

Litigation strategy focus

An *IAM* management report

Welcome

Because intellectual property is a legal right, in the end it only has value if those that own it are ready to go to court to defend what they have. A company that is prepared to stand by and watch others infringe its patents, trademarks, copyrights or trade secrets will not be in business for long. Certainly, its shareholders will very quickly begin to ask questions.

It is more than likely, therefore, that any organisation which owns valuable intellectual property is – at some time or another – going to find itself involved in a dispute relating to that IP.

Companies finding themselves engaged in an IP dispute – whether as a plaintiff or as a defendant – have to make a number of important decisions. Is this something that has to go to court? Is there a way of settling the case? How much money are we prepared to spend? In which jurisdiction will we stand the most chance of prevailing? Which outside representatives should we use? These are just some of the questions that need to be asked. And perhaps the most important of all is the last one.

Good lawyers and law firms will have the experience necessary to devise a case

that will stand up to scrutiny and that will give their clients the best chance of coming out on top. They will have the ability to devise strategies that work effectively. After all, it is no good being right if you are not able to prepare a case that will convince a court to side with you or an opponent to concede defeat and negotiate a settlement.

With all this in mind, *IAM* approached a group of leading litigation experts to identify and explain some of the major issues in preparing an effective litigation strategy, both in the US and internationally. They chose to focus on global dispute resolution strategies, the use of ADR in patent disputes, the choices open to those wishing to enforce their patents and the issues around obtaining a preliminary injunction. In so doing, they provide a range of insights that will be of significant benefit to *IAM* readers.

Of course, it goes without saying that every case is different and that specific advice should always be sought when a dispute arises. This focus, however, serves as an excellent starting point for those who want to know more about what is an absolutely crucial aspect of owning intellectual property.

Joff Wild,
Editor, *IAM*

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Global litigation strategy and the art of war

By **Duncan Bucknell**, IP strategy consultant, Melbourne

The ultimate goal in a global IP dispute is rarely to fight and win every case in every country in the world. This is usually a waste of time and money. Instead, the goal is to use the situation to obtain the best commercial result – better than before the dispute arose. As Sun Tzu said in *The Art of War*: “For, to win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the supreme excellence.”

All manner of opportunities arise in the context of a potential IP dispute. The following five step approach is designed to put you in the best possible position to identify and seize these opportunities and, if necessary, to go out there and win the litigation as well.

In a global IP dispute, two critical factors will play a large part in determining your fate: choosing and coordinating the jurisdiction(s) in which you litigate and the outside counsel you use in each country.

Assuming that your strategy dictates litigation in a particular country, and you have chosen your advocate, then the next three steps to checkmate are: relentlessly seeking and analysing the facts; devising and implementing a consistent strategy; and making sure the team runs smoothly.

To make this article more interesting for you, I asked IP litigators from nine jurisdictions the following question: “In your experience, what is the single most important thing for your clients to focus on to maximise their chances of winning a major IP case?”

The answers reinforce the suggested approach and provide some interesting additional insights.

Where and when to litigate

If you have the choice, then clearly you should litigate where you will obtain the

greatest strategic advantage. Where is that? Well, it depends on your situation. The take-home message here is that the better you understand the options available in various jurisdictions, then the better you can make the most of them.

Here are some examples of factors to consider in designing your strategy – as you can see, they must be combined into a single, coherent strategy based on your particular circumstances.

Local procedural rules may act in your favour. For example, for years IP owners had been commencing proceedings in the courts of the Netherlands because of the courts’ willingness to grant cross-border injunctions across Europe (this practice is now in serious doubt, although it has not been specifically ruled invalid under the present Brussels regime by the European Court of Justice).

Similarly, if you are seeking to enforce a patent, you may wish to take advantage of the split systems in China or Germany which (usually) require separate courts to hear cases relating to infringement and validity. Such a system removes invalidity of the IP right as a defence in the infringement proceedings. So you can usually obtain a fast result on infringement, and subsequent remedies, such as injunctions. Of course, the defendant is still able to challenge validity and, if successful, have a finding of infringement become useless at a later date. This does not detract from many of the strategic advantages of having a fast infringement result, however.

You may want to make the biggest impact where the greatest commercial effect will be evident (either to seek an injunction against an infringer or to get the attention of the IP right owner). Clearly, this is dictated by standard commercial factors such as the market size in various countries.

If you are a relatively small player, you may first wish to seek the most cost effective litigation result. Consequently, you may elect

to follow the administrative tribunal route in China, which will also return an enforceable decision in three to six months.

On the subject of cost, the concept of litigation efficiency (LE) helps in the comparison of relative costs of litigation between jurisdictions. LE is the market size divided by the average cost of running a full IP case in that jurisdiction. A larger LE means that you buy more market dollars for every dollar you spend on litigation. Note that the LE in a particular jurisdiction will be different for different types of IP litigation and should be compared on this basis. Due to its relatively large size and relatively low cost, France has an attractively high LE. Consequently, it may be most cost effective to commence proceedings here for a relatively inexpensive litigation in a relatively large market. Japan (because of the enormous size of its market) and Germany (due to relatively low cost) also have high LEs.

