

**INVALIDITY DEFENSES TO E-PATENT INFRINGEMENT:  
*A Comparative View of the Differing Ways to Achieve  
Patent Justice in the United States***<sup>\*</sup>

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## I. OVERVIEW

The American system to determine patent invalidity differs markedly from the German and Japanese systems. On the one hand, the German and Japanese patent regimes each segregates the issue of patent invalidity out of the infringement trial — reserving this for a special tribunal.<sup>1</sup> In marked contrast, the U.S. system has an integrated consideration of patent invalidity heard concurrently with the patent infringement suit. Indeed, it is an integral part of the litigation.

The United States offers the greatest diversity of trial courts for patent infringement — and validity — of any system in the world, which has both positive and negative aspects. See § II, *A Wide Range of American Trial Courts*.

A certain bias is exerted in the consideration of invalidity at the trial level. See § III, *The Power of the Patentee, Trial Court and Jury*. This includes a statutory prejudice favoring the patentee in terms of validity and a "clear and convincing" standard imposed on the accused infringer to establish invalidity.

Too much attention has been focused upon the United States Court of Appeals for the Federal Circuit ("Federal Circuit") as a solution to internal harmonization. On the one hand, this is true insofar as *appellate* patent jurisprudence is concerned. The Federal Circuit has been (correctly) praised as an excellent appellate forum. But, the day to day matter of patent jurisprudence largely focuses upon what happens at the trial court level. To the extent that a trial court refrains from maintaining a tight control of a case, or refrains from granting summary judgment in appropriate

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<sup>1</sup>Whereas the Japanese system has the issue of invalidity before the Patent Office, the German system has a special *Bundespateamtgericht* ("federal patent court") near the Isar River and the German Patent Office in Munich.

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cases, it often matters little what the Federal Circuit case law authorizes the trial court to do. The power of the case law created by the Federal Circuit is effectively dissipated for such cases. See § III, *Remote Justice at the Federal Circuit*.

Yet another special factor of American patent jurisprudence is the importance of being the *first* to bring the lawsuit: The psychological factor of an accused infringer being the "plaintiff" — by suing first in a declaratory judgement action — has been reported to have a statistically valid impact on juries. See § IV, *Forum Shopping and the Power of Being Plaintiff*.

As an alternative, the accused infringer may seek administrative revocation at the U.S. Patent and Trademark Office (PTO). This includes a new "inter partes reexamination" as part of the *American Inventors Protection Act of 1999*. See § VI, *PTO Administrative Proceedings*.

One of the most remarkable developments has been the resurgence of power of the International Trade Commission. Seen to be near dying as a major forum for patent infringement relief in the immediate wake of the TRIPs, the ITC today is stronger than ever. See § VII, *A Renaissance of the ITC*.

A solution first proposed in the 1980's would end much of the forum shopping dilemma in the United States that is borrowed from the Continent: Each Circuit should designate one or more of its trial courts as having exclusive or shared exclusive patent jurisdiction.<sup>2</sup> See § VIII, *Ultimate Solution to the Forum Shopping Problem*.

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<sup>2</sup>Wegner, "Improved U.S. Patent Enforcement Procedures: Modifying Section 337, 4 *World Intellectual Property Report (BNA)* No. 4, p. 83 (April 1990).

## II. A WIDE RANGE OF AMERICAN TRIAL COURTS

### A. Extreme Diversity of Trial Courts

#### 1. A Handful of Great Patent Courts

America has by far the greatest diversity of Federal trial courts<sup>3</sup> to hear patent cases of any country of the world. In some ways, the American system may be analogized to that of Germany, where *some* of the courts are the best in the world for hearing patent cases. Thus, the *Landgericht* in Düsseldorf compares favorably with *any* trial court in the world for expertise in patent cases. In the United States, a trial in Alexandria (Virginia),<sup>4</sup> Wilmington (Delaware) or the Northern District of California will also provide an excellent choice in terms of having a case before a trial judge who has a fine touch and deep knowledge of patent jurisprudence. The *perception* previously had been that courts of high patent reputation such as Düsseldorf, Alexandria, Wilmington and the Northern District of California share a relatively heavy diet of patent cases amongst the overall case load of matters brought before each of these courts. But, while this is true for Düsseldorf and Wilmington, this does not explain the excellence, for example, in Alexandria, based upon the study of Professor Moore.<sup>5</sup>

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<sup>3</sup>Patent matters are exclusively brought in a federal district court. The state court systems lack jurisdiction to hear a patent case. (On occasion, they may need to interpret a patent matter in terms of a breach of contract claim or a malpractice claim against a patent attorney.)

<sup>4</sup>The author acknowledges with appreciation the special insights to litigation in the Eastern District of Virginia provided by Kenneth E. Krosin.

<sup>5</sup>This section particularly benefits from the paper of Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 83 J. Pat. & Trademark Off. Soc'y 558 (2001) (republishing the original study in 79 N.C.L Rev. 889 (2001)). It is referred to herein as the

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The German solution that permits Düsseldorf—and other parallel courts such as in Munich—to have such a rich diet of patent cases is that only a minority of the *Landgerichte* throughout Germany have original jurisdiction to hear patent cases. America, unfortunately, does not have such a law: Rather, the large number of patent cases in the "patent courts" of America was created through the reputations of these courts for fairness and excellence in hearing patent cases such that parties *choose* these courts as the forum of choice to bring a case.

"Moore Study".

