

## Effective Management of US Patent Litigation

By Michael D. Kaminski

Patent litigation in the United States has always been a very difficult type of litigation. Not only are the underlying facts generally more complex compared to other types of litigation, but the application of those facts to US patent law typically does not allow certainty as to the probable outcome of the litigation. Most patents that are litigated involve cutting-edge technology for which even the terminology is not yet firmly established or even understood. Further, US patent law is filled with legal tests like "one of ordinary skill in the art" or clear-and-convincing evidence or case-by-case determination, all of which can be ultimately decided in any of a number of ways depending on the underlying facts available and on the respective skill and expertise of the advocates. The business context in which the patent is being litigated adds to the overall complexity of the entire situation. Some product or company is frequently at risk of being shut down in the litigation.

Despite the well-founded reasons for why US patent litigation is uncertain and expensive, clients still want certainty. They want to know what the probability of success might be, how much it is going to cost, and they want the dispute settled satisfactorily.

Because of the inherent uncertainty and general unpleasantness with the US litigation process, many clients delegate most of or the entire process to outside US counsel. It is sometimes easier for a client to just keep as much of the process out of mind rather than to deal with the onslaught of the entire process.

However, there is a better way. The better way is to remain involved with the process and to be continually updated on the developments. Managing a litigation well can be as much an art as science. There are a number of ways in which careful planning and decisions can make involvement earlier and more effective.

To achieve a well-managed litigation, outside counsel, in-house corporate IP people, in-house technical people, and in-house business people should stay involved by participating in key decisions. To assure the best outcome for a corporation, in-house counsel (if

any) and the business people responsible for the case should stay very involved. By participating in key decisions occurring in the litigation, the corporation can stay in charge and can assure that its business interests are pursued in the most effective manner possible. It is also recommended that a person within the company be appointed and a person within the US litigation team at the outside counsel be appointed to serve as the window persons in coordinating the activities of all of the litigation participants.

Remaining involved with the litigation process results in several important advantages. First, the business people, not the US lawyers, remain in charge. Second, better decisions will be made. Third, involvement tends to make people more at ease with the process as it unfolds. Fourth, continued involvement in the litigation can assure that less opportunities for good advocacy get missed. Fifth, some work that can be done in-house can generally be done more cheaply than if done by outside counsel.

This article sets forth several ideas and thoughts for how to more effectively manage U.S. litigation.

### General Approaches to the Litigation and Managing Expectations

Intellectual property litigation is becoming an important part of business operations in the United States. The explanation for why this is so relates to the changing nature of patent litigation.

First, the increasing volume of intellectual property litigation reflects the rise of businesses that are significantly based on or rely on intellectual property. While patent protection is somewhat important even to the old school steel and textile industries (for example, to protect their manufacturing processes), generally speaking, intellectual property is the very life blood of the new US economy. Many businesses are started with, and defined by, an idea such as a business model or a particularly novel technological product. As intellectual property becomes the defining aspect of a corporation, the importance and likelihood of copying grows, as does the impossibility of ignoring the infringement by a competitor when a competitor moves in.

Second, there is an increasing acceptance of patent litigation in the business community and increased perception of the likelihood of success by patent owners.

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The US Court of Appeals for the Federal Circuit was established in the early 1980s to (among other things) decide all patent appeals. Over the past 20 years, the Federal Circuit has demonstrated that patents have meaning and value. As the reputation and attention given to intellectual property suits has grown, the corresponding willingness to bring suit has grown as well.

Third, there is a growing appreciation of the value of an intellectual property lawsuit as a business tool. Intellectual property is focused toward the ability to define business markets (e.g., exclusive rights to sell a certain kind of product or provide a certain service on the Internet). Intellectual property rights can be, therefore, an important component of defining, preserving, and enforcing a company's business plan and goals.

Fourth, patent litigation can be profitable. All of the following remedies may be available to a successful patent holder:

1. Damages, including even lost profits. This can include not only lost sales but also price erosion for sales that the plaintiff did make and lost sales on collateral goods.
2. Doubling or trebling of those damages.
3. An award of attorneys' fees and litigation.
4. An injunction barring future infringing activity.
5. A seizure order requiring the destruction of infringing goods.

Thus, not only are the damages potentially enormous, but the availability of an injunction can put entire markets at stake. In many cases, the economic value of an injunction exceeds even double or treble damages for past infringement.

This potential economic reward for one party must be compared to the cost and the risk of losing. Patent litigation is complex, and this is reflected in the cost. The cost in attorneys' fees alone can be enormous, as listed in Exhibit 1, which shows the costs for a medium sized patent case (\$1 million to \$25 million at risk).<sup>1</sup>

Notwithstanding those statistics, however, it should be noted that many, indeed most, patent disputes never make it to trial but are resolved at an earlier stage of the litigation for a far lower cost.

The hidden costs of litigation to the corporation, however, can be even more significant. The distraction from day-to-day corporation business and the effect on business (through customer perception or the impact on financing) are difficult to know until one has lived

through it. In short, the significance and total potential costs of patent litigation require a well-managed case.

Concerning expectations of the result to be achieved from the litigation, certainly every client wants total victory, however defined, at minimal cost. But what is a total victory? Total victory depends on the facts and circumstances of each case.

Indeed, there may be occasions when the corporation's business objectives in the litigation are met but when the litigation nevertheless did not constitute a total victory in the corporation's eyes. For example, if outside counsel delivers what it would consider to be a total victory after trial, but at a price that exceeds the corporation's budget, it may not be a victory in the corporation's mind at all. The client may have been expecting the same result, but at a fraction of the cost. After a litigation is ended, many corporations look at the ROI (return on investment) for the litigation, comparing how much the litigation brought in compared to its costs. Worse yet, the corporation may have expected a result that was impossible to achieve (like a patent owner's being guaranteed of winning by outside counsel), but may have failed to appreciate the impossibility because it was not effectively communicated at the outset of the case. Therefore, understanding what the corporation wants, agreeing with the corporation on what the outside counsel will deliver, and clearly setting forth the expected costs of the outside counsel services are the keys to successful representation.

Understanding the corporation's objectives, agreeing

Location	Percent	Cost Through Trial
Boston	25th	1,250,000
	Median	2,400,000
	75th	4,000,000
New York	25th	1,100,000
	Median	2,125,000
	75th	2,999,000
Chicago	25th	1,002,000
	Median	2,001,000
	75th	3,001,000
California	25th	1,999,000
	Median	2,999,999
	75th	3,499,000

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on the litigation strategy and projects, and managing these objectives require effective, constant communication throughout the entire litigation process. Here are five steps that can be employed to effectively understand the corporation's goals and to manage the corporation's expectations throughout the litigation process.

The first step in managing expectations is in understanding what the corporation really wants from the case. Therefore, the most important question to identify is the underlying business objectives. Corporations often have both objective and subjective goals, both of which need to be explored.

