

Intellectual Property Best Practices for a Global Marketplace

for SEMI

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The world of electronics and semiconductors truly has no borders. In today's fully networked environment, product design, manufacturing, and sales take place around the globe. Your operations may be scattered all over the world, with headquarters on one continent, product designers on another, and manufacturing on yet another, as is likely the case with many of your customers and suppliers. Your product undoubtedly incorporates components from around the world.

Unfortunately, although the marketplace has no borders, the safeguards of intellectual property are truly territorial, a patchwork of different protection levels and enforcement mechanisms. Paradoxically, a country that may be the most appealing from a business standpoint may at the same time be the least appealing due to intellectual property concerns.

It may be many years before it is truly in the best interest of many primarily manufacturing based countries in Asia to have an intellectual property system with real teeth. Until then, while it is wise to hedge by investing in intellectual property in the nascent stages of these systems, strategies for protecting intellectual property are still largely based on the systems of developed nations, particularly the United States.

Your business is based on information that you may consider proprietary, but is not by default protected from unencumbered use by others. Protecting the business endeavors and technical expertise of your company depends on taking the appropriate measures to be able to avail yourself of the full scope of currently available trade secret and patent protection. Both trade secret and patent laws play an important role in protecting your business and each should be addressed with well thought-out strategies in relationships with customers, suppliers, and employees.

Perhaps in tacit recognition of the problems with intellectual property enforcement on a global level, the U.S. courts have recently started to afford extra-territorial reach to U.S. patent laws regarding infringement of U.S. patents. A well drafted U.S. patent can now be infringed by actions on the other side of the globe. This is a very interesting development for any company - your patents should be drafted to take advantage of this newly found reach, and you should be aware of the potential new reach of patents that may be asserted against you, your suppliers, and your customers. While trademarks and copyrights are also important intellectual property assets, this paper will focus on trade secret and patent protection.

This paper is intended to provide practical insight on how to best protect your intellectual property, and indeed your business, on a day to day basis, and is based primarily on U.S. law in the context of today’s international economic landscape.

Table of Contents

I. Some initial proactive steps 3

II. Protection of trade secrets with employees, customers, and suppliers during product development and thereafter..... 3

III. Gaining leverage with strategic patent protection 6

 A. Drafting claims to maximize damages..... 8

 B. Drafting claims to cover foreign activities in light of the court’s new extraterritorial reach under sections 271(f) and 271(a) 9

IV. Putting potential infringers on notice 12

 A. Patent marking and how to deal with the requirement 12

 B. Providing actual notice in writing..... 13

 C. Doing your homework on counter-ammunition before providing notice..... 14

V. Protecting your company from infringement claims with indemnification clauses and opinions of counsel 14

 A. Indemnification..... 14

 B. Limiting potential liability with a formal opinion of counsel..... 15

VI. Conclusion 16

I. Some initial proactive steps

Intellectual property plays an integral and essential role in any semiconductor related business. As such, an overall strategy with regards to intellectual property should be integrated and engrained into the fabric of your company. This means that a proactive policy for the definition, development, protection, and harnessing of intellectual property should address how all company information and documents are treated.

Inevitably, conflicts will arise, and your company should be prepared to assert and defend its intellectual property. This eventuality should be taken into account today. Before delving into the details of trade secrets and patents, some seemingly mundane but often overlooked operating procedures of the company should be addressed.

Your company should document and implement a comprehensive document retention policy, if it has not done so already. That policy should indicate how long documents, by subject matter or type, will be retained by the company. This includes both paper and electronic documents, as well as email. For example, you may want to set a time limit on how long emails or other documents that are no longer needed in the course of everyday affairs will be retained. Don't wait to implement such a policy - if such a policy is implemented once a conflict has already arisen, a negative inference may be drawn for any number of reasons, even if the policy is only meant to reduce information technology costs.

Your company should also document and implement procedures for dealing with confidential information. A manual indicating how confidential information should be marked and thereafter treated will go a long way if ever the situation arises where information you consider confidential turns up where you think it ought not to be. This should address how confidential information is handled with other employees of the company, as well as outsiders. This topic will be discussed in more detail below.

