup>3</sup> There is generally no such limitation on damages if there are no patented products being sold. (35 USC §286 does, however, place a six year time limit on recovery of back damages.) But if the patent holder manufactures product or licenses the patent for manufacture, the damages limitation would apply.

<sup>4</sup> This limitation on damages does not apply to infringement of a method claim except in certain circumstances (see 35 USC §287(b)(1) which affects recovery for infringement under 35 USC §271(g)). Accordingly, an assertion of method claims could be an effective strategy for reaching damages that might otherwise be limited by the notice requirement.

belief that the recipient may be an infringer, the statute requirement of actual notice is met.<sup>5</sup>

Even a letter which is silent on “infringement” language may satisfy the notice requirements. In *Gart v. Logitech, Inc.*, 254 F.3d 1334, 59 USPQ2d 1290 (Fed. Cir. 2001), the Federal Circuit recently held that where Gart’s 1995 letter included a specific reference to claims 7 and 8 of the ‘165 patent, specific reference to Logitech’s selling of the TRACKMAN VISTA, and noted that Logitech “may wish to have [its] patent counsel examine the . . . patent . . . to determine whether a non-exclusive license under the patent is needed”, the whole point of offering the license was to insulate a licensee from infringement charges by the licensor. From an objective standpoint, the 1995 letter provided a “clear inference” that Gart believed the TRACKMAN VISTA infringed claims 7 and 8 of the ‘165 patent.<sup>6 7</sup>

In view of *Gart*, “infringement” language (i.e., language that charges, based on information or belief, specific products with infringement of specific claims) is no longer required for a notification to trigger the clock on damages. Language that provides a clear inference that the patent holder believed specific products of the accused to infringe specific claims of the patent is enough for the notification to start the clock with respect to damages. Going forward, then, companies are likely to see more and more assertions being crafted in *Gart*-like offer to license language. That allows a patent holder to trigger the clock on damages and willful infringement, while at the same time avoiding the creation of an actual case or controversy, necessary for the assertion of a Declaratory Judgment action.

2. Notice re Willful Infringement - - An offer to license may start the clock running on the exposure by the company to willful damages. Section 284, 35 U.S.C. provides that a court may increase the damages found up to three times the amount found or assessed.<sup>8</sup> The Federal Circuit has

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<sup>5</sup> The SRI letter included a copy of the patent and reissue certificate, identified two ATL models that SRI stated may infringe the patent, and offered a nonexclusive license.

<sup>6</sup> “Determining whether patent holder’s communication provides “sufficient specificity” regarding its belief that the recipient may be an infringer cannot take into consideration the knowledge or understanding of the alleged infringer, but must focus on the action of the patentee. *Amsted*, 24 F.3d at 187, 30 USPQ2d at 1469 (“it is irrelevant . . . whether the defendant knew of . . . his own infringement”). Therefore, contrary to assertions by Gart, “whether or not the alleged infringer subjectively believed that the patentee’s letter was a charge of infringement has no bearing on the adequacy of notice.” In *Gart*, even though no mention of the word “infringement” was made, his letter reasonably suggested to Logitech that Gart believed the making and selling of the TRACKMAN VISTA infringed at least claims 7 and 8 of the ‘165 patent and was enough to satisfy the notice requirements.

<sup>7</sup> A 1996 letter from Gart to Logitech indicating that Logitech might find the ‘165 patent “particularly interesting” relative to TRACKMAN VISTA and TRACKMAN MARBLE alone would not constitute effective notice but in view of the earlier 1995 letter was also found to satisfy the notice requirements.

<sup>8</sup> 35 U.S.C. 284 specifically provides that “[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the

reinforced the notion that multiple damages are primarily a punitive provision to deter willful infringement of patents. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 23 USPQ2d 1426 (Fed. Cir. 1992).

An assertion letter that puts the company on notice of a patent gives the company knowledge of the patent. The Federal Circuit has made it clear that a person with knowledge of a patent has a duty to exercise due care to determine whether he will infringe valid patent rights before the initiation of possibly infringing activity. See *Underwater Devices Inc. v. Morrison-Knudsen Co. Inc.*, 717 F.2d 1380, 219 USPQ 569 (Fed. Cir. 1983). The duty is to adhere to a reasonable standard of conduct with respect to that patent in view of the notice. That conduct often includes appropriate due diligence with respect to the patent in connection with assessing the patent. If the notice charges particular products with infringement, the duty may extend to determining whether those products infringe the patent. If no products are charged, the duty may allow for a broader approach to dealing with the assertion. Communication to the patent holder of the company's position regarding the patent, and taking steps to minimize corporate exposure to willful infringement are among some of the duties that may be triggered by the assertion.

3. Notice re Indemnification - - An offer to license may start the clock running on indemnification rights and obligations. For the indemnitee, this means the clock may start running on the period of time allowed for an indemnification demand to be made. For the indemnitor, once the demand is made, this means the clock may start running on the need to do an assessment and, if triggered, to perform promised indemnification obligations.

Indemnification rights and obligations are typically created by contract. Where the contract is silent on this point, an indemnification duty may be implied under the UCC or common law.

Whether an assertion letter triggers indemnification rights and obligations under a contract depends on the indemnity or hold-harmless covenant. The seminal question thus becomes whether an assertion rises to the level of an indemnifiable event as defined in the hold-harmless covenant? If so, does the claim satisfy all of the other requirements of the hold-harmless provision. Consequently, the starting point for any indemnification analysis is construing the indemnification covenant that gives rise to the indemnity rights and obligations.

Most indemnity rights and obligations are triggered by a "claim" having been made by a third party. Most contracts require a "claim" to satisfy some sort of actual controversy requirement. A claim based on a filed lawsuit against the indemnitee often meets this threshold, unless the particular lawsuit

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court. When the damages are not found by the jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title. "

has been excepted from the indemnity; or the indemnity is triggered only upon a final award of damages.

In some contracts, a claim based on a third party assertion may rise to the level of an indemnifiable event. The indemnity demand may be based upon a notice letter, the conduct of a third party or both. Indemnification may depend less on who received the third party assertion than on whose products the assertion has targeted. A customer demand for indemnification triggered by a third party assertion may give rise to an indemnity demand that your company may in turn be able to make against another party. If an actual case or controversy is required before a claim triggers an obligation, a notice letter, which expressly charges an accused product with infringement of a specific claim, may give rise to an indemnifiable event unlike a *Gart-like* letter offer, which falls short of creating an actual controversy (for purposes of a Declaratory Judgment action).

4. Notice re Other Rights and Obligations – an offer to license may start the clock running on insurance rights and obligations. It may trigger the clock to run on the making of claims against an escrow account. It may trigger SEC reporting requirements. In addition, it may trigger the clock on counseling of management, public relations, customer relations, and other business relationships. A third party assertion may trigger a breach of a warranty made in connection with the sale of a business or a product. Third party assertions should always be kept in mind when making representations or warranties.

## B. Responding to Assertion Letters

1. Initial Response - - One of the first actions likely to be taken after studying an assertion letter is to respond to the third party with a holding letter. Something that acknowledges receipt of the letter and that internal action has been initiated. Doing so is a good step toward establishing respect for the asserted patent. It begins to establish a working relationship with the third party. It sends a message to the public that your company respects the intellectual property of others. It also starts the process of documenting the internal actions being taken to satisfy your duty with respect to willful infringement.

The holding letter is likely to be the second exhibit in the willful infringement phase of any trial on the asserted patent.<sup>9</sup> It should be courteous and generally short and succinct. It should be written with an eye toward accomplishing the foregoing objectives. It may address certain issues unique to the assertion such as a previously held relationship with the third party. It

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<sup>9</sup> The assertion letter is likely to be the first.

may request further information. Or it may defer raising these or other issues or requests until after there has been some due diligence done on the patent.

