

Beyond Rule 11: The Case For Full Early Assessment

Tuesday, Dec 04, 2007 --- In a patent case the decision to sue or refuse to license is typically driven by business reasons (e.g., a patentee's protecting its market share, an alleged infringer trying to breaking into the market, etc.). The business needs to come first, and rightfully so.

However, this focus on the business issues, combined with a common misperception that formal discovery is necessary to predict the outcome of a patent case, often results in a pre-filing legal assessment which may be focused more on satisfying Rule 11 requirements than on truly assessing the likelihood of winning.

Also, a more thorough investigation may be deferred because of the hope for an early settlement, which would result in avoiding the costs of a more thorough investigation. Waiting to more thoroughly assess the merits of the case based on facts uncovered during discovery has drawbacks.

For one thing, discovery is slow, expensive and burdensome. Also, ironically, after spending thousands or even millions on discovery, a party to a patent litigation action can find itself in a worse negotiation position than it was before it even engaged in litigation.

This is due to the fact that the parties simultaneously learn of the strengths and weaknesses of each other's cases. Or, investigation may reveal better facts than originally assumed, such that an early settlement may result in conceding more than necessary.

One way to avoid this predicament is to evaluate your case as early as possible, preferably before the suit is filed, from the standpoint of whether it is truly a winner. In many cases enough information is available before discovery to provide significant predictability of the outcome.

For example, enough information about the accused product is often available to assess infringement with confidence. The patent's file history and specification provide virtually all the information needed to predict the likely claim construction by the court.

Also, prior art investigations can be performed to identify validity issues. Actions by the client may be reviewed in the context of patents owned by the adversary to anticipate possible counterclaims.

Even more strategic issues may be assessed early. What would be your trial theme? What might be your adversary's trial theme? A mock trial or other jury research to test themes and valuation issues may be conducted before a

suit is even filed.

As shown below, an early assessment provides many benefits. For example, even at the negotiation stage, absent any plans to sue, an early assessment can provide substantial guidance regarding business objectives. And, perhaps most importantly, an early assessment ensures that the client does not negotiate based on an unrealistically optimistic or pessimistic view of the lawsuit's likely outcome.

Benefits Of An Early Assessment

Strategy

Understanding the merits and overall appeal of a patent claim early better enables a client to determine the value of an out-of-court resolution, identify its options, and plan its course of action.

Defining what constitutes a "win" and thinking through the issues early allow the client and the litigation team to develop a winning litigation strategy that incorporates an exit strategy.

In addition, the work product generated from the pre-suit investigation can be used to compare how the case is actually developing to how it was expected to develop. Therefore, if litigation does arise, an early assessment will greatly assist the client and counsel in maintaining control over the case.

Execution

Having a game plan early can also help the litigation team stay a few steps ahead of the opposing party. Once a patent case is filed, the client and the litigation team have limited control over the case, as the court and the opposing party can take steps to either force the action or stall progress. Some courts get their patent cases to trial in less than a year.

Due to the magnitude of typical patent cases, a client and the litigation team can easily find themselves reacting to the litigation, rather than driving it. With the benefit of the information gathered via the pre-suit investigation, the litigation team can avoid getting lost in the thousands or millions of documents produced during discovery.

An early assessment enables the litigation team to hit the ground running and focus on building the case rather than merely learning what it is about. Accordingly, an early assessment enables the client and the litigation team to recognize and act on the strengths and weaknesses of the case while the opposing party is still mired in the learning process and reading documents in discovery.

Costs

From a cost and time perspective, a pre-suit investigation can help the

litigation team use its limited resources that might otherwise be exhausted overturning every stone and battling over unimportant discovery disputes in favor of focusing on “core issues.”

In addition, the assessment can keep litigation costs down by allowing well-funded and early decisions regarding abandoning claims or defenses that have been identified as weak.

This is more important than ever, as according to an AIPLA survey, the cost of an average patent case is now \$4 million.

Components Of An Early Assessment

An early case assessment should be conducted by someone with experience in contested-matter counseling. The person must have knowledge of substantive patent law, knowledge of patent litigation and patent prosecution practice and procedure, knowledge of the likely forum(s) and location(s) for resolving the dispute, and an understanding of the client’s business.

This person must also have the experience, ability, and willingness to provide practical advice based on an incomplete set of facts.

The assessment should always involve close scrutiny of the patent and its file history. These documents are critical to assessing the scope of a patent and are public information.