As they say, an ounce of prevention is worth a pound of cure.

II. Protection of trade secrets with employees, customers, and suppliers during product development and thereafter

While trade secret protection is always valuable, it is especially important during the early phases of product design. For example, *confidential business information* that cannot be protected by patents, trademarks, or copyrights can still be kept as a trade secret, and if proper safeguards are in place, unauthorized disclosure or use of the information can be halted or penalized.

Your trade secrets are an integral part of your business and must be protected in dealings with employees, suppliers and customers. The following section is in Question/Answer format to address some of the most pertinent questions and situations.

What is the nature of trade secret protection and what are its roots?

While patents, copyrights and trademarks are governed by federal laws, trade secret protection originates and is primarily maintained through state law.

Trade secret protection stems from the common law and today every state recognizes some form of trade secret protection. Most U.S. states have adopted the Uniform Trade Secrets Act, which has created a more uniform body of law from state to state than if each state had its own unique law. Although trade secrets are governed by state law in the U.S., measures taken to maintain confidentiality of your information should be effective in any country.

What is a trade secret?

According to the text of the Uniform Trade Secrets Act, a "trade secret" is: information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.¹

Even information such as overhead rates and profit margins that help define a price may be found to be a trade secret, although the price itself is known.

You can not maintain something as a trade secret and patent it at the same time; patent protection and trade secret protection are mutually exclusive. A patent, once published as an application, or issued as a patent, is published for the entire world to know. Thus, nothing in an issued patent or published patent application can be a trade secret by definition.

What factors determine whether something is a ‘trade secret’?

- The extent to which the information is known outside the business.
- The extent to which the information is disseminated to the employees inside the business.
- The precautions taken by the holder of the trade secret to guard the secrecy of the information.
- The amount of financial and human resources expended in obtaining and developing the information.

¹ CALIFORNIA CIVIL CODE : SECTION 3426.1 which according to section 3426 may be cited as the Uniform Trade Secrets Act.

- The amount of time and expense it would take for another to acquire and duplicate the information.
- The extent that the possessor of the secret exercises reasonable means to keep the information a trade secret.

How do I keep something a trade secret with my employees, suppliers, and others?

- Restrict access to the trade secret by preventing unauthorized entry into the facility where the trade secret is kept.
- Obtain non-disclosure agreements from key employees who may come into contact with the trade secret.
- Obtain non-disclosure agreements from suppliers and manufacturers who may come into contact with the trade secret, including those who are sub-contractors, raw material suppliers and component manufacturers.
- Obtain a non-disclosure agreement from everyone that has direct or indirect contact with the trade secret.
- Limit the *purpose of use* of the trade secret information for those that may come in contact with it. For example, contractually restrict suppliers such that the sole purpose of viewing trade secret information is for bidding on or manufacturing an item involving the secret.
- Mark all materials and drawings related to the trade secret with a proprietary legend restricting their use and disclosure. If a trade secret must be disclosed to a customer, for example in conjunction with the sale of a product, the usage of the secret should be limited to use only with the product.

How do I mark something ‘trade secret’?

If a trade secret must be revealed to a third party, an underlying agreement which includes a statement as to what constitutes the trade secret and what the marking requirements are should be prepared by an intellectual property attorney. A typical marking requirement may be simply "Proprietary material belonging to XYZ COMPANY." For trade secrets that are intangible and cannot be directly marked, such as a process, consider the following steps:

- 1.) carefully define the trade secret in the underlying agreement;
- 2.) mark the physical area where the process is carried out with a restricted access sign; and

3.) institute procedures for restricting access to the trade secret, such as a manual or electronic sign in sheet and an authorization check.

What can I do if someone under a non-disclosure obligation threatens to disclose or discloses my trade secrets?

Disclosure of a trade secret is a civil wrong known as trade secret misappropriation and while a lawsuit may or may not be necessary, it is advised to act quickly with a full understanding of all your rights. Trade secret misappropriation can be thought of as a type of unfair competition.