A second step in managing expectations is in understanding the corporation's experience with the litigation process in general<sup>2</sup> and with patent litigation in particular. If the corporation's legal matters are managed by an in-house counsel who has litigated patent disputes in the past, then they are more likely to understand that patent law is esoteric, that patent litigation is time consuming and expensive, and that the cost of a mutually agreeable settlement often is more desirable, and certainly more predictable, than going to trial.

If the corporation has been involved with patent litigation in the past, it could be instructive to understand how those cases were resolved. Some cases may have been resolved on summary judgment, while others may have been resolved on appeal after trial. Some may have involved money damages, others injunctive relief, others both injunctive relief and money damages. In any event, it is likely that the majority of their cases have settled at some point in the process. With history as the teacher, these experiences most certainly will inform the client's perspectives on patent litigation, and particularly the definition of success on any subsequent case.

Obviously, if the corporation has experience with patent litigation (and the law), it will be much easier for the corporation to consider possible outcomes to the case. Conversely, if the corporation has no experience in litigation, then evaluating evidentiary issues, discovery disputes, dispositive motion strategies, and trial strategies will be as unfamiliar to the company as they are to the layperson.<sup>3</sup> The outside counsel, therefore, must take time to explain to the corporation what the applicable key legal principles are, as well as the litigation process and likely results given the facts in the case.

A third, important step in managing expectations is fully understanding the litigation process. It is not only the in-house patent professionals who must understand the process but also at least some of the business decision makers. Corporations cannot possibly make an informed decision on whether to pursue patent litigation unless they understand the path of litigation itself.

One of the best ways of explaining the patent litigation process is to go over sample scheduling orders in patent cases pending in courts where the corporation is considering filing suit. Reviewing the standing orders of particular judges where the patent litigation may end up can be instructive in this regard. These orders may provide a relative framework for the critical events that likely will arise in their patent infringement case as well.

During the explanation of the steps in the patent litigation process, it is important to emphasize to your client that civil litigation, including patent litigation, is a slow process. Even in the fastest jurisdictions, your client's patent litigation likely will not get to trial in much less than one year.<sup>4</sup> Then, the appellate process typically takes at least another year, or more.

The fourth step is to discuss the potential high overall cost of the patent litigation. Certainly corporations want good value for money. Certainly every corporation wants to know up front how much litigation will cost. This estimate, of course, will vary depending on many factors, including the amount in controversy, the technology at issue, the location of the court, your opponent's litigation strategy, and the length of the case. The cost of the case also will vary depending on the client's business objectives and willingness and ability to invest in the litigation process.

If, on the one hand, a corporation wants to win at all cost, then the case likely will be more expensive because every issue will be fully developed. If the corporation has a limited budget because of its financial resources, outside counsel must understand this at the outset and explain in clear and concise terms what can be delivered at an agreed price. No matter what, the uncertainty of estimating costs associated with litigation must be understood by the corporation. There are many unanticipated events that occur during the litigation process that require estimates to be revised. Anyone with experience with patent property litigation understands that estimating the cost of litigation is highly speculative and is subject to change depending on the facts and circumstances of each case.

The fifth step is to institute a system from the start to foster open and frequent information exchange between the corporation and the outside counsel. Good outside litigation counsel communicate with their corporation clients at every stage of the litigation process. Communicating well not only helps the corporation to understand litigation objectives but also helps prevent the corporation from being surprised by bad news. A good communications system requires not only hearing what is expressly said but also understanding that which is unsaid or implied. Listening requires more than sim-

ply hearing. It requires follow up on issues that may exist beneath the surface but that remain unexpressed by either side of the communication.<sup>5</sup>

Because litigation is a dynamic process, assumptions made at the outset of the case, as well as business objectives, may change depending on how the facts develop during discovery. Facts developed during discovery, rulings on dispositive or non-dispositive motions, and witness performance during deposition can change the contours of the case dramatically. Therefore, the corporation must be kept up to date on what is happening in every phase of the case. If facts develop during discovery that change the assessment of the case, the corporation must understand how and why, as well as how the changes assessment may affect the outcome. If these facts change the estimated budget, then this must be explained as well.

New developments of any sort must be immediately communicated. In particular, bad news should never come as a surprise.<sup>6</sup> Bad news, in particular, also should be immediately communicated. A corporation's expectations will never be met if bad news comes as a surprise. One way to eliminate bad news as a surprise is to understand the likelihood of success on various case specific events in advance.

Another way to manage expectations is to understand that outside counsel sometimes over promises or over commits what may happen in the litigation. As obvious as it may sound, promising a 100 percent victory at the beginning of a litigation is a disservice that a corporation should not accept from outside counsel. The corporation should demand that the outside counsel speak in terms of probabilities and possibilities given the facts and circumstances of the underlying case. Surely, most savvy clients will be uncomfortable with can't lose predictions. In the author's experiences, over promising always leads to expectations that are not met.

These more general comments should help the corporation obtain, in discussions with outside counsel, a frank and realistic vision of what may happen or is happening in the litigation.

### **How to Select US Patent Litigators**

This section sets forth some characteristics to look for in choosing US patent litigators.

According to a major survey of large US corporations about US litigations (not patent litigations but including patent litigations) that was conducted by a large US law firm,<sup>7</sup> the factor most important in this selection of litigation counsel is "case specific experience," not past experience with the corporation. Once litigation counsel is retained, in-house's counsel's biggest concern with outside counsel is unpredictable cost. The second largest factor in the selection of outside

counsel was "general competence and knowledge." The third most important factor was "reputation and success rate." Other factors identified in the survey were of even more minor significance.

Any attorney chosen also must be competent and skilled in using technology throughout the litigation as well as at trial. Almost every serious litigation uses an array of different technology throughout, including image documents, videotaped depositions, demonstrative exhibits, and recreations. Also, the use of extranets as a way to cut costs of communication with the corporation is very important. An extranet is an extremely easy way to communicate with clients. An extranet is a secure network that is used to share information from the outside counsel's central server. All relevant docketing information, case documents, and pleadings can be made available to the corporation at all times.

For example, in the past, document imaging had been reserved for extremely large cases with high stakes. This was largely due to the higher costs of imaging compared to making paper copies. However, imaging costs have fallen drastically in the past few years. Now, document imaging is a cost-effective way of managing the documents in the case. According to some surveys, imaging can reduce total cost. The cost of imaging is a one-time expense. Imaging can save money by (1) reducing the total number of copies made; (2) reducing the time spent looking for misplaced documents; (3) making all the documents available at any time and at any time zone through the Internet; and (4) easier communication with clients. There are a number of specific actions that must be taken when using document imaging technology, but the advantages of using this technology frequently outweigh the cost.

Another good characteristic in choosing outside counsel is the ability of that attorney to communicate with clients. There is no substitute for frequent communication with the client. Good litigation counsel communicates with clients at every stage of the litigation process. This is a way for them to become involved and more comfortable with the process. Communicating frequently and on a regular basis, not only with in-person meetings but also through formalized reports and emails, helps better understand the litigation as it develops and also keeps the corporation from being surprised by bad news.

