

Festo XIII: Hidden Dangers for Patent Licensees?

Tuesday, Jul 17, 2007 --- On July 5, the Federal Circuit issued what it surely hopes is its very last opinion in the twenty-year long Festo litigation—with the ominous designation of Festo XIII.

This case, first filed in 1988, claiming infringement of a patent for a “magnetically coupled rodless cylinder,” has been before ten banc panels of the Federal Circuit twice and before the Supreme Court twice more. It has changed the landscape for patent prosecutors and their clients in focusing their attention on the dramatic effect of amendments made in prosecution on later litigation.

The Festo line of cases, indeed, exemplifies the recent rocky relationship between the Federal Circuit and the Supreme Court on patent issues.

Six years before this term’s slapdown of the Federal Circuit’s obviousness standard in KSR, the Supreme Court showed its lack of deference to the Federal Circuit by dramatically scaling back the lower court’s far-reaching interpretation of prosecution history estoppel and its consequent narrowing of the doctrine of equivalents.

Unwilling to agree to the Federal Circuit’s apparent attempt to kill off the doctrine of equivalents, the Supreme Court gave patentees a reprieve, by holding that even if an patentee had amended his claims, he could still assert his patent against equivalents which were “unforeseeable” at the time the patent was applied for.

The latest opinion, issued over the furious dissent of Judge Newman, seems to be an attempt by the Federal Circuit to put the doctrine back into the grave by severely limiting what is considered “unforeseeable.”

In sum, the court ruled that every equivalent known to persons skilled in the art at the time of the application is “foreseeable,” whether or not anyone, including the patentholder, knew the equivalent would—or even could—work.

Although the precise effects of this ruling are, obviously, yet to be seen, it is obvious that, absent the Supreme Court stepping in once again, the Federal Circuit’s hostility to the broad scope of patent protection under the doctrine of equivalents’ will percolate through the lower courts.

The power of power of patentholders to broaden the scope of their patent rights against infringers will be steadily weakened.

So, what does Festo XIII mean in the real world—for companies that are

negotiating a patent license or that may already be under a license?

For the savvy licensee, the economic impact should be immediate. Festo XIII weakens the position of patentholders by restricting their ability to assert patent protection over equivalents. This development makes it substantially easier for prospective licensees to design around the patent using “foreseeable” equivalents.

Indeed, the Federal Circuit has made the process of finding non-infringing alternatives fairly easy and reliable for those licensees who are willing to dive into the prosecution history and do their research.

The enhanced ability of licensees to evade the patent’s grasp strengthens their hand and should make it possible for them to drive a harder bargain at the negotiating table or, in fact, to walk away with greater confidence that their “foreseeable equivalents” will not infringe.

Festo XIII will also affect the balance of power in the awarding of damages in patent litigation. This ruling will not only limit the royalty base of potentially infringing products, it should also reduce the “reasonable royalty” the patentee can collect.

A weaker patent, after all, has a wider scope of equivalents which do not infringe—making the patent less valuable and less likely to command a high royalty in the hypothetical negotiation required by that damages model.

However, is Festo XIII an unalloyed victory for licensees? Maybe not—if they are not careful to protect themselves

A patent license will normally cover products which are covered by the patent or which would “otherwise infringe” the patent. Such a license—basically a covenant not to sue—protects the licensee from being subject to any lawsuit on the patents covered by the license and buys peace for what is usually the balance of the patent’s life.

A careful licensee will, of course, seek to protect itself from any risk by making sure to license all of the patents in the “family” and all of those which cover its products.

However, this kind of protection is not always available—and sometimes the patent protection the licensee may need in the future may not be foreseeable. Indeed, where a patentholder is aggressively forming a “thicket” of patents covering its technological niche, the license it grants today may give very limited actual protection to a competitor tomorrow.

Festo XIII, by limiting the scope of equivalents covered by a patent, may come back to bite the unwary licensee.

When the doctrine of equivalents was broad, a licensee could be confident that its license covered products that, although different from those covered

strictly by the claims, were reasonable alternatives.

Thus, even if the patentholder had other patents in this field, the licensor would still be safe.

With the Federal Circuit's limitations on the doctrine of equivalents, the scope of the license has now been unexpectedly reduced. Products that might have once been covered by a license may now not be protected and may, in fact, be in danger from other patents owned by that same licensor.

It may be too late for current licensors to protect themselves from this risk. However, careful licensors should ensure that they obtain a license to all patents which may cover their planned product lines and not simply assume that they are safe from a lawsuit just because their product is "almost" covered by their licensed patents.

--By Richard Cauley