As discussed above, in patent cases much of the key information is public (e.g., prior art references, the file history of the patent, on-the-shelf infringing products, maintenance manuals, user manuals, trade show information, press releases, etc.).

Additional fact-finding may involve identifying and reviewing key documents and interviewing individuals with key factual knowledge. Employing a non-linear approach to fact gathering can enable the task to be completed in a fraction of the time than would be spent in a more formal, methodical fact finding process (e.g., 1-2 weeks vs. 1-2 years).

Of course, without the benefit of the court’s power to compel discovery, the available information about the opposing parties may be limited.

For example, without the court’s power to compel the production of confidential source code, the patentee may need to assume some facts about infringement and without the court’s power to compel the production of confidential invoices, a potential infringer may need to assume some facts about the enforceability and potential damages.

Although the missing pieces can be important, there is a strong possibility that enough information about the opponent’s position is available to identify likely opposing themes.

A complete assessment would likely include an opinion on many or all of the main issues including infringement, validity, enforceability, damages, and any exposure to counterclaims.

The merits of each issue would be assessed, including whether any key facts are unknown (which indicates that discovery as to such issues should be a priority in litigation), and milestones for the formal discovery process would be defined (discovery milestones might include confirming the existence or absence of key confidential facts), and important legal issues would be identified and resolved.

For example, on infringement the opinion might include an identification of the claim terms likely to be at issue; a determination of the most likely alternative constructions of those terms based on the current law; a claim chart preferably based on a hands-on investigation of the accused device; and specific milestones for the discovery phase relating to the confirmation of assumed facts or resolution of unknown facts relating to the features of the accused product.

An enforceability/validity investigation might include searches and analysis of the prior art and an investigation regarding potential "public disclosures" and "on sale" bar issues. It might also include an assessment of the availability and viability of a defense based on inequitable conduct.

The analysis might include a detailed study of the file history and interviews with the inventors and/or the prosecuting attorney (assuming the party conducting the pre-suit investigation is the patentee).

Whether related applications include material, prior art or other information not disclosed in the patent at issue should also be assessed. Sales information and press releases regarding the patented product should be evaluated to determine whether the product was sold more than one year before the patent was filed.

The analysis would take into account the likely alternative constructions of the key claim terms.

A damages/valuation assessment may involve assessing profit margins and market share, and include interviewing people involved in sales, marketing and manufacturing to estimate the value of any potential lost profits or reasonable royalty claims.

Issues relating to marketing, reasonable royalty rates, availability of non-infringing substitutes, capacity, etc., may be addressed. The scope of a potential injunction could be evaluated in view of potential design-around options.

The assessment may also include an evaluation of counterclaim exposure or availability. For example, the assessment may include identifying all the patents the other party owns that might be asserted in a counter suit or

otherwise leveraged and determining if and why each of the identified patents are not infringed, unenforceable or invalid.

International patent protection of both parties may be considered as well. This broader analysis also can be helpful in determining if cross-licensing is a viable option to resolve the dispute.

With some or all of the above pieces assessed, an early trial-appeal assessment can be quite useful. Possible themes may be developed for each side and assessed for their power, simplicity, and fit to the known facts.

For a more objective and thorough assessment, analysis such as a mock trial or focus groups research can be conducted based on this information, before a complaint is ever filed.

Both liability and damages themes can be tested early for their likely appeal at trial. Just as important, such a process can identify the information that a jury is likely to consider critical in its decision, and thus provide strong guidance as to what areas of discovery are worthy of focus.

The assessment might also include a recommendation regarding alternative means for resolving the dispute, including filing suit in District Court, licensing, arbitration, FTC actions, reexams and interferences. This portion of the assessment might also address procedural issues such as potential jurisdictions and the trial schedules in such jurisdictions.

Finally, it is worthwhile to step back from the legal and factual merits of the case to consider broader issues. What is the status of each party's business? Are merger talks likely with these parties? Who is gaining and losing market share? This can provide insights as to the state of mind of each party, and help understand motives and the importance of timing to each party.

If done efficiently, all this can be done in a matter of weeks for a fraction of the cost spent on litigation.

Conclusion

Patent litigation can be unpredictable and costly. But this fear should not preclude an early effort to assess the merits and likely outcome of a case.

Such an early assessment can even address both of these problems by helping to avoid litigation with predictable settlements, and allow an early, focused litigation strategy that is likely to be both more successful and less costly.

In short, money spent on an early assessment of a potentially contested patent matter is money well spent.

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