Defending Against Patent Infringement

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The fourth in a series of articles providing basic information on legal issues facing people and businesses that operate in computing-related markets explores patent litigation from the defendant’s perspective.

No company welcomes the news that it has been sued for patent infringement. However, defendants can gain an advantage by understanding their available options from the outset. In this month’s installment, we present a general overview of how a company should respond after learning it has been sued for patent infringement.

Be sure to check the IEEE Computer Society’s website for the podcast that accompanies this article (www.computer.org/portal/web/computingnow/computing-and-the-law).

RESPONDING TO AN INFRINGEMENT SUIT

Even if it’s not completely unexpected, when hit with a patent infringement suit, many companies quickly realize they’re unsure of how to respond after being served with the summons and complaint (the documents that initiate a lawsuit). A defendant company might spend time focusing on the patent(s) it’s accused of infringing and the associated technology, but lose sight of its available defenses and the potential counterclaims it can make against the plaintiff.

So, how does a company position itself for the best possible outcome when defending a patent infringement suit?

First and foremost, the defendant company needs to understand and frame the case’s potential economic and strategic impact on its business. Is this a nuisance suit in which the company is a bit player among many defendants caught in the plaintiff’s net, or is this likely to be a ferocious struggle with a direct competitor who’s striking at the heart of the company’s business? Is there a risk of an injunction shutting down all or part of the defendant’s business?

After all, the patent right is the right to exclude others from making, using, selling, or importing the patented invention. What are the potential damages if infringement were to be found? Can the company execute a new product design to avoid the plaintiff’s infringement charge? If so, how long will it take and how much will it cost?

Is the plaintiff using the lawsuit as a tool to fish for confidential information about the company’s business without a sufficient basis to support the infringement claim? Does the company have any of its own patents that it can assert against the plaintiff’s products or processes? What are the realistic options for resolving the case?

Performing this type of economic and strategic assessment quickly but carefully, with input from all interested internal constituents and experienced patent lawyers, will shape the best possible defense strategy.

In the US, federal district courts handle patent infringement cases and most follow a fairly predictable path when managing those cases. Even so, patent infringement cases are generally expensive and resource-intensive, draining valuable time from those employees assigned to support the case and costing a lot of money to defend.

To achieve success, it’s crucial to put together the right team of lawyers
and business managers to develop and execute the strategy in an efficient, cost-effective manner. Failure to do so will lead to a suboptimal outcome at greater expense.

Gathering the team

The company should quickly assemble a team of personnel who can help with evaluating and managing the patent infringement case. Clearly, a company’s internal lawyers and responsible product managers should play a large role. The company also should consider assigning duties to employees from other departments such as research and development (R&D), sales and marketing, as well as information technology (IT).

Small enterprises without such personnel should seek individuals within the company, or outside it, who can perform in a similar capacity. The company should also contact its insurers and determine if it has coverage for patent infringement lawsuits. Insurers can help the company understand the resources available to it to defend the suit.

Each member of the in-house team serves an important role. The IT representative can begin to preserve relevant electronic data, such as e-mails, design information regarding the products accused of infringing the asserted patent(s), sales, marketing, and other documents. The sales and marketing representative can help with determining the level of exposure from sales of the accused products and can handle any public responses to the lawsuit.

Someone must evaluate the claims in the asserted patent(s) and decide whether those claims could cover the accused products. If the internal lawyers have experience reviewing and understanding patents, they should work with a technical person from R&D to begin investigating the technology at issue and the “prior art,” which includes materials published or sold before the patent(s) at issue.

At this point, the company should also consider retaining outside lawyers with experience in litigating patent lawsuits. The internal lawyers are usually very busy with other matters, so in most instances, companies decide to engage an outside law firm to handle the infringement case. The outside law firm typically performs detailed analyses of the patent(s) and prior art at the start of the case. This provides an objective assessment of the company’s infringement risk and is an early step in developing defenses to the lawsuit.

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Duty to preserve evidence

The rules governing litigation require a defendant to preserve evidence after learning of the lawsuit. In addition to that obligation, a defendant company will need some of its own documentary evidence to defend itself and raise counterclaims. IT personnel fill an important role here by working to preserve e-mails and other documents. They help the internal lawyers and the outside law firm work with the affected employees so they abide by the same guidelines to preserve evidence.

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At this stage of the litigation, it’s possible that the volume of materials to be preserved, collected, and reviewed is much larger than expected. It’s not uncommon to feel overwhelmed, and sometimes that triggers a reassessment of the company’s document retention policy to make future preservation and collection tasks less onerous.

Legal strategy

The defendant company must decide on its initial response to the complaint. The rules governing US patent litigation allow most defendants 21 days to answer after being served with a complaint. A defendant can request that the court grant it an extension of time to respond, and most plaintiffs will not oppose a reasonable extension.

The defendant can use the additional time to evaluate the lawsuit and consider the plaintiff’s motivation for bringing the suit. It must consider the resources (financial and otherwise) it has available to deal with the suit.

Also, the defendant must gauge its own willingness to fight in court as well as the likelihood of settling the matter. For example, when the plaintiff is a direct competitor, settlement might be less likely compared to instances where the plaintiff is operating outside the defendant company’s market.

Some plaintiffs are nothing more than patent holding companies (“nonpracticing entities”) that use patents as a tool to generate revenue either through licensing or litigation. Therefore, it's important to understand what type of plaintiff you're dealing with and to assess the plaintiff’s motive for bringing the suit.

