

Cislo & Thomas LLP[®]
presents

The Manager's Guide to Intellectual Property

SECOND EDITION

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CHAPTER 8

Enforcement of Intellectual Property Rights

Introduction

Enforcement of intellectual property rights under U.S. law is complex and can be expensive, both for the owner of the rights and the alleged infringer. Among the factors that need to be considered are:

1. Can the matter be handled administratively, or does it require court action?
2. If it is a court action, is it federal or state? In the United States, in addition to the nationwide federal laws, each of the 50 states has its own intellectual property laws.
3. If it is a federal court action, in which district court can it be heard?
4. Should notice be given before initiating an action?
5. Is it a civil matter only or is it also criminal, where federal or state authorities can be involved?

Administrative or Court Action?

The federal government provides administrative remedies against infringers. U.S. Customs will seize imported products that infringe intellectual property rights. For registered trademarks and copyrights, all

THE MANAGER'S GUIDE TO INTELLECTUAL PROPERTY

that is necessary is to record the rights with U.S. Customs.

For patents, it is necessary to obtain an exclusion order from the International Trade Commission (ITC). The ITC has authority to issue exclusion orders against infringers of intellectual property rights where there is a domestic industry impacted by the infringement. The domestic industry requirement is relatively easy to satisfy. For example, mere research and development activities in the U.S. can be a sufficient domestic industry, even where the owner of the intellectual property has its product manufactured outside the United States.

There are advantages and disadvantages of ITC proceedings as compared to a court action. The following table summarizes many of them:

Patents/Comparison between International Trade Commission and Court Enforcement

Factor	ITC	Court
Time to resolution	Usually faster: supposed to complete in 16 months (not including appeals)	Slower: depending on which court, typically two years for a trial, sometimes much more
Cost	Comparable, but legal fees are incurred faster	Comparable
Damages	Not available	Available: parallel civil action can be filed to recover damages (though generally this is stayed pending the ITC proceeding)
Expertise of decision maker	High: staff attorneys and administrative judges develop expertise	Moderate to low: challenging for juries—and sometimes judges—to understand the law, particularly for patents
Who controls the litigation process	To a limited extent, the parties: administrative law judge sets detailed procedural schedule at outset	Depends on the judge: typically the litigants have more control than in an ITC proceeding
Settlement	Need to satisfy the ITC requirement that settlement terms are not anticompetitive	Generally a judge accepts the parties' terms

Factor	ITC	Court
Venue	Trial is in Washington, D.C.	Depends on where case is brought
Domestic industry requirement	Yes	No
Stay during reexamination	No	Many courts grant a stay
All importers in one action	Yes	Unlikely
Discovery	Nationwide subpoena power; threat of sanctions to enforce foreign discovery, including plant inspections	Limited by the Federal Rules of Civil Procedure
Protective order for trade secrets	Automatically issued	Subject to negotiation of the parties and approval of the judge, but generally granted

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

In the case of Internet domain names that infringe a trademark, if the domain name is being used in bad faith, Internet Corporation for Assigned Names and Numbers (ICANN) has a dispute resolution procedure. ICANN coordinates the Domain Name System that assigns domain names. For example, if someone was using the domain name Sony.com to sell non-Sony merchandise, Sony could use this dispute resolution procedure to get the domain name assigned to it.

State or Federal?

Federal courts have exclusive jurisdiction over most issues dealing with patents and copyrights. So generally there is no jurisdictional decision to be made with regard to copyright and patent actions—they are filed in federal court. One exception is ownership issues, which can sometimes be solely issues of state law.

Trademark actions can be brought in either federal or state court. Usually, trademark actions are brought in federal court because federal court judges typically have more expertise in trademark law than do state court judges.

Trade secret law is for the most part state law, and thus many trade secret cases are brought in state court.

Even when an action is brought in state court, in many cases the defendant has the right (but not the obligation) to “remove” the action to federal court. This often occurs when the defendant is a “citizen” of a different state in which the action is brought.

Which Court (Venue)?

An important tactical decision is where to bring an action. It needs to be brought in a venue that has personal jurisdiction over the defendant. For example, if the defendant only does business in California and is only physically located in California, there may be no choice where to bring the action—it has to be brought in California. Many large corporations are subject to jurisdiction everywhere in the United States because of the multiple locations where they do business and have physical offices.

If there are multiple available venues, the choice of venue depends on many factors, including speed to trial, expertise of the court, whether the court and local jury pool will be favorable to the plaintiff's position and convenience for the plaintiff and witnesses.