Injunctive relief is available to prevent the disclosure of trade secret information under the laws of every U.S. state. In countries other than the U.S., a practitioner licensed in that jurisdiction should be consulted. Injunctive relief is often available because once the trade secret is made public, it is much more difficult, if not impossible, to restore the information to trade secret status. In many situations, no amount of money damages can provide just compensation for the value of a trade secret, and the person who releases your trade secret to the world may not have sufficient assets to fulfill a judgment for the damage you suffer. Anybody, including former and current employees, customers, and suppliers can be enjoined from disclosing your trade secrets.

Monetary relief is also available. Most jurisdictions permit a recovery of both actual loss caused by the misappropriation and any unjust enrichment gained by the culprit. If such damages are not easily proven, the aggrieved party may seek to impose "reasonable royalty" damages. In addition, if the conduct leading to the trade secret misappropriation was willful and malicious, most states permit the imposition of punitive damages and the award of attorney's fees.

III. Gaining leverage with strategic patent protection

The cliché that the best defense is a good offense applies equally well to the business of intellectual property. He with the best offense will follow his own game plan, without being overly worried of an attack, and will be well prepared for doing business in the modern realm of aggressive intellectual property licensing and enforcement. In addition to allowing offensive assertions, a strong portfolio will make a company a less attractive target for others seeking to enforce their own intellectual property.

Strategic patent protection calls for a deep and diversified portfolio. This means that your products should be patented not only at various levels, from system down to component, but also in the most important countries where sales, design, and manufacturing take place. Whether your company manufactures its own products, out-sources manufacturing, or relies on a technology licensing model, a strong and diverse portfolio will be valuable if not essential. Many well known companies generate a large portion of their revenue from licensing royalties, including those with and without tangible products in the marketplace. Valuation of a company, whether private or public, is often highly influenced by its intellectual property position.

A patent allows you to stop someone from making, using and selling a product or process it covers. It follows that patent protection should focus on a group of countries where such activities may take place. In addition to Europe and the U.S., patents are often filed and enforced in Japan, Korea, Taiwan, and increasingly in China. While many nuances exist between the various national patent systems, with skilled patent counsel a patent drafted for one system can generally be obtained and then subsequently enforced in other nations.

In the United States, infringement can be addressed by both the federal court system and the International Trade Commission. While monetary damages as well as injunctive relief can be attained from the federal court system, the International Trade Commission restricts importation of infringing goods. An action brought to the Commission may result in an exclusion order that will be enforced by U.S. Customs agents at the border.

While patent protection in China is not currently up to international standards, with the rapid pace of development in China, that may quickly change. With patent duration in China at 20 years (from the date of application), it may well be that enforcement of a patent procured within the next few years will be the norm, rather than the news. Further, there are already positive signs that enforcement is available and on the upswing.

While enforcement in China is a new development and somewhat limited, it is clear that without first obtaining a patent there is no recourse for counterfeiting. Such was the case for General Motors.

General Motors claimed that the QQ mini car of Chery Automobile Company is a copy of the Chevrolet Spark.² However, SIPO, the Chinese Intellectual Property Office, concluded that Chery Auto Company did not infringe the patent rights of GM and did not engage in illegal competition. The vice director of SIPO explained that since the Spark's design was not patented in China, GM could not seek patent protection there. He further indicated that to initiate a viable action, GM needed to specify Chery's illegal activities, as counterfeiting could not be established by similarity alone.³

However, for issued Chinese patents there are indications of the beginning of a trend to uphold and enforce them.

Bayer's Chinese patent on fipronil, a type of pesticide, was upheld as valid by the SIPO after it was challenged by Huaxing Company. This paved the way for continuation of the patent infringement suit between the two companies.⁴

² http://service.china.org.cn/link/wcm/Show_Text?info_id=106449&p_qry=patent.

³ See http://www.iprights.com/publications/chinapatentexpress/cpex_79.asp.

⁴ See http://www.iprights.com/publications/chinapatentexpress/cpex_101.asp.

