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205 - Managing Litigation in a Foreign Jurisdiction

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Mr. Mills has appeared as an advocate before the Ontario and Federal Courts in Canada, Patent Appeal Board and Trade-marks Opposition Board. He has also appeared on behalf of industry and individual pharmaceutical and biopharmaceutical companies before government agencies and politicians, including committees of the Canadian Parliament. Mr. Mills has significant experience in providing advice to the industry in respect of pharmaceutical regulatory matters, internet pharmacy, listing patents on the Patent Register, data protection in Canada and Canada's pricing regime for pharmaceuticals administered by the Patented Medicine Prices Review Board.

Mr. Mills is involved with BIOTECanada, an organization concerned with the rights of the biotechnology industry, including the biopharmaceutical industry, in Canada. He sits on the Public Affairs Committee and is a member of the Subsequent Entry Biologics Taskforce.

Mr. Mills obtained a BS from Queen 's University and his LLB from the University of Victoria.

Robin Nava

Robin Nava is the general counsel of the Well Services division of Schlumberger. Her responsibilities include providing and managing legal services in support of a world-wide business group that encompasses a wide range of technologies. She provides particular focus on strategic relationships, risk management, and dispute resolution. In addition, she manages the intellectual property portfolio for the division.

Prior to joining Schlumberger, Ms. Nava was with the Bureau of Economic Geology at the University of Texas at Austin and Browning-Ferris Industries.

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Philip Strassburger

Philip C. Strassburger is vice president, intellectual property counsel for Purdue Pharma L.P. Mr. Strassburger has worldwide responsibility for intellectual property prosecution and litigation, and has negotiated numerous acquisitions, licenses and patent settlements throughout the world. In the United States he is also responsible for antitrust, transactional and regulatory legal matters.

Before joining Purdue, he served as senior patent counsel at Pfizer, Inc., and as an associate at the law firms of Hedman Gibson and Bryan Cave LLP in New York. Prior to his legal career, Mr. Strassburger practiced as a chemical process engineer in The Netherlands.

Mr. Strassburger received his BS and his BA from Tufts University, and a JD from the University of Connecticut.

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Managing Litigation in a Foreign Jurisdiction

- Robin Nava –Schlumberger Technology Corporation
- Krishna Pathiyal – Research in Motion
- Philip Strassburger – Purdue Pharma L.P.
- Jamie Mills – Borden Ladner Gervais LLP

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Introduction

- Corporations increasingly involved in litigation in foreign jurisdictions
- Can be "one-off" or multijurisdictional
- Primary goal is to provide some practical advice in dealing with each

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"One-off" cases

- Facts for cause of action may occur in one or more jurisdictions
- Actionable only in one
- "one-off" cases are generally easier to manage than multijurisdictional ones

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Multijurisdictional Cases

- Decide where to sue first
  - Single or multiple jurisdiction(s)
  - Concurrently or consecutively?
  - Budget assessment – where to allocate the financial and non-financial resources
  - Legal assessment – facts, law, remedies, and likelihood of success
  - Business assessment

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Multijurisdictional Cases (cont'd)

- Important to coordinate multijurisdictional cases
  - Coordination can be outsourced but management generally should not be
  - Ensure all foreign counsel understand importance of a coordinated strategy
  - Information tends to spread across jurisdictions whether you want it to or not

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Selection of Foreign Counsel

- Most important aspect of management
- Must determine what counsel are needed
  - is there a specialized tribunal?
  - are barristers and solicitors separate?
  - who is on the team? what are their rates?
  - can you communicate effectively with them?

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Selection of Foreign Counsel (cont'd)

- Be aware of conflict principles in the jurisdiction
- Consider currency fluctuations
- Process of selection will vary depending upon importance of case and instructing counsel's knowledge of the jurisdiction
  - set out a "gold standard"

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Selection - Gold Standard

- Identify list of potential counsel
- Check availability and conflicts
- Double check shortlist
- Face-to-face interviews
- Require opinion and litigation plan

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Selecting Jurisdiction(s)

- Define commercial objective
- Where do the provable facts best align with the available law?
- What remedy is sought?
- Consider criminal and regulatory remedies
- Enforcement
- Minimize advantages to the defendant
- Is partiality a factor?