Notice or No Notice?

Should the defendant be given notice before suing, or should suit be filed first? Certainly giving notice before suing can save money if the infringer is willing to stop the conduct and make a reasonable settlement. Other advantages include possible increased damages if the infringer continues infringing after receiving notice of the infringement in cases where the defendant was not aware of the rights of the plaintiff beforehand.

However, under U.S. law, notice of infringement can trigger a “declaratory judgment” action, where the infringer files a complaint for a declaration that it did nothing wrong. Of course the infringer will choose a convenient venue for itself, which may be inconvenient and undesirable for the owner of the

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

intellectual property rights. There will be additional travel and lodging expenses and the need to hire counsel in that venue. There is the additional disadvantage that a jury or judge might “home town” the owner of the intellectual property rights, improperly giving a victory to the infringer.

That is not a risk where the infringer and owner of the intellectual property rights are in the same judicial district, or the owner of the intellectual property rights can be sued only in its home location.

If the risk of a declaratory judgment lawsuit in an inconvenient location exists, it makes sense to file a lawsuit before giving notice. A “courtesy” copy of the lawsuit papers can be sent with the cease and desist letter. Although preparing a lawsuit and filing the necessary papers adds to the cost involved, it is a relatively small amount compared to the expenses associated with an out of town lawsuit.

Civil or Criminal?

Infringement of intellectual property rights can involve criminal conduct. Trademark counterfeiting, copyright counterfeiting, and trade secret theft can be criminal conduct under federal law, with enhanced penalties for foreign entities. In addition, many states also consider such conduct criminal. If the appropriate authorities are willing to proceed with a criminal action, there are significant advantages for the owner of the intellectual property. However, patent cases seldom have criminal aspects to them.

Controlling Litigation Costs

Litigation is expensive. For example, a typical patent infringement action costs more than \$1 million through trial (although most cases do not go that far). What is particularly frustrating for the litigants is the little control they have over the costs. A very litigious opponent can run up costs. Judges' rules and court-imposed requirements on the litigants can drive up costs. Unfortunately, the typical jurist does not take into account how much litigation will cost the parties involved when managing cases, and only rarely do the courts consider litigation costs in managing their docket of cases.

Fortunately, there are ways to try to minimize litigation costs. These include the following:

1. Retain only counsel experienced in your type of lawsuit.
2. Insist that only experienced attorneys work on your case; do not bear the expense of training new attorneys.
3. Minimize the number of attorneys on the matter. The more attorneys, the more time spent on internal communications at the law firm.
4. Require monthly, itemized bills.
5. Negotiate billing rates, including everyone that will bill to the matter, including paralegals.
6. Identify the costs for which you will need to pay and the amount charged. Some law firms charge for printing out documents and copies, often at rates far above their actual costs.

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

7. Limit the amount billing rates can be raised during the life of the matter.
8. If there is a change out of attorneys, such as by retirement or an attorney changing firms, do not pay for the time to bring the new attorney up to speed.
9. Try for early mediation to settle the matter. Even if mediation does not settle the matter initially, the mediator can provide services as the matter proceeds, sometimes leading to settlement. Over 90% of cases involving intellectual property eventually settle. The sooner it settles, the less cost to the parties.
10. Consider arbitration instead of a court proceeding. This may not always be less expensive because the arbitrator(s) need to be paid by the parties, and a judge is paid by the public. Some arbitrators have prolonged matters, which increases their compensation. However, with the right arbitrator, lots of money can be saved.
11. Consider hiring separate counsel to advise you as to settlement if you suspect your attorneys may be too focused on earning fees.
12. Consider alternative billing schemes such as a reduced rate with a bonus for success. This may be more expensive if success is achieved, but hopefully it will be worth it.
13. For the plaintiff, consider a contingency or partial contingency arrangement with counsel. This may be available if the potential damages are sizeable, the case is likely to be won and the defendant can

pay the damages. Although this avoids attorney fees, if the matter is successful, it probably would have cost less to pay on an hourly basis.

Insurance for Intellectual Property Infringement

Some insurance policies can be used to defend against a lawsuit for intellectual property infringement. For example, an option for a Comprehensive General Liability policy (CGL policy) that most businesses carry is advertising injury defense and indemnity. If there is a possibility of being sued for intellectual property infringement, make sure your broker includes advertising injury coverage. Better yet, have the advertising injury coverage reviewed by an attorney before buying the policy. Different insurance companies provide different coverage. Some policies will provide protection with regard to copyright and trademark infringement. Only rarely do the policies provide protection against patent infringement.