According to an advanced litigation seminar that the author recently took, one way to effectively communicate is to expressly restate the overall litigation objectives. Having the corporation restate the understanding of its objectives and concerns to outside counsel, as well as the understanding of the likely outcomes of the case, are effective ways to arrive at a common understanding.

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## Selecting the Proper Defendant to Sue (for Patent Owners)

It is certainly true that, in most patent cases, there is a wide variety of potential defendants. The US patent laws grant the right to patent owners to prevent others from making, using, selling, offering for sale, or importing into the United States a product or process covered by the patent. Infringement can be found on any of these acts. For example, a company infringes if it makes goods in the United States that are covered by a patent, even if those goods are only sold overseas. Similarly, a company that uses an infringing article in the United States is an infringer, even if the product was bought from a third party.

There are even more potential targets in a manufacturing stream in the United States. For example, for a car that contains an infringing part, a number of companies could be sued. The automobile supplier could be sued, the original equipment manufacturer (*i.e.*, the car company) could be sued, the car dealership could be sued, as well as the ultimate purchaser or ultimate consumer of the car. For these reasons, a patent holder has a choice of whom to sue.

Also, there are a number of strategic and legal concerns involved with the selection of defendants. These concerns can be where the suit might be brought, the likelihood of a successful motion to transfer, or the identity of the opponents. If the potential target is a customer of the patent owner, it rarely makes good sense to sue customers or potential customers, even though the potential customer has poor judgment and purchases goods from the infringing competitor.

Another potential class of defendants could include a corporate alleged infringer's officers, senior managers, board of directors, and owners. This class of potential defendants is frequently available. These individual targets frequently are most available when smaller companies are being targeted. The US patent laws allow for such individuals, not just the company, to possibly be held personally liable for patent infringement if it can be shown that they were personally responsible for the decisions behind making the infringing product or using the infringing process.

Despite there being a veritable cornucopia of potential defendants in some circumstances, the default best practice is to sue the corporation that is most directly infringing the patent. For example, it is perhaps better to sue the automobile supplier in our example above, instead of the dealership or the ultimate consumer. It is also perhaps not wise to sue a customer or potential customer, such as the OEM car manufacturer itself in our example. Once the most direct infringer is located, it is then possible to consider other issues, such as in

which jurisdictions it may be possible to bring the lawsuit. Further, it is rarely advisable to include individuals as defendants despite being able to do so. This strategy is frequently thought to place more pressure on the individual and on the company to try to settle. However, in the author's experience, this strategy of including individual defendants rarely works well. Most federal district court judges personally do not like including such individual defendants, and they will take steps within their power to protect those individual defendants.

## Managing the Litigation Costs

As mentioned, patent litigation is expensive no matter what the technology, no matter where suit is filed, and no matter how much is at stake. Recent AIPLA statistics confirm that the cost of patent litigation can be staggering.

Litigators typically dislike and often resist preparing litigation budgets. There are several major reasons why. First, some clients treat budgets as fee caps and therefore sometimes refuse to pay legal fees in excess of budgetary amounts. Second, some clients refuse to pay for the budgeting process. Third, the uncertainties of litigation make any budget estimate inherently speculative.

Nevertheless, corporations need more budget guidance from outside counsel than the conclusory statement: "It is going to be very expensive." Specifically, corporations want and need to know a realistic estimate of the costs associated with achieving their stated business objectives. This is what corporations do in other aspects of their business, so why not with patent litigation as well? Corporations need these estimates to determine whether to pursue litigation, or to consider alternative dispute resolution techniques, or to forgo the litigation altogether. Indeed, litigation costs are part and parcel of the potential downside risk a corporation may face and thus are part and parcel of any risk analysis. Once in litigation, budgets are necessary to prevent sticker shock and the incumbent surprise.

Therefore, once outside counsel understands business objectives and priorities, litigation counsel should prepare a detailed litigation plan and budget. The plan will provide a roadmap of how the outside counsel proposes to reach the corporation's objectives. If the corporation decides to pursue the case, then the plan and budget also can be used as mileposts to measure progress.

Importantly, any budget must address not only legal fees but also out-of-pocket expenses or disbursements. Disbursements can be significant in patent cases because of the expert intensive nature of these litigations, as well as the expenses that may be incurred to simplify the case to educate the judge or jury.

There are as many approaches to budgeting as there

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are imaginative lawyers and clients. Because many of the costs associated with litigation are beyond the control of litigation counsel once litigation commences, budgets often change because budgeting assumptions are belied by events that develop during discovery. Nonetheless, looking at available cost statistics and developing a phased-based budget can help litigation counsel and clients develop a working budget for a case.

A full and complete discussion on how to prepare a litigation plan is outside the scope of this article. That said, the scope of any litigation plan will vary depending on the corporation's business objectives and the nature of the case. Generally speaking, most initial budgets will include estimates for preliminary investigation and case analysis, preparation of the discovery plan, preparation of pleadings (including complaints, answers, or counterclaims), written discovery, including document production, deposition discovery, non-dispositive motions, dispositive motions, experts, settlement negotiations, and trial.

Generally, it is helpful from a litigation management perspective to prepare phase-based budgets that break the litigation into its constituent parts based on litigation counsel's well-defined litigation plan. Breaking a litigation into its constituent phases allows for more cost-effective litigation management to occur. Patent cases are complex litigations involving substantial document production, electronic discovery, motion practice, demonstrative exhibits, and many expert witnesses.

One of the largest factors is the litigation style of opposing counsel and opposing counsel's client. In fact, in the author's experiences, this could account for 50 percent of the entire budget. The more aggressive the opposing counsel, however unreasonable it may be, the more costly the case. If your opposing counsel has a reputation for being overly aggressive, the case almost certainly will be more expensive. An outside counsel's response to such aggressiveness also is a big factor in cost. If outside counsel feels a need to respond in the same way to every aggressive act, then the costs will rise.

Litigation counsel also must factor in the number of patents and the complexity of the technology at issue in estimating the litigation budget. Generally speaking, the more patents there are in suit, the more expensive the case will be (and there will be more documents to review, issues to analyze, etc.). Likewise, the more complex the technology, the more costly litigation is to simplify to facilitate judge and jury comprehension (and it becomes more likely that more than one technical expert will be retained).

Another subtle factor is time. The more time is available for the litigation, the higher will be its cost. Patent litigations are generally so complex that whatever open

time is available will be absorbed in activities that are reasonably connected to litigation. Accordingly, the longer the amount of time available for the litigation the greater the overall cost.

Simple technology can be used to illustrate the budgeting process, and make it more efficient, less painful, and more useful. This technology can be used to update budgets as the case progresses, or it can be used to evaluate actual legal fees and expenses incurred with budgetary estimates. Fortunately, commonly available spreadsheet software programs make the budgeting experience relatively easy to illustrate because the software programs allow information to be organized, manipulated, duplicated, and interrelated in a flexible, nearly universally familiar format.