2. Conducting In-House Diligence - - The receipt of an assertion letter should trigger a series of actions leading to an in-house assessment of the patent, affected products and any exposure. It would typically include the following actions:

a. Informing Management - - Management should be advised of the assertion and kept abreast of the due diligence progress and assessment. Alerting management to the assertion may put them in a position of advising you of any downstream business plans that may be impacted by the assertion, such as future product plans or ongoing or projected business negotiations. The level of involvement by management may depend on the patent, the patent holder, the history of the patent and holder, and potential exposure. It may include leadership on implementing any design around implementation strategy recommended. It should include receipt of the rendered opinions on the patent for consideration as to whether the company should continue with the affected business in light of the assertion.

b. Ordering the File History - - Generally, the file history should be ordered as soon as possible after receiving the assertion so that the patent claims can be properly construed and an opinion rendered on the issue of infringement. An exception to the rule may occur when the assertion can be summarily addressed as inapplicable to your business. Any delays in receiving the file history should be factored into your strategy and assessment.

c. Is Patent Maintained? - - A maintenance check should be done on the patent to ensure that the patent is still enforceable. An expired patent defense could allow you to summarily dismiss the assertion.

d. Identifying Products, Product Roadmap - - The assessment should include due diligence on the products that may be implicated by the assertion. This includes identifying technologies implicated by the patent and products implementing those technical solutions. Affected products include products currently being commercialized. They also include discontinued products, products that are in the pipeline as well as product designs your company may have with respect to future business.

e. Identifying Sales; Exposure - - Once specific product models have been identified, past, current and projected sales of these products should be collected and studied to determine potential exposure. The study should include a damages assessment and the effects of any injunction on the business.

f. Are there any License Defenses? - - Due diligence should include an investigation of any patent license your company may have with the third party. Is the asserted patent licensed? Does a license from the third party

under another patent create implied license rights<sup>10</sup>? If the accused products are purchased from the third party, is there an implied license under the patent? Is the patent exhausted by your purchase of the product<sup>11</sup>? If the accused product is purchased from a supplier, does the supplier have any express or implied license under the asserted patent or a patent exhaustion defense? Has the third party covenanted not to assert any patents against your company during the term of the supply contract? If so, the non-assert could be used to negotiate a resolution of the assertion outside of litigation. Identification and study of relevant purchase orders, licenses, or other contracts with the asserting party or other third parties on the implicated technology is needed to determine whether you can rely on any of these defenses.

g. Do any Indemnification Rights Apply - - Does the assertion trigger indemnification rights? If so, a demand for indemnification should be made as more fully discussed later.

h. Do any Insurance Rights Apply? - - Assertion letters may trigger insurance rights and duties. Comprehensive General Liability policies typically cover “advertising” injury which are typically torts that occur “in the course of the insured’s advertising activities.” Assertions based on “copyright infringement”, “trademark infringement” and “trade dress” are typically covered. Patent assertions are typically excluded but may be separately insured.<sup>12</sup> Due diligence should include identifying any applicable insurance policies, determining whether the assertion triggers a claim, and if so, promptly making an insurance claim where appropriate. Failure to comply with notice provisions can result in loss of coverage. On the provider’s end, your claim

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<sup>10</sup> The authorized sale of the product to your company may give rise to an implied license. The three elements needed for a license to be implied are: (a) authorized sale of a product, (b) the sale was made under circumstances that indicate a license should be implied (e.g., no restrictions placed on use of the product)(or customer believes he has the right to use the product); and (c) the product sold has no substantial use other than in infringing the now-asserted patent (i.e., substantially no non-infringing use). This can arise where your company buys a product from a licensee believing you can use the product for which it is intended. This may also arise where your company has a license under a different patent from the third party under circumstances where your company believed it needed no further licensees from the third party to practice under the licensed patent. Alternatively, your company could argue that the third party’s representation that you had the right to make the product should estop the third party from trying to block your product.

<sup>11</sup> Even if not expressly licensed, the asserted patent may have been exhausted by the authorized sale of a product (i.e., sale under a license) to your company by a licensee of the asserted patent. This may come up when the asserted patent has been licensed and the licensor later tries to assert the patent against a customer of licensee. Exhaustion occurs here because licensee was licensed to sell the product under the license. It may also come up when the patent holder asserts the patent against a customer who is purchasing from the patent holder the products giving rise to the exhaustion. Exhaustion occurs here because of the sale by the patent holder of the product. In either case, under the doctrine of patent exhaustion, the purchaser of the product may use the product free of any liability with respect to device claims wholly embodied in the product. Neither method claims nor combination claims, however, will be exhausted.

<sup>12</sup> Given the importance of intellectual property, you may want to consider taking out an insurance policy against patent assertions.



may trigger certain duties including duty to investigate the claim, duty to defend, duty to settle, duty to indemnify, and duty of good faith and fair dealing. Strategies regarding whether to make a claim may depend on the type of products targeted by the assertion (e.g., core/strategic v. noncore/nonstrategic products), how much control needs to be tendered to the provider (i.e., the more core or strategic a product, the less inclined you may be to relinquish control), the level of exposure (e.g. does it exceed the deductible), and any caps on coverage (e.g., coverage limited to a specified number of claims per year in which case the question becomes whether the instant claim is one of the specified number you want to claim for coverage this year.)

i. Any Need for a Press Release - - A highly visible patent lawsuit may trigger a need for a press release to answer questions about the implications of the lawsuit on the operations of your company. The settlement of the lawsuit may lead to another press release. A highly strategic licensing deal may also trigger a need for a press release, as may certain patent developments strategic to your company. A company might want to maintain a low profile, however, including making no press releases, as to less strategic developments, including license deals that are made as part of routine business. This may serve to keep from inviting other third party assertions. Complying with corporate guidelines for making press releases ensures selective reporting of developments as needed to strategically advance your corporate business or to comply with reporting requirements. Statements in a press release admitting infringement and validity should be avoided as should any admissions against interest.

j. Complying with Disclosure Requirements - - A third party offer to license may start the clock running on disclosure requirements. If an applicable statute or regulation compels specific disclosures, a public company will be required to make such disclosures in accordance with such statute or regulation. For instance, disclosures required by the federal securities laws to be made in the company's annual or quarterly reports to shareholders.<sup>13</sup> The duty to disclose typically goes to "material facts" which depend on subjective factors such as effect on revenues.<sup>14</sup>

A public company may also have an obligation to publicly announce a material development as a result of its listing agreement with its

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<sup>13</sup> Disclosure of material developments is also required in connection with insider trading, as are disclosures to correct a previously incorrect statement.

<sup>14</sup> In order to encourage companies to make these kinds of disclosures, Congress has created a safe harbor for reporting of "forward-looking" statements that are couched in cautionary language. Under the safe harbor provision, such statements are not "facts" for purposes of required disclosure.

stock exchange.<sup>15</sup> Even a private company may have common law disclosure duties when seeking shareholder action.<sup>16</sup>

An assertion may rise to the level of a “material” fact. If so, it may trigger disclosure duties. A disclosure duty may arise in connection with pending or threatened litigation. Complying with the duty may require disclosure of the nature of the litigation, progress, how management is responding (e.g., vigorously contesting or seeking out-of-court settlement). When making a disclosure, you should be mindful of the attorney-client privilege and the work product rule.

An audit inquiry letter may also trigger a disclosure duty, for instance where you may be called upon to provide an evaluation of the likelihood of an unfavorable outcome and an estimate of the amount or range of potential loss. When a question concerning the legal situation of a client arises at the instance of the client's financial auditor and the question is referred to the lawyer, the lawyer's response may be made in accordance with procedures recognized in the legal profession. Such a procedure is set forth in the American Bar Association Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information, adopted in 1975. That Policy provides good guidelines on how to walk the fine line in complying with required disclosure duties and preserving the attorney-client privilege and work product.

k. Any History to Patent or Third Party? - - Due diligence should study the strengths and weaknesses of the patent and the third party. When will the patent expire? Has the patent been the subject of a reissue or reexamination? Has it been the subject of an interference? A protest? Has the patent been litigated? Have other companies taken out a license under the asserted patent? Who is the assignee? Does the asserting party have standing to make the assertion? How large is the asserting entity? Is the entity litigious? Does your company have any patents that could be asserted against the third party? Does the third party have any other patents that could be asserted against your company? Use of patent files, patent databases, litigation databases, SEC filings and other publicly available documents can help you better assess the asserted patent and the third party.

l. Discussions with Other Companies Who have Also Received an Assertion - - If the assertion has also been made against other companies, does it make sense to have discussions with those companies about the assertion? If your interests align such as they may on issues like invalidity, such discussions may make sense. Alignment on infringement issues is less

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<sup>15</sup> See NYSE Listed Company Manual, Section 202.05 (“A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities”.)

<sup>16</sup> *Stroud v. Grace*, 606 A.2d 75, 84 (Del. 1992) (directors are subject to a fiduciary duty to disclose fully and fairly all material information when the board seeks shareholder action.)

likely unless both companies are using the same design (e.g., your relationship with other company is that of customer-supplier or both companies are sourcing the same design from the same or different supplier). Before exchanging work product information, a joint defense agreement should be put into place to protect the exchanged information. A downside to engaging in such discussions is that, should the other company end up in litigation, your company could become identified in the course of discovery and your collaboration with the company could be perceived by the third party negatively and jeopardize your chances for a more favorable deal. Joint defense undertakings might also encumber your freedom of movement with respect to the third party.

m. Other Due Diligence Duties - - An offer to license may trigger the clock to run on obligations in connection with customer relations, business relationships, and other obligations. You may have a duty to report an assertion to a customer under a supply contract. Even if not, knowledge of significant investments your customer is making in their business in reliance on your product (e.g., customer investment in a system in reliance on delivered products or customer commitments with respect to your product) may trigger a duty to disclose material assertions. Failure to disclose could expose your company to losses which could have been avoided but for your failure to disclose.