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Preparation of the Case

- Degree of involvement depends on case
- Pleadings – civil vs common law jurisdictions
- Understand how to prove requisite facts
- Consider confidentiality rules
- Discovery can be very different
- Watch out for privilege issues

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Opinions and Reporting

- Use opinion to gauge prospect of success
- Obtain budget
- Discuss “right” amount of information needed from foreign counsel
- Request a litigation plan

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Controlling Costs

- Litigation plan setting out steps can help with budgeting
- Ask counsel to provide a budget and require them to bill against that budget
- Beware of liability of unsuccessful party for costs or posting of bonds in some jurisdictions
- Plan for exchange rate variation

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Other Details to Consider

- Travel arrangements
- Communication issues
- Security
- Formalities

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Thank You

- Robin Nava –Schlumberger Technology Corporation
- Krishna Pathiyal – Research in Motion
- Philip Strassburger – Purdue Pharma L.P.
- Jamie Mills – Borden Ladner Gervais LLP

MANAGING LITIGATION IN A FOREIGN JURISDICTION

Panelists – Robin Nava[λ], Krishna Pathiyal[#], Philip Strassburger[α,] and James Mills[ϕ,][1]

SYNOPSIS

Managing litigation in unfamiliar foreign jurisdictions poses difficult issues for instructing counsel. These include the need to select an appropriate jurisdiction (where a choice is possible), the need to select appropriate counsel, the need to have a basic familiarity with procedural and substantive rules in order to manage the litigation going forward, and the need to control costs. The members of this panel have a broad experience in managing foreign litigation, especially but not exclusively in the context of intellectual property disputes. This paper is intended to identify the primary issues which instructing counsel may be called upon to address in managing foreign litigation, in both its "one-off" and multijurisdictional forms, and to provide some practical advice in dealing with each. Appended to the paper is an example Litigation Plan, of a type that instructing counsel may require foreign counsel to produce and maintain in high value cases.

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[1] Special thanks go to Beverley Moore, Associate, and Adrianna Ward, a summer law student, at BLG who compiled all of the initial research and prepared the initial draft of this paper.

1. INTRODUCTION

Economic globalization, multilateral free trade agreements and technological progress have internationalized commerce. Relatively few corporations of any significant size restrict their business activities to one jurisdiction, and even those that do often find that some aspect of their business (such as their supply chain) has a significant international dimension. One result of globalization is that corporations are increasingly involved in litigation in foreign jurisdictions, typically in the form of contract claims, intellectual property disputes, product liability suits or the like. The responsibility for management of this foreign litigation falls to in-house instructing counsel. Experience in the management of domestic litigation is helpful but not necessarily sufficient to ensure success in managing foreign litigation.

This paper is intended to identify the primary issues that instructing counsel may be called upon to address in managing foreign litigation, in both its "one-off" and multijurisdictional forms, and to provide some practical advice in dealing with each. We begin by distinguishing between those two forms of litigation.

1.1 "One-Off" Cases

The facts giving rise to a cause of action may occur in one or more jurisdictions. Where they have occurred in a single jurisdiction, or have occurred in multiple jurisdictions but are actionable only in one, then the litigation will be confined to that jurisdiction. Of the two primary types of foreign litigation, these "one-off" foreign cases are easier to manage, for reasons that are best understood by distinguishing them from multijurisdictional cases.

1.2 Multijurisdictional Cases

Where the facts have occurred and are actionable in several jurisdictions, the litigation is potentially multijurisdictional. In that circumstance, the plaintiff can elect to sue in a single jurisdiction or, alternatively, in multiple jurisdictions, whether concurrently or consecutively. A decision whether to sue in a single jurisdiction or in multiple jurisdictions will depend on the law and facts of each case, as we discuss more fully in Section 3.