In an example of successful enforcement, Chinese home appliance giant Haier was held liable for patent infringement. A patent infringement case involving Haier and Shuaikang, two large Chinese home appliance manufacturers, concluded with a finding of infringement. In its final judgment, the Zhejiang Higher Peoples' Court ordered the Defendant Haier to cease production of the infringing products, destroy relevant molds, and pay monetary damages.⁵

A. *Drafting claims to maximize damages*

Some judicial precedent should be taken into account to maximize the licensing and enforcement potential of your future patents. The difference in potential damages between a narrowly described or hastily drafted patent and a well thought out and broadly described patent can be substantial.

The *entire market value rule* recognizes that the economic value of a patent may be greater than the value of the sales of the patented part alone. Under this rule, courts have allowed recovery of lost profits or a reasonable royalty based not only on the profit from the patented part, but also on non-patented parts.⁶ Under this rule, damages can include lost profits for both sales of non patented machines, and for non patented spare parts for those machines.⁷

There are a few factors that the court looks at to determine whether to include an unpatented component in the damages calculation. One factor is how the patented and unpatented components function together. In order for unpatented components to be factored into damages calculations, “the unpatented components must function together with the patented component in some manner so as to produce a desired end product or result.”⁸

Another factor is customer demand and how it relates to the features of the machine.⁹ If the patented feature is the basis for the customer demand for the entire machine, the damages calculation can be based on an entire machine, even if only one feature of the machine is patented.¹⁰ Product manuals and advertising can serve to illustrate the desirability of the patented feature.¹¹ For example cases where the entire market value rule was applied to include or exclude unpatented components, please refer to Appendix A.

⁵ See http://www.iprights.com/publications/chinapatentexpress/cpex_16.asp.

⁶ See *King Instruments Corp. v Peregó* 65 F.3d 941 (Fed. Cir. 1995). See also *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F. 2d 11 (describing the entire market rule in terms of conveyed sales) (Fed. Cir. 1985).

⁷ Id.

⁸ See *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538 (Fed. Cir. 1995).

⁹ See *Fonar Corp. v. General Electric Co.*, 107 F.3d 1543 (Fed. Cir. 1997).

¹⁰ Id.

¹¹ Id.

According to the well established *Rite Hite* case, even entire non-patented products can be considered in calculating damages if: i.) infringement results in lost sales of the product, and ii.) it is foreseeable that sales of an infringing product will take away from sales of the non patented product. In the *Rite Hite* case, damages for sales of non-patented automatic lifts were awarded based on a patent for manual lifts. This was because many more (non patented) automatic lifts would have been sold but-for the competitor's sales of an infringing product. Therefore damages were awarded based on those sales as well.¹⁶

Therefore, a skilled patent attorney should paint a picture of the symmetry of the part and the larger system or method that it works with in order to capture the entire market value of your systems and any "convoyed sales" of products that may accompany those systems. This requires that the attorney be well versed in your product line and the underlying technology.

B. Drafting claims to cover foreign activities in light of the court's new extraterritorial reach under sections 271(f) and 271(a)

35 U.S.C. section 271(f) of the U.S. patent laws addresses infringement of U.S. patents. It gives the patent holder recourse for foreign sales when a component of a patented invention is supplied from the U.S., with knowledge that the component will be combined in an infringing manner outside the U.S. This provision of the patent laws has recently been interpreted so that *actions* abroad, in conjunction with those in the U.S., can together constitute patent infringement.¹⁷ While the cases that this principle stems from are based on software related technology, the application will foreseeably extend to other technology including semiconductor design and processing.

¹⁶ See *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538 (Fed. Cir. 1995).

¹⁷ The two different provisions of 35 U.S.C. section 271(f) seen below are commonly referred to as active inducement of infringement (1) and contributory infringement (2).

(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial non-infringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

Three recent cases have laid out a relatively clear path for patent holders to collect damages for infringing activities occurring on foreign soil. The relevant decisions in these three cases are from the Court of Appeals of the Federal Circuit (“CAFC”), the highest patent court in the U.S. In one of the decisions, *AT&T v. Microsoft*, Microsoft has asked the Supreme Court to review the appeals court decision, so the trend may yet be reversed.¹⁸ However, the Supreme Court affords the CAFC a high degree of deference, and in most cases does not second guess the nation’s expert patent court.