Assertions may have implications on legal obligations undertaken by your company, including the representations and warranties made by your company, such as in purchase and sale, stock divestment, supply or other contracts. Depending on the wording, a representation or warranty that there are no, or you know of no claims by a third party against your company could be breached in view of third party assertions previously received. A warranty against infringement might even create exposure as to prospective third party assertions. Third party assertions should be considered when drafting these and other legal provisions.

n. Internal Docketing - - an internal docketing system for tracking assertions should be established. The docket should flag all rights and duties that the assertion may trigger. It should track what actions are being taken in connection with each right and duty triggered. It should document steps being taken to preserve your rights and to perform your duties. This docket should provide a good overview of all actions needed to be taken to minimize corporate exposure and to bring closure to the assertion. It may also provide documentation needed to prove your claim or that you have complied with your duties, should these issues ever be litigated.

o. The Result - - In addition to the foregoing, due diligence should lead to a comprehensive assessment of the patent and an opinion as to the infringement question raised by the asserted patent.

## C. Strategies for Responding to Assertion Letters

1. No Assertion Made - - Assessing the relevance of an asserted patent to your products requires an understanding of what products are being targeted by the assertion letter. An assertion letter that is silent on this point - such as a mass mailing to the industry on a newly issued patent - makes your assessment particularly difficult. On the one hand, failure of the third party to identify accused products may work to your advantage in that it may keep the clock from running on the damages question. On the other hand, the third party failure may also raise the question of how much due diligence do you need to do in order to comply with your duty not to disregard the patent now that you have knowledge of the patent.

A patent that on its face has no bearing to your business may be summarily rejected absent the third party indicating relevance. A patent that is *prima facie* applicable to your business has a higher standard of care.

Factors that determine the level of care required include whether a particular product has been charged, whether the accused product is your design, whether you are in the business of profiting from the design or whether the design is needed to run an ancillary part of your business (e.g., software used by accounting office of your manufacturing company), whether you know the design implementation or is the design provided to you as a black box design, and exposure to your company created by use of these products. The highest level of care may be required where a specific core product, designed and sold by your company and enjoying significant sales (i.e., creating significant exposure to your company) has been charged with infringement. The lowest level of care may occur where no products have been charged and the applicability of the patent goes to products that are not being sold or are being used on your production line or as materials in making the product (e.g., accounting software used by the accounting department of a manufacturing company) which are purchased at a small price (i.e., low exposure for your company) and are provided to you as a black box design (e.g., you have no knowledge of the design). In the former case, your due diligence should be exhaustive. In the latter, shifting the burden back to the third party to identify products with more particularity might be one strategy to take to satisfy your duty. On receipt of product information from the third party or as an alternative strategy, you might proceed to inventory the implicated products (e.g., accounting software) and demand indemnification from your vendors, and indicate so to the third party.

In between the two extremes, the duties will vary depending on the facts and circumstances of each assertion. For instance, an assertion that does not charge, but does implicate a specific core product, designed and sold by your company and enjoying significant sales (i.e., creating significant exposure to your company) may require you to exercise a high level of care although it may be somewhat less than where a particular product has been

charged. Where an assertion goes to a product you sell which you buy from a supplier as a black box, you may be held to a lower standard of care, especially if sales are low. But if the black box products are equipment used in your plant or are starting materials used in making your product, given the greater exposure to your company, you will likely be held to a higher level of care with respect to that patent. If you have knowledge about the implementation used in the design, you are likely to be held to an even higher standard of care.

The foregoing factors are further likely to be given different weighting by a court or jury depending on other factors involved in the assertion, such as the size of your company, the practice in your industry, the level of skill in your company, the number of assertions your company receives, and your own track record in dealing with assertions.

2. More Information is Needed, Request Identification of Products, and Request Claim Charts - - The strategy adopted for each assertion may be different because each assertion letter you receive may be unique. Good counseling involves developing the right strategy for each assertion. If the assertion letter is silent on products charged, you may ask the third party to identify those products at the risk of starting the clock running on damages. If the third party has offered to make claim charts available, you should request to see them. If a patent has been represented to be licensed, you should ask for the identity of the licensee and a copy of the license. If the third party has made other statements that open the door to further information, you should request the additional information. Often, if the information will help you better assess the patent, the question should be less *whether* to request it then *when* to request it. The timing of your requests will usually depend on when that information will be most helpful in your due diligence and assessment.

3. Shifting the Burden to Patentee to Provide More Particulars - - Even where the third party has not made free information available or the information has been exhausted, you may reach a point where you cannot advance your study any further without receiving more information from the third party. Where §112 support as to a claim limitation is lacking, you may ask the third party for his position on where it can be found. You may ask the third party where a recited element can be found in your product where the element is missing or vague on a claim chart he has provided. You may consider asking such questions even where you know the answers. Having the third party commit to positions with respect to his patent can lead to a better understanding of how he is positioning his patent. It can also lead to admissions that could help you defend against the patent.

4. Patent Doesn't Cover Products - - An assertion that identifies particular products for license should trigger a due diligence on that patent and product and an assessment to determine whether a license is needed. This process should include communications to the third party about the progress of your company's due diligence and your company's final position with respect to the patent.

When communicating with the third party, assume that your communications will become trial exhibits. Accordingly, your response should courteously address each of the points raised by the third party. Your company's position should be communicated without disclosing privileged or work product information. The communication should leave the door open to your litigation team to later develop and argue other positions should there be a litigation on the patent. If your position is that your products don't infringe because an element of the claims are missing from your products, leave the door open to other defenses by stating, if applicable, that there are other limitations not found in your products as well as prior art, vagueness in the claims and other defenses that further keep the claims from covering your products.

The positions taken should be defensible in a litigation. Avoid taking or making admissions that undercut your defense.

5. Less Said the Better - - Other than stating your company's position in a reasonable way supported by a brief analysis, you should avoid becoming defensive or argumentative. Doing otherwise could lead to statements being made against interest. You may also create a perception of weakness in your defense.

An assertion should be treated for what it is. An offer to license should be treated like any other business proposition. An assertion that is a cease and desist may require a stronger reply, including possibly beginning preparations for possible litigation.

When responding to a customer indemnification demand, there is a tendency to want to share more information about your defense with the customer than may be necessary to assure the customer about your defense. Just as with responding to the patent holder, the less said to assure the customer the better. Whatever is said, be mindful of the attorney-client and work product issues. A response that provides assurances that indemnification obligations will be honored is a safe response, if true. Along with a general statement that you are studying the assertion or if your assessment has concluded, your position that you have looked at the patent and believe there to be good defenses or that you have studied the patent and believe that a license is not necessary, if that is your position. A joint defense agreement should be put into place if there is to be any disclosure of work product information.<sup>17</sup>

6. For an Assertion Involving Multiple Patents, Try to Respond to Each Assertion at the Same Time - - Dispensing with one patent on a non-infringement basis in one letter followed by a subsequent letter addressing the other patents could send mixed signals about the patents. The delay in responding to the latter patents could indicate a weakness in defending against the latter patents. Especially if they are dealt with on a different basis (e.g.,

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<sup>17</sup> Divulging attorney privileged information should be avoided even under a joint defense agreement.

invalidity) which could signal a further weakness in your non-infringement defense. To keep this from happening, you should try to respond to all assertions together, at least when stating your initial position.

7. Be Firm but Fair - - Good counseling should bring some closure to each patent assertion. A good counselor will do this by communicating to the third party your company's position with respect to the assertion. Your statement should provide a fair statement of your position and your analysis. It should also be firm. If your position is that a license is not needed, it should so indicate. It may invite the third party to provide particulars if they continue to have a different view. If more particulars are provided, you should indicate the position you have taken after reconsideration. If your position is final then you should so indicate. If your position is that a license may be needed, you should move in that direction by inviting discussion of licensing terms. But you should do so without compromising your ability to defend against the patent. Proceeding as above sends the right signals to the third party, the industry, the public and the court that you are trying to do the right thing in connection with the assertion.

8. The Persistent Submitter - - Occasionally, a persistent submitter may come knocking on your door. Someone who will not take no for an answer, even after you have stated your final position. If the submitter has been sending letters to the president of your company, you might kindly ask the submitter to send no further correspondence on this matter to anyone in the company but you. If after discussions have reached the point of closure, it may take a stronger letter from you to close the matter.

If your letter still brings no closure, an even stronger letter may be required, reiterating positions you have previously stated, stating your position as to any new matters raised, and that you view the matter closed. You might send the signal that this matter is moving closer to litigation by stating that any further correspondence should be directed to your outside attorney and give his name and address.

If that still doesn't close the matter, an even stronger letter from your outside attorney may be needed. If the facts warrant, a letter indicating that threatening litigation and injunction is without any basis in the law and that your company will look to recover attorney fees should the submitter act on any threats and that any continuing harassment may be grounds for legal action. This might send the right signals to the persistent submitter as well as position your company for your next move - possible litigation.

9. The Need to Revisit a Patent Assessment if Your Business Plan Changes - - Whether a patent is identified in a patent clearance program or as a third party assertion, knowledge of that patent should lead to an assessment of the patent.<sup>18</sup> An assessment should be a dynamic, not a static

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<sup>18</sup> Patent clearance is a study of a product against third party patents to determine whether any third party patents create any issues with respect to the product. Unlike a study initiated by a patent assertion, a patent clearance usually occurs in advance of a product release. Unless a clearance concludes that a

process. At the time the assessment is rendered, it stands as a snapshot of the implementations, the business plans, the applicable law and the opinions at that time. As the assumptions on which your assessment is based change, so too may your assessments. A good assessment will be periodically revisited and revised as necessary to ensure that positions you have taken continue to be valid in view of any changes that have been made to your product implementations and business plans and any changes in the applicable laws.

