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We've been sued. Now what?


Lynn Rzonca
Ballard Spahr Andrews & Ingersoll,
LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
(215) 864-8109
RzoncaL@BallardSpahr.com

OVERVIEW

- What do you do if you are sued for patent infringement?
- How do you put on a successful defense?
- What can you do to put yourself in a better position to defend a suit?

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SERIOUS NUMBERS

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Percentage increase in the number of patents issued annually in the U.S. from 1991-2000:

64%

Source: *Patent Enforcement and Royalties, Ltd. Oct. 8, 2002*

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Percentage increase in the number of patent infringement lawsuits filed annually in the U.S. over the same period:

111%

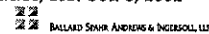
Source: *Patent Enforcement and Royalties, Ltd. Oct. 8, 2002*



Amount spent on legal fees to litigate patent infringement lawsuits in the U.S. in 2000:

\$4.2 billion

Source: *Patent Enforcement and Royalties, Ltd. Oct. 8, 2002*



Percentage of patent infringement lawsuits filed over the last 20 years that went to trial:

6.9%

Source: *Patent Enforcement and Royalties, Ltd. Oct. 8, 2002*



Patent owner's likelihood of success if the trial is a bench trial:

51%


Source: *Patent Enforcement and Royalties, Ltd. Oct. 8, 2002*



If the trial is heard before a judge and jury:

68%

Source: Patent Enforcement and Royalties, Ltd. Oct. 8, 2002


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Overall chances of success for the patent owner if the trial is held in Massachusetts or Northern California, respectively:

30%, 68%

Source: Patent Enforcement and Royalties, Ltd. Oct. 8, 2002


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Average monetary award by a jury in a patent infringement case:

\$8.6 million

Source: Patent Enforcement and Royalties, Ltd. Oct. 8, 2002


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Average monetary award by a judge in a patent infringement case:

\$9.8 million

Source: Patent Enforcement and Royalties, Ltd. Oct. 8, 2002


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Average increase by judge to a damage award when the judge finds the infringement willful:

133%

Source: Patent Enforcement and Royalties, Ltd. Oct. 8, 2002


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Average increase by a judge to a damage award when a jury finds the infringement willful:

33%

Source: Patent Enforcement and Royalties, Ltd. Oct. 8, 2002

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IT COULD HAPPEN TO YOU:


Get a demand letter?

or

Get served with a Complaint?

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OFFENSIVE STRATEGY:

FILE A DECLARATORY JUDGMENT ACTION

Declaratory Judgment of Patent Invalidity or Non-Infringement

- Federal courts may entertain a Declaratory Judgment Action when the relief sought (1) will serve a useful purpose in clarifying and settling the legal relations in issue; and (2) will terminate and afford relief from uncertainty, insecurity, and controversy.
- A court may only entertain a claim for declaratory judgment if an "actual controversy" exists.
- An "actual controversy" exists if the plaintiff establishes both: (1) a reasonable apprehension that it will face a patent infringement suit if it commences or continues the activity at issue and (2) present activity by the declaratory plaintiff that could constitute infringement, or concrete steps taken by the plaintiff with the intent to conduct such activity.
- An alleged infringer may also request a declaratory judgment even after an infringement suit has already been filed; however, check whether your jurisdiction follows the "first-to-file" rule.

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PROS AND CONS OF FILING FOR DECLARATORY JUDGMENT

<u>PROS</u>	<u>CONS</u>
<ul style="list-style-type: none"> • You choose the forum • A judgment in your favor may preclude a patent infringement suit • A judgment not in your favor saves the expense associated with producing, marketing and selling an infringing product, as well as the costs of defending an infringement suit 	<ul style="list-style-type: none"> • The cost associated with filing and litigating the declaratory judgment action • If a judgment is entered against you, you cannot proceed with your planned course of action

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DEFENSIVE STRATEGY:

DEFEND THE PATENT INFRINGEMENT SUIT

(with or without Preliminary Injunction Motion)


MAKE AN INITIAL ASSESSMENT OF THE CASE

- Who are the parties?
- What business concerns are at stake?
- What is the history of the dispute?
- What is the subject matter at issue?
- Does the company have an insurance policy that will cover attorney fees and/or litigation costs?
- What about the "advice of counsel" defense?

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STEP 1: REVIEW THE COMPLAINT

- Type of patent?
- Type of alleged infringement?
- Does the plaintiff has standing?
- Has the plaintiff chosen the proper forum for venue purposes?
- Are the allegations in the complaint sufficient?

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Identify The Type of Patent

- Utility Patent
- Design Patent
- Plant Patent

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Utility Patent – Mandatory Elements

- The Patent Act requires that an invention be novel and non-obvious when compared with the prior art at the time of its invention.
- **Novelty:** An object is novel, unless it was:
 - known or used by others in this country, or patented or described in a printed publication in this or a foreign country,
 - publicly used or sold more than one year prior to the application date for the patent,
 - abandoned, or
 - not invented by the applicant.
- **Obviousness:** is viewed from the perspective of a person having ordinary skill in the art to which the subject matter pertains.