The Moore Study at page 571 shows the ten most active courts in terms of patent infringement litigation to be the following:

<b>Trial Court</b> [with percentage of total patent cases in all U.S. Courts]	<b>Patents as a Percentage of Cases</b> [Cases within the Particular Court (raw percentage from Moore Study)]
C.D. California (9.1 %)	2 % (2.2)
N.D. California (Silicon Valley) (6.3)	3 (2.7)
N.D. Illinois (6.9)	2 (1.7)
S.D. New York (4.1)	1 (1.0)
Massachusetts (3.3)	2 (2.4)
Delaware (3.2)	10 (10.7)
S.D. Florida (3.1)	2 (1.7)
Eastern D. Virginia (3.0)	2 (1.8)
New Jersey (3.0)	1 (1.2)
Minnesota (2.9)	3 (2.9)

## 2. Most Courts Lack Patent Expertise

Conversely, it is typical for the literally hundreds of judges spread out through the vast majority of the ninety-four district courts that they hear no or only a rare patent case. They never have the opportunity to build an experience base in the complex world patent law: For many, the next patent case is their *first* patent case.<sup>6</sup> The typical trial judge who enters the federal judiciary is someone with a generation of experience handling some of the most complex legal matters of American society, someone carefully chosen based upon a wealth of experience in practice.

## 3. Shifting Sands: Overloading in Alexandria

The Alexandria court has been faced with an overloading of its patent docket. It has solved that problem by transferring cases to other courts: This is based upon the fact that the Alexandria court is a *division* of the larger Eastern District Court of Virginia which also includes trial courts on the Eastern Shore — in Norfolk — and in the capital city of Richmond. Where there is an overload of patent cases, new cases may be randomly transferred *sua sponte* by the court itself to other *divisions* in Norfolk or Richmond.

Neither Norfolk nor Richmond has developed the patent specialization that is the hallmark of the Alexandria court. The possibility of such a random transfer of cases has also had a chilling effect on where parties choose to bring patent litigation: Whereas the Alexandria court may have

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<sup>6</sup>There is no system of a technical support staff from the PTO or from other courts, or the court system itself, to provide case by case "law clerk" or other staff support. Rather, each judge has his own staff of one or more law clerks. Whereas on occasion patent-experienced lawyers serve for one of the judges on the "patent courts", this is a rarity in most courts in the United States.



once been a first choice for many litigants, now this is shifting because of the random chance that filing in Alexandria may lead to a transfer of the case to Norfolk or Richmond. Some prospective litigants will now preferentially choose another court, such as Wilmington (Delaware), Madison (Wisconsin), the Northern District of California — or possibly the International Trade Commission, which is now enjoying a renaissance in popularity amongst patent litigants.

### **B. Speedy Justice: Patents versus Drug Crimes**

Cases may be completed at the trial level in less than one year, which is a norm in Alexandria or the Madison division of the Western District of Wisconsin. Or, court proceedings may not even gain a trial date for several years. This is largely dependent upon which court is chosen for the litigation. A patent case that is brought in Alexandria or Madison is likely to reach a conclusion in, respectively, less than about five months<sup>7</sup> to less than eight months.<sup>8</sup>

All federal trial courts are dedicated to the proposition of "speedy justice" and seek to move cases along rather quickly. A few of these courts are blessed with a relatively low *criminal* case law docket, which permits the application of the principles of speedy justice to patent cases, as in Madison and Alexandria.

What hurts some other courts — and most major city courts such as New York, Miami and Chicago — is a very heavy load of federal criminal cases, particularly where there are heavy drug traffic dockets. Obviously, the liberty of an individual human being facing a felony charge must be

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<sup>7</sup>The Moore Study (page 575) provides an average for Alexandria of 0.43 years for each suit from filing to conclusion which, of course, includes settlements.

<sup>8</sup>*Id.* The Moore Study calculates the average for Madison patent cases at 0.60 years.

given precedence over commercial litigation; this is a policy that Congress has set in its legislation. As a net result, patent cases are often deferred for a considerable period of time to make way for the trials of criminal defendants.

### III. THE POWER OF THE PATENTEE, TRIAL COURT AND THE JURY

The accused infringer has a very difficult time to establish the invalidity of a patent claim in trial. There are several major factors that go against the accused infringer.

#### A. Procedural Favoritism of the Patentee

The patentee has a tremendous procedural advantage in a trial setting because of *both* a statutory presumption of validity<sup>9</sup> as well as a burden placed on the accused infringer to establish invalidity by "clear and convincing evidence". As explained by Judge Michel in the *Loral* litigation:

Because of the statutory presumption of patent validity, 35 U.S.C. § 282, at trial Toshiba and NEC would bear the burden of proving by clear and convincing evidence that the Erb reference was published prior to Loral's reduction to practice. *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1578 (Fed. Cir. 1996) ("Bard must persuade the trier of fact by clear and convincing evidence that the Cook catalog was published prior to Dr. Mahurkar's invention date."). Of course, Loral would bear a burden of production to present evidence of its asserted actual reduction to practice prior to the filing date of its patent application. *Id.* at 1576-77, 79 F.3d 1572 ("Had Dr. Mahurkar not come forward with evidence of an earlier date of invention, the Cook catalog would have been anticipatory prior art under section 102(a) because Dr. Mahurkar's invention date would have been the filing date of his

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<sup>9</sup>35 USC § 282.

patent." ).<sup>10</sup>

In the context of the determination of patent invalidity, the court explains that:

A patent is invalid for obviousness if "differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103(a) (1994). "Throughout the obviousness determination, a patent retains its statutory presumption of validity, *see* 35 U.S.C. § 282, and the movant retains the burden to show the invalidity of the claims by clear and convincing evidence as to underlying facts." *Rockwell Int'l. Corp. v. United States*, 147 F.3d 1358, 1364 (Fed. Cir. 1998).