If your strategy dictates that speed is of the essence, you may elect fast-track litigation in the Netherlands (10 months) or the United Kingdom (10 to 15 months). Alternatively, if your case is quite technical, you may choose to go with one of the specialist IP courts which are now available in an increasing number of jurisdictions. For example, Germany, the Netherlands, the United Kingdom, China and Japan (the United States Court of Appeals for the Federal Circuit is also specialised in IP matters).

Selecting outside counsel

Selecting outside counsel is really a topic for another day. But here are a couple of important points to consider. Make sure that the outside legal team will work well with you and your internal people (more on this later). If there are any doubts about this, then fix it immediately. Otherwise, you will dramatically compromise your case.

The person who will lead the presentation of the case in court (the advocate) must have a proven track record. Ask for that proof. A list of cases argued, both won and lost, is a good start. In some countries, there are advocates who are separate from law firms and do nothing else (eg, barristers in the United Kingdom and Australia). Barristers are instructed by external legal counsel – make sure you have a direct line of sight to them and that you are confident in them.

Get the facts right, right?

Relentlessly pursue the facts, understand them better than anyone and be prepared to

explain them simply in a consistent theme to the judge or jury. This includes unrelentingly seeking evidence first from your own organisation and, later, from your opponent; and identifying and retaining the finest experts, and working closely with them to prepare the best evidence. As Jim Hurst from the Chicago office of Winston & Strawn says, winning requires “exhaustive investigation, analysis, and preparation”.

The paper trail

Gathering documents and evidence is a critical part of the forensic exercise. This is particularly important in jurisdictions which do not have court-ordered discovery (or disclosure). Marina Couste and Florent Guilbot from the Paris office of Howrey LLP explain that conserving and gathering documents prior to litigation is the most critical thing to focus on in France. Stan Abrams from the Beijing office of Lehman, Lee & Xu said the same thing about Chinese IP litigation. While it is now possible to obtain court-ordered preservation and collection of evidence in China, it is still relatively difficult compared to other jurisdictions, and in Stan’s words, proper documentation will “make or break” an IP case in China.

A solid foundation

As the facts come together, you need to confirm that you are on solid footing. So, the exhaustive analysis must include a thorough investigation of infringement and validity issues as early as possible. The analysis should be continually reworked as more facts come to light. Paul Steinhauser and Otto Swens from Steinhauser Hoogenraad in the Netherlands recommend a thorough validity analysis before taking any (legal) action against the adversary and in all situations, regardless of whether the client is the owner of the IP right or the alleged infringer. They suggest that validity searching should not only cover the industry in which the client is active, but also related industries.

Expert testimony will make or break your case

In some jurisdictions, the parties are permitted to submit evidence from suitable experts in support of their case. Such experts are usually extensively cross-examined so the choice of expert is critical. Most readers will have seen cases won or lost by expert testimony and clearly their importance should not be underestimated. Simon Cohen and Nigel Stoate from the


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Duncan assists people to develop, implement and manage customised global intellectual property strategy. His clients range from multinational publicly listed entities through to SMEs and start-up companies.

Duncan's practice has a global reach – his clients are based in North America, Europe, India and Australia. Along with local IP lawyers, he has assisted them with intellectual property strategy in jurisdictions including Australia, Canada, China, the Czech Republic, Europe (EPO), France, Germany, India, Italy, Japan, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom and the United States.

London office of Taylor Wessing commented that careful selection of an expert will undoubtedly change the course and outcome of the litigation. This sentiment is echoed by Paula Bremner from Hitchman Sprigings in Canada who also strongly recommends retaining experts as early as possible so that they can assist in developing the strategy. However, in some jurisdictions, such as Australia, there can be severe strategic disadvantages to opening communications with experts, so be wary about direct involvement by experts in strategy.

A consistent strategy

Once you have a good handle on the facts (actually, you probably will not fully understand them until after the trial), then it is time to rework your strategy into a single, consistent theme. As Koichi Tsujii from Nakamura & Partners in Tokyo says: "One must set up a consistent and convincing strategy, and file briefs and exhibits in line [with it] from the beginning to the end." Jim Hurst's comments add further colour to this: "The best ideas often come late at night and only after tearing apart the patent and the prior art on literally a line-by-line basis. The best litigators then build that case-breaking idea into a simple and understandable theme for the entire case ..."

Knowing the facts is one thing, being able to cogently explain them is entirely another. As Scott Blackman from the Washington DC office of Winston & Strawn suggests, you must know the fact issues so well that you can comprehensively explain them to the judge (and/or jury) in terms that make sense to them and educate them as necessary.

As mentioned above, a critical component of this is your choice of advocate. The best advocates readily synthesize many complex facts and legal issues and weave them into a simple story. If you are lining up for a major IP case, then why not put your top two or three choice advocates to the test? Give them a complicated document – be it a technical document for a patent case, or a marketing or other document for a brand, trademark or copyright case – and 24 hours to digest it. Watch them explain it to someone from your organisation who does not have the relevant subject matter background. How well did they get the information across?

