PATENT INFRINGEMENT SUITS

An Executive's Guide to the Litigation Process

WILLIAM G. KONOLD

MARCEL DEKKER, INC. New York and Basel

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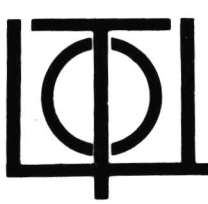

TECHNOLOGICAL OPPORTUNITIES UNLIMITED

EXECUTIVE SUMMARY

The corporate executive, with the concurrence of the Executive Committee or Board of Directors, must decide whether to litigate — to bring suit for patent infringement. Such a decision involves the commitment of at least several hundred thousand dollars and disruption of business as usual for at least some of the company's personnel. Therefore, the executive should have a reasonably complete understanding of what he or she is committing the company to.

Once the decision to litigate has been made, the executive will want to confer regularly with legal counsel to develop strategies, to provide assistance during the discovery phase, and to report intelligently to the Board of Directors on progress. A capsule version of the patent litigation (Chapter 1) provides a foundation upon which to build an understanding of the litigation process.

The decision to litigate should be made only after a thorough investigation of the basic facts that will be involved in the litigation process—the worth of the patent, skeletons in the company closet, the consequences of winning and losing, and the probable outcome (Chapter 2). Some thought must be given to the manner of sending a notice of infringement and the response to it (Chapters 3 and 4). Settlement should be attempted as early as possible to cut expenses and avoid hardening of positions (Chapter 5).

At the outset, the executive can set the tone and, to some degree, control the cost of the litigation (Chapter 6). Litigation is begun by filing the pleadings: the complaint, answer, and counterclaims (Chapters 7 and 8). These are not complicated documents. The pleadings and all subsequent proceedings are governed by Rule 11 of the Federal Rules of Court Procedure which requires complete good faith in all positions taken. The consequences for failing to act in good faith can be considerable (Chapter 9).

The period between the filing of the complaint and commencement of the trial of the case is occupied by using various forms of discovery (Chapter 10). Because patent litigation cases involve intellectual property, some form of protective order will be required to avoid the inadvertent dissipation of trade secrets and confidential information (Chapter 11). The principal discovery procedures are interrogatories addressed to the opponent (Chapter 12), the request for production of documents or inspection

of the opponent's apparatus, etc. (Chapter 13), depositions (Chapter 14), and the request for admissions (Chapter 15).

Shortly before trial, a pretrial conference will be ordered by the judge, and the parties will be required to put together a joint pretrial statement. The statement involves a listing of stipulated and contested facts, witnesses, and exhibits (Chapter 16).

The trial will be either jury or nonjury. A jury trial will be held only if one of the parties demands it at the time of filing the pleadings. There are advantages and disadvantages to each form (Chapter 17). The trial involves the techniques of presenting evidence, as by demonstrative exhibits, fact witnesses, and expert witnesses, to instruct the court on the complex technical and legal issues, as well as to prove the respective positions of the parties (Chapter 18).

Proceedings immediately following the trial will differ markedly depending on whether the trial was bench or jury. And, of course, an appeal is a likely prospect unless the outcome at trial is such as to make it pointless. An appeal is considerably less costly than the trial. It involves preparation of an appendix consisting of selected portions of the trial transcript, the preparation of briefs, and participation in oral argument (Chapter 19).

Litigation of other forms of intellectual property such as trade secrets (Chapter 20), trademarks (Chapter 21), and copyrights (Chapter 22) will involve many of the same procedures. However, because each involves different issues and applicable laws, there will be certain significant differences in the litigation procedures for each.

William G. Konold

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PART 1

THE PATENT INFRINGEMENT SUIT

CHAPTER 1

A BRIEF OVERVIEW

A very brief outline of the patent infringement suit will be presented in this first section. Following the outline, the litigation process will be described in greater detail with reference to some of the advantages, disadvantages, pitfalls, and areas which give rise to unnecessary costs to the client will be discussed.

To begin the proceedings, a company or individual obtains a patent. The way in which the patent is obtained can have an enormous impact on the outcome of the infringement suit. The owner of the patent is the *patentee.* The alleged infringer is the *accused.*

The patentee becomes aware of an infringement of the patent. That is, the patentee learns that the accused company or individual is making, using, or selling that which has been patented.

The patentee gives notice to the accused of the acts of infringement and requests some form of relief. The manner in which the notice of infringement is given can have some impact on the ultimate outcome of the litigation. If the notice does "give rise to an actual controversy," the accused will have the opportunity to "jump the gun," and to bring suit against the patentee in a forum of the accused's choosing.

At some point, usually after negotiations attempted to resolve the controversy have failed, a suit is brought. For the moment, assume that the suit is brought by the patentee. The complaint can be very simply done by following the appropriate form in the Federal Rules of Civil Procedure.