Although it is well settled that the ultimate determination of obviousness is a question of law, it is also well understood that there are factual issues underlying the ultimate obviousness decision. *Richardson-Vicks Inc. v. Upjohn Co.*, 122 F.3d 1476, 1479 (Fed. Cir. 1997). Specifically, the obviousness analysis is based on four underlying factual inquiries, the well-known *Graham* factors: (1) the scope and content of the prior art; (2) the differences between the claims and the prior art; (3) the level of ordinary skill in the pertinent art; and (4) secondary considerations, if any, of nonobviousness. *Graham v. John Deere Co.*, 383 U.S. 1, 17-18, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966); *Kegel Co., Inc. v. AMF Bowling, Inc.*, 127 F.3d 1420, 1430 (Fed. Cir. 1997).<sup>11</sup>

To overcome the statutory presumption of validity, the burden is a heavy one against the accused infringer: "Clear and convincing evidence" must be shown. This is explained by Judge Michel with reference to the Loral trial:

Sony was the first and only defendant to go to trial. Over the course of five weeks in 1996, Loral and Sony tried the issues of validity and infringement to a jury.

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<sup>10</sup> *Loral Fairchild Corp. v. Matsushita Elec.*, 266 F.3d 1358 (Fed. Cir. 2001).

<sup>11</sup> *McGinley v. Franklin Sports, Inc.*, 262 F.3d 1339, 1349 (Fed. Cir. 2001).

On February 14, 1996, the jury returned a verdict finding that Sony did not prove invalidity of the asserted claims, and that Loral had proven infringement under the doctrine of equivalents. Sony then moved for judgment as a matter of law ("JMOL") or, alternatively, for a new trial.

The district court granted Sony's motion for JMOL, holding that no reasonable jury could find that Sony infringed. *See Loral Fairchild Corp. v. Victor Co. of Japan*, 931 F.Supp. 1014 (E.D.N.Y.1996) (*Loral II*). One basis for the court's decision was that Sony's accused process could not infringe under the doctrine of equivalents because it had been disclosed in a journal article authored by Dr. Darrel Erb ("the Erb reference") and published on December 3, 1973, prior to the February 8, 1974 filing date of the application that issued as the '674 patent. *Id.* at 1030 (*citing Wilson Sporting Goods Co. v. David Geoffrey & Assoc.*, 904 F.2d 677, 683-85 (Fed. Cir. 1990) (patentee may not assert a range of equivalents for infringement purposes that includes the prior art)). Although the jury had returned a special verdict form indicating that it found that the Erb reference did not qualify as prior art against the '674 patent, the district court concluded that no reasonable jury could have done so. *Loral II*, 931 F.Supp. at 1031.

On appeal, we affirmed the grant of JMOL, but solely on the ground that Loral's allegations of infringement under the doctrine of equivalents were barred by prosecution history estoppel; our decision did not address whether the Erb reference is prior art with respect to the '674 patent. *Loral Fairchild Corp. v. Sony Corp.*, 181 F.3d 1313, 1316 n. 3 (Fed. Cir. 1999) (*Loral III*).<sup>12</sup>

## **B. The Special Power of the Jury**

Even though the facts, *if freshly reviewed*, might favor one party over the other, the standard is much tougher for either the trial judge or the Federal Circuit on appeal to take the case away from the jury. As explained by Judge Linn:

Summary judgment is only appropriate when "there is no genuine issue as to any

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<sup>12</sup>*Loral Fairchild Corp. v. Matsushita Elec.*, 266 F.3d 1358 (Fed. Cir. 2001)

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material fact and ... the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c). We draw all reasonable inferences in favor of the non-movant. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986).<sup>13</sup>

On appeal, there is no de novo review of factual findings by the jury. Rather, the appellate test is whether there is "substantial evidence" to support the jury's finding. Thus, even if the facts show that the patent *should be* held invalid, there is often evidence in the record that could support a finding either way. Thus, if there is "substantial evidence" that supports a conclusion of validity, then the jury's verdict of patent infringement must be upheld. As explained by Judge Linn:

"Substantial evidence is such relevant evidence from the record taken as a whole as might be accepted by a reasonable mind as adequate to support the finding under review." *Perkin-Elmer [Corp. v. Computervision Corp.]*, 732 F.2d [888,] 893 (Fed. Cir. 1984)] (internal quotations omitted). "A finding of fact must stand unless appellant shows that on the entirety of the evidence of record, including that which detracts from the weight of the favorable evidence, and taking into account the required quantum of proof, no reasonable juror could have made the finding." *Read [Corp. v. Portec, Inc.]*, 970 F.2d [816,] 821 (Fed. Cir. 1992), *abrogated on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (en banc), *aff'd*, 517 U.S. 370 (1996)].(citations omitted). Because a patent is presumed valid, the quantum of proof required at trial was clear and convincing evidence. 35 U.S.C. § 282 (1994) ("A patent shall be presumed valid."); *Verdegaal Bros., Inc. v. Union Oil Co. of Cal.*, 814 F.2d 628, 631 (Fed. Cir. 1987). Thus, in its JMOL motion, Monsanto needed to show that substantial evidence did not support the jury's presumed finding that the defendants had established invalidity by clear and convincing evidence.<sup>14</sup>

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<sup>13</sup> *Superior Fireplace Co. v. Majestic Products Co.*, \_\_\_ F.3d \_\_\_, 2001 WL 1338793 (Fed. Cir. 2001).