10. Avoid Absolute Language in Your Assessments - - Few things in patent law are black and white. Some issues, such as the validity of the patent or infringement, may never be known until decided by a court or a jury after trial. For this reason, an accused especially must be careful in the choice of words he uses to describe the position he has taken. This is less of a concern for a patent holder who will be riding on the presumption of validity and confidence of his infringement study to assert validity and infringement of the patent. An opinion by the accused could state that the patent is not infringed if the accused product is missing one or more elements or the patent is invalid because of known prior art. Although a good practitioner will condition even these opinions using terms such as “likely not infringed” or “likely invalid” because of the uncertainty that a trial holds on these issues. In contradistinction, an opinion that the patent is valid (or the patent is infringed) presupposes that all prior art and all positions have been considered on the issues – which they have not and may not be until after the issues have been litigated. Such statements should be avoided until such time as those issues have been made certain.

11. Taking Out a License - - If every assertion against your company resulted in a license, after all the royalties are paid, there may be little or no profit margin remaining for your company to run a business. Every license taken may further send a statement to the industry that the license was required. This, or admissions made by your company with respect to the patent, could invite other third party assertions and create other third party license issues. A reputation in the industry that your company is litigation averse and prone to licensing could make you an even bigger target for third party assertions.

At the same time, there are some asserted patents that may need to be licensed.<sup>19</sup> Licensing negotiations may be amicable or occur as a result of litigation. The license may include a license-back to the third party of the defending company’s patents. The resulting cross-license can provide for quiet enjoyment between the two companies as to the licensed patents.

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license is required and negotiations with the third party are begun, a clearance usually proceeds *ex parte* while response to an assertion involves an *inter partes* element.

<sup>19</sup> For instance, an essential patent that reads on an industry standard may be required for a company to provide standard-compliant products.



Factors to consider before taking out a license include the need for quiet enjoyment, the strength of your defenses to the asserted patent, your relationship to the third party, the likelihood of litigation, the cloud of the unresolved assertion on your business, the terms of the license, the exposure of your company in the event a license is not taken and your company's willful infringement exposure in the event the assertion is litigated.

A cross-license may be used to leverage a better deal under the asserted patent. So too could creative business deals between the two companies. Paying royalties in the form of credits that the licensor can use to purchase products from the licensee; granting the licensor rights to distribute your product; entering a collaboration on a new product, are some creative business opportunities that could be explored in connection with taking a license under the asserted patent. Whatever deal is struck, it should be one that works for you company, including receiving a license grant that broadly flows to all parts of your affected businesses – e.g., for a personal computer company, this may include ensuring that rights flow to the manufacturer of the computer, use of the computer in combination with other devices such as with servers, use by distributors and other customers, and use by the end users.<sup>20</sup>

12. Acquisition or Exclusive Licensing of an Asserted Patent - - If a patent covers a technical implementation important to the industry, its value may go beyond giving you the right to practice under the patent. Its value may extend to keeping competitors from practicing the patented technology. If so, consideration should be given to acquiring or securing exclusive rights under the patent that could be added to your portfolio and used to block or license the industry. The competitive advantage to your company of exclusivity or a booster to your licensing program could make the license of an asserted patent an even more attractive proposition.

### III. Cease and desist letters

Assertions come in many shapes and sizes. Many seek to offer a license. Some take a stronger tone. Some demand that you cease and desist infringing their patent. The cease and desist letter puts you on notice of the

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<sup>20</sup> The licensor's strategy in contrast is likely to be to limit the grant to the rights embodied in licensee's product and not to any rights to practice that product in combination with other products. For instance, a license to a semiconductor company might limit the license to patents that are embodied *in whole* in a semiconductor chip. The semiconductor customers could then be separately offered a license under patents lying outside the chip including those directed to the use of the chip in a product. Alternatively, the license might be limited to patents embodied *in whole* or *in part* in the chip except for essential patents, which along with product patents could be separately licensed to the customer. As yet another alternative, in lieu of a license, a non-assert could be granted to the semiconductor company so that the entire portfolio of patents could be licensed to the customer. As still another alternative, the customers could be given a pass-through to some patent rights through a license grant with the remaining patents made available for license.

patent and triggers a duty not to disregard the patent. The duty of care is likely to be higher than with an offer to license due to the threat of litigation and the short window of time usually given to comply. Expedited due diligence will be required. A written opinion of counsel may still be required so as to minimize exposure to wilful infringement charges. Unless litigation is run from in-house, some planning also needs to begin on how and when to involve outside litigation counsel. To minimize challenges to the written opinion, the written opinion should be rendered by a practitioner (either in-house or outside) that is not part of the litigation team.

#### IV. Indemnification Demands

##### A. Indemnification Counseling

Effective counseling with respect to indemnification issues requires an understanding of indemnity law, when indemnification rights and obligations arise, and what strategies can be taken. The strategy of the indemnitee is likely to be to pass every third party assertion off to the indemnitor under an indemnification demand. Effective counseling by the indemnitor involves walking a fine line between fending off those demands that fail to trigger an indemnification obligation and honoring those demands that do. Customer relations, industry perceptions and other factors weigh upon what line the indemnitor decides to walk on a particular demand.

##### B. Who should provide indemnification?

Common law has generally placed the indemnification obligation on the party that created the design except as the parties might otherwise provide. One codification of this is found in UCC §2-312<sup>21</sup>. The creator of the design is in the best position to know (a) the design and detailed implementations it contains, (b) of third party rights that may impact that design, and (c) what third party licenses were used in the design. For these reasons, the creator of the design is usually in the best position to define a meaningful clearance of the design with respect to third party patents.

It follows that where a customer designed a product which he is having made by a manufacturer under a fabrication agreement, it is usually the

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<sup>21</sup> § 2-312. Warranty of Title and Against Infringement; Buyer's Obligation Against Infringement - (3) Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.

customer that indemnifies the design. Where, however, the design to be fabricated is a manufacturer provided design, it is usually left to the manufacturer to indemnify the product. If a manufacturer is providing a customer with products that implement a third party design under a license, the customer will often look to the manufacturer and the manufacturer may turn to the third party designer for indemnity.

If only patents are licensed, a licensor will be providing a right to practice under the patent without indemnity. If, however, designs are also being licensed, a licensor might indemnify the licensee for use of his designs only.<sup>22</sup>

An indemnitor will want to limit his indemnification to the design he provided. He will often do so by, among other things, excluding from indemnification any modification of his design or combination of his product with other devices.

### C. Indemnification demands

1. By Customer Where No Infringement has been Charged - - A customer may demand indemnification in several ways. He may advise your company that he has been notified by a third party that (a) a patent is available for license, (b) that the products of the indemnitee are infringing, or (c) that he has been sued by a third party. He may actually demand indemnification or simply put your company on notice that he will look to your company to defend and indemnify indemnitee.

What strategy to take in responding to an indemnification demand depends on the demand letter, the accused products, and the contracts underlying the indemnification obligations. As a contract matter, the underlying contracts should be identified and pulled from the files and a thorough study made of the contract and the applicable hold-harmless language. Contemporaneous with your indemnification study should be a study undertaken to comply with your duty to avoid willful infringement.

The seminal question as to whether any indemnification rights or obligations are triggered is whether the third party claim forming the basis of the indemnification demand rises to the level of a “claim” as defined by the hold-harmless language. If it does, the indemnification claim is ripe for further consideration as to whether the claim meets all the other requirements for indemnity to apply. If an assertion does not rise to the level of a claim, there may be no indemnity owed. In that case, you may take the position that the claim is not ripe for consideration.

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<sup>22</sup> Even here, the indemnity will likely be limited to the design as provided and will not extend to any designs created by licensee.

2. Consistency in Replies when More than One Customer has Demanded Indemnification From You on the Same Third Party Assertion - - Any position you take with respect to one indemnification demand could become the yardstick against which other positions you may later take (with respect to other indemnification demands) are measured. A tender that you have accepted in one case may be used to construe whether declining a tender in another case was appropriate. For that reason, consistency in the way you construe the terms of the indemnification provisions and the positions you may take as to whether to accept or decline a tender is extremely important.