Three important steps could maximize the likelihood of preparing an effective budget with a spreadsheet software program. First, identify who will be working on the matter. Lawyers, paralegals, professional staff, and anyone who will bill time to the case should be identified along with their billable rates. Using spreadsheet software, this information can be entered one time and duplicated throughout a budget as necessary. The spreadsheet also will be an opportunity to understand who will be the US litigation team. Knowing who will be working on the matter, as well as each time biller's hourly rate, could help build confidence in the team members and what they will be doing on the litigation.

Second, the budget will identify the work that will be done and when it will be done. As mentioned, budgeting is made easier by breaking the work into logical phases of the litigation as defined by common tasks and anticipated due dates. Spreadsheet software lends itself well to deconstructing complex budgets into such phases of the litigation because separate sheets within a single spreadsheet file can be used to track common tasks that have been grouped into the different phases.

More and more these days, sophisticated clients are tracking outside counsel's work in task-based increments, rather than by the chronological approach to budgeting followed by most lawyers. This is consistent with a phase-based approach to budgeting and is consistent with the American Bar Association's creation of a set of task-based codes for every phase of a litigation.

Third, the budget will help to determine how much time the outside counsel think it will take their team to accomplish the tasks that have been identified.

Budgets broken into detailed, monthly task-based estimates can readily be used to identify and evaluate litigation expenses with clients. They can also be used

as a cross reference to evaluate and refine litigation objectives.

In addition to estimating legal fees, the budget estimate must address the out-of-pocket disbursements outlined that probably would need to be paid during the litigation. Again, these expenses include such things as expert witness fees, expenses for video depositions, expenses for document imaging. Fees for demonstrative exhibits and videos to simplify your presentation of the dispositive motion or trial stage can be considerable. Conservatively speaking, these expenses easily can approach and at times exceed 25 percent to 35 percent of the attorneys' fees in a case.

Outlays, disbursements, and other anticipated charges can be budgeted in a fashion similar to that of attorneys' fees. Thus, although document scanning or expert fees could be estimated in a cursory, lump-sum fashion in a summary sheet, spreadsheets allow virtually any anticipated expense to be budgeted in detail, in connection with logically associated tasks and at realistic dates in the litigation. Indeed, given the significance of some of these expenses, they should be outlined in detailed, rather than in lump-sum, fashion. Moreover, like other data entered in the spreadsheet, disbursements can be linked to summary sheets and automatically calculated into the bottom line.

As should be apparent in the examples above, data in the budget can be readily manipulated, updated, and revised. For example, if team members change, billing rates are adjusted, or anticipated work hours are adjusted, then a few changes can update an entire budget.

### **How to Send and Respond to Warning Letters**

A warning letter (sometimes called a cease-and-desist letter) is typically sent to a person or entity that may be liable for patent infringement. Thus, a letter may be sent to any entity in the distribution team who may be doing infringing activities.<sup>8</sup>

A warning letter may be sent by the patent owner (either the individual owner or a corporate representative), by inside counsel for a corporate patent owner or by outside counsel representing the patent owner. Because the person signing the letter may need to execute an affidavit or have his or her deposition taken if there is litigation and the tone of the warning letter may be affected by the sender (*e.g.*, a letter from an outside counsel may be perceived as more threatening than a letter from a corporate executive), the patent owner usually gives careful consideration to the person chosen to send the letter.

A warning letter may have one or more of the following components: (1) an introduction that identifies

the patent at issue; (2) a statement that products made, used, imported, or sold by the recipient or that a process used by a recipient, infringes the patent; (3) an offer to negotiate a license to the patent, a proposed royalty rate, or a lump sum payment for a fully paid license; (4) a threat to sue the recipient for patent infringement if the allegedly infringing activities do not cease; (5) a deadline for responding to the warning letter; and (6) a copy of the identified patent. Obviously, there are many possible variations of such a letter, the legal consequences of which can also be varied.

Warning letters may affect one or more of the following under US patent law: (1) the recipient's ability to file a declaratory judgment suit against the patent owner to have the patent declared invalid, not infringed, or unenforceable; (2) notice of infringement under 35 U.S.C. § 287 for purposes of recovering infringement damages accrued prior to suit; (3) notice of infringement for purposes of establishing willful infringement; (4) the recipient's ability to assert toward or unfair competition claims if the letters have been sent in bad faith; (5) start of the laches; and (6) the first step in establishing equitable estoppel. Therefore, the legal implications of sending warning letters should be carefully reviewed. Upon receipt of a warning letter, the recipient can take one of several actions: (1) ignore the letter; (2) delay responding to the warning letter by, for example, advising the patent owner that more time is needed to investigate its allegation; (3) respond that the patent is not valid, not infringed, or unenforceable after obtaining an opinion of counsel; (4) discontinue sales of the accused infringing product or modify the accused product so that it does not infringe the accused patent; (5) initiate licensing negotiations; (6) settle by paying the lump sum of the royalty demanded in the warning letter; or (7) file late declaratory judgment suit to have the patent declared invalid, not infringed, or unenforceable, plus assert any tort or antitrust claims based upon the patent owner's bad faith. Each of these could be individually considered.

### **Willful Infringement Under the US Patent Laws**

"Willful infringement" of a US patent, while not precisely defined by the courts, embodies the notion that the courts will punish those who have intentionally or deliberately disregarded the legal rights of a patent owner.<sup>9</sup> If willful infringement has been found, the court may increase the damages up to three times actual damages under 35 U.S.C. § 284 and may award reasonable attorney fees to the patent owner under 35 U.S.C. § 285.

### Determining if There Has Been Willful Infringement

Determination of willfulness is made on consideration of the totality of circumstances. Factors to be considered in this evaluation include (1) deliberate copying of the patent owner's idea or design; (2) the infringer's investigation and good faith belief of invalidity, noninfringement, or unenforceability; (3) the infringer's litigation conduct; (4) the infringer's size and financial condition; (5) closeness of the case; (6) duration of the infringer's misconduct; (7) remedial action by the infringer; (8) the infringer's motivation for harm; and (9) whether the infringer attempted to conceal its misconduct.<sup>10</sup>

Although a court and jury will look to the totality of circumstances in determining whether there has been willful infringement, the Federal Circuit has made clear that the most important factor is the affirmative duty of a potential infringer with notice of the patent "to exercise due care to determine whether or not he is infringing, including the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity."<sup>11</sup>

Another important factor in determining willful infringement is whether the infringer deliberately copied the ideas or design of the patented product. Such ideas or designs encompass, for example, copying the commercial embodiment of the patented product, not merely the elements of a patent claim.<sup>12</sup> Thus, in many cases in which the infringer has deliberately copied the patented invention, willful infringement has been found.<sup>13</sup> Conversely, in most cases where the infringer has made a good faith effort to design around the patented invention, willful infringement has not been found.<sup>14</sup>