<sup>14</sup> *Monsanto Co. v. Mycogen Plant Science, Inc.*, 261 F.3d 1356, 1352 (Fed. Cir. 2001).

Juries in the United States play a disproportionately important role in determining the outcome of a particular case, particularly where a trial court is unwilling to exercise its jurisdiction to take charge of a case and grant summary judgment or a "JMOL" — judgment as a matter of law.<sup>15</sup>

### **A. Forum Shopping Remains Critical**

As pointed out in the Moore Study:

[D]espite the creation of the Federal Circuit, choice of forum continues to play a critical role in the outcome of patent litigation. [P]atent cases are not evenly dispersed throughout the ninety-four judicial districts or dispersed according to the relative size of the court's civil docket generally, but rather consolidated in a few select jurisdictions.<sup>16</sup>

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<sup>15</sup>Juries decide cases only if one of the parties makes a timely request for a jury. But, since at least one of the parties will generally find it to be favorable for the outcome to have a jury, the general result is that patent infringement trials are handled by a jury.

<sup>16</sup>Moore Study at 588.

## **B. Injunctions are not Normally Deferred for Appeal**

The *law* is ultimately determined by the Federal Circuit — and on very rare occasions on review by the Supreme Court. Yet, it is the decision of the trial court — often by jury — that will drive the outcome of many cases where injunctive relief is involved. Thus, at the end of the trial, if a jury has found that the defendant is a patent infringer, then at the conclusion of proceedings at the trial level an *injunction* to bar further infringement is generally granted.<sup>17</sup>

While there is a right of appeal to the Federal Circuit, if the trial court orders that infringement be halted and whole factories are to be shut down, then there is a powerful incentive to settle the case at this stage: As a business matter, how can a party successfully continue its operations if it has to shut down commercial operations during the period of an appeal?<sup>18</sup>

Perhaps the most extreme example of the impact of an injunction before an appeal is the notorious *Polaroid v. Kodak* litigation: With literally thousands of factory jobs at stake and where an entire product line and factory were to be shut down by the trial court *prior to the appeal*, the trial court nevertheless issued an injunction to shut down the entire Kodak instant film business

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<sup>17</sup>In some cases, the injunctive relief may be via a *preliminary* injunction even before a trial. Obviously, the effects of such a preliminary injunction are even more extreme against the accused infringer.

<sup>18</sup>While the entire appellate process may take less than one year in some cases, there is a significant minority of cases that may take two or more years to go through the appellate process at the Federal Circuit. Unlike most federal appellate courts that list the date of oral argument on the opinion itself, the Federal Circuit represents a minority of the courts that refrains from identifying the date of the oral argument on their opinions (although members of the court may, and some do, list the date of the argument in their opinions).

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prior to the commencement of the appeal.<sup>19</sup> The importance of the patent system and injunctive relief to honor the patent right were judged superior to the continuation of literally thousands of jobs of Kodak employees during the appeal.

The trial court set January 9, 1986, as the date for the injunction to go into effect. On January 7, 1986, the Federal Circuit issued an order denying a stay, simply saying that "this court finds no adequate basis for reaching a conclusion different from that of the district court with respect to the requested stay of the injunction."<sup>20</sup>

Unlike the typical appeal that has a pendency on the order of one year, the Federal Circuit expedited consideration and issued its final decision on the merits in less than four months.<sup>21</sup>

Therefore, if the goal of a patent litigant is to invalidate a patent as a means to continue in business, and if interruption of a business for several months or a year or more would be disastrous, then it is imperative that the case be won at the trial level: To the extent that injunctive relief is granted and not deferred until after an appeal – as was the case in case of the close of the entire product line for Kodak – then the loss at trial means that even if there is an appellate victory possible a year later, effectively the case has been lost as a business matter.

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<sup>19</sup> *Polaroid Corp. v. Eastman Kodak Co.*, 641 F.Supp. 828 (D.Mass. 1985).

<sup>20</sup> *Polaroid Corp. v. Eastman Kodak Co.*, 833 F.2d 930, 931 (Fed. Cir. 1986).

<sup>21</sup> *Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556 (Fed. Cir. 1986).



### **C. Discretion to Grant Summary Judgment**

Trial courts have the *discretion* to grant JMOL after a jury verdict — and this is routinely done where the facts warrant such action in the "patent courts" such as Alexandria. Yet, this discretion may not be invoked by a trial judge who simply has never had a patent case before: The court may err on the side of letting an appeal be taken to the Federal Circuit without grant of JMOL.

### **V. FORUM SHOPPING AND THE POWER OF BEING PLAINTIFF**

The choice of the court to hear the patent case is generally determined by who first sues. If one is a patentee suing in Silicon Valley, he has the best chance of winning.<sup>22</sup>

In many situations, once one of the parties sues — either for patent infringement or for a declaratory judgment of invalidity and noninfringement — the other party will file a parallel suit in a different court. Assuming that the first forum is convenient to the parties and there is jurisdiction, then in the great majority of cases the first-filed case will be permitted to proceed and take precedence over the parallel suit.

Many factors influence forum shopping:

There are many reasons that a party may believe that a particular jurisdiction is preferable. In selecting a forum the plaintiff (or defendant in a declaratory judgment action) would likely consider the following: the knowledge, background, and

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<sup>22</sup>The Moore Study calculates a win rate for patentees in this forum at 68 %. In contrast, the win rate in this same study for Alexandria is 58 % for the patentee, and in Delaware 48 %.