If the defendant is also a multinational entity, it may be sufficient, in some limited circumstances, to sue in the single jurisdiction (as a form of "test" case). This is especially so where the laws of the jurisdictions are common and the result in one jurisdiction is not likely to vary from the result in the other. These circumstances are, however, relatively rare. It is more often the case that it will be necessary to pursue the defendant in several jurisdictions, whether consecutively or concurrently, with a view to

obtaining a multijurisdictional settlement or, alternatively, common judgments in the several jurisdictions.

A multijurisdictional case raises at least two important and unique issues which distinguish it from the "one-off" case - the selection of jurisdiction(s) in which to litigate and the coordination of that litigation once commenced.

1.2.1 Selecting the Jurisdiction

The fact that one may sue in any of several jurisdictions ought not to be taken as determining that one should sue in any of them. Deciding which jurisdictions in which to sue, and when, requires that instructing counsel make a close assessment of commercial imperatives, the facts and law at issue in each jurisdiction, the likelihood of success in that jurisdiction, the remedies available, and the associated costs.

Litigation budgets are rarely unlimited, and even where they are, the internal (non-financial) resources which also need to be devoted to an action are not. Because financial and non-financial resources are scarce, they must be allocated accordingly, to the jurisdictions in which the corporation is likely to secure the best advantage or judgment.

Making that selection involves a not insubstantial amount of assessment in consideration, typically with the assistance of outside counsel retained in each jurisdiction. We discuss many factors which need to be considered in selecting a jurisdiction in greater detail at Section 3.

1.2.2 Coordinating the Cases

Multijurisdictional litigation, especially when concurrent, can pose significant risks; what makes good sense in one jurisdiction may make much less in another; an inadvertent admission or disclosure in one jurisdiction will likely very quickly make its way on to the record in another. As a result, multijurisdictional litigation requires a great deal of coordination, not only with respect to the theory of the case (which can vary cross-jurisdictionally), but also with respect to documentary production, interlocutory tactics and strategies, discovery, evidence, experts, etc. In a complicated case, coordination can be an immense task.

Sometimes the coordinating function needs to be outsourced, whether to one of the large international firms or, alternatively, to the corporation's primary external domestic counsel. Outsourcing the coordination function is a decision to be made having regard to the corporation's internal resources. There are few if any cases in which the responsibility for managing foreign litigation in a one-off case should be outsourced from a corporation to external domestic counsel - this form of outsourcing simply incurs unnecessary costs and interferes in what should be a very direct relationship between the foreign counsel and the in-house instructing counsel.

There are various methods of managing large multijurisdictional cases. Typically, instructing counsel assumes direct responsibility for coordinating the activities of foreign counsel in each jurisdiction. Meetings of foreign counsel themselves may or may not be necessary. Video and telephone conferences can be effective tools.

Where circumstances warrant, it may be appropriate to convene a face-to-face meeting of foreign counsel, not only for the purpose of coordinating their activities, but also as a means for providing a common education in technical issues, and attempting to create a "critical mass" of strategies, concepts and ideas. The costs of these conferences need not be prohibitive. One multinational corporation of which we are aware recently scheduled a coordinating conference to occur the day prior to an annual conference, which many of its counsel would attend in any event. Cost savings resulted.

The task of coordinating multijurisdictional litigation is sometimes complicated by the fact that foreign counsel each has (as he or she should) his or her own views of the appropriate strategy for his or her jurisdiction. These views can be strongly held. While it goes too far to say that the coordination of counsel in multijurisdictional litigation can be akin to "herding cats", it does not go too far to say that instructing counsel must be prepared, from time to time, to ensure that all counsel understand and appreciate that a coordinated and comprehensive strategy is paramount. This may mean that the best strategy in any particular country may be "sacrificed" for the benefit of an overall strategy globally. Managing foreign litigation (whether it be "one-off" or multijurisdictional) can be as much an exercise in personalities as it is in managing strategies, documents and evidence.

2. SELECTING FOREIGN COUNSEL

The selection of foreign counsel is probably the most important aspect of managing foreign litigation. It is essential that instructing counsel take the time necessary to select the "best" counsel for the job, and come to an understanding of exactly what "best" means in the circumstances of the given case. Those circumstances include the amount in issue, the legal issues, the factual issues (if they are technological), the experience of the litigator before the specific tribunal, the ability of the litigator to communicate effectively in the language of instructing counsel, cost, and if involved in multijurisdictional litigation, the ability to be a team player. Even this is an non-exhaustive list.