Also consider obtaining a cyber liability policy that may provide protection against trademark and copyright infringement associated with use of a website.

Unfortunately, I know of no good policy for defending against a lawsuit that has only patent claims, unless the case is combined with another case of a different kind. The only such policy currently on the market is expensive and full of exclusions.

Some companies offer offensive insurance for patent infringement. They will help fund a lawsuit against an infringer and can be useful for a company with limited assets against a large infringer.

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

However, if the case is successful, the insurer gets all of its money back and a significant portion of any recovery.

Whenever sued for intellectual property infringement, it is generally a good idea to promptly tender the suit to the insurers for defense. Make sure to include any insurer providing coverage during the term of infringement and not just the current insurer. Your insurance broker should do this for you. The reason for doing this promptly is many insurers take the position that any legal fees incurred before tender are the responsibility of the insured. If the delay is too long, the insurer may refuse to defend because most policies include a requirement of prompt tender. The downside of tendering is it often results in higher insurance rates and sometimes policy nonrenewal. So if the matter is likely to be settled promptly, then a short delay in tendering may be a good strategy.

Sometimes a broker is not as cooperative as you would like. Keep in mind that brokers get rated on their claim history. Too many claims by their customers could result in an insurance company no longer allowing the broker to sell policies for it. Bear that in mind if the broker wants to delay tender. The broker may not always have your best interests at heart.

If the insurer agrees to defend, it may be under a "reservation of rights." The insurer may take the position that only some of the claims are covered, or that none is covered, reserving the right to ask for some or all of the monies paid in defense to be recovered. If there is a charge of willful infringement, the insurer may take the position that such willful acts are not covered at all. There are reported cases where insurers sue the insured to determine if a

defense needs to be provided. There are also reported cases where the insurer sues the insured after the case is over to recover all or part of the monies paid. So do not consider the insurance company's payment to be free money.

Also, the insurer may insist on using its "panel counsel" who are willing to work at reduced rates because of the volume of work received and the fact that insurance companies almost always pay. It is my experience that some panel counsel are more liberal with regard to how much time certain tasks should take, and make up for lower billing rates with greater number of hours to get a task done.

A problem for the insured is sometimes panel counsel are not as effective as you would like. Consider the option of requesting your attorney of choice to match that price, or paying the difference between what the insurance company will pay and what the real going rate is. At a minimum, have your own experienced attorney look over the work done by panel counsel to make sure everything that needs to be done is done, and done well.

Who Can Bring Suit?

You need to determine who has the right to enforce the rights in the intellectual property. Generally, a nonexclusive licensee of the intellectual property rights cannot enforce the rights. The owner of the rights is an indispensable party and must be in the lawsuit.

Sometimes an exclusive licensee has standing to bring suit, even without the owner of the rights. It depends on the terms of the license.

How Does a Lawsuit Proceed in Federal Court?

In this section, I take you through the typical steps involved in federal court litigation involving a patent. A chart is provided in Exhibit 8-1 to help follow these steps.

Exhibit 8-1: Steps Involved in Federal Litigation

Step 1. Pleadings

Complaint

A lawsuit commences with a complaint. The complaint states the alleged wrongful conduct of the defendant or, in the case of a declaratory judgment complaint, that the plaintiff did not violate any rights of the defendant. Usually, a complaint will be fairly detailed, identifying the product asserted to be infringing or at least some infringing claims.

B. Responses to the Complaint

A defendant might respond to a complaint by:

1. Answer

The most direct response to the complaint is an answer. An answer admits or denies the allegations in the complaint and sets forth certain defenses known as affirmative defenses.

2. Counterclaim

A defendant frequently asserts affirmative claims against the plaintiff by way of a counterclaim. Often one of the counterclaims is a declaratory judgment claim that the defendant did not violate any rights of the plaintiff.

3. Third-Party Claims

A defendant (or plaintiff) can assert claims against other parties in the form of cross-claims or third-party complaints.

4. Motions Attacking the Complaint

Before, or simultaneously with filing an answer, the defendant can file motions to attack the complaint. One motion can attack the plaintiff's choice of a forum where the lawsuit has been filed. Also, the complaint can be attacked on the grounds that it does not adequately state a viable claim.

C. Responses to Defendant's Pleadings

Whenever a defendant asserts affirmative claims, each of the defendant's claims is akin to a complaint. The opposing party must respond to the defendant's affirmative claims by reply or motion.