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experience of the judges; the judges' previous experience with high technology or patent matters; the characteristics, predispositions, and biases of potential jurors; the attorney's familiarity with the district and the judges in the district; the local rules of the district court; the practices of the judges in the district regarding whether they conduct Markman hearings; at what point in the litigation the claims will be construed; the type of evidence the judges will consider in construing the claims; the court's docket and its speed in resolving cases; the reputation of the parties in the district; and, of course, traditional factors, such as the convenience for the parties, witnesses and attorneys.<sup>23</sup>

Thus, the "race to the courthouse" system in the United States for patent matters is alive and well, fueled by the great disparities that exist amongst the various trial courts and jury pools:

Even though patent holders have ninety-four districts in which to bring suit, they consistently gravitate toward a cluster of districts. Some theories explain why particular jurisdictions may be appealing. For example, the Northern District of California has a high patent holder win rate and is the locus of many high-tech industries, while the Eastern District of Virginia affords the speediest justice in the country. There are other popular jurisdictions such as Delaware and Massachusetts whose popularity cannot be explained by the empirical results. These districts have not been particularly favorable for the patent holders and they do not provide expedient resolution, yet for some reason their percentage of patent case filings far exceeds their civil case averages generally. Accordingly, patent holders perceive some benefit to certain forums, which cannot be substantiated or explained by the empirical evidence.<sup>24</sup>

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<sup>23</sup>Moore Study at 567-568; footnotes deleted.

<sup>24</sup>Moore Study at 601-02.

## **A. Likelihood of Judicial Intervention**

### **1. Discretion to Grant Summary Relief**

Patent experienced courts are more likely to intervene and grant relief whereas courts without patent experience are more likely to permit the Federal Circuit to ultimately decide to overrule a jury verdict.

The tool of summary judgment or JMOL is a very powerful one that in a clear case will permit the trial judge to either avoid any jury consideration at all — by granting summary judgment — or to permit the trial judge to overturn the jury verdict — by JMOL.

But, the trial judge holds an enormous discretionary power to withhold either summary judgment or JMOL. Where the court fails to entertain its power to grant such relief, then it will be up to an appellate process for review at the Federal Circuit.

### **2. Close Pre-Trial Supervision**

Each trial judge has enormous discretion to either tightly control the pre-trial activities, particularly discovery, or let the parties do what they please. The extreme cases of extensive discovery and lengthy delays in bringing a case to trial may be largely avoided if the trial judge takes charge of the case.

## **B. Nationality of the Litigant**

It has often been assumed, supported by anecdotal evidence, that some juries in some parts of the country favor particular parties and may exhibit favoritism against foreign litigants. An empirical study is nearly completed by Professor Moore of George Mason University that may provide more concrete answers to whether prejudice against foreign litigants is only anecdotal — or whether there really is a statistically significant bias against foreign litigants in patent matters. (If there *is* a bias, the bias is due to the composition and nature of local juries, and not to the judiciary which, if anything, bends over backwards to be fair to parties without regard to their backgrounds.)

## **C. The Benefit of being a Plaintiff before a Jury**

In virtually every heavily contested patent case, the patentee charges infringement and the accused infringer charges that the patent is invalid. The person that *commences* the lawsuit is the “plaintiff”. He may be either the patentee or the accused infringer. Thus, if the accused infringer brings a declaratory judgment action for invalidity of the patentee, then the accused infringer is the "plaintiff". But, if the accused infringer is sued, then the accused infringer is the "defendant".

Professor Moore has done an exhaustive study of patent cases and concludes that there is a statistically significant advantage in a jury trial for patent infringement to being the plaintiff: Thus, if a party knows that it will ultimately be sued for patent infringement, it has a statistically better chance of gaining a finding of patent invalidity if it is the plaintiff, i.e., if it brings the lawsuit first:

By filing the declaratory judgment action, the infringer chooses the forum (the one it thinks most favorable to it) and the time that the suit will begin (enabling it to surprise the patentee and force litigation before the patentee might be ready). The

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empirical evidence substantiates the advantage forum selection has to the parties. In cases in which the defendant was able to choose the forum (as with declaratory judgment actions) rather than the patent holder (as in infringement suits), there was a significant difference in outcome: the defendant is much more likely to win when it selects the forum.

\* \* \*

Who selects the forum (patentee or alleged infringer) is a statistically significant predictor of who wins patent claims. When the patent holder selects the forum, the patent holder wins 58 % of the claims. When the accused infringer brings a declaratory judgment action and thereby chooses the forum, the patent holder win rate drops to 44 %.<sup>25</sup>

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<sup>25</sup>Moore Study at 585-86; footnotes deleted.

## VI. PTO ADMINISTRATIVE PROCEEDINGS

### A. Old ("Ex parte") Reexamination

Prior to the *American Inventors Protection Act of 1999*, patent reexamination as a means to attack patent validity was judged to be a major failure. The proceeding is largely *ex parte* in nature: Once a reexamination order is granted by the Director of the PTO, then the proceedings are indeed *ex parte*.<sup>26</sup>

Under the *American Inventors Protection Act of 1999*, the old *ex parte* patent reexamination continues, almost as before.<sup>27</sup> It remains as an optional procedure which may be chosen at the discretion of a third party seeking reexamination.

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<sup>26</sup>The system can be "gamed", however, by sequential filing of new reexamination requests as a means of replying to the patentee's actions.

<sup>27</sup> However, for a reexamination filed where the original *application* is filed on or after November 29, 1999, there are two changes:

First, an appeal to the Board can only be taken after there is a final rejection. (For reexaminations on older patents, an appeal may be taken after two rejections in the patent reexamination, whether or not there is a final rejection.)