2.1 Issues Arising in the Selection Process

Recognizing that the process of selecting foreign counsel will vary depending on the importance of the case and instructing counsel's knowledge of the jurisdiction, we set out below a "gold standard" process suitable for use in high value cases in jurisdictions with which instructing counsel is not acquainted. Before outlining that process, we address here some of the issues which may arise, or should be addressed, in whatever process is selected.

2.1.1 Segmented Legal Services

The provision of legal services can be segmented. It is important to determine just who provides what legal services in the jurisdiction in which litigation is contemplated. For example, the distinction between solicitors and barristers in the United Kingdom is a matter that instructing counsel must understand before selecting counsel. It can come as a very unwelcome surprise to find, after working with foreign counsel for a year or two, that it must now retain the services of a courtroom barrister or other form of advocate in order to complete the case.

2.1.2 Appropriate Expertise

It is obviously important to ensure that the counsel retained have the appropriate subject matter expertise. Failure to account for this factor can have devastating effects, if not in the result, then at least on the litigation budget. It must also be remembered that some jurisdictions maintain specialized tribunals, whether they be Tax Courts, Trades Courts or Intellectual Property Courts. Where such Courts or tribunals exist, instructing counsel must know exactly what experience foreign counsel has in that Court.

2.1.3 Interviews

Instructing counsel must be comfortable with and confident in the litigator selected. Depending on the value of the case, instructing counsel should meet the "shortlisted" prospective litigators in person. Instructing counsel ought not to feel constrained from asking a prospective litigator or litigators to attend an interview at a time and place of the client's choosing, where the value of the case warrants. Most of all, litigators should be prepared to devote the time and energy necessary to attend such an interview and to discuss their early stage views. As to cost, it will generally suffice that the instructing counsel offer to meet the disbursement costs associated with the interview.

2.1.4 Litigation Teams

Consideration must also be given to a number of counsel to be retained. Does the matter require a team? If so, it can be important to inquire about the expertise of the members of the team. Instructing counsel ought not to feel constrained to inquiring closely into team members. The composition of the team is a matter upon which instructing counsel has a legitimate and direct interest, especially in circumstances where the "second chair" will be undertaking much of the work on the file.

2.1.5 Fluency

The ability of foreign counsel to communicate effectively with instructing counsel, and in some cases, other foreign counsel, is obviously critical, but can be overlooked. A conversational familiarity with the English language (or whatever the language of instructing counsel may be) may be sufficient for some cases, but not for others. This is particularly so in cases of contractual interpretation, or where the facts are technologically "heavy".

The issue of fluency and efficiency of communication also arises in the case of documents. The translation of some documents can be a relatively easy thing; the translation of hundreds of documents is another matter (and cost) entirely. One must want to inquire, at the very least, about the availability and, more importantly, the effectiveness of translation services offered by or available to foreign counsel.

2.1.6 Potential Conflicts

Conflicts can be an issue, though for reasons not typically considered in retaining domestic counsel. Conflict principles can vary substantially in foreign jurisdictions. In some jurisdictions conflict principles barely exist, while in others a retainer is deemed to be a conflict if, and only if, the firm retained is actively pursuing the active client on another file. The net result of this is that the foreign counsel whom you hire today may very well be litigating against you, in the same or a similar area, at some time in the future.

Instructing counsel should take the time to inquire and understand exactly what the conflict rules are. Where there exists a possibility that counsel retained today may be litigating against the corporation tomorrow, it may be necessary to incorporate appropriate restrictions in the retainer agreement. Instructing counsel should then monitor potential conflicts and may have to adjust accordingly if one is discovered.

2.1.7 Rates

As in domestic litigation, foreign litigation is frequently based on hourly rates. Foreign counsel are generally aware of the recent movement in North America to alternative fee arrangements (AFA). Instructing counsel should not feel constrained from raising the subject of AFA's with foreign counsel in an appropriate case.