It's a team effort

As we all know, IP litigation is expensive, not only in legal fees, but also in terms of drain on resources. Consequently, handsome

rewards await those who ensure that the team of people from within and outside the organisation is operating effectively.

Christoph de Coster from the Munich office of Taylor Wessing says that building an effective team is crucial for success in Germany. Christoph gives the example of patent litigation, which in Germany is handled by a team of lawyers specialised in patent litigation, who take care of procedural matters, and patent attorneys (from a separate firm) who prepare the technical aspects of argument for the court. Ideally, the lawyer(s) and patent attorney(s) will have an excellent working relationship and be used to working together on the overall strategy for the case.

Robert Cooper from the Melbourne office of Mallesons Stephen Jaques agrees that creating and maintaining an effective team is critical. Robert emphasises the importance of excellent communication between client and litigators to deal effectively with critical strategic decisions as they arise.

Patent alternate dispute resolution issues and choices in the US

By **Michael Lennon**, Kenyon & Kenyon LLP, New York

Parties to patent disputes in the United States can agree to use an alternative dispute resolution (ADR) process to resolve their disagreements, in lieu of traditional litigation proceedings. The various ADR processes available for the resolution of infringement and other patent issues, such as the parties' rights under a licensing agreement, include private arbitration and mediation, and ADR processes available during federal district court litigation.

There is an often-expressed view that the use of ADR processes as a mechanism to settle patent infringement disputes is not generally effective. However, the ADR referral programmes that are available under the federal statutes governing procedures in patent infringement litigation in US district courts can be successful alternatives to private ADR as tools to resolve such disputes without costly and time consuming trials.

Using ADR options to resolve patent infringement disputes

The objectives and benefits of ADR are essentially the same for private and district court proceedings. ADR may assist settlement of the dispute sooner than a trial would, permit a solution that a court cannot order, save time and money, preserve ongoing business or personal relationships, increase satisfaction and result in a greater likelihood of a lasting resolution.

Title 9 private ADR

Title 9 of the United States Code is the federal statute that formally created the legal framework for the arbitration of commercial disputes. Other private ADR processes, such as mediation, are not covered by this statute.

Title 9 provides that a written provision

in any contract to settle a controversy arising out of the contract by arbitration, or a written agreement to submit an existing controversy to arbitration, is valid, irrevocable and enforceable. Under this Title, if a lawsuit is brought in any federal court of the United States upon any issue referable to arbitration under such an agreement, that court must, upon application of a party, stay the trial of the litigation until arbitration has taken place in accordance with the agreement, as long as the party seeking the stay is not in default in proceeding with arbitration. A party prejudiced by a failure of an adverse party to arbitrate may request any US district court having jurisdiction for an order directing that arbitration proceed in the manner provided in such an agreement.

If an agreement specifies a method of appointing neutrals that method must be followed, and if no method is specified or is not followed, then either party to the controversy may ask the court to appoint an arbitrator. Unless the arbitration agreement provides otherwise, the arbitration must be conducted by a single arbitrator. Arbitrators may summon witnesses and documents as evidence in the case.

If the parties have agreed in their arbitration agreement that a judgment of the court shall be entered upon the award made pursuant to the arbitration and have also specified the court having jurisdiction, then within one year after the award any party to the arbitration may apply to the court for an order confirming the award. That court must grant such an order unless the award is vacated, modified or corrected. If no court is specified, then an application may be made to a federal court in the district within which the arbitration award was made.

The court in and for the district in which the award was made may enter an order vacating the award upon the application of any party to the arbitration, where the award was procured by corruption, fraud or undue means;

where there was evident partiality or corruption in the arbitrators, or either of them; where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehaviour by which the rights of any party have been prejudiced; or where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final and definite award upon the subject matter submitted was not made. If an award is vacated and the time within which the agreement required the award to be made has not expired, the court may, in its discretion, direct a rehearing by the arbitrators.

The court in the district where the award was made may modify or correct the award upon the application of any party to the arbitration, where there was an evident material miscalculation of figures or an evident material mistake in the description of any person, thing or property referred to in the award; where the arbitrators have awarded upon a matter not submitted to them, unless it is a matter not affecting the merits of the decision upon the matter submitted; or where the award is imperfect in matter of form not affecting the merits of the controversy. The court may also modify and correct the award to effect its intent and promote justice between the parties.

An appeal may be taken from an order refusing a stay of any lawsuit where the issues are referable to arbitration by agreement, denying a petition to order arbitration to proceed, denying an application to compel arbitration, confirming or denying confirmation of an award or partial award, or modifying, correcting or vacating an award; and also from an interlocutory order granting, continuing or modifying an injunction against an arbitration subject to Title 9; and from any final arbitration decision that is subject to Title 9. An appeal may not be taken from an interlocutory order granting a stay of any action in which the issues are referable to arbitration; directing arbitration to proceed under Title 9; compelling arbitration under Title 9; or refusing to enjoin an arbitration that is subject to Title 9.

Title 35 patent arbitration

Section 294 of Title 35 of the United States Code is the federal statute that implements the US government's policy of promoting ADR for patent disputes.