In *Eolas v. Microsoft*, the patentee claimed an “executable application” used for a specific purpose. The CAFC upheld Microsoft’s liability for infringement due to its foreign sales under Section 271(f) of the patent statute. Microsoft shipped a master copy of computer code for Internet Explorer to its foreign suppliers who then copied the disk and sold the copies on foreign soil. This activity was seen as infringing, even though all of the elements of the patented invention were not practiced until the copy was produced on foreign soil, as seen in the figure below.



Note that the copy or final product need not include any piece of physical hardware made in the U.S.

The five hundred million plus dollars in damages awarded to Eolas is one of the largest patent infringement awards in history. This extension of the law to cover foreign sales appears to be the beginning of a new trend. Although this case deals with software, it is clear from the court’s analysis that the provisions would encompass physical objects as well. In fact, there does not appear to be much question that physical components are covered by the provision; much of the court’s analysis centers on the congressional language and history in support of its arguments to *extend* the protection to encompass software. Indicating that the court has its eye on the international arena, the court cites

¹⁸ See *AT&T v. Microsoft*, 414 F.3d 1366 (Fed. Cir. 2005).

TRIPS (The Agreement on Trade-Related Aspects of Intellectual Property Rights). *TRIPS* is an international treaty by the World Trade Organization, which sets down minimum standards for most forms of intellectual property regulation within all member countries of the World Trade Organization. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade treaty in 1994.

Likewise, in *RIM v. NTP*, infringement of NTP's patent was found despite the fact that some of the activity occurred in Canada.¹⁹ However, the court indicated that it need not even rely on section 271(f) to encompass the Canadian activity, but that the activity was encompassed by section 271(a), the section of the infringement law dealing with direct infringement. Infringement was found because the *location of the beneficial use* was within the United States²⁰

Because of the recent settlement of the *RIM v. NTP* case, it may take quite some time before the Supreme Court will have the opportunity to study this very broad interpretation of the direct infringement provision of section 271. While this interpretation of direct infringement may be more susceptible to being overturned than the interpretation of active inducement of infringement in *Eolas*, it provides a second *independent* basis for encompassing foreign activities with U.S. patents.

Therefore, as long as the design of the patented invention takes place in the U.S. and a tangible or intangible component of it is shipped from the U.S., it stands to reason that the component, and perhaps the system itself could be found to infringe a well drafted U.S. patent, even though process steps or component manufacture takes place on foreign soil.²¹ This should have wide ranging implications in some segments of the semiconductor industry.

In light of this, you should discuss a strategy with your patent counsel for systematically claiming your invention on many levels. If possible, the system as well as the important individual components of the system should be protected.

This systematic claiming is also useful in protecting against counterfeit spare parts. While ideally, critical parts will be protected in their own right, use of a spare part may lead to infringement of a system level patent if it is found to constitute impermissible reconstruction. U.S. law entitles the purchasers of a patented apparatus to repair and replace worn or broken parts, but replacement that amounts to "a second creation of the patented entity" is not permissible.²² The distinction between a

¹⁹ See *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005).

²⁰ See *Id.* In the words of the court, "the plain language of section 271(a) does not preclude infringement where a system such as RIM's, alleged to infringe a system or method claim, is used within the United States even though a component of that system is physically located outside the United States." In support of that, the court went on to say that "even though one of the accused components in RIM's BlackBerry system may not be physically located in the United States, it is beyond dispute that *the location of the beneficial use and function of the whole operable system assembly is the United States.*"

²¹ Note that these cases provide for infringement regardless of whether a patented product is imported into the U.S.. Other provisions of the law address importation of infringing goods.

²² See *Lummus Industries, Inc. v. D.M. & E Corp.*, 862 F.2d 267 (Fed. Cir. 1988).

permissible repair and an impermissible reconstruction is very fine and dependent upon the particulars of each system. For further information on this specific topic, please contact the author or your patent counsel.