A third important factor in determining willfulness is the infringer's conduct after suit has been filed. For example, in *Bott v. Four Star Corp.*,<sup>15</sup> the Federal Circuit found that Four Star committed willful infringement for sales made during a stay of the district court's injunction pending appeal to the Federal Circuit and for sales made after the Federal Circuit affirmed the district court's liability holding. As to the former, the district court expressly warned Four Star that it risked liability for increased damages if infringement continued during the stay. Four Star argued that it should not be found liable for willful infringement during this period based on the generally accepted principle that a stay of an injunction is granted to preserve the *status quo* pending appeal. The Federal Circuit rejected this argument on the grounds that 80 percent of Four Star's total infringing sales were made during this period, which provided "ample proof that the status quo was not preserved during the appeal."<sup>16</sup>

### Enhanced Damages for Willful Infringement

Once willfulness has been established, the court, not the jury, decides the amount of enhanced damages and whether to award attorney's fees by "[reweighing] the same issues the jury faced in arriving in its willfulness determination, but in greater nuance as may affect the degree of enhancement."<sup>17</sup>

Although § 284 of the Patent Act provides that damages may be enhanced up to three times actual damages status, "a finding of willful infringement does not mandate that damages be enhanced much less mandate treble damages."<sup>18</sup> Rather, "[a]n award of enhanced damages for infringement, as well as the extent of the enhancement, is committed to the discretion of the trial court."<sup>19</sup> For example, in *Crystal Semiconductor Corp. v. Tritech Microelectronics International, Inc.*,<sup>20</sup> the district court doubled actual damages and the Federal Circuit affirmed this ruling, where Tritech (a party found liable for inducing infringing under 35 U.S.C. § 271(b)) failed to obtain a competent legal opinion of noninfringement or invalidity and copied the patent owner's patented parts.

The infringer's size and financial condition also has been an important factor in determining the amount of enhanced damages in a number of cases.<sup>21</sup> Closeness of the case is another factor used in determining the amount of enhanced damages.<sup>22</sup>

The duration of defendant's misconduct was an important consideration in the size of enhancement in *Bott*, where damages were increased by 20 percent for sales prior to the Federal Circuit's affirmance of liability but doubled for sales after the affirmance. The infringer's remedial actions also may be taken into account in determining the size of enhancement. For example, in *Intra Corp. v. Hamar Laser Instruments, Inc.*,<sup>23</sup> damages were only doubled because the infringer "voluntarily ceased manufacture and sale of infringing systems during the pendency of this litigation."

Recently, Professor Kimberly Moore of the George Mason University School of Law published a paper providing statistics on willful infringement findings.<sup>24</sup> For a sample period 1999-2000, in which 1,721 patent cases were considered, this study revealed the following:

- Willful infringement was alleged in 92.3 percent of patent infringement cases.
- Willfulness was decided only if the case went to trial and never on summary judgment.
- Willfulness was found in 55.7 percent of the cases that were tried. For bench trials, the judge found the infringer willful in 60.4 percent of these cases, while



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in jury trials, the jury found the infringer willful in 56 percent of these cases.

- Damages were enhanced in 55.7 percent of the cases where willfulness was found. If the jury found willfulness, the judge enhanced damages in only 36.8 percent of the cases, but if the judge found willfulness, he or she enhanced damages in 87 percent of the cases.
- Damages trebled in only 8.7 percent of the cases where willfulness was found.

### **Attorney Fees and Costs for Willful Infringement**

Section 285 of the Patent Act provides that “a court in exceptional cases may award reasonable attorney fees to the prevailing party.”<sup>25</sup> The Federal Circuit has explicitly interpreted attorney fees under this section to “include those sums that the prevailing party incurs in preparation for and performance of legal services related to the suit” and has, therefore, awarded statutory costs in addition to attorney fees under this section.<sup>26</sup>

Determination of whether to award attorney fees and costs, like enhanced damages, involves a two-step process.<sup>27</sup> First, a district court must determine whether the prevailing party has proved by clear-and-convincing evidence that the case is “exceptional.” Second, if the district court finds the case to be exceptional, it must then determine whether an award of attorney fees is appropriate.

A finding of willful infringement “may be a sufficient basis in a particular case for finding the case ‘exceptional’ for purposes of awarding fees to the prevailing patent owner.”<sup>28</sup> Thus, if willful infringement has been found, the district court has discretion on whether to award attorney fees under § 285. Factors considered by a court in exercising this discretion include “the degree of culpability of the infringer, the closeness of the question, litigation behavior and any other factors whereby fee shifting may serve as an instrument of justice.”<sup>29</sup>

In determining the amount of attorney fees to award, the Federal Circuit has explained that “there must be some evidence to support the reasonableness of *inter alia* the billing rate charged and the number of hours expended.”<sup>30</sup> Further, the Federal Circuit has explained that the amount of the attorney fee award depends on the extent to which the party “prevailed” and the extent to which the case is “exceptional.”<sup>31</sup> Finally, the Federal Circuit has recognized that “insufficient documentation” may warrant a reduction in fees, but even where documentation is insufficient, the court is not relieved of its obligation to award a reasonable fee but instead may rely upon its own experience in determin-

ing reasonable rates and hours where documentation is inadequate.<sup>32</sup>

A recent example of how an attorney fee award was calculated is found in *Engineered Prods. Co. v. Donaldson Co., Inc.*<sup>33</sup> After finding the case exceptional based upon willful infringement, the court granted the patent owner \$1,844,933 in attorney fees and \$132,725 in costs, the full amount claimed by the patent owner.<sup>34</sup> In reaching this decision, the court found that (1) the number of attorneys who worked on the case for the patent owner was reasonable, (2) the hourly billing rates charged by the patent owner’s attorneys were reasonable, (3) the patent owner’s documentation of attorney fees comprising a detailed listing of time claimed for each specific task and the hourly rate claimed also was reasonable, and (4) the infringer’s complaints about excessive hours and rates should be rejected.

### **Summary**

Because a warning letter implicates many strategic and tactical decisions in a patent infringement dispute, it is essential that the recipient carefully consider the best course of action to take based upon an informed analysis. That analysis should include consultation with US patent counsel to fully inform the recipient of the options available and the legal and economic consequences of adopting those options.

Similarly, the economic consequences of a willful infringement finding can be devastating to the infringer because of the possibility of enhanced damages, attorney fees, and costs awarded to the patent owner. For this reason, an accused infringer, including one receiving a warning letter, must be fully informed as to the options available and the legal and economic consequences of exercising those options.

### **Choosing the Jurisdiction for the Litigation**

By statute, all patent infringement actions are heard in the federal district court. As is perhaps expected, vast differences between particular district courts and particular district court judges exist.