Under this Section, a contract involving a patent, or any right under a patent, may

contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement is legally valid, irrevocable and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

The arbitration of disputes, awards by arbitrators and confirmation of awards under Section 284 are governed by Title 9 USC, to the extent such title is not inconsistent. In any patent arbitration proceeding, the defences available under Section 282 (eg, non-infringement and invalidity) must be considered by the arbitrator if raised by any party to the proceeding.

An award by an arbitrator under Section 282 is final and binding but has no force or effect on anyone other than the parties. The parties may agree that if a patent subject to an award is later determined to be invalid or unenforceable, the award may be modified by any court at the request of any party to the arbitration. Any modification governs the rights of the parties from the date of the modification. When an award is made by an arbitrator, the patentee (or assignee or licensee) must notify the US Patent and Trademark Office and the award is unenforceable until the notice required is received by the Office.

Title 28 district court ADR

The Alternative Dispute Resolution Act of 1988, 28 USC §§ 651-658, requires each federal district court to authorise by local rule the use of at least one form of ADR in all civil cases. The federal district courts vary as to their ADR programmes, but, generally speaking, are uniform in their views concerning the advantages of ADR as a method of resolving disputes out of court.

Under Title 28, each district court must adopt procedures for making qualified neutrals available for its authorised ADR processes. Among others, the district courts may use magistrate judges trained to serve as neutrals and professional neutrals from the private sector. An arbitrator to whom an action is referred has the power within the judicial district of the court which referred the action to conduct arbitration hearings, to administer oaths and affirmations, and to make awards. The district court establishes the compensation of the arbitrator or neutral.

Under Title 28, an arbitration award may be filed after the arbitration hearing is

concluded in the district court that referred the case to arbitration. Within 30 days after filing, any party may request a new trial, or a trial *de novo*, in the district court. Upon such a demand, the action is restored to the docket of the court and treated as if it had not been referred to arbitration.

An award is entered as the judgment of the court after the time has expired for requesting a trial *de novo*. Such a judgment has the same effect as a judgment in a civil action, except that the judgment is not subject to review in any other court by appeal or otherwise. The court is not permitted to admit any evidence at the trial *de novo* concerning the arbitration proceeding, including the amount of any award, unless the parties agree to its admissibility or it is admissible under the Federal Rules of Evidence.

District court ADR options for patent cases

How does district court ADR proceed during patent litigation? The following districts are interesting examples, since they are venues in which infringement suits are frequently filed. They have varying ADR referral programmes.

In the Northern District of California (the San Francisco Bay Area), the ADR programme includes arbitration, early neutral evaluation (ENE), mediation, settlement conferences, customised ADR, summary bench or jury trial (non-binding) and special masters. In the Northern District of Illinois (Chicago), the ADR programme offers mediation, arbitration (non-binding, or binding by consent), special master and settlement conferences with a magistrate judge or district judge. The District of Delaware ADR programme offers arbitration, ENE, mediation settlement conferences with a district judge, and summary jury and non-jury trials. In the Central District of California (Los Angeles), the ADR programme uses settlement conferences as the preferred process and is mandatory for certain cases, and at the discretion of the trial judge for others. The Northern District of California ADR programme is highly developed and was one of the first in the district courts. The Central District of California programme in comparison is less developed, being first introduced in 2001.

In most districts, the selection of an ADR process is typically by a joint submission of the parties, and the litigation and ADR proceed simultaneously on parallel tracks. Table 1 illustrates the timing and other characteristics of ADR referrals during

Table 1: ADR processes in the US district court, Northern District of California

	Arbitration	Mediation	Early neutral evaluation	Settlement conference	Trial
Timing?	Six months	Three months	Three months	Any time	18 months
Confidential?	Yes	Yes	Yes	Yes	Limited
Cross-border effect?	Yes	Yes	Yes	Yes	Limited
Costs?	Attorney fees	Neutral, attorney fees	Neutral, attorney fees	Attorney fees	Attorney fees

litigation in the Northern District of California, and is indicative of the pace of similar processes in other districts.

ADR strategies for patent infringement litigation

Are patent disputes difficult to resolve by ADR? Is ADR less expensive than litigation? Does ADR offer better benefits? To answer these questions, one might consider the views of the Northern District of California court for answers.

In an analysis of its ADR programme considering various factors as a measure of whether ADR will provide the benefits of party satisfaction, flexibility, control, participation, improved case management and reduced hostility, the court summarised its observations and the extent to which its ADR processes are likely to accomplish them. The conclusions?

ENE is the “most likely” to provide those benefits, particularly if counsel or the parties are far apart on their view of the law or value of the case, the case involves technical or specialised subject matter and it is important to have a neutral with expertise in that subject, case planning assistance would be useful, communication between the parties (about the merits or procedure) can be improved, equitable relief is sought – if the parties, with the aid of a neutral, might agree on terms for an injunction or consent decree.

Next, mediation is “very likely” or “somewhat likely” to do so, particularly if the parties desire a business-driven or some other creative solution, or the parties may benefit from a continuing business or personal relationship, multiple parties are involved, equitable relief is sought – if the terms of an injunction or consent decree can be agreed to, or if communication appears to be a major barrier to resolving the case.

