

A Free Lesson ... Courtesy of Microsoft® !

When selling a product overseas, potentially costly mistakes can be made if you encounter a patent and take the wrong steps.

Here we look at the key steps to take if you are selling into the USA and become aware of the existence of a United States patent and why it is important to take the steps. As they say, forewarned is forearmed and a recent lawsuit in the US illustrates the hazard to be avoided.

From time-to-time, Microsoft's name comes up in the financial and technology press in relation to lawsuits. Relatively recently, they were sued in the US by a Canadian company, i4i. The lawsuit concerned some functionality used in their Word™ word-processing software. If i4i ultimately win, Microsoft® may have to remove the offending part of the software in the US, or worse still take the software off the shelves (even the virtual ones) at least temporarily. Future releases of Microsoft® Word™ could also be affected. Understandably, Microsoft® has lodged appeal.

While the case, as is common with patent cases, is elbow-deep in technical detail and complex legal arguments, neither of these are really important when it comes to a simple but important lesson that can be learnt from the litigation.

As is common in litigation, a winning party is usually awarded damages against the losing party. In this case, Microsoft® lost. Now, US courts are no strangers to awarding large sums of money, in the order of millions of dollars, in damages. It shouldn't then come as a surprise that a court in Texas awarded about \$200m to i4i for infringement by Microsoft® of its US patent.

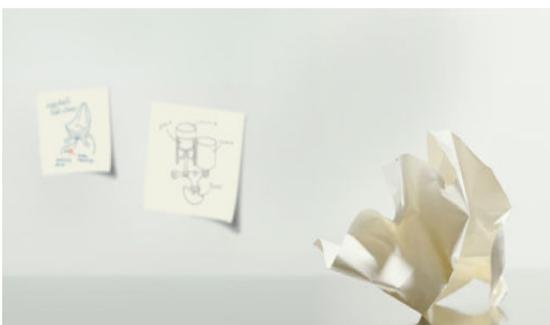


However, on top of this eye-watering award of damages, the judge awarded i4i "enhanced" damages of \$40m for something called "wilful infringement". It is this aspect of the case that teaches a useful lesson of how not to behave when you are aware of US patents.

So, what is wilful infringement and why is it relevant to you?

Put simply, wilful infringement is where a party knowingly infringes a patent. In our experience, this most commonly happens when you become aware of the existence of a patent. Typically, this can happen when you are alerted to the existence of the patent by a patent owner and then choose to ignore it without making precautionary enquiries.

However, even if you simply carry out a background technology search without freedom to operate in mind (for example a novelty search for a new invention you want to patent) and come across a US patent, this can be enough to put you in the frame for wilful infringement. These facts can come to light during litigation when the other side looks over some of your company's records, e.g. e-mails, which might expose you had knowledge of the existence of the patent. This can be equally damaging.



The award of enhanced damages for wilful infringement is relevant to you if you sell your products in the USA, not least because of the sheer size of the enhanced damages. Similarly,

enhanced damages are possibly relevant to you if you are thinking of entering the US market or simply have a new product that you are thinking about launching in the USA.



This may not seem like a big worry for your current situation, but it is surprising how often we have found these situations arise. As luck favours the prepared, knowing what to do should a situation arise is helpful.

To avoid a charge of wilful infringement being pinned on you and sticking, you need to be able to show that even though you knew about the existence of a patent, one or both of the following applied when you put your product on the market:

1. You are not infringing the patent;
2. You had reason to believe the patent was invalid, irrespective of whether or not it is being infringed.

In court, your say-so will not be enough. You need to be able to show that you have acted responsibly after becoming aware of the patent, i.e. by making sure the way was clear for you to put your product on the

market in the USA. Consequently, you have to get an opinion from a Patent Attorney. The opinion needs to say that the patent is not infringed by the sale of your product in the US and/or the patent is invalid.

Due to the amount of care that is needed when giving these opinions, they can be time consuming and costly. Fortunately, though, you do not have to get an opinion to say that both the patent is not infringed and it is invalid: you only need one, because during litigation you wouldn't be liable for damages if the patent was not infringed or was invalid.

Unsurprisingly, you usually ask for the opinion that is most likely to be in your favour!

Of course it's possible that the opinion will say that the patent is valid and/or will be infringed. In that case carrying on selling in the market regardless will result in running a high risk of being found to have wilfully infringed the patent. And as we have seen from the Microsoft® lawsuit mentioned above, awards of enhanced damages can be expensive!

It is therefore important to get an opinion from a Patent Attorney at the earliest opportunity if you become aware of a relevant US patent. There is no obligation to go actively searching for patents, though it is always prudent to do so, but once you become aware of a patent, you need to take action. If you do not, you run the risk during litigation that you will be found to have wilfully infringed the patent and liable for a potentially large award of enhanced damages against you

If you would like to find out more about what can be done when you encounter a US patent that looks relevant, Ross Kay can be reached at ross.kay@laudens.com or on 0207 830 9619.

Ross Kay is a UK and European Patent Attorney and a European Trade Mark and Design Attorney, but is also routinely involved in US patent issues. He has worked both in private practice and in industry for such companies as Motorola and Siemens.

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