2.2 The Process of Selecting Foreign Counsel

The process of selecting foreign counsel can be approached in various ways. We outline here a "gold standard" process which would likely be appropriate for high-value, high-risk cases, realizing that lesser processes are entirely suitable for lesser cases.

2.2.1 Identifying Potential Counsel

The first step is identify potential counsel. This is perhaps the hardest step if the corporation has never litigated in the jurisdiction, or has litigated in it only rarely. Where does one start?

Litigation is or will be occurring in that jurisdiction because the corporation has business there, whether by way of a subsidiary, a distributor or otherwise. Inquiries can and should start with these entities, especially given that these local entities often have the greatest interest in the litigation. Inquiries can also be made to the corporation's external domestic counsel to determine what contacts and references he or she may have. It is also prudent to contact any local counsel within the relevant jurisdiction, even if their area of expertise is different than that needed for the litigation at hand. Furthermore, inquiries can be made of counterparts at other companies for recommendations.

While there are exceptions, multijurisdictional law firms operating outside their "home" jurisdiction are not often able to provide the "best" local litigator from within its own ranks. Selecting an international firm is an "easy" solution to many of the problems which instructing counsel must face in staffing a foreign case, but it is not often the "best" solution. Instructing counsel considering making use of a multijurisdictional firm is best advised to use that connection to identify, retain and instruct "best" local counsel.

Other techniques of identifying local counsel include internet searches and searches of the ranking services, such as Martindale, Chambers, or otherwise. Bear in mind that rating services provide leads, not guarantees; some "rated" counsel may lack the skill sets required for the file at hand. Some jurisdictions have more rigorous systems of certification. Even here, however, the fact that a given lawyer is "board certified" or "certified specialist" ought to be taken simply as an entrance to the list of possible counsel, rather than a determining factor.

2.2.2 Checking Availability and Conflicts

Once a list of candidates is compiled, it is necessary to sort through it and to make preliminary inquiries as to availability and potential conflicts. Is the lawyer or the firm available to act? Does a candidate act for competitors of the corporation such that it would not be appropriate to provide them necessary and confidential information? The point of this process is to "whittle down" to a "short list" of the candidates.

2.2.3 Check the Short List Internally and with External Domestic Counsel

For whatever reason, it is not infrequently the case that while the client and external domestic counsel are unable to suggest specific foreign counsel, they are able to react to proposed counsel once identified. Rechecking with the client allows in-house counsel to validate the names on a short list by ensuring there are no overlooked conflicts or other issues. If possible, the short list of candidates can also be provided to the corporation's external domestic counsel for some validation.

2.2.4 Initial Interview

An initial telephone or video interview should be conducted with each of the identified counsel. How this interview is conducted is a matter of personal choice. Qualifications and experience are obviously areas for inquiry, as are "business conflicts" and rates. In our experience, providing counsel with the basic fact pattern and requesting that he/she provide "off the cuff" reaction for evaluation can be very instructive.

Such an inquiry serves two purposes. The first is that it provides instructing counsel with at least some basis for an early assessment of the candidate. The second is that the answer will inform instructing counsel of some of the intricacies of the legal system in which the litigation will take place. The initial interview, therefore, serves both assessment and pedagogical purposes. This initial interview should result in a shortening of a list of candidates.

2.2.5 Final Interview

As convenient as telephone and video conferences are, it is, in our view, important that instructing counsel meet face-to-face with the last two or three remaining candidates, before making a selection. Preferably, that meeting should be held in the candidate's own offices or chambers. While a book cannot be judged by its cover, the cover says at least something about the book. Face-to-face meetings allow instructing counsel to make a much finer and considered judgment about the all important criteria of confidence, and to meet other members of the litigation team.

2.2.6 Require an Opinion and Litigation Plan

An opinion is a critical part of any litigation; it is more critical in managing foreign litigation. A comprehensive opinion is required and, in an appropriate case, a litigation plan which considers not only the applicable law and facts, but which also takes pains to explain the procedural and substantive differences between the legal system in which the

litigation will take place and that with which the instructing counsel is most familiar, and articulates a plan for the ligation going forward.