2. Preliminary Relief

A. Temporary Restraining Order

At the outset of the case, the plaintiff can request that the court issue a temporary restraining order (TRO), such as an order preventing infringement for a short period of

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

time. A TRO is not commonly granted and is obtainable only in certain types of cases, usually not patent cases.

B. Preliminary Injunction

Whether or not a TRO is sought, the plaintiff can ask for a preliminary injunction, preventing certain conduct during the pendency of the lawsuit. If a preliminary injunction is obtained, it is necessary to post a bond to provide for compensation to the enjoined party if it later turns out that the injunction should not have issued.

3. Discovery

Discovery is the process whereby the parties obtain information relevant to the case.

A. Status/Scheduling Conference

Early in the case, the attorneys have a “Rule 26” meeting to discuss the issues, propose a schedule for the case and exchange basic information, including identification of key witnesses, documents, and other evidence. The court then conducts a scheduling conference to set dates for completion of discovery and filing motions, and preliminary dates for trial and pretrial proceedings.

B. Depositions

Depositions are usually taken. These include out-of-court testimony under oath by the parties and third-party witnesses.

C. Document Production

The parties are entitled to obtain copies of relevant documents from each other by notice and from third parties by subpoena.

D. Interrogatories

Each party can submit written questions to the other side that are to be answered under oath.

E. Requests for Admissions

Each party can request that the other side admit certain facts are true. A party who wrongfully refuses to admit can be forced to pay the cost of proof.

F. Protective Orders

Because of the sensitive nature of documents and information that the parties are required to produce, it is the usual practice to have a protective order issued by the court limiting the persons who have access to the sensitive information and the use that can be made of the information.

G. Discovery Motions

Often, there are disputes regarding appropriate discovery. If not resolved by the parties, discovery disputes are the subject of motions and decided by the court.

4. Markman Hearing (patent cases only)

In patent cases, the court normally conducts a "Markman" hearing. The purpose of the hearing is to interpret disputed patent claim language that defines the scope of the invention. A Markman hearing can be rigorously contested because the court's claim interpretation can greatly affect who wins.

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

5. Expert Witnesses and Discovery

Expert witnesses can be involved with respect to such topics as technical, legal, and economic issues. Expert witnesses prepare written reports and are usually deposed after all nonexpert discovery.

6. Summary Judgment Motions

Each side normally files at least one motion for summary judgment or summary adjudication. Such a motion asks the judge to decide as a matter of law that the moving party is entitled to win the case, thus ending the case, or at least one issue in the case, thus ending discussion as to that issue.

7. Alternative Dispute Resolution

Most courts require that the parties engage in alternative dispute resolution (ADR), usually in the form of mediation before a judge or experienced mediator. This can occur early in the case, but sometimes ADR occurs close to trial. Representatives of the parties with settlement authority are required to attend, but the mediator cannot force a settlement.

8. Pretrial Conference

A pretrial conference is conducted shortly before trial. The lawyers are usually required to file numerous documents, including proposed jury instructions, motions in limine (e.g., usually a motion to exclude certain evidence from trial), witness and exhibit lists, and a proposed pretrial conference order.

9. Trial Preparation

Trial preparation is usually extensive and includes preparation of exhibits, witnesses, trial briefs, and documents.