A settlement conference is “very likely” or “somewhat likely” to provide the desired benefits, especially where a party prefers to appear before a judicial officer, issues of


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procedural law are especially important or a party is not represented by counsel.

Arbitration is "very likely", "somewhat likely" or "unlikely" to provide these benefits, depending upon the circumstances. The court has observed that arbitration is more likely to be successful where only monetary (and not injunctive) relief is sought, the nature of the case is personal injury, property damage or breach of contract, the amount in controversy is below the maximum allowable for referral (US\$150,000) or the case turns on the credibility of witnesses and does not present complex or unusual legal issues.

According to the court's observations, any ADR process is unlikely to resolve litigation disputes when a party seeks to establish precedent, needs the protections of formal litigation or prefers that a judge preside, or where a dispositive motion (such as summary judgment) will probably succeed.

Applying these observations to patent disputes, one might conclude that mediation and ENE ADR processes are more likely to resolve patent litigation disputes, which typically involve complex infringement or validity issues, particularly if there is an active ADR programme available in the district court where the dispute is being litigated. ADR might also be successful in patent cases using settlement conference and arbitration processes, if the court's resources are available to address the case issues and the patentee wants only monetary damages and not injunctive relief. It seems ADR is less likely to result in a resolution if referral is limited and not strongly promoted in the district in which the litigation takes place, if the patentee's damages claim far exceeds litigation costs, and if ADR precedes adequate issue development, such as a Markman decision, or if summary judgment or a trial is very likely to be available as a resolution to one of the parties in the litigating venue.

Patent enforcement: licensing and litigation considerations

By **Jeffrey Carter** and **Bryan Yearwood**,
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A patent owner in the United States that concludes that its patents are being infringed by a large number of companies on an industry wide basis, and having decided to enforce its patent rights, is faced with deciding how to enforce those rights. That decision is driven by several considerations. This paper highlights some of those considerations.

Licensing v litigation

The initial decision facing the patent owner is whether to launch a licensing programme, file a lawsuit or do both; and if it is to be the latter, then the timing of each. Several considerations factor into this decision.

Historic response to patent claims

When a party has a history of recognising patent rights and taking licences when appropriate, a licensing approach may be preferable. This is especially true if the patent owner and the party have a history of successfully resolving licensing issues. On the other hand, for parties that tend not to accept a licence without at least the threat of litigation or tend to file declaratory judgment actions when approached about a licence, a licensing proposal may be a waste of time or worse allow the infringing party the opportunity to choose the location of the litigation. Such a history weighs in favour of filing a lawsuit first, especially if the patent owner is subject to suit in a number of jurisdictions.

Patent coverage

The number of licences that cover the infringing product has an impact on the viability of a licensing programme. The more licences that exist, the less enthusiastic the party will be to take another licence. Litigation may be the only way to get parties

with heavily licensed products to accept another licence. Although not always the case, products that are earlier in their life cycles tend to be subject to fewer licences and their manufacturers may be more willing to discuss a licence.

Patent life

Since patents are wasting assets, the remaining life of the patent factors into whether to pursue licensing or litigation. Licence negotiations do not guarantee a resolution. A year or two may pass without reaching agreement on a licence. In fact, during licensing negotiations, the patent owner may realise that the party is not going to take a licence without litigation. Filing a lawsuit guarantees a resolution. In some US federal district courts, the patent owner can expect a trial within 12 to 18 months. A patent with a short remaining life weighs in favour of litigation.

Acceptable return and likely costs

Whether to license or litigate is also an economic decision. By their nature, licence negotiations are likely to produce a smaller return on a patent asset. Regardless of the importance of the patents, there is an amount beyond which most parties will not pay for a licence. If the patent owner reasonably believes that its patent is worth more, then it may have to litigate. Pursuing litigation, however, is more costly than licensing negotiations. Although lawsuit costs may not be as much of a factor given the availability of contingent litigation, a patent owner will consider other costs, such as company and employee disruption, and possible patent infringement counterclaims when enforcement is not the patent owner's only business. Typically, the litigation defendants are those manufacturers that have the highest potential damages or largest market share, while the potential licensees have lower potential damages.

Business relationships

The patent owner with products of its own will assess its business relationship with each of the parties. If the infringing products compete with those of the patent owner, the owner may favour litigation where it can seek to enjoin the manufacture or sale of the products. The owner, again, has to consider whether the infringing party may assert its own infringement claims against the owner's products and seek an injunction as well. On the other hand, if the patent owner has an ongoing business relationship with the infringing party, or is trying to develop one, the owner may want to exhaust its licensing options before pursuing litigation.

When the foregoing factors lead the patent owner to pursue licence negotiations with some parties and sue others, the question of timing arises. An initial licensing programme allows the patent owner to gauge the acceptance of the patent, gain some insight into the non-infringement arguments of the parties and review prior art that allegedly invalidates the patent without exposing the patent to being invalidated in a lawsuit. Any licence revenue will help fund subsequent litigation. Licensing some portion of the industry also puts pressure on the other infringing parties to take a licence and may increase the possibility of an injunction when the infringement affects the patent owner's business.