It can be critical that the relevant features of the foreign legal system be understood at the outset of the litigation. Nothing is more debilitating to one's career in managing litigation than to discover that some essential and unspoken assumption about the substantive law, procedure or remedy available is fundamentally wrong. We discuss the nature of the Litigation Plan in greater detail at Section 5.3.

3. SELECTING A JURISDICTION OR JURIDICTIONS

The selection of an appropriate jurisdiction or jurisdictions within which to bring suit is as important a responsibility of instructing counsel as the selection of counsel within that jurisdiction. The opportunity to select the jurisdiction arises in those cases where the relevant facts have occurred in several jurisdictions and are actionable in each. Where those circumstances exist a decision must be made whether to litigate and, if so, in which jurisdictions, and in which order. This is a complex question which is best broken down into its constituent parts, as we set out below.

3.1 The Commercial Objective

As with any form of litigation, one must begin by defining the client's commercial objective. Sometimes, there is no sense in commencing litigation in a jurisdiction in which success will have no material effect on the commercial objectives of the client. One sometimes excludes the possibility of litigation in "low value" jurisdictions. This is generally a choice for the client, who has the best understanding of the applicable markets. Litigation is only worth pursuing in those jurisdictions in which the client considers that success will have a commercial impact in excess of the litigation cost and risk.

3.2 Personal Jurisdiction and Venue

All legal systems incorporate rules which determine whether national courts may seize themselves of a matter. The essential question is usually this – have the constituent elements of a cause of action occurred within the jurisdiction of a given court, and if so will that court assume personal jurisdiction over the defendant? These are questions of geographic and personal jurisdiction.

3.3 Substantive Law

Substantive laws vary from jurisdiction to jurisdiction, as do underlying facts. In which jurisdiction do the provable facts best align with the available law? The question is easier asked than answered. A consideration of this criteria, as with others, requires at least some advice from counsel resident in each jurisdiction.

3.4 Available Remedies

What remedy is sought? Is the "end game" damages? An interlocutory injunction? A permanent injunction? A mediated settlement? Simple discovery? Different jurisdictions can serve these objectives in different ways, and to different extents. There is no sense in pursuing damages as the primary remedy in a jurisdiction in which the defendant has no assets, or in which damages awards are low. Nor is the objective of obtaining an early or permanent injunction served in commencing litigation in a jurisdiction in which interlocutory relief is rarely awarded, or where it is, is so limited as to be commercially ineffective.

3.5 Advantages Accruing to the Defendant

It is worth recalling that every coin has two sides. Instructing counsel should consider not only on the advantages which accrue to the corporation in commencing litigation in one jurisdiction over another, but also to the advantages which will accrue to the opponent if litigation is commenced in one jurisdiction over another.

Canada, for example, may be an attractive jurisdiction in which to commence litigation because of relatively effective case management regimes, limited discovery, and low costs. Against that must be weighed the fact that a Canadian defendant may require that the foreign plaintiff, without assets in the country, post security for costs as a condition of commencing the action. One must assess, therefore, both the advantages and disadvantages in commencing litigation in one jurisdiction over another.

3.6 Criminal and Regulatory Remedies

One avenue that is sometimes worth considering is the availability of a criminal action. Criminal proceedings may very substantially reduce the plaintiff's costs while very substantially increasing the defendant's risks. Counterfeiting and mislabelling, for example, are typically classed as crimes and are, increasingly, prosecuted by national and state government, often with great alacrity.

Similarly, *quasi* criminal or regulatory action may be available as, for example, in the case of particular forms of financial misconduct reportable to financial regulators, just as

failures in product standards may be reportable to individual industry regulators, whether they be in the pharmaceutical, technological or environmental fields or otherwise.

3.7 Extraterritorial Enforcement

The enforcement issue is two-fold. Can a judgment obtained against Defendant "A" in Country "B" be effectively executed in Country "B"? As important, can a judgment obtained against Defendant "A" in Country "B" be enforced in Country "C" and, if so, under what conditions and with regard to what limitations?