Complicating your ability to be consistent is the fact that indemnity demands are often based on different contracts, each of which has indemnity language unique to that contract. The complication can be illustrated with an example where a third party lawsuit based on a method patent has been filed against three of your customers who are each selling products supplied by several companies, including your company, a computer manufacturer. Each customer demands indemnification but under three different contractual provisions. With the first customer, the contract indemnifies “any third party claim against the product”. With the second, the covenant indemnifies “any claim against the functions or methods used in the product”. With the third customer, indemnity is provided for “any claim made against the function or methods used or supported by the product”.<sup>23</sup>

With the first customer, you may take the position that the lawsuit appears to pertain to customer’s method and not to any product provided by your company, so there can be and is no indemnity obligation. You could take the same position with respect to the second customer given that no product has been charged in the lawsuit. You may assume the defense for the second customer anyway because he is a preferred customer. However, doing so might amount to an admission that indemnification was owed as to “products”, which the first customer could then use in a lawsuit brought against you based on breach of the applicable hold-harmless provision. To keep this from happening, you might want to consider assuming the defense for the second customer on a good customer policy and not because of any owed indemnity obligation.

With the third customer, your indemnity obligation may have been triggered because the asserted method claims go to “methods supported by the product”. In that event, you may want to explore ways to satisfy your obligation short of assuming the defense.<sup>24</sup> If you decide to assume the defense

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<sup>23</sup> Indemnification provided as to a product should exclude coverage for combinations of the product with other components. Failure to do so could allow your contribution to the combination sold by the customer to provide a basis for indemnification. Of course, the third party may charge you directly with contributory infringement (so you may get brought into the suit anyways). But if that happens, you may stand a better chance defending against that issue alone than having to defend all the issues for your customer under indemnification.

<sup>24</sup> This might be a good strategy to take given that the lawsuit is about customer methods and not about any products you provide.

for the third customer, the question then becomes should you also do so for the other customers?<sup>25</sup> If your strategy on assuming the defense is to become a named party, then you will probably want to litigate the defense of all your products in that lawsuit for all the customers.

3. Same Customer Demand Supporting Multiple Claims You Can Make - - A third party assertion underlying a customer indemnity demand may trigger several claims that your company can make against other companies. That third party assertion might support an indemnity demand made by you against your supplier. It might support a claim you could make against your provider under an insurance policy. Depending on such factors as whether the assertion goes to a core product, is designed by your company, is sold by your company, and the sales generated by that product, you might make one, both or no claims.

Where the assertion goes to a product design of another company that is being sold by your company, you might make both claims although the insurance coverage may be deemed to be secondary coverage of damages and costs not covered by your indemnity claim. Where the assertion goes to a specific core product, designed and sold by your company and enjoying large sales, you will likely want to maintain as much control of the defense as possible. Whether you make one or both claims may turn on whether any claim provides for desired coverage while allowing you to maintain the control of the defense you need.

4. A Customer Indemnification Demand You have Declined Could Give Rise to a Claim You Could Make - - A claim is defined by the underlying contract. Claims made against your company and claims you can make against other companies are likely to be governed by different contracts. A claim made by a customer against your company under an indemnification agreement may fail to meet the definition of a claim under that agreement and so be declined by your company. At the same time, that very same indemnification demand which your company rejected for failing to rise to the level of a claim could give rise to a claim that your company could make against another company under an indemnity or other agreement.<sup>26</sup> You should keep this in mind whenever you receive an indemnity demand.

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<sup>25</sup> But note that if you participate in the defense of the case, even though not a named defendant, you run a risk of being bound by the outcome in the case.

<sup>26</sup> This could occur in connection with a product your company buys from a supplier and sells to your customer. An indemnity demand by a customer in connection with a third party offer to license might fail to trigger any indemnity obligations from you because a claim under your customer purchase order requires a charge of infringement. Yet that third party offer might trigger indemnity under your supply contract because a claim there can be based on any third party assertion. It could also arise where, under a customer hold-harmless provision, a claim is defined to require a third party charge of infringement while an escrow account created upon acquisition of a business allows for claims based on a “reasonable probability of incurring damages”. The third party offer to license in that case may fail to trigger any indemnity owed by you to your customer and yet provide a basis for you to make a claim against your escrow account.

5. Even If a Third Party Assertion Rises to the Level of a Claim, are All Conditions on the Obligation been Satisfied?

a. Is Demand Timely? - - Many indemnification provisions require indemnitee to promptly notify the indemnitor about the claim. If no period of time is specified, then one may be implied. Especially where delays in making the claim may prejudice the indemnitor's ability to defend. For instance, where a claim made a half-year after a complaint has been filed against indemnitee has prejudiced indemnitor by denying him the opportunity to defend in the early stages of the lawsuit where critical decisions were made. Providing timely notice is therefore a key limitation on many indemnity obligations.

Sometimes the period required for making a claim is specified, such as 30 days after notice of the claim. In that event, failure to make a claim within that 30-day period of time could forfeit your right to indemnification. In most instances, that period will run from the date you were notified of the third party action. In complex cases, however, where identifying affected products and purchase contracts and determining whether any claims could be made take longer than 30 days from the date you were notified, a court might construe the notice period to run not from the date of notice but from the date the indemnitee concluded, after engaging in reasonable due diligence, that a claim could be made, unless the contract expressly provided otherwise.

Most indemnity obligations require the notice of a claim to be "promptly" made. In that case, on receiving a third party assertion, you should promptly determine whether any claim can be made and timely make those claims. Failure to do so could cause you to forfeit your indemnity rights.

b. No Modifications Made to the Indemnified Design - - A good indemnification provision will limit indemnification to products that have not been modified. Where an indemnified product can be used in the form provided, modifications to the product by the customer are less likely to be an issue. This is less so where the customer might need to make some modifications to the product in order to make the product useable (e.g., such as integrating vendor software into your product which may require some software modifications at the interface.) In this instance, minor modifications necessary to integrate the software into the product might not void indemnification, unless the contract provides otherwise.

c. Any Cap on the Indemnifiable Amount? - - Indemnification may be capped to a sum certain. It may be capped at one million dollars. Or it may be capped to the amounts paid under the contract that gives rise to the indemnity. In the latter case, the amounts paid or likely to be paid under the contract will determine whether the indemnity has any value to your company. A small amount might make the indemnity worthless, especially if a core product is accused and your exposure is large and tendering control of the defense is a condition precedent on the indemnity.

d. Has Claim been Properly Tendered - - Has “control” been tendered - Most indemnification covenants require the indemnitee to give indemnitor “control” of the defense of the claim. Where the claim is based on a third party assertion against one of several products you are selling that are being sourced from several suppliers (e.g., a retail store outlet offering products of several companies), relinquishing control may not be a big issue. However, where your claim is based on an assertion going to a specific core product of your company that is designed and sold by your company and is enjoying significant sales, you may be less willing or more concerned about relinquishing control. There may be other reasons why you may not want to tender “sole” control of the defense.<sup>27</sup>

Once you’ve decided to demand indemnification and relinquish the required control, the question then becomes does the control you are *able* to relinquish satisfy the “tender” requirements? In some cases, tendering “sole” control might not be possible because the customer may have already given some control away to other vendors who like you have been named as defendants in the lawsuit. In that case, you might take the position that no indemnity is owed because customer has failed to “tender “sole” control of the defense” as required for any indemnity to arise. By tendering some control over to the other vendors, customer may have created a conflict between you and the other vendor indemnitors. For instance, the other vendors may have smaller exposure in the lawsuit (when compared to your exposure) which may be driving them to opt for a quick-out strategy (opting for a quick Markman Hearing on the claims followed by a summary judgment motion on non-infringement) which conflicts with your strategy of developing discovery before committing to a position on the claims.

In a case like this, where the customer has done all it can do to tender “sole control” of the defense, you might conclude that customer has nonetheless acted in accordance with the spirit of the hold-harmless provision. While you could try to secure commitments from the customer to secure support from the other vendors for your defense strategy as a condition for acceptance, at the end of the day, you might decide to accept the defense of the case. If so, you should do so subject to reservation of rights on the “control” issue. If, after the suit is over, customer’s failure to tender “sole control” turns out to have prejudiced your position, your reservation of rights may have preserved a cause of action against your customer. As a supplier, though, you

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<sup>27</sup> For instance, if the assertion has been made against a core chemical design that has been licensed from one of your customers for use in products provided to all of your other customers, you might be concerned about tendering control for several reasons, including that the interests of your company and indemnifying customer may not exactly align (where a settlement favorable to the indemnifying customer might not be favorable to you given the different business pricing and models you may have in place with each customer), that discovery to be conducted with respect to each of your other customer product offerings might compromise the business plans of your other customers, and that your indemnity may only cover products that are supplied to the indemnifying customer whereas product sales you may be making to other customers might be significant.

are more likely to trade that cause of action for more business favor with your customer than to use it in any action.

e. Scope of Indemnification - - From indemnitor's standpoint, a good indemnification provision will limit the scope of indemnity provided to a clearly defined set of products. Having indemnitee identify the products charged by the third party assertion is an important step to limiting your defense to only those products covered by the indemnity.

f. Identification of Other Indemnitors of Customer - - In some cases, the products of several vendors may be charged in an assertion. Your customer may have demanded indemnification from each of the vendors. Before assuming indemnification, it is important to know the indemnity of each of the vendors, the sales volumes attributable to each, and the obligations each are providing. This will help you determine a strategy to take with respect to the customer indemnity demand that will dove-tail with strategies taken by the other vendors in the litigation in a way that best protects your company's business while satisfying all of your indemnity obligations.

