Data shows most SEP holders send pre-suit demand letters – for good reason

Aaron R Fahrenkrog, Benjamen C Linden and Navin Ramalingam
28 November 2023

Shutterstock/mikeledray

An analysis of US patent infringement complaints filed in the last three years asserting standard essential patents (SEPs) reveals that most patentees engage in licensing communications before filing a SEP suit.

In our review on Docket Navigator of 83 SEP-related complaints, 67 alleged that the patent owners engaged in some pre-suit communications, offered a licence to the alleged infringers, or both. The study showed just two SEP lawsuits asserting FRAND-encumbered patents where pre-suit communications did not occur.

Among these cases, 11 involved SEPs that were asserted not to be FRAND encumbered, which can happen if a patent reads on a standard yet its owner did not contribute to the standard and make a FRAND commitment. Three complaints simply did not plead the extensive licensing discussions that preceded the litigations.

In recent years, several United States courts have scrutinised how patent owners' pre-suit communications and negotiations with alleged infringers affect many claims, defences, and remedies, including indirect infringement, wilfulness, and even the right to enforce a standard-essential patent in court at all.

This article evaluates the current significance of pre-suit notice communications and offers to license in US patent litigation, including for SEPs. Finally, this article discusses proactive steps that patent owners can take to establish their rights to pursue indirect infringement and wilfulness claims and protect against defences asserting breach of fair, reasonable, and non-discriminatory) (FRAND or RAND) terms for SEPs.

Pre-suit communications and offers to license SEPs

What FRAND means depends on the unique facts of every prospective licensing transaction, making disputes involving SEPs complex. How a patent owner conducts pre-suit negotiations and makes offers to license have become crucial to its ability to pursue its claims in court.

First, as in many jurisdictions worldwide, US federal court decisions have long required participation in pre-suit negotiations before pursuing an injunction in SEP litigation. For example, in *Realtek Semiconductor Corp v LSI Corp* in 2013, the US District Court for the Northern District of California found that seeking an injunction without even attempting to offer a RAND licence

constituted a breach of the patent owner's RAND commitment and prohibited the patent owner from pursuing injunctive relief in the US International Trade Commission until resolution of RAND negotiations.

One court has suggested that filing suit asserting infringement of a SEP for any remedy, including damages, could result in a breach of FRAND and the possibility of rendering an SEP unenforceable. For example, in *Fujitsu v Tellabs Inc*, the court issued jury instructions that included filing a suit for patent infringement as a potential independent basis for finding a breach of FRAND. After the jury returned a verdict in favour of breach, the court issued an order to show cause why the SEP should not be held unenforceable as to the defendant.

A case this July in the Eastern District of Texas, however, found that in certain circumstances a patent owner need not make a pre-suit FRAND offer before filing suit asserting a SEP. In *Atlas Global Technologies v TP-Link Technologies Co*, the patent owner contended that it had sent letters and emails to defendant's representatives offering to engage in licensing discussions, and the defendant did not respond. The court granted summary judgment to the patent owner on the accused infringer's FRAND affirmative defence, finding that a pre-suit FRAND offer is not mandatory, as a matter of law, to discharge a party's pre-suit FRAND obligations in all circumstances.

Due to the risks, most SEP patent owners do engage in some form of pre-suit communications, as our Docket Navigator analysis proved.

Critical role of pre-suit communications

The role of pre-suit communications extends beyond FRAND-related disputes and has become vital to sustaining indirect infringement and wilfulness claims in some US district courts with the busiest patent dockets.

For example, decisions in the last three years from Chief Judge Colm Connolly of the District of Delaware, Senior Judge William Alsup of the Northern District of California, and Judge R Gary Klausner of the Central District of California have all found pre-suit knowledge of the asserted patents necessary to support post-suit allegations of indirect infringement and wilfulness. In other words, their decisions found that knowledge from the initial complaint cannot alone support post-suit indirect infringement claims.

These decisions do not mirror the practice in all US district courts, and the US Court of Appeals for the Federal Circuit has not resolved the proper approach.

In a notable counterexample just issued earlier this month, Federal Circuit Senior Judge William Curtis Bryson, sitting by designation in the District of Delaware, again confronted the issue of pre-suit notice requirements on a motion to dismiss. Bryson's decision in *DSM IP Assets v Honeywell International Inc* noted a split of authority among district courts and within the District of Delaware itself on the issue. Bryson found that most courts allow post-suit wilful infringement and indirect infringement claims based solely on knowledge obtained from the complaint that initiated the lawsuit. He chose to follow that approach.

The decisions going both directions currently present risk for patent owners that choose to file suit before providing actual notice.

Patent owners eyeing litigation in the Central District of California, Northern District of California, or Delaware, should consider some form of pre-suit communications to properly support indirect infringement and wilfulness.

Support wilfulness and indirect infringement claims

To strengthen claims of post-suit wilful and indirect infringement claims, litigants should consider taking the following steps in their pre-suit communications with infringers:

1. Make a direct and clear assertion of infringement or invitation to license in pre-suit communications. Though not without risk of inviting a declaratory judgment action, it will put litigants in the strongest position to sustain wilfulness and indirect infringement claims.
2. Identify and call attention to each of the contemplated patents-in-suit by patent number. Simply relying on notice of the patents-in-suit among a list of hundreds of other patents may not be sufficient.
3. Explain how or why the opposing party infringes or should consider a licence. The explanation should identify specific claims and products; for an SEP, the notice should at a minimum identify the standard at issue just as the patent owner did in the 2010 Federal Circuit decision of *Fujitsu v Netgear Inc.*.

4. Let some time elapse between notice and filing suit to allow for meaningful negotiations. In some courts, a notice letter sent one day before filing suit may not suffice, but several weeks might, depending on the circumstances, according to a 2016 ruling from Delaware, *Evolved Wireless v Samsung Electronics Co.*

Reduce the risk of FRAND defences

While the case law continues to evolve, patent owners should consider taking several steps in pre-suit negotiations to reduce the risk of a finding of breach of FRAND by United States courts.

1. Invite accused infringers to engage in pre-suit licensing discussions. Even in the recent *Atlas Global Technologies* holding that there is no legal requirement to present a pre-suit FRAND offer, the patentee alleged some form of pre-suit communications to license the asserted SEPs.
2. If there is no response to pre-suit communications, decisions like *Atlas Global Technologies* suggest that SEP owners have lessened the risk of breach of FRAND should they pursue a suit for damages.
3. When seeking an injunction in district court or the ITC, make an offer of a FRAND licence before filing suit. A failure to even attempt to offer a FRAND licence prior to seeking an exclusionary order could result in a breach of FRAND, as in the *Realtek Semiconductor Corp* case.

By understanding the importance of pre-suit communications, litigants can better position themselves to navigate complex patent litigation, and in the case of SEP disputes, to respect FRAND commitments and engage in good-faith negotiations.

Aaron R Fahrenkrog

Author | Partner

Afahrenkrog@RobinsKaplan.com

Robins Kaplan

Benjamen C Linden

Author | Partner

BLinden@RobinsKaplan.com

Robins Kaplan

Navin Ramalingam

Author | Associate

NRamalingam@RobinsKaplan.com

Robins Kaplan