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Dogs of War

By Jennifer Bier

Intellectual property is the lifeblood of many companies, and losing it in court can be disastrous. Picking the right jurisdiction, hiring the best attorneys—in-house or outside—and moving forward aggressively can make, or break, a business. Every day, a large, well-known company finds out that someone else is using its famous mark without permission. Or a smaller company that has poured its heart and soul—not to mention all its finances—into one product sees another company marketing its intellectual property.

In these situations, the natural question is: Do we sue? Many times, the answer must be yes.

But to reach that conclusion, companies—no matter how aggressive—must carefully consider the strategies for and ramifications of suing. Top litigators from many Washington-area law firms and in-house counsel for telecommunications and technology companies say that before they make their first move toward the courthouse, they weigh everything from finances and the potential weaknesses of a patent at issue to the sentiments of the local jury pool and the message that litigation sends to competitors.

VALUES QUESTION

An initial question that can stop smaller companies in their tracks is whether they have the resources, human and monetary, to survive litigation. With the market for technology products moving far more swiftly than the usual pace of the courthouse, companies can risk their spot in the marketplace by spending time before a judge. Small companies banking on only a handful of inventors or a single unique idea may skid to a halt while a patent contest plays out.

"How big you are is going to have a big impact on whether you sue or not," says IP litigator James Davis, a former judge at the U.S. Court of Claims and a partner at D.C.'s Howrey Simon Arnold & White.

Another factor is the kind of intellectual property at issue. Patent litigators say such cases routinely cost more to resolve than trademark or copyright cases.

Frederick Jorgenson, IP and licensing counsel for the Harris Corp., a former printing press and semiconductor company that has recently focused on communications equipment, says, "We have yet to find a [patent] case that has cost us, in discovery, less than $1 million."

But the more obvious costs of hiring lawyers and paying for experts are not the only ones that need to be considered.

Raphael "Ray" Lupo, head of the IP department at McDermott, Will & Emery, says that the chance a court might find your patent invalid makes litigation a huge gamble. "When you are going to be suing on an intellectual property, you are putting at a risk your property," says Lupo. "The risk of losing the property—that has to be weighed against the risk of letting someone infringe on your patent."

Just as allowing infringement may not be an option, permitting a rival to insinuate that infringement has occurred may be unacceptable to many.

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"Maybe the patentee is disparaging your good name, but has not brought suit," says partner Richard Kelly of Arlington's Oblon, Spivak, McClelland, Maier & Neustadt. "You want to get the cloud off of your product. The threat of litigation can have a chilling effect."

WHERE, OH, WHERE

If the decision to sue is made, the next question that IP litigators must tackle is where to file the case. Though choosing the right venue was perhaps trickier two decades ago than it is today, there are still problems to overcome.

Prior to the 1982 opening of the U.S. Court of Appeals for the Federal Circuit, which has jurisdiction over all IP appeals from federal district courts, appeals were heard by circuits all over the country, with varying results.

"Before 1982, when the regular circuits got the appeals, there were some circuits that were so hostile to patents, the odds of your winning were very small," says Donald Dunner of D.C.'s Finnegan, Henderson, Farabow, Garrett & Dunner. He points to the 8th Circuit as one of the worst offenders, and the 6th and 7th Circuits as the most patent-friendly.

"People with patents, or people in litigation-oriented situations, would try to engage in pre-emptive strikes," recalls Dunner, who has litigated patent cases all over the country and played an instrumental role in the formation of the Federal Circuit. "There would be a race to the courthouse."

Speed is still a top consideration in the minds of IP litigators. With so many area companies located in Northern Virginia, the Eastern District of Virginia naturally comes up in all conversations about filing suit.

"Historically, the Eastern District of Virginia has been unique in the way that it functions," says Davis, the Howrey Simon partner. "If you file there, no matter how big or small, the general rule is that you'll be in trial in a year. That's extraordinary."

For plaintiffs, the rapid docket—or "Rocket Docket," as it is known—is often seen as a benefit.

"High technology often has a very short lifespan," says Lupo of McDermott, Will, explaining why going to trial quickly can be important for many companies.

A rush to trial also means a speedy discovery period, which plaintiffs often favor and defendants at times resent.

"The Eastern District of Virginia is a plaintiff's court. The plaintiff usually has done all of his homework before filing suit, so he doesn't need much discovery," says Kelly. The Oblon, Spivak litigator adds that because defendants may need time to investigate the allegations against them, the few months allowed in the Eastern District can be a severe disadvantage.

To avoid the rapid pace of the Rocket Docket, says Kelly, some defendants are moving to transfer cases to other jurisdictions. Another favored forum for plaintiffs is the federal district court in Delaware, which is often considered to be one of the speedier courts in the country. Kelly estimates that discovery takes twice as long in Delaware as it does in the Rocket Docket. But that is still much faster than discovery in most federal courts.