g. If Time of Essence - - Sometimes a demand may be based on a third party assertion where immediate action on the part of the customer is needed because time has been made of the essence. An example might be where a complaint has been filed by a third party against the customer, which has triggered a duty on the part of the customer to reply within 20 days or face a default judgment. While "time of the essence" demands heighten your duty to diligently arrive at your position on the indemnity question, it should never be the reason why a defense is assumed. Rarely should a defense be assumed until your study has concluded that your company has a duty to do so. Accordingly, when faced with a "time of the essence" demand, an appropriate strategy might be to suggest that the indemnitee seek an extension of time to answer the complaint until you have resolved the indemnity question.

h. Assistance Even if No Duty - - Even if it is determined that no indemnification is owed, you may decide to defend the case anyway. Whether you do depends on the products charged in the lawsuit. If, for instance, your core products have been charged with infringement but your company has not been named a party to the suit, you might decide to intervene in the lawsuit in order to best protect your customer and product.<sup>28</sup> On the other hand, given that the burden of proving infringement is on the third party, not intervening could effectively limit the third party's discovery on the infringement issue to what the customer knows and whatever the third party can get from your company by way of third party discovery, which may not be enough to prove infringement. Should your decision be to not defend, it is critical that you take steps to ensure that the presentation by customer of the infringement defense

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<sup>28</sup> You may not have been named in this lawsuit because the third party is unaware that the functionality giving rise to the infringement charges brought against customer's product is provided by chips used in that product that are supplied to the customer by your company.



does not prejudice your ability to later defend your product in another action. Assisting the customer to develop and try the infringement defense is one way to proceed. Assuming the infringement defense without becoming a named party (e.g., assuming control of the outside law firm on defending this issue for the customer) might be another way to do this. Assuming the defense of the entire lawsuit (e.g., by assuming control of the outside law firm on defending the entire lawsuit) might be yet another way to proceed.

If the products charged in the lawsuit are customer products and your products are only used with the accused products and you have no duty to indemnify, you might decide not to assume the defense. In that event, you may still consider providing reasonable cooperation to indemnitee as may be necessary for indemnitee (subject to protection of your confidential information) to understand any features of your product that might allegedly be implicated in the lawsuit.

i. Participation in Settlement Discussions Without Assuming Indemnification - - In some cases, a customer may be sued under a patent charging several products supplied by several vendors with infringement. The customer may have made indemnification claims against each supplier. While the other vendors have accepted, you may have declined to accept the tender either because you have not reached the point in your study to determine that indemnification is owed or you have concluded your study and found no obligation to be owed. Should your customer desire to move quickly to resolve the lawsuit through settlement, you may be in a position where to not participate may leave products you supply to this customer exposed to litigation. Yet you have not yet completed your study as to whether indemnification is owed or you have concluded that it is not owed.

One strategy for proceeding in this kind of situation could involve participating in the settlement discussions and advising the customer that you will contribute an amount to the settlement on certain terms and conditions. But in so proceeding, you are doing so under a good customer policy and not under any indemnification obligation. Terms of participation may include that any payment by customer will be the product of a fair and appropriate implicated product allocation formula among other vendors to customer and other contributors as appropriate, customer will not seek any other payments from your company regarding the patent dispute at issue; customer will make no acknowledgements with respect to the patent in any settlement; the arrangement will be treated as confidential by customer; customer will provide your company with sufficient access to information to ensure that your company can confirm that the above items have been satisfied; and your company reserves its right to proceed differently than described above if one or more of the indicated items have not been satisfied.

j. A Good Demand Letter - - In view of the above, a good demand letter will be specific, to the point, will make a claim, point out the underlying agreements on which the claim is based, why the claim is covered by the

indemnity, that indemnity is triggered, including tendering control of the case if required, and demand indemnitor's acceptance of the defense. While making the claim itself may not call for more disclosure, be sure to be ready to provide additional disclosure as may be requested by indemnitor to evidence satisfaction of all of the indemnity terms and conditions.

k. Assuming Indemnification - - When the obligation is triggered, the indemnity demand should be assumed. The question presented is at what point have all the terms and conditions giving rise to an indemnification obligation been satisfied? Some *provisos*, such as "no modifications have been made to your product", may not be confirmed until later. One strategy you could take in that event could be to delay accepting the tender until confirmation. If the litigation is active, however, the risk of delaying your acceptance could be to allow the customer to control the strategies and defense in the early critical stages of the litigation. An alternative strategy might be to assume control of the defense where defense is mostly likely owed (but for final confirmation of some conditions such as those pertaining to no modifications) but doing so subject to final confirmation.

Before proceeding that way, you should bear in mind that once the case has been assumed the burden shifts to you to defend. If it turns out later that indemnification was not owed, the burden is on you to show why not. The burden is likely to be a high one given any admissions and waivers that may have been created once you assumed the defense. But for misrepresentations by the customer as to material terms giving rise to the indemnity or prejudice to your company because of the failure of the customer to tender sole control of the defense, for example, once a defense has been assumed, it is very difficult to undo your duty to defend.

l. Staying Behind the Scene after Assuming a Defense - - After assuming a defense, you should work with the indemnitee to develop a defense strategy that advances the common interest.

Assuming defense of a lawsuit does not necessarily mean that you need to intervene and become a named party. While there are advantages to being a named party including the right to take discovery, make and defend motions, and try the case, there are also advantages to not being a named party. These include a right to be heard in court at a later date, remaining anonymous to the third party if the accused product is not known by the third party to be your product (e.g., the accused functionality in an accused product is provided by a chipset you supply to the indemnitee), or keeping a low profile could lead to a more favorable resolution. Anonymity in a lawsuit might limit discovery on the infringement issue to discovery from the customer as a named party and possible from your company but on a more limited third party discovery basis. Such a strategy could afford your company significant advantages.<sup>29</sup>

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<sup>29</sup> But note that if you participate in the defense of the case, even though not a named defendant, you run a risk of being bound by the outcome of the case.

A strategy of remaining anonymous could also have benefits where a third party assertion falls short of a lawsuit. If there is animosity between your company and the third party or you could be perceived by the third party to have deeper pockets than your customer, having indemnitee “front” the negotiations could lead to a more favorable resolution.

m. Where Your Claim Falls Short of Indemnification You May Still be able to Leverage the Assertion to get Assurances from your Supplier - - Even if an indemnification demand you have made is not accepted, you may still ask the indemnitor for assurances regarding a product that has been implicated by the assertion. For instance, you could request your supplier for assurances that there will be no interruption of supply or increase in pricing to your company as a result of the patent assertion made against the supplier. Even where an assertion is made not against you but against a supplier or customer, you may want to consider requesting assurances to the extent the assertion could adversely affect your business.

n. Redrafting Indemnities to Overcome Deficiencies Discovered in Your Practice - - If in the course of your practice, you discover deficiencies in indemnification provisions being used in your agreements, you should take steps to correct those deficiencies. Periodic auditing of your agreements is a prudent thing to do to ensure that indemnity obligations create no more exposure than your company is willing to shoulder. To the extent possible, you should amend existing contracts and draft new hold-harmless language for use in prospective agreements so as to minimize your exposure to indemnity demands. If an amendment to an existing agreement is not possible and your company is not bound by contract to do otherwise, you might consider conditioning the inclusion into your product of a feature that has been clouded by an assertion on an agreement by the customer to indemnify your company as to that feature.

More and more companies are looking for ways to shift the risk of litigation over to other companies. Indemnification provides one way that a company can try to do this. Where a customer either takes products provided by a supplier and combines it with other products into a final product or uses a product provided by a supplier in a system or methodology devised by the customer, the customer will often still look to a supplier to defend all patent assertions even if the assertion is made against a product, system or method devised not by you but by the customer. To minimize this exposure, a supplier should, among other things, exclude from indemnity any indemnification for (i) product or features of a product for which the design or specification has been provided by customer and (ii) the use of a product or feature as a component for use in practicing a patented combination, system or method. Failure to do so could cause your company to end up underwriting litigations that should more appropriately be borne by the customer.

o. Communicating with the Third Party While Awaiting Acceptance of Your Tender - - Any responses to the third party you may make

prior to acceptance by indemnitor of your demand should factor into your response the position of your indemnitor. Where your supplier has accepted your defense, your reply to the third party might be that the products the third party asserts are covered by the patent are made for your company under a supply contract with supplier. For that reason, you have referred third party's correspondence and this matter to your supplier under your indemnification agreement with him and that the supplier is studying the allegations and will be responding. In a multi-supplier situation, where some suppliers have accepted the defense and others have yet to do so, you may need to continue to be part of the discussions with the third party until you have succeeded in passing all discussions off to your suppliers under hold-harmless provisions.