Second, there is no longer a right to a civil action under 35 USC § 145. Instead, there is only the right of a direct appeal to the Federal Circuit under 35 USC § 141.

## B. New ("Inter Partes") Reexamination

Under the *American Inventors Protection Act of 1999*, the new "inter partes" reexamination is largely inapplicable to all but a few new patents: Only if the *original filing date* of the application leading to a patent is on or after November 29, 1999, is the option open for an inter partes reexamination.

Inter partes reexamination has limited benefits, particularly, the right of a losing requester to appeal to the Board of Patent Appeals and Interferences. Additionally, the third party requester may participate by responding to the papers of the patentee throughout reexamination.

However, draconian estoppels confront a losing third party requester who essentially cannot bring forth anything in an invalidity suit that he brought *or could have brought* in the inter partes reexamination proceeding. Nevertheless, there are some who express a certain degree of optimism about this proceeding.<sup>28</sup>

There is one very limited area where *inter partes* patent reexamination may be useful. If a party is a nonexclusive licensee who has a *right* to continue under the license even if he proceeds with reexamination, and if the party has no interest in termination of the license if the patent is maintained, here an inter partes reexamination may be of some limited value.

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<sup>28</sup>"[R]eexamination may be a truly viable alternative for challenging software and business method patents, for which a great deal of potent prior art exists that has not been considered by the PTO." M. Patricia Thayer, James A. Fox & Marvin A. Molsenbocker, *Inter Partes Reexamination*, PATENT WORLD (May 2001).

### C. Reissue

Reissue still continues as a statutory option *but only for the patentee*: A third party may not initiate reissue. Even for the patentee, however, reissue is used relatively infrequently and has disadvantages beyond reexamination: The reissue is a patent *application* with an entirely de novo proceeding. There must be an allegation of an "error" under 35 USC § 251. There are less strict time deadlines for carrying out the reissue.

### D. Reform Proposals

Modest reexamination reforms have been proposed in the 107th Congress (2001-2002), with two bills having actually passed the full House of Representatives on September 5, 2001. One would institute a right of appeal in *inter partes* reexamination up through the Federal Circuit for a third party requester. The other would overrule *Portola Packaging* and permit citation of "old" prior art where a "new" issue was raised.<sup>29</sup>

Other proposals — including one by this writer — would substitute a broader, opposition-like system patterned after a hybrid between the European and Japanese systems.

There has been no indication from the Senate, in particular, whether it would or would not support reexamination reforms in this Congress. Action in late January through March 2002 to *initiate* consideration in the Senate would be necessary for there to be any serious expectation of any chance for reforms.

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<sup>29</sup>*In re Portola Packaging, Inc.*, 110 F.3d 786, 790 (Fed. Cir. 1997).



Under Secretary designate Rogan<sup>30</sup> has yet to take a stand on his position on the reform proposals. Obviously, if a new leader of the PTO were to support reforms, then this would be a positive factor toward any changes.

In a nutshell, it is now premature to consider any significant reform being passed in the 107th Congress: Much will depend upon what happens behind the scenes this Winter before Congress reopens its doors in January for the start of its second session.

## **VII. A RENAISSANCE OF THE ITC**

In the immediate aftermath of the enactment of the Trade Related Aspects of Intellectual Property (“TRIPs”), the International Trade Commission declined as a patent forum. Now, it has experienced unprecedented growth as a forum in which to bring patent infringement actions. This growth is manifested by the highest level of patent filings in the history of this tribunal.<sup>31</sup>

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<sup>30</sup>A hearing before the Senate Judiciary Committee was held November 7, 2001.

<sup>31</sup>In the fiscal year that ended September 30, 2001, there were a total of twenty nine intellectual property enforcement actions filed in just this one year, almost all of them patent-based actions. This is roughly fifty percent higher than in the previous golden age for the ITC of the 1980’s, and approximately triple that of the mid-1990’s.

For information in this section, the writer is indebted to Larry Shatzer, the president of the ITC Trial Lawyers Association. Mr. Shatzer is a Foley & Lardner partner who specializes in ITC matters who frequently teams with Richard S. Florsheim on district court patent litigation. He has been counsel in numerous litigation matters at the ITC, for both plaintiffs and defendants – including representation of Japanese parties.

### **A. An Expanded and Revitalized Forum**

During the 1990's, the International Trade Commission as a forum for patent infringement litigation became less important. The numbers of filings had greatly decreased.

Now, perhaps because of the problem of the random shift of cases from Alexandria to Norfolk or Richmond, the ITC has suddenly had a rebirth in popularity. Whereas formerly there were only two trial judges on the ITC, now there are three. But, this one factor clearly cannot account, alone, for the major rebirth of the ITC. Where will this trend lead? Will there be an even greater explosion of cases at the ITC in the future? Is this a temporary phenomenon?

While the ITC originally was viewed as a highly “anti-foreigner” venue, in recent years there has been perceived to be a greater balance. Indeed, the standard for a domestic industry appreciably lowered over the years (necessary for foreign operations to use the ITC as a plaintiff), and there is a better understanding by foreign litigants of the ITC and its operations (sometimes through the involuntary lessons of being a defendant): As a result, more and more overseas operations are now using this forum as plaintiffs against *other* foreign operations. (Whatever anti-foreigner bias there may be – or at least which is perceived – is neutralized in a “foreigner versus foreigner” proceeding.)