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Identify The Type Of Alleged Infringement

- **Literal:** each element of the asserted claim or claims found in the accused product or process

OR

- **“Doctrine of Equivalents”:** permits a finding of infringement where the defendant’s device performs substantially the same function, in substantially the same way, to achieve substantially the same result as the claimed invention

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Does The Plaintiff Have Standing?

- Standing to sue is a threshold requirement in every federal action and must be present at the time the suit is commenced.
- Only certain individuals or entities have standing to bring a suit for patent infringement:
 - Patent holder
 - Exclusive licensee of the patent

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Determine If Venue is Proper

- 28 U.S.C. § 1400(b): Patent Venue Statute
 - Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.
 - The Federal Circuit has held that, for purposes of this statute, a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.
- 28 U.S.C. § 1404(a): Move to Transfer Venue:
 - "Rocket Dockets"
 - Home Forum
 - Preferences and Reputations of the Judge
 - Expense of litigating away from home

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Determine If The Allegations In The Complaint Are Sufficient

- The Federal Rules of Civil Procedure only require notice pleading.
 - Sufficiency of Complaint modeled after Form 16
- If the allegations appear insufficient:
 - 12(b)(6) Motion to Dismiss
 - 12(e) Motion for a More Definite Statement

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Is the patent valid?


If so, is it infringed?

Says who??

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What About The "Advice Of Counsel" Defense To Willful Infringement?

- Potential infringers may obtain a written opinion of counsel to defend against a possible charge of willful infringement.
- Submission of the opinion results in a waiver of attorney-client privilege as it relates to the opinion.
 - EchoStar: What is the scope of waiver triggered by the "advice of counsel" defense?
- Historically, a negative inference was drawn if a defendant chose not to rely on an opinion to defend against a charge of willfulness.
- In 2004, in Knorr-Bremse v. Dana, the Federal Circuit changed the law, holding that a defendant's failure to obtain or rely on the advice of counsel does not, by itself, support an adverse inference that the opinion was or would have been unfavorable.

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STEP 2: ESTIMATE DAMAGES

- **Lost Profits**: awarded upon a showing that the patent holder could have and would have made the sales made by the infringer in the absence of infringement
- **Established Royalty**: calculate a ballpark figure by looking at the rate charged to other licensees under the patent or the rate charged to licensees under other licenses in the industry
- **Reasonable Royalty**: up to triple the amount of actual damages plus attorney fees if infringement is found to be willful

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STEP 3: SELECT OUTSIDE COUNSEL

Factors to Consider:

- Firm Size
- Billing Practices
- Specialization
- Prior Dealings
- Win/loss Record
- Potential Conflicts
- Proximity to Venue
- Plaintiff's Counsel

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STEP 4: DEFEND AGAINST PRELIMINARY INJUNCTION

- Contact local counsel to discuss the plaintiff's motion and determine the timetable of the venue.
- If necessary, file a motion for expansion of time.
- Consider the probability that the motion will be defeated, and the ramifications if it is successful.
- Identify possible avenues of communication for settlement or alternative dispute resolution.
- Conduct an inquiry into the plaintiff's circumstances and how a favorable or unfavorable decision will affect it.

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Factors Considered At A Preliminary Injunction Hearing

- **Likelihood of Success on the Merits:**
 - Plaintiff must clearly demonstrate that the patent is valid.
 - Defendant may best defeat this proof by pointing to prior art not considered by the examiner, inequitable conduct, and non-acquiescence by the industry.
 - Plaintiff must also clearly demonstrate that the accused product or process infringes.
 - If the defendant can demonstrate that the accused product does not literally infringe, the plaintiff will be relegated to the doctrine of equivalents.

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Factors Considered At A Preliminary Injunction Hearing

- **Irreparable Harm:**
 - Plaintiff must prove that monetary damages will be inadequate to compensate the loss occasioned by the defendant's activity.
 - Defendant may demonstrate the existence of licenses, a delay of more than one year in seeking injunctive relief, failure to practice the invention, or that the accused product does not compete directly with the plaintiff's products

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What Is the Standard for Obtaining a Permanent Injunction in Patent Cases?


- In *eBay, Inc. v. MercExchange, LLC* (2005), the United States Supreme Court revisited the issue of the standard for obtaining a permanent injunction in a patent case.
 - The Court rejected the Federal Circuit's ruling that "a permanent injunction will issue once infringement and validity have been adjudged."
 - The Court held that the traditional 4-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff applies in patent cases.
- Post-*eBay* application of the permanent injunction standard
 - *Smith & Nephew, Inc. v. Synthes, Inc.* (W.D. Tenn. 2006)

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STEP 5: DEVELOP A TRIAL STRATEGY

- Defend on a liability basis, only?
- Jury or no jury?
- Narrow the plaintiff's causes of action
- Narrow your defenses to focus the case
- Emphasize the non-infringement defense, if possible

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POTENTIAL DEFENSES

NON-ENFORCEMENT


- Major substantive defenses can preclude enforcement of a patent against otherwise infringing conduct:
 - Invalidity
 - Prior Use
 - Fraudulent Procurement or Inequitable Conduct
 - Patent Misuse or Violation of the Antitrust Laws



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PATENT INVALIDITY


- Once a patent is issued, the patent is presumed valid
- Show that the invention fails to meet the patentability requirements
- Defendant must establish invalidity by clear and convincing evidence



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PRIOR USE


- The American Inventors Protection Act of 1999 created a new defense to patent infringement for any claim directed to a "method," with that term being defined in the Act as a "method of doing or conducting business."
- Under this Act, a person who, in good faith, reduced to practice the method at least 1 year before the patent application was filed, and commercially used the method before the patent was filed, has a defense against a charge of infringement by the patent owner.