Your supply agreement may require you to preserve the confidentiality of your supplier. Even if it does not, you may still want to do so. In that event, a confidentiality agreement will need to be put into place with the third party before any disclosure of supplier information is made.<sup>30</sup>

p. Indemnification Issues When a Customer Sues You - - More and more customers and suppliers are suing each other for patent infringement. For the supplier, the issue is a more delicate one because of the premise that the customer is always right. Yet a customer that sues its supplier may not enjoy that premise. The supplier should explore possible defenses including whether the customer has granted your company a non-assertion in your supply contract. Since litigation is likely to breach the non-assert and disrupt supply, the non-assert stands as a powerful incentive for the customer to resolve the assertion short of litigation.

A supplier might also want to explore whether he can take any offensive measures against the customer. For instance, your company might want to look at what patents your company could assert against the customer to try to leverage a better deal. As part of this study, you will need to read your own patents onto the products your customer is sourcing from your competitors.

This strategy may backfire though for other reasons. One of these is indemnification. Many customers can minimize the blow of such offensive action by shifting the defense against your patents over to other vendors under indemnity arrangements. In so doing, the other vendors might then be invited to join the litigation to defend. This may also give rise to the other vendors exploring and bringing offensive assertions based on their patents against your company through counterclaims or by taking other action. There is also the relationship with the customer to consider. In view of the above, when used

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<sup>30</sup> With multiple suppliers, the issues of maintaining the confidentiality of the supplier list becomes even more important as any supplier list, just like a customer list, may provide insight into how your company does business. As super sensitive information, you may want to consider disclosing your supplier list on an eyes-of-attorney only basis. This will keep access to this sensitive information away from other companies, especially your competitors.

against your customers, you may find your patent portfolio to be less of a strategic offensive weapon.

q. Customer Issues when Demanding Indemnification from a Customer - - In some cases, it may be a customer that indemnifies your company. That could happen, for instance, where your company designed product for a customer according to customer specifications. Taking advantage of the indemnity, however, might be difficult to do because of the customer relationship. Especially if the customer has declined your tender and you are forced to litigate the issue.

When it comes to customer issues, there is always a good deal of negotiation that is likely to take place before a compromise acceptable to both companies is reached. Even where a supplier may be completely indemnified by a customer, the agreed upon compromise might have the supplier forego some or all indemnity rights in exchange for certain business concessions from the customer such as in connection with purchase orders, volumes, pricing or other business arrangements.

r. Maintaining Customer Relations during Your Defense of the Lawsuit under Indemnity - - If your company has assumed indemnification, you should use this relationship to build upon your customer relationship. Keeping the customer apprised of the progress of the litigation and favorable developments could foster better relations and bolster confidence in your company and the accused products. Unfavorable developments should also be brought to the attention of the customer so that the customer can factor them into future business plans.

## V. Willful infringement

A. Introduction - - A patent brought to your attention by a third party patent assertion or by a customer or business partner creates knowledge. If a patent is uncovered during a patent clearance or prosecution of a patent, knowledge of a patent plus awareness of its relevance to your business can create knowledge. Once you are aware of a patent and its relevance to your business, you have a duty not to act in willful and deliberate disregard of the rights of the third party.

Whether or not you have complied with your duty is a fact intensive question, a question that may be ultimately decided after trial by the trier of fact, and may be made by a jury who knows very little about patents or

how business operates.<sup>3132</sup> To avoid this uncertainty, you should be particularly aware of the duty and what is needed to comply, and take all necessary steps to comply.

Some factors courts have considered in determining whether there has been willful infringement include: (1) whether the infringer deliberately copied the idea or design of another; (2) whether the infringer, when he knew of the patent, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) the infringer's behavior as a party to the litigation; (4) defendant's size and financial condition; (5) closeness of the case; (6) duration of defendant's misconduct; (7) remedial action by defendant; (8) defendant's motivation for harm; (9) whether defendant attempted to conceal his misconduct. *Read*, 970 F.2d at 826-27, 23 USPQ2d at 1435-36. And whether infringer, among other things, relied in good faith on timely and competent opinions from its patent counsel. *Westvaco Corp. v. International Paper Co.*, 991 F.2d 735, 745, 26 USPQ2d 1353, 1360 (Fed. Cir. 1993).

B. Written opinions - - Written opinions are important since they evidence a concern for the patent rights of others and, if they are competently drafted and properly relied upon, can be a defense. As such, the written opinion could save your company a lot of money. It is not uncommon for patent judgments to exceed \$100 million. Damages in the amount of \$50 million can be trebled to \$150 million. Moreover, if an appropriate opinion would have pointed to the need for a license or a design around, an opinion to the contrary could have lead to a lawsuit which should have been avoided. Attorney fees can be several million dollars. And if the defense is found to be frivolous, the attorney fees of the asserting party could be added to that.

Written opinions can be viewed to be an insurance policy against enhanced damages. They are no guarantee that your company will not be found liable for infringement. But if you are found liable, they can go far toward minimizing exposure to enhanced damages.

Every opinion involves a cost-benefit analysis/judgment call as to how exhaustive due diligence and the assessment should be and whether outside counsel should be involved in the process in order to comply with your duty. Where a specific core product designed and sold by your company and enjoying significant sales (i.e., creating significant exposure to your company) has been charged, the cost-benefit analysis/judgment might justify securing an

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<sup>31</sup> When a patent case is tried to a jury, willful infringement is a question of fact for the jury to decide. It is then the responsibility of the judge to determine whether damages should be enhanced.

<sup>32</sup> In one group mock trial, the same infringement issues were tried to an audience of people broken into 12 jury pools. One-half of the juries decided in favor of infringement. The other half decided the other way.

outside written opinion. The same goes where the exposure from the patent is great, the non-infringement or invalidity issues are less clear, or the asserted patent has been successfully litigated or reissued, reexamined, gone through interference or protest proceedings, or there are good indications of an imminent threat of litigation action. Where, however, the factors that determine the level of care required are less compelling, a competent in-house assessment might make more sense in view of the cost-benefit analysis.<sup>33</sup>

You should never forego securing an opinion because few patents ever get litigated.<sup>34</sup> While you may save \$100,000 or more a year in outside or in-house legal fees, all it takes is one bad verdict and your company could be paying \$100 million in damages.

The easiest way to clear a patent is if your study concludes there to be non-infringement. The study can end there. However, if after study, the non-infringement question continues, you may need to look at other defenses such as invalidating the patent. When doing prior art searching in connection with an invalidity study, bear in mind that any prior art you uncover may itself trigger further duties to ensure non-infringement of the uncovered patents. Because of the way you gained your knowledge of the uncovered patent (i.e., you uncovered the patent as opposed to knowledge gained from an assertion), your duty of care may be lower than with the asserted patent. Nonetheless, the invalidity route might trigger duties with respect to uncovered third party patents. If a duty has been triggered, you should take steps to comply with your duties with respect to those patents. It is always better to err on the side of caution when dealing with third party patents.

It is important to look at the totality of circumstances. *Underwater Devices*, 717 F.2d at 1389-91, 219 USPQ at 576-77. It is not so much what the technology is or what the conclusion is than it is how people dealt with the patent. If a person fails to get an opinion, gets an opinion but fails to render the opinion to management, renders an opinion to management but management disregards the opinion, these are all part of the total factors that can give rise to totality of circumstances on the part of the company which may support a finding of willful infringement. It is a combination of the reasonableness of the opinion and the reasonableness of action by the company that determines whether the conduct amounts to willful infringement.

C. In-house opinions - - Most reported decisions involve opinions of attorneys but courts have also said that an opinion of an attorney is not

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<sup>33</sup> These factors include whether a particular product has been charged whether the accused product is your design, whether you are in the business of profiting from the design or whether the design is needed to run the ancillary part of your business (e.g., software used by accounting office of your manufacturing company), whether you know the design implementation or is the design provided to you as a black box design, and exposure to your company created by use of these products.

<sup>34</sup> By some counts, less than 10% of patents may ever get litigated.

required. In one case, an opinion of a world-renowned technical employee was found to be adequate. *Biotec Biologische Naturverpackungen GmbH v. Biocorp, Inc.* 249 F.3d 1341, 58 USPQ2d 1737 (Fed. Cir. 2001)

When determining the competency of an opinion, courts will look to whether an opinion provided a clearly reasoned and articulated basis that the patent is invalid or the technical implementations being used by the accused do not infringe. It is not so much the source of the opinion that matters so much – namely, whether it was provided by an in-house or outside attorney. Courts have held in-house opinions to be enough. *Studiengesellschaft Kohle m.b.H. v. Dart Indus. Inc.*, 862 F.2d 1564, 9 USPQ2d 1273 (Fed. Cir. 1988) (in-house attorney found patent in search and rendered reasonable opinion). But it is the nature of the opinion that counts, and by nature in-house cases are more suspect of bias. *Minnesota Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 24 USPQ2d 1321 (Fed. Cir. 1992) (in-house counsel’s involvement in misappropriation of patentee’s trade secrets and attempting to patent misappropriated technology made the opinion he rendered suspect).

Willful infringement exposure exists once you have knowledge of the patent. An opinion is needed on existing or future products. No willful infringement opinion is needed on an accused product that has been discontinued since there can be no willful infringement in that case. The assessment in that case is usually limited to liability and past damages.