One of the goals for the Federal Circuit’s creation was to cut down on forum shopping. Despite this goal, a favorable forum for a litigation still can have a substantial impact on the course and outcome of the case. An early evaluation is necessary to identify the best forum.

A first factor is the time to trial. Some courts are known for fast resolution, for example, the rocket docket in Virginia or the Western District of Wisconsin or other jurisdictions, which imposes similar schedules. Other courts offer generally quick (although not quite so fast) resolution; in many cases, statistics are available online.

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A second factor is the perceived sophistication of the judges. Certain federal districts (San Francisco in the Northern District of California, Delaware, and Massachusetts) have an unusually large number of patent cases per judge.

A third factor is an assessment of the behavior of the judges within a district. There are the usual concerns, such as how expeditiously and fairly the judge's address discovery disputes (combined with an assessment of the likelihood of having such disputes based on intelligence about the opponent). There are also substantive issues directly related to patent cases. As just one example, the local rules in the Northern District of California specify a number of important procedures for patent cases, including the timing of preliminary infringement contentions, invalidity contentions, proposed claim constructions, and the *Markman* hearing, the timing of which is discussed later as one of the critical issues in managing a patent case.

A fourth factor is the expected feelings of the jury pool, both in terms of past behavior and in terms of their likely feelings about the particular plaintiff and defendant in the case being evaluated.

In most cases, the issue will boil down to selection of an appropriate district court, and the choice will seem obvious. However, a choice should be made after having thought through the options.

If a patent holder creates a reasonable apprehension of suit in another (such as by accusing them of infringement), the accused infringer may be able to file and maintain a declaratory judgment action, typically in the venue of accused infringer's choice. Of course, a patent holder can file its own suit after a declaratory judgment action has been filed, triggering cross motions to transfer each case to the venue of the other.

Because courts show a strong preference for the venue of the first-filed suit, there can be a race to the courthouse once litigation appears likely. Indeed, some patent holders will file suit before initiating licensing discussions simply to avoid the risk of ending up in an unfavorable forum. On the other hand, filing a suit can impact the tone and attitude of the negotiations.

Careful packaging of contacts with possible infringers can reduce the risk of a declaratory judgment action in two ways. First, the correspondence can be packaged to reduce the chance that a court would believe that there is a reasonable apprehension of suit, increasing the odds of having any declaratory judgment action dismissed in favor of a later-filed direct action.

Second, if licensing discussions are ongoing at the time the declaratory judgment action is filed, many district courts will dismiss the declaratory judgment action in the court's discretion as premature. Careful handling of the text of correspondence can impact the likelihood of preserving or obtaining a desired forum on the part of both the defendant and plaintiff.

In addition, however, alternatives are available for a patent case. One possibility is the US Patent and Trademark Office (PTO). Two types of proceedings often occur in conjunction with litigation. The first is a reexamination proceeding, where a party can request the PTO to reexamine a patent in light of prior art that was not before the PTO when the patent issued. Past reexamination proceedings were *ex parte*, that is, after a request was filed, the PTO corresponded only with the patent holder. As a result, potential infringers used this tool only sparingly, preferring to challenge the patent in court. Patent holders would sometimes file for a reexamination after learning of a defendant's prior art, however, to strengthen their litigation position. *Inter partes* reexaminations are now available for more recently issued patents. It remains to be seen whether alleged infringers seek to pursue this patch as a part of their litigation strategy. Very significantly, the PTO is undertaking a major effort to make reexamination proceedings more meaningful. One step is to improve the quality of the examination during the reexamination proceeding.

The second type of PTO proceeding, in appropriate cases, is an interference. In an interference, the PTO resolves competing claims for being the first to invent. Although not available in most cases, the possibility of an interference can have a substantial impact on litigation strategy.

Another forum to be considered is the International Trade Commission (ITC). Where the potential defendant exports to the United States, a proceeding in front of the ITC is possible (if the plaintiff can also show a "domestic industry" that is being hurt by the infringement). Although no damages can be awarded, these proceedings can result in an order excluding all infringing goods from being shipped into the United States. By statute, the proceedings will reach their conclusion very quickly, within one year. In addition, there is no right to a jury trial; an administrative law judge acts as the tier of fact.

The combination of a guaranteed quick resolution and the ability to avoid a jury make ITC proceedings an attractive choice for some plaintiffs. An ITC proceeding is not a bar to a parallel or subsequent district court action for damages.

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## **Pre-Litigation Investigation, Including Checking the Validity of the Patent at Issue**

It is always recommended that a thorough pre-filing investigation be undertaken. Indeed, patent holders do far better when a litigation strategy is based on sound up-front analysis; a careful analysis can result in avoidance of an ill-advised, expensive law suit.

The first step is to review the patent, its prosecution history, and the relevant prior art to understand the strength of an infringement claim and any potential weaknesses. A validity search may be ordered; both the client and the outside counsel should feel comfortable in the strength of validity of the patents to be in-suit.

After this step, the case against potential infringers may be assessed. The strength of the infringement case may be analyzed and an estimate of potential damages may be made, based on estimates of the magnitude of infringing sales and possible measures of damages (*e.g.*, lost profits or reasonable royalty). This estimate should include, however, the competitive value of an injunction barring future sales and may include the competitive value of filing a litigation, for example, the value of sending a message to others who may be considering entering the market by infringing the patent.

These steps of the analysis constitute the traditional assessment of a patent litigation. The assessment cannot end there, however.

A complete litigation analysis must include intelligence about the potential defendant(s). This intelligence should include:

- An assessment of the defendant's resources available for defending the litigation;
- Past litigation behavior and settlement practices;
- Possible counterclaims and, particularly, patent counterclaims; and
- Equitable considerations in a litigation with this defendant.

For the first three points, a remarkable amount of information is now available electronically. Examination of the last point is often over-emphasized. Judges and juries often find for the party that they want to find for that is, based on the equities.

Since there are frequently a variety of potential defendants, as noted above, this type of analysis can lead to a more intelligent selection of defendants.

The careful litigation manager should assure that all

of the information is gathered and synthesized. Much of this information can, in fact, result in a more informed litigation budget.

## **The Understanding of Judges and Juries about Technical Matters**

There is a belief that patent holders generally ask for a jury. Juries are perceived as more likely to uphold the validity of a patent because of their perceptions that the PTO did its job in carefully examining the application that resulted in the patent-in-suit against the statutory standards of patentability. Also, as another rationale, it is believed that juries frequently do not understand the technology involved in patents and may be more likely to find for the patent owner.

There are other assertions that some US patent litigators seem to believe:

1. If the patent-at-issue is weak, then the patent owner is more likely to ask for a jury because a judge is more likely to take the time to review the issues and may be more likely to rule against the patent.
2. If the patent-at-issue is extremely complicated to comprehend, then a trial decided by a judge actually may be better than a jury.
3. If the patent-at-issue relates to medical treatment, then a jury may be less likely to uphold a patent's validity and also find it infringed because the jury knows that the resulting permanent injunction could affect the public health.