To have a successful licensing programme, the parties often must perceive that the patent owner is willing to bring suit if necessary. This perception increases the parties' incentive to take the negotiations seriously and move towards a good faith conclusion. Ongoing litigation may enhance a licensing programme. A Markman ruling favourable to the patent owner, settlements with major players in the industry or a favourable judgment all enhance the owner's licensing programme.

Sometimes, when litigation is ongoing, a party may not take licence negotiations seriously, believing it can await the outcome of the litigation before deciding whether to take a licence. The patent owner must be willing to add the recalcitrant parties to the ongoing litigation or bring another lawsuit.

Litigation programme strategy

Three questions face the patent owner that has decided to enforce its patents through litigation: (1) who to sue; (2) where to sue; and (3) how many suits to bring. The patent owner wants to resolve its infringement claims against all infringers as soon as

possible. In answering all three questions, the primary consideration for the patent owner is, all other factors being equal, which course of action will result in the quickest complete resolution.

Number of suits

One lawsuit is preferable. Seldom does anything good happen to a patent owner in multiple lawsuits. Sequential lawsuits delay complete resolution. The defendants in the later suits also have the advantage of the record in the first suit, including the Markman positions taken by the parties, the claim construction analysis and ruling by the court, the prior art uncovered by the original defendants, and the testimony of the experts.

Although claim constructions are decided as matters of law, defendants in follow-on suits are typically allowed to seek changes in the constructions. When the second suit is before another judge, that judge may be guided by the initial constructions, but is not bound by them. The patent owner, on the other hand, will find it difficult to change its position or get the original court to reconsider a construction ruling. Probably as important, the defendants in the second suit have additional time to search for prior art. They also can address the ways in which the patent owner distinguished the prior art in the first suit.

Who to sue

This depends in part on whether the patent owner participates in the industry – either competes or has business relationships with parties in the industry – or is a patent investor. For the patent investor, the pool of potential defendants is more likely to be comprised of all industry players. There are numerous schools of thought concerning who to sue within that potential pool.

One school favours bringing suit against a party that has a history of not putting up much resistance. Such an approach increases the patent owner's odds of an early victory which will lead other parties to take a licence.

This approach suffers from a couple of difficulties. One, there are few, if any, weak sisters. Two, a victory over a weak sister does not guarantee additional licences, especially with major players in the industry. They often believe that they will obtain more favourable claim constructions, find closer prior art, better articulate their summary judgment positions and more persuasively present their cases to the jury. If the victory does not lead to licences with major players, this approach has the double disadvantage

of second suit and delaying a complete resolution for the patent owner.

Another school of thought favours suing one or more of the major players in the industry. The value of this approach depends on the industry and the major players selected. It can be successful if the rest of the industry recognises the defendants as industry leaders and will take a licence if they take a licence. Even when there are no recognised industry leaders, by suing major players, the patent owner may increase its odds of licensing the remaining players. The patent owner, however, continues to run the risk that some of the remaining major players may continue to believe that they can do better, thereby necessitating a second suit.

A third school of thought is to sue all of the major, and possibly some of the minor, players in the industry. The obvious advantage is that such a suit likely eliminates the need for a follow-on suit. The patent owner also reduces its time to resolution. On the down-side, the owner will be taking on the resources and abilities of the entire industry.

A patent owner that participates in the industry may see its litigation choices somewhat differently. It will likely be less willing to sue the rest of the industry. Instead, the patent owner may want to target its main competitors or those parties with whom it does not have a business relationship.

Where to file suit

The first consideration in deciding where to file suit is determining where, if at all, the patent owner can obtain jurisdiction and have proper venue over the parties it wants to sue. If the patent owner has multiple choices for jurisdiction and venue, then it will want to consider, among other things, which courts have experience with patent cases, which courts like to have patent cases filed in their jurisdictions, the local patent rules and the speed with which the patent owner can get a Markman ruling and a trial date. A number of courts throughout the US, including examples in Virginia, California, Texas and Delaware, have judges who are experienced in dealing with patent issues, like to try patent cases, have established rules for such cases and have known time frames for scheduling trials.

Licensing programme strategy

Assuming the goal of the patent enforcement programme is to maximise licensing revenue by licensing the vast majority of infringing manufacturers, then the licensing programme

strategy should make use of the fact that there is a concurrent litigation programme. This would demonstrate to potential licensees the seriousness or resolve of the patent owner. Licences obtained outside of the litigation can contribute to the overall enforcement programme goal in several ways. First, additional licences generate revenue that can help to fund the litigation programme. Additionally, each executed licence agreement outside of litigation can establish a precedential royalty rate or licensing fee. Therefore, it is important that a standard royalty rate is established for the licensing programme that is also compatible with the damages model created for the litigation programme.

A licensing package for each potential licensee will need to be prepared. The licensing package should include all information available to assist the potential licensees in evaluating their exposure with regard to the patents being enforced. This would include copies of patent file histories, relevant references, suspected products/processes, as well as claim analyses. The package should clearly articulate the reasons for suspected infringement and the scope of products/processes affected (to the extent known via publicly available information). The letter should also balance the need to create formal notice of infringement with the risk of creating the opportunity for the recipient to file a declaratory judgment action. These information packages should be delivered to potential licensees shortly after the filing of the litigation and should therefore also include a reference to the litigation.