Whether a product is being commercialized or is yet to be commercialized can affect your assessments. Time may be more “of the essence” in the former case because of the exposure being created by the existing product. Future products will not trigger that exposure until they are commercialized. Depending on where you are in the product development cycle with your future products, you may also have greater flexibility to explore design around options or negotiate a license.<sup>35</sup>

Your company should ensure that in all instances in which you have taken a position with respect to a third party patent, you have been consistent. For instance, you should ensure that a position taken with respect to the third party patent during prosecution is not inconsistent with a position that you are taking in responding to the assertion. You should check every asserted patent against your company’s patents to determine if it has been cited in any of your company’s patents. If so, the file histories of those patents should be checked to ensure that it contains no statements that are inconsistent with the opinion.

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<sup>35</sup> Where the business plan and projected sales are not known by the third party, such as with a future product, your company might be able to leverage these unknowns to get a more favorable license. To get better terms, you might also be able to change to a non-accused solution (i.e., you will remove the accused implementation from your product so that third party will get no royalties) if the licensing terms are not more favorable.



The practitioner needs to know the relevant laws so as to be able to apply the patent to the product to determine infringement, to apply another patent to the asserted patent to determine invalidity; and to do an appropriate claim interpretation for both infringement and invalidity studies. This includes knowledge of what a person of ordinary skill is likely to understand the claims to mean.<sup>36</sup> A reasonable opinion needs to address both literal and equivalent infringement.<sup>37</sup>

Prosecution history estoppel may limit the claims under the doctrine of equivalents. A specification or prosecution paper may claim ABCD to be different from prior art ABCD' or a statement that prior art ABCD' is not covered by the claim. If so, your practice of ABCD' might be non-infringing because of the admission or prosecution history estoppel. *Festo Corporation v. Shoketsu Kinzoku Kogyo Kabushiki Col, Ltd., et al.*, 122 S. Ct. 642 (2002) (any amendment to an element based on patentability creates a rebuttable presumption that there is no range of equivalents).

If necessary, a design around could be considered as an option for current and prospective products. The design around could strengthen the position of the accused that the technology implementation is not covered by the patent. In any design around, it is no defense to be practicing prior art if the infringement lies in the infringing improvement patent.

It is not enough to do a written opinion. The opinion must be rendered to management. A manager would be someone who is in a position to make a decision for the company to continue or discontinue the accused product in view of the opinion. The manager is likely to be a witnesses at trial should willful infringement become litigated and should be carefully selected with this in mind. It is reliance by the manager, and not the attorney, on the opinion that holds the key to whether a company will be found to have reasonably conducted itself with respect to the patent. If the manager is unable to testify that he relied on the opinion, the opinion is likely to be worthless.

The process should be conducted with an eye toward possible litigation. An opinion should be treated as a jury exhibit and the manager who receives the opinion for the company as a witness. An opinion is never final since issues are never finally decided until trial and appeals are exhausted.

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<sup>36</sup> For instance, for a patent directed to a tennis racquet patent, it would not be what someone on the street understood the tennis racquet patent to mean; rather, it would be what a person skilled in tennis racquets understands it to be.

<sup>37</sup> Literal infringement requires the claim and the accused product to be identical. An exact correspondence between elements is required. Infringement under the doctrine of equivalents allows for insignificant variations to infringe the claims. The all elements rule is dispositive. If the patent claims Tennis racquet ABC, Tennis racquet AB does not infringe but Tennis racquet ABC' may infringe if C' and C are equivalent.

Opinions should reflect that fact. You should always be mindful of the privilege and work product issues.

For global operations, you should implement safeguards with respect to foreign patent agents to preserve the privilege and work product. You should also assess any global dimension to the assertion including the effect of the assertion and your assessment on foreign activities and business plans.

#### D. Outside Opinions

Due care for purposes of minimizing willful infringement exposure has been interpreted to mean seeking and obtaining competent legal advice before initiating or continuing with possibly infringing activity. That usually means going to a U.S. patent attorney on a timely basis and obtaining a patent opinion that a product can be sold, typically either because it does not infringe the patent at issue or because that patent is invalid.

Because willfulness is based on a “totality of the circumstances”, willfulness has been found in a very wide range of situations. *Underwater Devices*, 717 F.2d at 1389-91, 219 USPQ at 576-77. The key determinant has been whether an opinion was obtained, although it is possible to find no willful infringement even where no opinion was received. In those cases where there is an opinion, willful infringement will be based on the totality of the circumstances including when the opinion was rendered, who rendered it, was the opinion a competent opinion, was that opinion rendered to management, and did management make a decision for the company with respect to the accused product based on that opinion. For instance, in one case a company may rely on an in-house opinion to escape willful infringement; yet, in another case, under different circumstances, an in-house opinion may not be sufficient because, among other things, the in-house opinion was viewed as a nonobjective “captive” opinion. In various foreign countries, in-house personnel who ordinarily would conduct the patent analysis would not be, by U.S. standards, patent lawyers. As a result, such patent analyses could be more readily challenged, and, hence, be one of the factors considered on the issue of willful infringement.

Even where an opinion is obtained from outside U.S. patent counsel, that does not necessarily guaranty a finding of no willful infringement. If, for instance, the opinion comes too long after notice of infringement, willfulness might be found because the alleged infringer did not act sufficiently promptly to satisfy its duty. In other cases, the competency of the opinion by U.S. counsel might be attacked. For instance, if only the patent, but not the file history, is reviewed by patent counsel, that might be considered an incompetent opinion. In other cases, there might be some other act or omission by the patent lawyer that would enable the patentee’s trial counsel to argue that the

opinion was really a “sham”, designed to look like a competent opinion, but with the tacit understanding of the lawyer and his client that it was simply designed to “whitewash” the client’s infringing activities.

E. Duty commensurate with knowledge

Factors that determine the level of care include whether a particular product has been charged, whether the accused product is your design, whether you are in the business of profiting from the design or whether the design is needed to run an ancillary part of your business (e.g., software used by accounting office of your manufacturing company), whether you know the design implementation or is the design provided to you as a black box design, and exposure to your company created by use of these products. The highest level of care may be required where a specific core product, designed and sold by your company and enjoying significant sales (i.e., creating significant exposure to your company) has been charged with infringement. The lowest level of care may occur where no products have been charged and the applicability of the patent goes to products that are not being sold or being used on your production line or as materials in making the product (e.g., accounting software used by the accounting department of a manufacturing company) which are purchased at a small price (i.e., low exposure for your company) and are provided to you as a black box design (e.g., you have no knowledge of the design). In the former case, your due diligence should be exhaustive. In the latter, shifting the burden back to the third party to identify products with more particularity might be one strategy to take to satisfy your duty. On receipt of product information from the third party or as an alternative strategy, you might proceed to inventory the implicated product (e.g., software) and demand indemnification from your vendors, and so indicate to the third party. In between the two extremes, the duties will vary depending on the facts and circumstances of each assertion.

F. Can Willful Infringement be Passed off to an Indemnitor or Insurance Carrier?

You should not count on being able to pass willful infringement exposure off to an indemnitor or insurance carrier. The willful infringement award is punitive in nature and is intended to serve as a deterrence to keep the infringer from willfully infringing again. As the Federal Circuit has noted, multiple damages is primarily a punitive provision to deter willful infringement of patents. *Read*, 970 F.2d at 826-27, 23 USPQ2d at 1435-36. The award is intended to punish the infringer for the willful infringement.

If a company found to be a willful infringer could pass the enhanced damages award off to an indemnitor or carrier, then that would likely defeat the purpose and policies sought to be served by enhanced damage awards. Consequently, you should not count on being able to pass your willful infringement exposure off to an indemnitor or insurance carrier.

When negotiating to include insurance or indemnity provisions that indemnify or insure against willful infringement, you should try to address willful infringement based on negligent acts or omissions (for which enforcement is more likely inasmuch as they may be treated not unlike malpractice acts or omissions for which insurance is typically available) separate from all other willful infringement cases (where the enforceability is less certain). Doing so could increase your chances of shifting at least some of the enhanced damages award (i.e., enhanced damages based on negligent acts or omissions) to another party.

But in no event should you ever treat the indemnity or insurance as a substitute for complying with your duty with respect to avoiding willful infringement.

## VI. Conclusion

An assertion of patent rights starts the clock running on the potential exposure of a company to the offered patent. It may start the clock running on damages. It may start the clock running on willful infringement. It may start the clock running on indemnification rights and obligations. It may start the clock running on insurance rights and obligations. It may start the clock running on making claims against an escrow account. It may trigger SEC reporting requirements. It may also trigger duties with respect to counseling of management, public relations, customer relations, and other business relationships. Any missteps in handling an assertion can start your company down the road of increased corporate exposure.

This paper has addressed assertions, cease and desist letters and indemnification demands, the rights and obligations they trigger, and particularly the duty not to act in willful and deliberate disregard of an asserted patent. Familiarity with these issues, exercising your rights and complying with any duties that an assertion of patent rights may create will help your company minimize its exposure to third party patents.