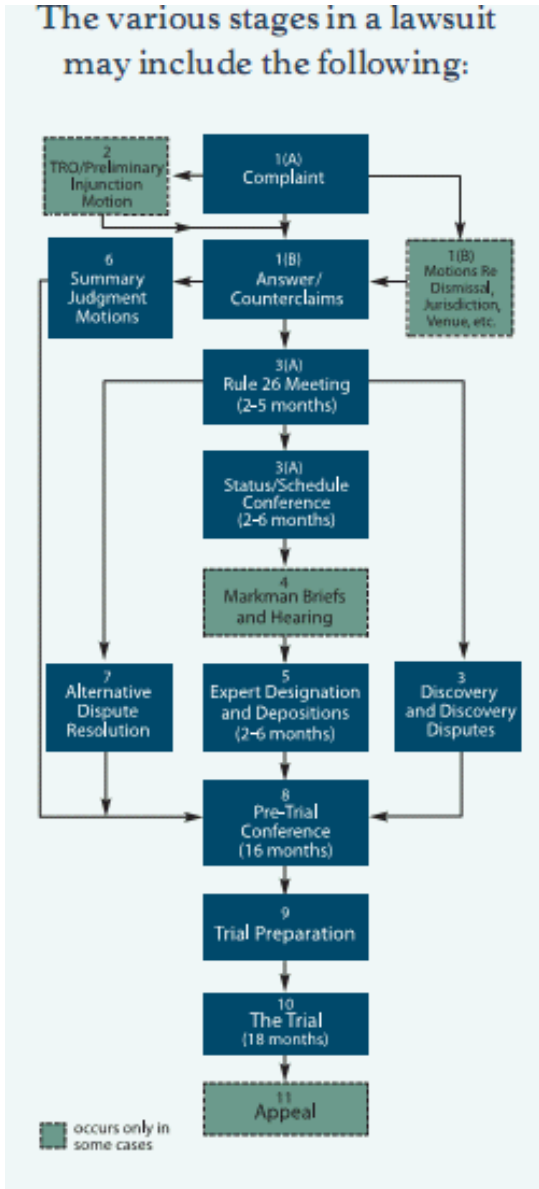
10. Trial

Typically, trial occurs about 18 to 24 months after the complaint is filed. In most intellectual property cases, the parties are entitled to a jury trial; however, the parties can waive a jury. After trial, the parties can file post-trial motions. For example, a party can file a motion requesting that the judge set aside or alter the jury's verdict. The prevailing party might file a motion asking the court to award its litigation costs and attorney fees.

11. Appeal

Either side might appeal. An appeal can be taken from the result of a trial. Intermediate decisions, as well as post-trial rulings, can also be appealed after the trial (if not sooner). In general, an appeal can succeed only if the judge has made a reversible error as to the law or if there is no substantial evidence to support the jury's verdict.

Figure of Steps Involved in Federal Litigation



Remedies

There are two types of remedies available against an infringer: an injunction and money.

Injunctive Relief

Even if the intellectual property owner wins, an injunction against future infringement is not guaranteed. Other factors that are considered are the harm to the party that will suffer the continued infringement, the harm to the defendant of an injunction, and the interest of the public. For example, in a patent case, it is difficult for nonpracticing entities to obtain an injunction against an infringer. (Nonpracticing entities, also known as patent trolls, are businesses that obtain ownership of patents solely for the purpose of extracting damages for infringement, without actually using the invention described in the patent.) Instead, the patent owner may be awarded ongoing royalties. As another example, if the infringer is making a life-saving drug, and the owner of the intellectual property cannot satisfy demand for the drug, it is unlikely an injunction will issue.

Monetary Relief

Depending on the type of intellectual property involved, various different types of monetary remedies are available as alternatives, including damages, exemplary damages, attorney fees, and interest. Interest is always available. The following are remedies available for different types of intellectual property rights:

- **Utility patents:** Damages are measured by lost profits, but according to statute, the

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

damages are to be no less than a reasonable royalty. Under some circumstances, a reasonable royalty can be difficult for the plaintiff to prove. If the infringement is willful, damages found by the jury can be trebled and the patentee's attorney fees can be awarded. To be a willful infringer, it is necessary to know of the patent or have blind indifference to the existence of the patent.

Damages can be awarded for infringement that occurred before the patent issued for patent applications that are published. Pre-issuance damages require that the infringer is put on notice of the published application, and the issued infringed claims are substantially the same as a published claim.

- **Design patents:** Damages can be measured in the same way as utility patent damages, but as an added alternative can be measured by the infringer's profits.
- **Trade secrets:** Monetary relief depends on the law of the particular state in which the trade secret misappropriation occurred or what is set forth in the Federal statute. Usually damages (as measured by lost profits or the defendant's profits), attorney fees, and exemplary damages are available.
- **Trademarks:** Many trademark cases are fought over rights, not money. However, damages are sometimes available as measured by lost profits or the defendant's profits. If the infringement is willful, up to treble damages, attorney fees and exemplary damages are available. In counterfeiting cases, which require close intentional copying

of a mark, the plaintiff can recover statutory damages without proof of actual damages.

- **Copyright:** Damages as measured by lost profits or the defendant's profits are available (but no double recovery). If there was a registration in place before infringement began, then attorney fees and statutory damages are available. The copyright owner needs to elect between statutory damages and actual damages.

Litigation Hold

Whenever litigation is reasonably anticipated, it is advisable to institute a litigation hold. A litigation hold is to preserve all forms of information that may be relevant to the litigation. This includes e-mails, invoices, voice mails, text messages, and the like.

A litigation hold suspends the normal deletion of records, such as backup tape recycling or deletion of documents stored on remote servers such as in the "cloud."

Failure to institute a litigation hold can have dire consequences in litigation, such as actually losing the lawsuit or evidentiary presumptions against the party destroying documents.