## **B. A Forum Often Disadvantageous to a Foreign Defendant**

While there are often advantages even for a foreign party to be the patentee-plaintiff in an ITC action – as opposed to being before a jury in a regular patent infringement suit – still, today, the ITC is a forum that is often disadvantageous for a foreign accused infringer. There are numerous disadvantages to the foreign party. Even if the decision of the ITC may appear to be one that, on balance, should be in favor of the accused infringer, the findings of the Commission are difficult to overcome on appeal. As noted by Judge Rader, "[ ]his court reviews the [International Trade] Commission's factual findings on materiality and intent for substantial evidence."<sup>32</sup>

## **B. Forum Shopping: Preemptive Defeat of an ITC Action**

Forum shopping *for an accused infringer* does not exist in the usual sense: When one thinks of forum shopping in the context of patent litigation, normally one considers the options amongst several trial courts. And, it is also true that one cannot avoid a lawsuit at the ITC simply by filing first in a trial court for a declaration of patent invalidity. But, if a foreign (or any) party is able to bring a lawsuit in, for example, Alexandria and obtain a ruling of invalidity within fourteen months, this may end the matter at the ITC under principles of res judicata, even if the right of appeal to the Federal Circuit remains.<sup>33</sup>

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<sup>32</sup>*Winbond Electronics Corp. v. International Trade Comm'n*, 262 F.3d 1363, 1370 (Fed. Cir. 2001) (citing *Tandon Corp. v. United States Int'l Trade Comm'n*, 831 F.2d 1017, 1019 (Fed. Cir. 1987); *Am. Hosp. Supply Corp. v. Travenol Labs., Inc.*, 745 F.2d 1, 6 (Fed. Cir. 1984)).

<sup>33</sup>*Pharmacia & Upjohn Co. v. Mylan Pharmaceuticals, Inc.*, 170 F.3d 1373, 1381 (Fed. Cir. 1999) (quoting *SSIH Equipment S.A. v. United States Int'l Trade Comm'n*, 718 F.2d 365, 370 (Fed. Cir. 1983) ("[T]he law is well settled that the pendency of an appeal has no effect on the finality or binding effect of a trial court's holding. *Deposit Bank v. Board of Councilmen of City of Frankfort*, 191 U.S. 499 (1903). That rule is applicable to holdings of patent invalidity as well. *Alamance Industries, Inc. v. Gold Medal Hosiery Co.*, 194 F.Supp. 538, 540 (S.D.N.Y.1961).").

## VIII. ULTIMATE SOLUTION TO THE FORUM SHOPPING PROBLEM

The solution to the problem of forum shopping and a fairer distribution of cases to courts that have patent expertise may be found from the studies of the Europeans from the early 1970's when the member states of what was to have been a union for an enforcement regime pondered the uneven patent justice that took place at that time on a country by country basis. As a result of this concern, a protocol was included in the never ratified Luxembourg Patent Convention of 1975:

It was proposed that all countries in a unified European patent enforcement scheme should follow the German system. To make sure that any trial court in Germany has a sufficiently large patent docket to create an experience base for patent jurisprudence, only a small minority of the German *Landgerichte* have jurisdiction to hear patent cases. Thus, the great majority of the German courts never hear a patent case, nor do they have to be concerned about getting an odd case here or there, because of the statutory scheme.

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The proposal has been made by this writer more than ten years ago that this system could be readily adopted in the United States.<sup>34</sup> For example, a law could delegate to each Circuit Court the designation one or more trial courts within its jurisdiction for sole or shared exclusive trial jurisdiction for all patent cases within the particular circuit. In this way, several courts throughout the United States would all hopefully share the same high reputation enjoyed by the courts of Wilmington and Alexandria for expertise and fairness in handling patent causes.

The Secretary of Commerce through his Advisory Commission noted the German solution:

[T]he Advisory Commission has found worthy of further consideration [ ] the German system whereby only a minority of the several trial courts are given jurisdiction for patent cases, whereby each of these courts has a significantly higher percentage of patent cases to permit the judges of such courts to develop patent expertise.

Thus, for example, the Düsseldorf Landgericht has a relatively higher percentage of patent causes than would be the case if geographically closely related District Courts shared patent jurisdiction. This is one key reason that permits this one court to be regarded as one of the best patent infringement courts in the world.

A proposal to introduce the German system in the United States by the present writer would charge each regional circuit with the task of nominating one of its several District Courts as the exclusive court for patent infringement trials that would permit (i) a higher percentage of patent cases in that court so that patent expertise would be facilitated; and (ii) placing patent cases in the least crowded calendar within the circuit, thereby avoiding as best possible overcrowded criminal and other civil dockets.

The Advisory Commission proposal follows the suggestion that was made for

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<sup>34</sup>Wegner, *Improved U.S. Patent Enforcement Procedures: Modifying Section 337*, 4 World Intellectual Property Report (BNA) No. 4, p. 83 (April 1990).

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adapting the German system into the United States in 1989 that is published as Wegner, "Improved U.S. Patent Enforcement Procedures: Modifying Section 337, 4 *World Intellectual Property Report (BNA)* No. 4, p. 83 (April 1990). Also considered by the Advisory Commission (but not found in the cited proposal) is the more recent evolution of the British "Patents County Court" system.<sup>35</sup>

Recommendation V-F, Comparative Infringement Procedures, makes the recommendation that the Secretary:

Promote study and consideration of special procedures or systems for conducting patent litigation and enforcing patent rights, including:

- (i) restriction of patent jurisdiction to one designated court per circuit;

\* \* \* \* \*

Different sectors of the patent user community have contemplated special measures or approaches to solve the problems associated with modern patent litigation. \* \* \*

Specialized patent enforcement procedures were adopted in many industrialized nations. These specialized schemes provide for interpretation and enforcement of patent rights. Such schemes range from essentially administrative patent validity courts, to courts with exclusive patent jurisdiction, to specialty patent courts which are staffed with judges who have extensive experience in patent litigation.