Subsequent to the delivery of licensing packages there needs to be consistent follow-up, leading to the scheduling of licensing discussions or the rejection, by the potential licensee, of the licensing offer. Typically, licensing discussions will include a discussion of the suspected infringement, including both key claim construction issues as well as element by element analysis of the claims. Additionally, the validity of the patents may be challenged and relevant references discussed.

Ultimately, these discussions will either lead to the potential licensee agreeing to take a licence or not. The patent holder should have a strategy in place to deal with the recalcitrant potential licensee. That strategy could be to add the potential licensee to the currently filed litigation, to file a separate suit with one or more new defendants or to wait until a key decision


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point in ongoing litigation (such as Markman ruling or judgment) before assessing which action to take.

After the initial litigation has successfully concluded in either a favourable judgment for the patent owner or the settlement of all defendants through licensing agreements, the patent owner will need to deal with all remaining unlicensed suspected infringers. A follow-up licensing package which explains the favourable outcome of the litigation and a re-invitation to enter into licensing negotiations should be sufficient.

Coordination of licensing campaign and litigation

Assuming the patent owner elects to pursue a licensing campaign and litigation simultaneously, the watchword is coordination. The positions taken in one must be consistent with the other. Although the need for coordination and consistency can arise in a myriad of ways, a couple are worth addressing.

Infringement positions

As discussed above, in order to show its

seriousness in the licensing campaign and to get the potential licensee to pay attention, the patent owner is likely to want to provide the potential licensee with a claim chart that shows why it believes that the party's products are infringing the patent. The position taken by the patent owner in the claim chart sent to the licensee should be consistent with the infringement position the patent owner intends to take in the litigation. Although under many local patent rules the plaintiff patent owner has to disclose its preliminary infringement positions early in the case, it typically may amend its infringement positions after the court issues its Markman ruling.

Licence rate offers

The same holds true for licence rate offers and negotiations. The patent owner will want to make sure that its licensing team and its litigation team have reached agreement on what they believe the patent is worth from a licensing standpoint and that the patent owner's damages expert in the litigation can support that amount. If the patent owner determines to seek a lower rate in its licensing campaign, then the teams need to have identified why the different rates are reasonable under the circumstances. A patent owner may want to offer lower rates to licensees, possibly as a discount for taking an early licence or for not putting the patent owner to the risks and costs of litigation.

The value of preliminary injunctions in the US

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Consider a successful company based somewhere in the United States. Throughout its history, the company has been consistently diligent about obtaining and protecting its intellectual property. It has recognized the benefit of maintaining exclusive control over its intellectual property and the value it gives the company.

The chief engineer knows the company inside out and is an integral part of the business. She has extensive knowledge of the company's intellectual property and of its manufacturing trade secrets for its most successful product. She has a non-compete and confidentiality agreement with the company.

One day, out of the blue, she quits. Shortly thereafter, she joins one of the company's fiercest competitors. Within days, some customers start notifying the company that they are receiving calls from this competitor pitching a virtually identical product. Other customers call about product confusion in the marketplace. The competitor also claims to be using a virtually identical manufacturing process. The company believes that its former chief engineer is using the company's secrets and intellectual property to produce the competitive product.

Understandably, the company is anxious and believes it has to act quickly to prevent any further harm. The company believes it is in jeopardy because of the chief engineer's knowledge of its proprietary information and her new position with the competitor. If, in fact, the competitor continues pitching this product, the company claims it may be forced out of business, or, at a minimum, it stands to suffer harm to its goodwill and reputation. The harm would be immediate, significant and impossible to quantify financially. The

company needs to devise a plan and take action to protect itself and its interests. Should it seek a court-ordered preliminary injunction to stop the former chief engineer from working for the competitor? Should it seek a court-ordered preliminary injunction to stop the former chief engineer's and the competitor's efforts to manufacture and sell the claimed identical product? A discussion of preliminary injunctions in this context follows.

What is a preliminary injunction?

A preliminary injunction in the US is an equitable and extraordinary remedy. It is granted by a court when there is irreparable harm or where there is not an adequate remedy at law available to the harmed party. Courts have discretion in granting injunctions but do not do so routinely.

When there is an immediate threat of irreparable harm, however, courts may grant an immediate preliminary injunction. This type of relief is usually called a temporary restraining order (TRO). It lasts only a short time pending a further, and usually a more comprehensive, hearing for a preliminary injunction.

What can a preliminary injunction accomplish?

As applied to the above example, a preliminary injunction will not remedy alleged past bad acts of the former chief engineer or the competitor. But it can temporarily stop further harmful acts until a trial on the merits is held. In this fashion, a preliminary injunction can temporarily stop future unfair conduct, thereby protecting the company's intellectual property and its current position in the marketplace. In essence, it places the parties in a holding position, ie, as if everything was returned to the *status quo* that existed before the allegedly infringing acts took place.

Notice to the opposition is normally a prerequisite to seeking a preliminary injunction. However, under unique

circumstances, a court may grant this type of extraordinary relief without notice or on an *ex parte* basis.