IV. Putting potential infringers on notice

A. Patent marking and how to deal with the requirement

In the United States and other countries, it is generally advisable to mark a patented product with an indication that the product is patented and the patent number. Such marking provides notice to the general public and to potential infringers that the product is protected. This may stop some potential infringers from copying such a product and it increases the potential damages for infringement if the product is copied. Where a copied product is appropriately marked, damages may accrue from the time the product was first sold. If such marking is not provided, damages may only accrue from the time that “actual notice” is provided. This may be as late as the time of filing suit for patent infringement. An exception to this is a patent that has only method claims. In the case of a patent claiming only methods, there is nothing to mark, and thus a patentee need not provide actual or constructive notice of infringement to an alleged infringer. In such a case, damages for infringement begin to accrue from the moment any infringer infringes.

In the United States, 35 U.S.C. section 287, specifies that notice that a product is patented may be provided by “fixing thereon the word ‘patent’ or the abbreviation ‘pat.’, together with the number of the patent.” Ideally, patented products should be directly marked. Where multiple patents protect the same product, all applicable patents should be listed. A statement that a product is covered by “one or more” of a list of patents may be useful to avoid frequent updating where patents have different expiration dates. Before a patent issues, an article that is the subject of a patent application may be marked “patent applied for,” or “patent pending.” Once the patent has issued, this should be indicated and the patent number should be added.

In some cases, marking the actual product may be difficult or impossible. When, “from the character of the article,” marking cannot be done, 35 U.S.C. section 287 allows marking an article “by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice.” For articles that are small, or in some other way unsuitable for direct marking, this allows notice to be provided on a package, which may be easier and cheaper. Courts have taken a fairly generous view of when marking of packaging is sufficient, requiring only “some reasonable consideration presented for not marking the article due to physical constraints or other limitations.”²³

Marking an unpatented article as patented or indicating that a patent has been applied for when no application has been filed is considered false marking. False marking is an offense in the United States and violators may be fined.²⁴ Thus, care

²³ See *Rutherford v. Trim-Tex*, 803 F. Supp. 158, (N.D. Ill. 1992).

²⁴ 35 U.S.C. section 292.

should be taken to only use “patent pending” after a patent application has been filed and to apply patent marking only to patented products.

Where a patented product is made under license from the patent holder, it is also important that the licensee mark the product in order to protect the rights of the patent holder. Such marking, if carried out by a licensee, may also protect the patent owner from the licensee. The licensee’s marking of the product may prevent him from later arguing that the product does not infringe the patent under the doctrine of “licensee marking estoppel.”

Many countries outside the United States also have some form of marking statute. Great Britain has a marking statute that is similar to the U.S., which limits damages if patented articles are not marked. Most other European countries have provisions for patent marking, but do not require it. Japan and Taiwan require marking. China has recently enacted a marking statute to require marking in Chinese.

B. Providing actual notice in writing

Where a product is not marked, U.S. law provides for damages accruing from the time the infringer receives actual notice of infringement.²⁵ Thus, it is important to provide notice at an early time to maximize potential damages. However, it is generally not advisable to provide notice in a manner that directly threatens an infringement suit because such threatening behavior may allow the infringer to bring a declaratory judgment action. This is an advantage to the infringer because it may choose the location or “forum” it believes is most advantageous or friendly. If an infringer is informed of a patent in an appropriate manner, the requirements for actual notice will be met, without providing a specific threat that might allow the infringer to bring a declaratory judgment action. Any communication with a potential infringer should be in writing and should be carefully drafted, preferably by an attorney.