In the United Kingdom, a special system was created which permits the judiciary to designate any county court as a "Patents County Court." One such court has been designated. The court is not given exclusive jurisdiction over patent actions; rather, parties may elect to file in the court. The structure of the court benefits those parties who are able to substantially prepare an action prior to filing of the pleading. In fact, the court is structured to provide expedited review and disposition of the patent enforcement actions.

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The Patents County Court model contains several unique elements. First, the court is staffed by a judge with extensive experience in patent matters. The use of a patent expert is designed to permit the court to control the proceeding and focus on the critical issues without the need for extensive guidance from the parties. Second, to file an action in this court, parties must use detailed pleadings. For example, the party charging infringement must identify which claims are alleged to be infringed and why, the grounds relied upon to support the infringement claim, and identification of all facts, matters and arguments to be relied upon to prove the infringement. The specific pleadings requirement is also imposed on the party charged with infringement. Third, a restriction on extensions is imposed on the parties, so that even by consent, no date may be extended beyond 42 days, and any extension of time requires leave of the court. Fourth, within 14 days of the pleadings, both parties are required to file and serve an "application for future conduct" which contains the final pleadings and the documents to be relied upon. The "application" will also summarize the outstanding issues, the future steps which need to be taken to prove claims, results of any testing or experimentation, and the party's desired course of action. Once the "application" is filed, the judge will evaluate the statement, and may order the USPTO to conduct specific testing, experimentation, or preparation of scientific reports. Approximately three months after the "application" is filed, the judge will render a decision. Limited discretion to delay the proceedings is given to the parties, as noted above.

A different structure is used in Germany. In the German model, one court, termed the Bundespatentgericht, is given exclusive jurisdiction over patent validity issues which one commentator has labeled a "quasi-patent office tribunal" stature to the court. The benefit of this structure is an experienced panel which evaluates challenges to patent validity. This provides a higher degree of certainty to the process for evaluation. The German system also builds judicial expertise in resolving patent disputes by limiting the number of district courts having jurisdiction over patent matters involving infringement issues. Likewise, at the appellate level, there are only two courts to which an appeal can be made—providing a similar benefit to that provided by the implementation of the Court of Appeals for the Federal Circuit in the United States.

In view of the ongoing reform efforts of the procedural system of civil justice in the United States, the Commission believes that radically reforming the U.S. system of enforcing patent rights would be premature. Furthermore, several of the Commission's recommendations will provide a cost-effective means for evaluating and resolving patent-related disputes. For example, the Commission is recommending revisions to the reexamination system which should encourage third parties to make greater use of the procedure in assessing the question of validity of a patent. After evaluating the progress of current civil justice reform efforts toward providing cost-effective procedures for patent enforcement, further consideration of these alternative schemes should be undertaken. If found appropriate at that time, they should be implemented.

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(a) Restriction of Patent Jurisdiction to a Single District Court Per Circuit

This proposal seeks to build expertise of one court per district in the conduct of patent litigation. With this increased expertise, courts would be able to more effectively control litigation proceedings, and ensure consistency in the application of substantive patent law. A single court could also draft local rules and employ court personnel to address unique aspects of patent litigation. Furthermore, the designated court could be selected on the basis of a relatively low volume of criminal cases, thus avoiding the problems in scheduling and interruptions facing many district courts in high-crime regions. Implementation of this restricted jurisdictional scheme would require only a modest change to the Federal Rules of Civil Procedure.

Of course, the restricted jurisdictional provision would reduce the flexibility currently available to parties to file action pursuant to the general jurisdictional authority. Yet, patent practice is an essentially national practice in the United States. The "costs" in terms of lost flexibility associated with this change would appear to be relatively minor in comparison to the prospective benefits in uniformity of practice.<sup>36</sup>

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<sup>36</sup>*Id.*, quoting the Advisory Commission discussion of the German system, Recommendation V-F in Part Two, Patent Enforcement Issues, § V. REDUCTION OF THE COST AND COMPLEXITY OF PATENT ENFORCEMENT.



## IX. CONCLUSION

For the future, the United States needs reform of its reexamination system to provide an effective, opposition-like means to weed out the clearly invalid patents. More importantly, the models of courts in Alexandria, Wilmington and a few others should be codified by adopting the German system of shared exclusive patent jurisdiction amongst a limited number of courts.

Until then, however, prospective patent litigants must be prepared for suit long before commencement of an action: To await an action is to *a fortiori* forfeit in the first instance the forum shopping battle. The fair and speedy resolution of a patent dispute that *is* possible in an appropriate forum may simply have been forfeited. Professor Moore's empirical confirmation of the anecdotal experience of the many patent experts confirms the necessity to be prepared for litigation – and to make the first strike.

Particularly insofar as the trial level forum shopping debates continue without solution, and pending legislation that would introduce a tougher *inter partes* reexamination system, the United States system today requires that prospective litigants be prepared and fully ready to act. The anecdotal evidence of most experts that is confirmed by the Moore Study demonstrate a need to act deliberately in the forum shopping battle to win the race to the courthouse. As seen from the examples of Alexandria and Wilmington, a fair and speedy resolution of patent litigation is facilitated for the diligent litigant.