Within twenty days following the serving of the complaint, the accused must file an answer, denying infringement, but will also file a counterclaim asking for damages to compensate the accused for all wrongs committed by the patentee. Sometimes the answer and counterclaim will specifically ask for a declaratory judgment that the patent is invalid and not infringed. Additionally, the accused will almost invariably counterclaim for damages arising out of antitrust or Sherman Act violations of the patentee. The patentee must then file a reply to the counterclaim.

Once these papers, referred to as the pleadings, have been filed, the issues are joined and the prosecution of the litigation begins. The period prior to trial is devoted to "discovery." This period involves the use of the procedures permitted under the Federal Rules of Civil Procedure, by both parties, to "discover" facts and opinions

which will advance the case of either party and will provide assurance that there will be no surprises, or "trial by ambush," when the trial actually commences. Four procedures are most frequently used.

1. *Interrogatories* are questions directed to the opposing party. They must be answered under oath by the party or objected to by the representing attorney.
2. *Depositions* are testimony by direct or cross-examination recorded by a public stenographer. Depositions are usually taken from principals of the opposing party, as well as from third parties who may possess facts pertinent to the issues in the litigation.
3. *Requests for admissions* are questions asked the opposing party to pin down noncontroversial issues.
4. *Request for documents* or for *inspection of the premises* of the opposing party gives the inquiring party the opportunity to examine all documents held by the other party and to inspect the processes or apparatuses. For example, the patentee normally will wish to examine the accused apparatus of the opposing party (assuming that it is a process or apparatus that is accused as being an infringement). On the other hand, the accused may wish to examine the same process or apparatus of the patentee to determine whether or not the patentee is actually operating under its own patent.

Following discovery, the judge will hold a pretrial conference. Depending upon the local rules of the court, the pretrial conference may be preceded by a pretrial order. The attorneys agree on uncontested facts and contested issues, set forth contested facts, and establish the witnesses and exhibits that will be offered by each party. The judge insures that the issues are properly framed and that the case can proceed as speedily as possible.

The case may be tried before the court (bench trial) or before a jury. There are advantages and disadvantages to each method.

Following decision by the lower court, the losing party may appeal. According to a recently enacted statute creating a Court of Appeals for the Federal Circuit (CAFC), all appeals in patent infringement cases will be taken to the CAFC. That is not the case for other forms of intellectual property that can be litigated, such as trademark infringement suits, suits for theft of trade secrets, or copyright infringements.

If the patentee wins, the court may issue an injunction to stop infringement by the accused. This may be the most significant and valuable form of relief obtained from the court. Additionally, the court may award damages which, by statute, are to

be no less than a reasonable royalty. The court also has the right to increase these damages and award attorneys' fees if the court decides the infringement has been willful.

If the accused prevails by having the patent declared invalid and/or not infringed, no damages are usually assessed. However, if the accused successfully persuades the court that a counterclaim of wrongdoing by the patentee should be granted, the accused may also be entitled to damages.

The court records ultimately will show that either the patentee or the accused has won. However, it should be remembered that, regardless of the outcome, the lawyers for both sides are the actual winners. Understanding patent infringement suits should enable both parties to minimize legal fees.

PART 2

THE PATENT INFRINGEMENT SUIT EXAMINED AT GREATER DEPTH

CHAPTER 2

SOME PRELIMINARY INQUIRIES FOR BOTH THE PATENTEE AND THE ACCUSED

Litigating can be a costly mistake. A prospective litigant will save enormous sums of money as well as wear and tear on its organization if he or she recognizes, before the issues are joined, that it would be a mistake to litigate. The prospective litigant must carefully examine its position to be sure that there is no major flaw.

The patentee must determine whether there are any defects in its patent or its conduct inside and out of the Patent Office.

What is the status of the "prior art?" Prior art is prior patents, published literature, public uses and other knowledge as set forth in 35 U.S.C. § 102, Appendix 0. If the only search for prior patents and literature was done by the patent examiner, a thorough and independent search should be made. Employees of the patentee should be questioned to determine what knowledge they might have of prior art. They will very likley be interrogated by deposition if litigation is commenced. The patentee must be sure that the company did not place the subject matter of the patent on sale or into public use more than one year before the filing date of the patent application. It is better to turn out any skeletons before the issues are joined.

Sometimes the skeletons are not easily turned out. For example, the patentee had filed an application in the United States about 364 days after shipping the machine to a customer in the United States. That delay in filing did *not* create a statutory bar to a valid patent in the United States. Corresponding patent applications were filed in Great Britain and Germany. Patents were issued in all three countries. It came to pass that a German manufacturer shipped infringing machines into Great Britain. The patentee was attempting to determine whether to file suit in Germany or Great Britain. Legal counsel for both countries were engaged and the question of the likelihood of success in each country was put to the respective counsel. As to Germany, the German counsel gave the first opinion that the early shipment in the United States created a bar to a valid patent in Germany. Counsel in United States believed him to be wrong and pressed the point until German counsel made a more careful review of the law (it had changed between the filing of the German application and the infringement incident), whereupon German counsel reversed himself.