Unless the lawsuit is settled very quickly, a defendant will need to answer the complaint. As it works with its lawyers to prepare the answer, the defendant should evaluate the plaintiff’s chosen venue and consider whether to request
a transfer to a different US district court. Requests for transfer can be based on, for example, convenience, particularly when the defendant company’s headquarters isn’t located near the court. In certain circumstances, a defendant can also choose to respond to the complaint by asking the court to dismiss the case because the plaintiff failed to allege sufficient facts to support its claim. This can also buy the defendant more time to try to settle the case or consider additional options.

Regardless of a decision to litigate or settle, a company accused of infringement should always strive to operate from a position of strength and avoid appearing too anxious to settle the case, thereby handing the plaintiff additional leverage. The company should know (or learn) what patents or other intellectual property (IP) it might have available to assert against the plaintiff. If the plaintiff has products of its own that infringe the company’s patent(s), that provides a basis for the company to raise a counterclaim of infringement against the plaintiff. This puts the plaintiff’s business at risk and can help level the playing field.

Companies can benefit in other ways by taking the time to return some legal heat. Defendants who are aggressive in raising defenses and counterclaims can gain significant negotiating leverage. Indeed, all plaintiffs have different risk tolerances and pressure points; it’s the defense team’s job to find them. Additional leverage might lead to a quicker settlement. Counterclaims might stimulate favorable cross-licensing of each other’s patents. Moreover, by not panicking, companies can protect themselves from the risk of inadvertently disclosing sensitive or compromising information while pressing for a fast settlement.

A defendant needs to recognize the importance of fully developing its defenses to the allegations of infringement. Those defenses usually involve complex legal arguments that the asserted patent(s) are invalid, not infringed, and/or unenforceable. A fact-based, evidence-driven non-infringement defense is very potent, but not always available. Therefore, the defendant should work with its lawyers to collect and assess what ever prior art is available and ensure that there is a thorough understanding of the relevant technology and the development history of the accused products.

Having strong invalidity or unenforceability defenses helps in several ways. It can provide the defendant company with grounds to challenge the asserted US patent(s) in administrative proceedings at the US Patent and Trademark Office. Many US courts will temporarily suspend a patent infringement lawsuit if the patents at issue are involved in such proceedings. Also, strong defenses can put the company in a better negotiating position with the plaintiff, particularly if the plaintiff is a “patent troll” (another name for a nonpracticing entity).

While a defendant company might prefer a settlement in the short term, it must consider the long-term ramifications of immediately paying out in certain cases. Future plaintiffs might emerge if the company becomes known as one that quickly ante’s up to avoid time in court. A company will benefit in the long run by taking the time to show that it will vigorously defend itself when it matters.

Where the company is one of several defendants in a single lawsuit, it should explore the possibility of cooperating with the other defendants. Codefendants in certain cases can pool their efforts, which might reduce litigation costs.

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**Alternative forums for resolving the dispute**

Litigation, especially patent litigation, is expensive and time-consuming. Today, a modestly complex patent lawsuit can easily cost each side several million dollars in legal fees over a three- or four-year period. Certain events can increase costs beyond that range—for example, if there’s a large volume of litigation documents that require special processing, such as translations of foreign language documents. A company facing a patent infringement lawsuit that affects a significant portion of its business might have no choice other than to litigate, notwithstanding this expense. Other companies, however, simply can’t afford to litigate.

In either scenario, a defendant company should consider the aptly named *alternative dispute resolution* in place of litigation. ADR differs from a court proceeding and involves an independent third person who helps the parties resolve their conflict on mutually acceptable terms. Parties can choose from multiple ADR processes, including mediation and arbitration.

Parties selecting mediation agree to let a neutral mediator help the parties communicate with each other so they can settle the dispute themselves. In arbitration, a neutral arbitrator hears arguments and evidence from each side and decides the outcome.

Most ADR proceedings are generally faster and less costly than litigation. However, in arbitration or mediation, neither side can receive the opportunity to develop its case fully. Parties should also realize that litigation and ADR are not mutually exclusive. Unless they agree to binding proceedings, parties engaging in
ADR can always return to court. As a result, ADR is usually worthwhile and, indeed, many US courts require the parties to explore ADR as a part of patent litigation.

**BE PREPARED, STAY INFORMED**

Patent infringement suits can be daunting. Small companies with busy personnel can easily underestimate the ramifications or, conversely, overpay in settlement simply to make a less-than-certain liability go away. In so doing, the company might lose sight of an opportunity to leverage its own IP for a previously unseen business advantage. Therefore, every company should initiate an action plan immediately after learning of a suit so it has the appropriate people involved and makes the best possible strategic and economic decisions.

Such a plan should include conducting a comprehensive evaluation of the plaintiff’s case and its potential economic and strategic impact on the defendant’s business, which will lead to a strategy for how to resolve the case. Whether the strategy takes on the form of a making a quick settlement or mounting a vigorous defense, it must always fit in with the company’s ultimate business goals. A defendant company might decide that it isn’t in its best interests to settle if more lawsuits are a likely consequence. Moreover, a company that asserts its own IP against a competitor in response to an infringement suit might be able to better protect its stake in the marketplace.

Technology companies of all sizes should recognize the value of IP, particularly patents, in both building market share and fending off the competition. Companies that develop a comprehensive plan to defend against patent infringement lawsuits have the best chance of achieving a successful outcome at an acceptable cost.

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