With those additional observations, the available statistical evidence shows that the belief that juries tend to favor patent owners is generally correct. Certainly, every litigation is different in the underlying fact scenarios involved, in the manner of presentation, and in the particular judge or jury. These things can make an enormous difference in the outcome. Nevertheless, some sort of statistical sense about how judges and juries decide cases is inevitably applied in case assessment, usually based on nothing more than an experienced attorney's gut sense of how cases generally come out.

As least two thorough articles have been written that include statistical analyses of the outcome of patent cases in various circumstances and the likelihood of success for particular arguments. Some of the most applicable data is outlined below. Specifically, according to a survey published in 2000,<sup>35</sup> patentees win about 58 percent of the time, with alleged infringers prevailing 42 percent of the time.

**Exhibit 2**  
**Outcomes of Patent Cases**

Issue:	Total	Judge	Jury
Valid	67%	64%	71%
Invalid	33%	36%	29%
Enforceable	73%	75%	72%
Unenforceable	27%	25%	28%
Infringed	65%	59%	71%
Not Infringed	35%	41%	29%
Willful	64%	53%	71%
Not Willful	36%	47%	29%

The breakdown, by issue, was reported as reflected in Exhibit 2.

According to statistics gathered in another survey published in 1998,<sup>36</sup> patents are adjudicated to be valid 54 percent of the time and held invalid 46 percent of the time when validity is litigated. Although some attorneys stress the difficulty in invalidating a patent, it is not rare.

The most common asserted grounds for invalidation are obviousness and anticipation based on the prior art. Exhibit 3 shows the common grounds for invalidation.

Exhibit 4 shows the times that a particular ground for invalidity is successful.

The ability to influence whether the matter is tried before a judge or jury is, of course, limited. Often, both sides ask for a jury simply out of fear of waiving the right to one. In any event, if the plaintiff does not ask for a jury, the defendant may for no other reason than an assumption that, if the plaintiff does not want one, the defendant must.

**Exhibit 3**  
**Common Grounds for Invalidation**

Ground	Novel.	Obv.	Best Mode	Enab./Written Description
Cases including ground	27 %	42 %	12 %	9 %

**Exhibit 4**  
**Success of Grounds for Invalidity**

Asserted Ground	Novel.	Obv.	Best Mode	Enab./Written Description
Percent success	41%	36%	36%	36%

The one opportunity to eliminate the right to a jury is by selection of forums, for example, proceeding before the ITC will necessarily involve a nonjury trial.

While statistics on juries versus judges are no substitute for case analysis, they can assist in a better assessment of the case. These statistics also can be useful in settlement discussions, particularly when one party is (mis)characterizing the way that judges or juries decide cases.

**Pleading Unenforceability**

As is known, about 20 years ago inequitable conduct was frequently pleaded as a defense to patent infringement; a patent that is “unenforceable” due to a finding of inequitable conduct is dead. The defense was so misused by alleged infringers that the Federal Circuit once called this defense a “scourge” on US patent litigation. The strategy behind routine pleading of inequitable conduct was to try to put pressure on the patent owner to argue such alleged misconduct of the patent owner in front of the jury.

The famous *Kingsdown*<sup>37</sup> seemed to put a stop to the defense of inequitable conduct. During the 1990s, such defenses were much less common pleaded.

In more recent years, the defense has been making a comeback. The Federal Circuit appears to be upholding more findings of inequitable conduct than in recent history. According to a survey published in 2000, patents are held unenforceable in 27 percent of the cases in which the defense is decided, and that number seems to have increased since 2000.

The caution is that the Federal Circuit probably does not mean a return to routinely pleading inequitable conduct in every patent litigation. The defense now is that the Federal Circuit is upholding findings of inequitable conduct when it appears that the district court’s finding was supported by sufficient facts. In other words, the Federal Circuit is upholding such findings when it seems objectively justified to do so. (However, the Federal Circuit is not upholding such findings when it does not seem justified!)

As a litigation defense, what recommendations could be made? Inequitable conduct is not recommended to be pleaded unless some underlying facts support such a defense. In fact, in an initial pleading, a defense of inequitable conduct must be pleaded with particularity. Sufficient facts must be set forth in that initial pleading or else the defense will be stricken. If sufficient facts cannot be gathered to be set forth in that initial pleading than it is recommended that the defense not be included. If discovery is subsequently taken and sufficient facts are later gathered, then the initial pleading may be amended to include the defense of inequitable conduct.

That being said, the defense of inequitable conduct should be aggressively pursued, but with careful decisions being made during the pursuit.