Just because a defendant wants a transfer to another court doesn't mean the Eastern District will be amenable to that request. Motions to transfer are increasing, observes Kelly, but the Eastern District is keeping many of the cases here, often because the suits involve local technology companies.

"If you've got a solid venue in that court, you'll be there. They won't transfer out," says Davis.

While plaintiffs and defendants may disagree over the need for speed in IP actions, both parties agree that experienced judges can make all the difference in complex litigation.

"You want to go to a forum where judges are known for their thoughtfulness, as well as their decisions," says Jorgenson, whose company is a frequent litigator in the Eastern District. "Once judges get familiar with patents, there's a judicial economy because these cases can be complicated."

Again, Delaware gets kudos from litigators as an alternate forum.

"The District Court in Delaware has especially experienced judges," asserts Davis. "You get good service from the bench and intelligent decisions."

HOME FIELD

Simply heading to the Eastern District or Delaware may not work for everyone, though. Companies have to think about where their headquarters are located.

"A small company might want to stay in its hometown, especially when suing a big company," opines Dunner.

Kelly takes it a step further. "You always prefer the lawsuit in your home court," he states. "Also, if you're well-known and have a good reputation, that can't hurt."

That goes for big companies, too. Lupo believes that one of the benefits of staying in the home court is that an established local company will likely be supplying jobs in the area. And that can mean a jury that will look upon the company favorably.

But Lupo cautions that if the company is well-liked in the community, the company's opponent may work hard to keep the case from going forward in a local court.

"The defendant . . . is trying to find a place where the jury will have the least reason for liking the plaintiff," he says.

Of course, there are no guarantees that staying in a local court will mean that the jury will side with the local company.

"If enough is at risk, we will go through a careful analysis of the jury pool," says Jack White, vice president and associate general counsel for wholesale markets at Verizon. "Will the jury understand technical matters?"

AID AND COMFORT

Picking outside attorneys to assist in-house counsel in handling lawsuits is also a step that requires careful study. Most companies, even those with large legal departments, turn to outside counsel for litigation.

"We're a relatively small company, and by virtue of that, we have a relatively small legal department," says Lee Weiner, senior vice president and general counsel for Herndon-based Net2000 Communications Inc. "We do not have any attorneys assigned solely to litigation, so we rely heavily on outside counsel."

Reflecting on his past experience as general counsel at the larger LCI International (now part of Qwest Communications International Inc.), Weiner muses, "Even if we had a full-time litigator on our staff, there would be some need to rely on outside counsel."

MOVING TARGETS: Richard Kelly says defendants often try to transfer cases from Virginia's Rocket Docket, perceived to be a "plaintiff's court."

Advises Lupo: "Hire the best attorney you can. That's someone who may tell you never to bring the suit. The worst thing that can happen is that someone puts you into litigation on a weak patent."

But if everything falls into place—the right jurisdiction, smart outside counsel, and good facts—the rewards can be irreplaceable: a public relations coup, monetary damages, legal fees, and an injunction against a competitor, all rolled into one.

Davis suggests that injunctive relief can be the most important element. "Plants can be closed down, and products taken off the market," he says.

Even if litigation results only in an agreement under which your foe must pay a licensing fee, that has its advantages.

"You may end up with a favorable license," says Lupo. "If you're willing to tolerate your competitor in the marketplace, they have to pay you."

In fact, some litigators say aggressive efforts to protect patents can create a competitive edge back at the business park.

"If technology companies have effective IP portfolios, they can use that to establish roadblocks to prevent entry into their space," says Martin Zoltick, a partner in the Reston office of Mintz, Levin, Cohn, Ferris, Glovsky & Popeo.

And as Kelly points out, win or lose, a willingness to battle in court can give competitors pause.

"If you do get proactive, you send a message to the other side that you're willing to fight," says Kelly.

Of course, the downside of litigation can also be extreme.

Lupo underscores that if your patent is faulty, you risk seeing it declared unenforceable and being ordered to pay the other side's fees.

And the cost of a lawsuit, regardless of outcome, is enough to make litigation a disadvantage for some.

"Litigation is a very expensive way to solve a problem," says Jeffrey Elefante, executive vice president, general counsel, and secretary of Arlington's CACI International Inc. "Because litigation is expensive, we do not undertake it lightly."

At CACI, litigation is not a foregone conclusion, even when settlement attempts such as cease-and-desist letters do not work. Only when the infringement of intellectual property touches upon a cornerstone of CACI's information technology business does Elefante consider litigation.

But, increasingly, when companies start down the road toward litigation—especially the nascent dot-coms and high-tech firms popping up all over the country—they find there is no turning back.

"It's become much harder to settle cases. The parties are much more serious in going down to trial because it's often a life-or-death case for the company," says Lupo. "If you are a new company, your entire existence may be one product. You are going all the way to trial." ■