As mentioned previously, in the case of patents claiming only methods, there may not be anything to mark, and if this is the case, a patentee need not provide actual or constructive notice of infringement to an alleged infringer. In such a case, damages for infringement begin to accrue from the moment of infringement. While there are cases where it is not feasible to draft apparatus claims and the only available option involves method claims, one currently advocated strategy is to file one application with only method claims and one with only apparatus claims (on the same day, likely sharing the same description and inventors) in order to take advantage of this exception to the actual notice requirement. The courts have not yet decided whether a tangible product covered by any related or corresponding apparatus patent claim must be marked with the method patent number. However, at least one court has sided with a patentee when there were intentionally separated method and apparatus patents and there was no marking.²⁶

²⁵ 35 U.S.C. section 287(a) states that “damages may be recovered only for infringement occurring *after* such notice.”

²⁶ See *American Bank Holographics, Inc. v. The Upper Deck Company*, 41 U.S.P.Q. 2d 2019, 1997 WL 30886 (S.D.N.Y. 1997).

In that case, *American Bank Holographics*, the patentee originally filed a patent application with both method and apparatus claims. The Patent Examiner then divided the patent claims into a method patent and an apparatus patent by imposing a restriction requirement. After each of the patents issued, the patentee brought suit against an alleged infringer for infringing the method patent. No marking had occurred. Although both types of claims were originally filed in one application, the court applied the method patent exception to the method patent.²⁷

This strategy is an option that should be considered when filing important patent applications. While the strategy is still somewhat of a gamble, the added cost is minimal but the potential return is great.

A standardized letter to an industry sector or a group of companies informing them of the existence of a patent is not generally sufficient for actual notice. “For purposes of section 287(a), notice must be of ‘the infringement,’ not merely notice of the patent’s existence or ownership.”²⁸ Notice is not generally found where a potential infringer becomes aware of the patent from a source other than the patent holder. “Notice must be an affirmative act on the part of the patentee which informs the infringer of his infringement.”²⁹

C. Doing your homework on counter-ammunition before providing notice

When dealing with potential infringers, it is advisable for a patent holder to determine whether the potential infringer has any patents that might be asserted against the patent holder or might be offered in any licensing negotiations. By doing some homework, a patent holder can decide whether it is better to confront the potential infringer or to leave matters as they stand. The claims of any relevant patents should be studied and compared to your products. Only with this information can you best judge your relative positions. Furthermore, the scope of the potential infringer’s patents and how they read on your products will inform you whether you can design around the potential infringer’s patents, leaving the potential infringer with little or no basis for any counterclaims.

V. Protecting your company from infringement claims with indemnification clauses and opinions of counsel

A. Indemnification

Chances are you source at least some components from a supplier outside of your company. As patents are increasingly being asserted, the importance of indemnity for infringement is more important than ever. Any supplier agreement should incorporate or

²⁷ Id.

²⁸ See *Amsted Indus. v. Buckeye* F.3d 178 (Fed. Cir. 1994)

²⁹ Id.

be accompanied by a well drafted indemnification clause to protect you from infringement allegations, or at least minimize the impact.

Any part you integrate into your product can give rise to a patent infringement claim. In such a case you may be liable even though you did not have a hand in designing the allegedly infringing component. Often times, the patent holder will go after the integrator rather than the manufacturer because they appear to be a more desirable target. Other times the patent holder will pursue all available targets.

Therefore it is important that any supply or purchase agreement be accompanied by an indemnification agreement of the proper scope. The nature of the product and the relationship with the supplier will dictate the scope of the indemnification. It is important to keep in mind that an asserted patent may also include claims to the larger system or to methods that implicate the system. Also, keep in mind that in many cases it may be extremely time consuming and costly to determine whether the product infringes the patent, and in some cases it may not be possible at all. For example, you may integrate a product that contains trade secrets that the supplier will not reveal to anybody, for any purpose. A patent asserted against you may read on the trade secret information your supplier won't disclose. You may then find yourself in the awkward situation where you have to reverse engineer a component of your own systems only to find out whether it infringes a patent. Indemnification in such a case may avoid or minimize the need for such a costly process, and a well thought out clause may shift the burden to the supplier to bear such costs or supply the necessary information.

The indemnification clause should also specify, in the event of an infringement action, who will lead the defense in addition to who will pay for it.