## Notes

1. Data taken from the American Intellectual Property Law Association's (AIPLA's) 2003 Economic Survey.
2. Bikin, "Client Expectations: Discovering, Understanding and Managing Them," *Litigation*, Vol. 30, No. 3, p.24 (Spring 2004).
3. *Id.* at pp.23-24.
4. The fastest jurisdictions to trial, otherwise known as the rocket docket courts, are the Eastern District of Virginia, the Western District of Wisconsin, the Western District of Arkansas, the Eastern District of Oklahoma, the Western District of Oklahoma, and the District of Maine. The average time to trial in these jurisdictions is about 12 months or less.
5. Bikin, "Client Expectations: Discovering, Understanding and Managing Them," *Litigation*, Vol. 30, No. 3, pp.26-27 (Spring 2004).
6. *Id.*
7. Fulbright & Jaworski, "2004 Litigation Trends Survey of General Counsel."
8. Many thanks to Kenneth E. Krosin, one of my partners, for his help on this section. A part of his comprehensive paper entitled "Warning Letters and Willful Infringement Under the U.S. Patent Laws" was used as a basis for this section.
9. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 303 F.2d 1337, 1342 (Fed. Cir. 2004).
10. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992); *Knorr-Bremse*, 303 F.2d at 1342.
11. *Knorr-Bremse*, 303 F.2d at 1343; *Underwater Devices*, at 1389-1390; *L.A. Gear Inc. v. Thom McAnn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993).
12. *Read*, 970 F.2d at 827, n.7.
13. *See Kori Corp. v. Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649 (Fed. Cir. 1985); *Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478 (Fed. Cir. 1985).
14. *See, e.g., Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538 (Fed. Cir. 1987); *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853 (Fed. Cir. 1985).
15. *Bott v. Four Star Corp.*, 807 F.2d 1567 (Fed. Cir. 1986).
16. *Id.* at 1573. *See also, Construction Prods. Corp. v. Hahn Builders, Inc.*, 573 F. Supp. 639 (E.D. Wis. 1983); *Afros S.P.A. v. Krauss-Maffei Corp.*, 671 F. Supp. 1458 (D. Del. 1987) (court criticized defendant's assignment after suit of two patents to one of its subsidiaries to protect it from liability and defendant's efforts to resist discovery).
17. *Atmel Corp. v. Silicon Storage Tech., Inc.*, 202 F. Supp. 2d 1096, 1102 (N.D. Cal. 2002) (quoting *SR1 Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1469 (Fed. Cir. 1997)).
18. *Read*, at 826.
19. *Id.*
20. *Crystal Semiconductor Corp. v. Tritech Microelectronics International, Inc.*, 246 F.3d 1336 (Fed. Cir. 2001).
21. *See, e.g., St. Regis Paper Co. v. Winchester Garden Corp.*, 410 F. Supp. 1304, 1309 (D. Mass. 1976) ("double damages [appropriate]. If defendant were the giant and plaintiff the small independent, I would make it treble."); *LightWave Tech., Inc. v. Corning Glass Works*, 19 U.S.P.Q.2d 1838, 1849 (S.D.N.Y. 1991) (defendant "can withstand some increase in damages, but not treble damages.");
22. *See, e.g., Modine Mfg. Co. v. Allen Group*, 917 F.2d 538, 543 (Fed. Cir. 1990) (no abuse of discretion to award no enhanced damages on the ground that willfulness was "sufficiently close on the evidence."); *Crucible, Inc. v. Stora Kopparbergs Bergslags AB*, 701 F. Supp. 1157, 1164 (W.D. Pa. 1988) ("because the court still considers the [willfulness] question to be a close one . . . double, not treble damages are appropriate.");
23. *Intra Corp. v. Hamar Laser Instruments, Inc.*, 662 F. Supp. 1420, 1439 (E.D. Mich. 1987), *aff'd*, 862 F.2d 1320 (Fed. Cir. 1988).
24. K.A. Moore, "Empirical Statistics on Willful Patent Infringement," 14 *The Federal Circuit Bar J.* 227 (2004).
25. 35 U.S.C. § 285.
26. *Central Soya Co., Inc. v. George A. Hormel & Co.*, 723 F.2d 1563, 1578 (Fed. Cir. 1983). Statutory costs are defined in 28 U.S.C. § 1920. They include (1) court reporter fees for depositions and trial transcripts, (2) photocopying costs, (3) docket fees, and (4) fees for court appointed experts. Expert witness fees are not included. *See Crawford Fitting Co. v. J.T. Gibbons, Inc.*, 482 U.S. 437 (1987).
27. *Forest Labs, Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327 (Fed. Cir. 2003).
28. *Go Light, Inc. v. Wal-Mart Stores, Inc.*, 355 F.3d 1327, 1340 (Fed. Cir. 2004).
29. *Juicy Whip, Inc. v. Orange Bang, Inc.*, 382 F.3d 1367, 1373 (Fed. Cir. 2004).
30. *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1068 (Fed. Cir. 1983).
31. *Special Devices, Inc. v. OEA, Inc.*, 269 F.3d 1340, 1344 (Fed. Cir. 2001).
32. *Slimfold Mfg. Co., Inc. v. Kinkead Indus.*, 932 F.2d 1453, 1459 (Fed. Cir. 1991).
33. *Engineered Prods. Co. v. Donaldson Co., Inc.*, 335 F. Supp. 2d 973 (N.D. Iowa 2004).
34. The award of attorney fees and costs in *Engineered Products* is typical for a patent infringement suit in the United States. *See* 2003 AIPLA Economic Survey, at 93, discussed above (generally, +\$2 million average total cost through trial of a patent infringement suit).
35. K.A. Moore, "Judges, Juries and Patent Cases—An Empirical Peek Inside the Black Box," 99 *Mich. Law Rev.* 365 (Nov. 2000).
36. J.R. Allison, et al., "Empirical Evidence on the Validity of Litigated Patents," 26 *A.I.P.L.A. Q.J.* 185 (Summer 1998).
37. *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867 (Fed. Cir. 1988).

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## Stem Cells: The Patent Landscape . . . . . 1

As explained in this article by Robert W. Esmond, Robert A. Schwartzman, and Ted J. Ebersole, the patent landscape is littered with issued patents that may affect the ability to practice stem-cell-based therapies. Moreover, the authors report, there are hundreds of pending patent applications claiming isolated stem cell preparations, methods for culturing stem cells, methods of preventing differentiation of stem cells, methods of inducing proliferation of stems cells, and methods of treatment with stem cells.

As a result, researchers and clinicians who currently study or intend to study stem cells for research and therapeutic purposes may have to obtain a license to multiple blocking patents and complementary patents to avoid the risk of infringing these patents. Messrs. Esmond, Schwartzman, and Ebersole suggest that this will most likely lead to a complex licensing scheme and multiple royalty payments. The proposed solutions to this problem include passing a law providing for a stem cell research exemption to patent infringement and compulsory licensing. Instead, the authors believe, the creation of a patent pool may be able to address the issue of multiple blocking and complementary stem cells patents.

## From DeepSouth Shrimp to . . . . . 5 Microsoft Windows: Exporting Components of Patented Inventions Under 35 U.S.C. § 271(f)

For many years Congress and the courts have struggled to maintain the delicate balance between encouraging innovation via the patent laws and using those same laws to stifle the development and marketing of products in the United States. As Brian E. Ferguson, Stephen K. Shahida, and Ted Jou partners in the law firm of McDermott Will & Emery LLP, discuss here, a series of recent decisions from the US Court of Appeals for the Federal Circuit demonstrate the difficulties that the courts face in applying the patent laws to an increasingly digital world. These decisions, which will have an immediate impact on the US software industry, will also be of interest to any US-based company that uses offshore manufacturing facilities. The authors believe that this is particularly so given the increasing reliance on the use of software and digital information in manufacturing processes.

## The Right to License Packages of . . . . . 10 Patents for a Single Royalty

Can a patent holder require prospective licensees to license packages of patents for a single royalty, or is the patent holder required to allow its licensees to choose the individual patents that they wish to license? As Stephen Elliott and Charles Graybow of Kaye Scholer LLP discuss in this article, in general, a patent holder tying a patent license to the licensee's purchase of another product may be liable *per se* for patent misuse, rendering the patent unenforceable. Nevertheless, as Messrs. Elliott and Graybow point out, the US Court of Appeals for the Federal Circuit recently reversed a decision of the US International Trade Commission and held that a package patent license is not a tying arrangement that gives rise to *per se* patent misuse. They conclude that so long as a patentee does not do anything that implies that its patents may be available individually at a lower royalty rate, compulsory package licensing does not constitute patent misuse *per se* and is unlikely to be condemned under a rule-of-reason analysis.

## Effective Management of US Patent Litigation . . . . 13

In this article, Michael D. Kaminski of Foley & Lardner LLP sets forth several ideas and thoughts for how to effectively manage U.S. patent litigation. Among other things, Mr. Kaminski explores how to:

- Select US patent litigators
- Choose the proper defendant to sue
- Manage litigation costs
- Send and respond to warning letters
- Choose the jurisdiction for the litigation
- Plead unenforceability
- Respond to a court order

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