Considerations in seeking a preliminary injunction

In the above example, the company will need to assess a number of items in deciding whether to seek a preliminary injunction. Will monetary recovery adequately compensate the company for the alleged harm? If not, what are the ramifications to the company, its owners, directors, employees, vendors and customers? How will the employees and public react to the seeking, or not seeking, of the relief? Will customers have to be dragged into the dispute? Is the company likely to prevail on the merits of the underlying claims? Will it lead to an immediate resolution or settlement? What are the financial costs for bringing the preliminary injunction? Preliminary injunctions are very costly. Can the company afford the necessary attorneys' fees and costs? Does the likely harm outweigh the amount of the fees and costs that will be incurred in seeking the injunction? Is there a fee shifting mechanism if the company prevails?

Evaluating a motion for a preliminary injunction

Before a court will consider whether to grant preliminary injunctive relief, it will look to ensure that it is the proper forum to adjudicate the dispute. Does it have jurisdiction? Is the venue appropriate? Should the matter be arbitrated instead of litigated? Parties seeking preliminary injunctive relief need to be very sensitive to these types of procedural issues to ensure that they are seeking relief in the appropriate forum. If the company chooses the wrong forum, the matter could be dismissed without prejudice with critical time having passed without the relief being obtained and additional costs being incurred.

Once the court decides it has jurisdiction, it must decide when and under what circumstances it will conduct the non-immediate preliminary injunction hearing. Will it do so in combination with the trial on the merits? Will it do so in conjunction with the claims construction proceeding in a patent case? Will it be an evidentiary hearing? Will it be a hearing based on affidavit testimony and legal briefs? How soon will the hearing be held?

Courts have discretion in granting preliminary injunctions. In applying this discretion, courts, depending on their

jurisdiction, consider a number of factors. There are however, four factors that seem to be consistent throughout jurisdictions in the United States:

- The first factor is whether or not the party seeking the preliminary injunction (the company in this case), has a likelihood of success on the merits of its claims. For example, is the company likely to succeed on its non-compete claim, breach of confidentiality claim, a misappropriation of trade secrets claim and/or claims for infringement of its intellectual property (trademark, copyright or patent)? In order to meet this legal burden, the company will need to present evidence to the court. It may be in the form of affidavits or declarations from witnesses. It may be in court testimony from witnesses. It may be through documents.

In evaluating a request for a preliminary injunction, a court will also look at whether the former chief engineer and competitor have any defences to the claims. For example, do they have standing, or are there laches, mootness and/or statute of limitations defences? Or do they have an unclean hands defence? Because a preliminary injunction is a form of equitable relief, the party seeking equity must not have acted inequitably. In other words, it must come to the court with clean hands. Depending on the jurisdiction, with an unclean hands defence, the former chief engineer and competitor will most likely need to prove the company acted with a bad motive or unconscionable conduct and that the unclean hands conduct relates to the claims for the preliminary injunctive relief.

- The second element of a preliminary injunction claim is irreparable injury. The company needs to be able to show that there is no adequate remedy at law. A court will find that this is the case if damages cannot adequately compensate the harm, or the damages are too speculative upon which to base a sustainable award. In the intellectual property context, if licence or royalty amounts can be calculated and can adequately compensate the company for the harm, a court may find an adequate remedy at law available.

Under certain circumstances irreparable harm may be presumed. This presumption, however, may be rebuttable. For example, in a non-compete case, some courts presume

irreparable harm when loss of goodwill is established. Similarly, where an intellectual property related statute indicates that injunctive relief may be awarded for a violation of a statute, irreparable harm may be presumed.

- A third factor courts consider is to balance the harms to the respective parties if the preliminary injunction is granted or is denied. Here, a court would compare the harm that would befall the company if the preliminary injunction were denied, as opposed to the harm that would befall the former chief engineer and competitor if the preliminary injunction were granted. When balancing the harms, a judge is ultimately going to consider equity and fairness.
- Finally, the courts look to see whether public interest supports granting a preliminary injunction. There is a public interest in enforcing contracts and protecting secrets, intellectual property and customer relations. The United States favours protecting intellectual property, as is evidenced by the United States Constitution granting Congress the power “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries”. Various intellectual property statutes permit injunctive relief as a remedy and thus also reflect a public interest in support of preliminary injunctive relief when there is a violation of these statutes.

If a court decides that the company is entitled to a preliminary injunction, it will then determine whether the company is required to post or deposit security with the court. This security for the injunction protects the enjoined former chief engineer and competitor against an erroneous issuance of the preliminary injunction. Depending on the nature of the matter, the amount of the security could be significant. Before filing, the company should assess its financial ability to post or deposit significant security.

Conclusion

Under the right circumstances, a preliminary injunction is an effective tool to protect a company’s assets. If issued, it will preserve the *status quo* pending a full trial. However, a preliminary injunction is an extraordinary remedy and thus is not routinely granted. Courts have great discretion in determining



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whether to order preliminary injunctive relief. Accordingly, each request for a preliminary injunction is heavily dependent upon the unique facts and circumstances of the case.



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