B. Limiting potential liability with a formal opinion of counsel

If you are informed that your product infringes a patent, a written opinion of counsel can lessen the potential liability. Once you have notice of infringement, absent a design around or written non-infringement or invalidity opinion, your infringement may be deemed willful. Willful infringement carries with it a penalty of treble (triple) damages.

As mentioned previously, a patent may cover your system, or only a portion of your system. For example, assume that a component you purchase from a supplier infringes the patent of a third party. If your supplier informs you that it has been put on notice of patent infringement by the third party, you could also be potentially liable for willful infringement. Thus, it would be in your best interest to see to it that your supplier obtains a written non-infringement or invalidity opinion. In the situation where a supplier may not fully appreciate the reach of a U.S. patent, for example if a component supplier is in Asia and the end product delivered in Asia, it may behoove the overall product manufacturer to obtain an opinion directly if all else fails. As mentioned previously, a U.S. patent can be infringed by actions abroad.

In the past, if you didn't get a written non-infringement or invalidity opinion, the court would draw an inference that it was not possible get a favorable opinion. While such a negative inference is no longer permitted, a well drafted opinion can still protect you from triple damages.³⁰ In a recent case, a defendant was deemed reckless when it relied on an oral non-infringement opinion, rather than obtaining a formal written opinion.³¹ The reliance on the oral opinion was one factor that resulted in the court concluding that the infringement was willful. This is in keeping with the current thinking of the courts that there continues to be an affirmative duty of due care to avoid infringement of the known patent rights of others.³² As such, the defendant's arguments that it formulated its own good faith belief that it did not infringe were dismissed.

VI. Conclusion

In today's aggressive landscape it is essential to develop a comprehensive intellectual property policy that protects your confidential information from the initial stages of product development through manufacturing and sales. Safeguarding your trade secrets and creating a strong international patent portfolio will serve you well in both offensive and defensive encounters.

About the authors

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³⁰ See *Knorr Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004)

³¹ See *Golden Blount v. Robert H. Peterson Co.*, (Fed. Cir. 2006, [04-1609](#)).

³² *Knorr-Bremse* quoting *L.A. Gear Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993).

APPENDIX A
Entire Market Value Rule Examples

One example of where the entire value market rule was applied to encompass the entire machine involves a magnetic resonance imaging (MRI) machine. In that case, the patentee was able to recover a reasonable royalty based on the infringer's sale of the entire MRI machine, because although the patent related only to one feature (multi-angle oblique imaging) among many product features, that patented feature was determined to be the basis of demand for the product.³³

In another example, unpatented wheels and axles were included in the royalty of a patented truck suspension as "collateral unpatented items" because a hypothetical licensee would have anticipated the increase in the sales of those items because of the patented suspension. Therefore, inclusion was necessary to compensate the patentee accordingly.³⁴

In yet another example where the entire market value rule was successfully argued, damages based upon an entire radiator and condenser assembly were awarded based upon a patent that only covered an improved method for making a properly balanced, injection molded fan for use in the assembly. The calculation of the entire market value based upon the entire assembly was held to be correct in measuring damages because each assembly was a single functioning unit. The fan was considered the basis of demand (for the entire assembly) because the assembly could not function without it, and because "the jury could have reasonably concluded that the demand for the entire assembly depended on the patented invention."³⁵

A case where the unpatented components were excluded from the damages calculation is where a patented pivot and guide assembly did not greatly increase the value of the entire door. In this case, even though the patent claims related to the entire door, the entire door value was not used to calculate damages.³⁶

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³³ See *Fonar Corp. v. General Electric Co.*, 107 F.3d 1543 (Fed. Cir. 1997).

³⁴ See *TWM Manufacturing Co., Inc. v. Dura Corp.*, 789 F.2d 895 (Fed. Cir. 1986).

³⁵ See *Tec Air, Inc. v. Denso Manufacturing Michigan, Inc.*, 192 F.3d 1353 (Fed. Cir. 1999).

³⁶ See *Slimfold Manufacturing Co., Inc. v. Kinkead Industries, Inc.*, 932 F. 2d 1453 (Fed. Cir. 1991).