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PRIOR USE

<p style="text-align: center;"><u>PROS</u></p> <ul style="list-style-type: none"> • The evidence is within the accused infringers' control or custody • The defense may be supported by evidence of secret/non-public activities (which are inadmissible for a patent invalidity defense) 	<p style="text-align: center;"><u>CONS</u></p> <ul style="list-style-type: none"> • There is a heavy burden of proof: "clear and convincing evidence" • Substantially increases the patentee's chances of recovering attorney's fees if defense is unsuccessful
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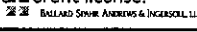
FRAUDULENT PROCUREMENT OR INEQUITABLE CONDUCT


- Patent applicants owe the Patent and Trademark Office a duty of fair and full disclosure of material information relating to the patentability of the invention in question.
- Breach of that duty through willful or grossly negligent conduct may render the patent unenforceable and may subject the patent owner to other liabilities.
- Culpable acts can consist of misrepresentations, misleading statements and/or omissions.



PATENT MISUSE OR VIOLATION OF THE ANTITRUST LAWS

- Sherman Act § 1: Agreement to restrain trade through an agreement involving a patent
- Sherman Act § 2: Using the patent to monopolize another market
- Clayton Act: Business mergers which result in a non-competitive atmosphere (tying)
- 3 Classic Acts of Misuse:
 - Requiring the purchase of unpatented goods for use with the patented apparatus or process (a.k.a. "tying")
 - Prohibiting production or sale of competing goods
 - Conditioning the granting of a license under one patent upon the acceptance of another, different license.




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COUNTERCLAIMS OR SEPARATE ACTIONS?

COUNTERCLAIMS AND SEPARATE ACTIONS

- In deciding whether to counterclaim or file a separate action, consider the following:

- Does the opposing party manufacture, use, or sell a product that could be found to infringe a company patent?

- How strong is the company's patent portfolio?

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POTENTIAL CLAIMS OR COUNTERCLAIMS

- A party may seek relief under state and federal law when a patent owner seeks to enforce a patent in bad faith.
- A claim for bad faith patent enforcement must be based on legal theories that are not patent-specific. These theories include:
 - antitrust violations
 - unfair competition
 - forms of torts such as interference with contractual or prospective contractual relations, malicious prosecution or trade libel.

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TO FILE, OR NOT TO FILE

Pros:

- Develop a reputation as a company that fights back, and possibly deter others from filing suits.
- The plaintiff may settle for fear that its patents may be invalidated in the course of aggressive litigation.

Cons:

- increase in costs associated with the original lawsuit.
- Attract potentially damaging scrutiny because the opposing party will now be able to challenge the validity of the company's patents.

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THE ROAD LESS TRAVELED

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Alternative Dispute Resolution

- **Mediation or Mini-trial:**
 - Parties intend an ongoing business relationship
 - Executives are on decent terms
 - Parties are of similar size?
- **Binding Arbitration:**
 - Parties place great importance on confidentiality
 - The stakes are not vital to one company's survival
- **Neutral Fact-Finding:**
 - The pivotal facts are complex – avoids "battle of experts"

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HOW TO AVOID PROBLEMS IN THE FUTURE

- Apply for patents on company-generated inventions and designs
- Assure patents are maintained against possible infringements in this and foreign countries
 - Make required filings and payment of fees to USPTO
 - Mark patented articles
 - Record all grants and conveyances with the USPTO
 - Apply to have defective patents reissued or corrected
- Monitor compliance with federal controls on exports and imports
- Verify that patent licensing programs do not raise antitrust issues

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SURVEY THE MARKET

- Identify competitors who actively operate in the same market space
- Evaluate each competitor to determine the actual threat posed to the company
 - Do they aggressively obtain and enforce patents?
 - What resources do they have available?
- Track patents issued to competitors
 - Search public databases regularly (USPTO website)


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Keep An Eye On . . .

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“ROCKET DOCKET BILL”

- Attempts to address forum shopping, reduce the cost of patent litigation and increase the accuracy of district court decisions.
- The bill would establish a pilot project in five unidentified district courts where:
 - Judges who opt in to the program will be assigned a clerk with patent law expertise. If they are randomly assigned a patent case, that judge keeps the case.
 - A judge who opted out of the program can either keep a patent case or send it to the specialty judge.

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“ROCKET DOCKET BILL”

- Specialty groups, like AIPLA, have shown support for the bill and suggested that only districts with nine or more judges be allowed to participate.
- The U.S. House Judiciary IP Subcommittee is addressing amendments suggested by outside interests through August.

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Q & A

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