The answer matters. If a substantial money judgment can be obtained against Defendant "A" in Country "B", and the judgment of the courts of Country "B" are generally received and enforced in Countries "C", "D" and "E", then a judgment from Country "B" has substantial extra-territorial value. If, however, a judgment from Country "B" is enforced with difficulty in Countries "C", "D" and "E", then its value is much diminished, especially if the defendant's assets are in Country "C", "D" or "E".

Injunctive relief granted in one country is rarely, if ever, enforceable in another. The law in this regard, has, however, began to shift in some jurisdictions. Canadian courts, for example, will now take into effect a certain forms of foreign injunctions in certain circumstances. The law in other countries may, or may not, be developed in this regard. Nonetheless, injunctions can have extra-territorial effects; for example, if an injunction exists for a manufacturer in one country, this may prohibit it from exporting to other countries.

3.8 Partiality

This is a perennial question. There are, without doubt, jurisdictions (even in the developed world) in which it is hard to escape the conclusion that local parties are favoured. Even where judicial bias is absent, one must still be concerned where fact finding is done by a local jury. Juries can be notoriously "local" in their outlook and preference.

4. PREPARATION OF THE CASE

The extent to which instructing counsel is or need be involved in the preparation of the foreign case depends entirely on the nature and character of that case. In simpler matters, effective management of the case can often be accomplished simply by requiring, reviewing and commenting on monthly, quarterly or "event-based" reports from foreign counsel. In these types of cases, the active role which instructing counsel plays in the actual preparation of the case is often limited to the identification and production of relevant documents, and the identification of relevant witnesses.

More complex litigation, however, may require a higher degree of active participation by instructing counsel in certain aspects of the case. This will, in turn, likely require a closer knowledge of certain aspects of the foreign legal system, as is more fully set out below.

4.1 Pleadings and Initiation

Civilian jurisdictions generally require a high degree of particularity and proof at the pleading stage. Relevant proofs, especially in documentary form, must be filed as part of the pleading. While it is often possible to supplement this proof at later stages in the processes, the initial burden of pleading with proof is substantially greater than in common law jurisdictions. It follows that when initiating litigation in a civil jurisdiction, instructing counsel must be prepared for the likelihood that greater time and effort will have to be expended at the "front-end" of the process.

4.2 Proof

Whether the litigation system is civilian or common, instructing counsel should have a basic understanding of the manner in which the requisite facts will be required to be proved. The formalities of proof, especially in respect documentary evidence, can be burdensome in civilian jurisdictions.

Even within a given jurisdiction, the requirements of proof may vary. Certain kinds of proceedings in certain jurisdictions may be prosecuted entirely on the basis of affidavit evidence and out of court depositions. Others may be discovery based and require the ultimate production of *viva voce* evidence in a trial format. What kind of evidence must be produced, and how, is a matter which should be addressed in foreign counsel's Litigation Plan.

4.3 Confidentiality

Instructing counsel should approach the production of evidence in a foreign jurisdiction on the assumption that all of the evidence produced will be made publicly available and may be used for whatever purpose the recipient wishes. While this assumption may or may not prove true in any given jurisdiction, it has the advantage of focusing instructing counsel's attention on issues of confidentiality, and whether and how requisite guarantees of confidentiality can be obtained and enforced in the jurisdiction in which the litigation will take place. Never assume that confidentiality rules are embedded in the legal system in which the litigation is occurring or, for that matter, are either available or enforceable.

4.4 Discovery

Documentary and oral discovery are, to a very large extent, creatures of the common law. While discovery is not unknown in civilian systems, it is both rare and limited, and can take forms which a common law lawyer would not immediately recognize as discovery at all.[2]

In those jurisdictions in which documentary and oral discovery is permitted, practices range from extremely broad discovery and deposition regimes (as in the United States), to much more limited discovery, non-deposition regimes (as in the United Kingdom) to mixed regimes of relatively broad document discovery and relatively limited oral discovery (as in Canada).

This matters because, ultimately, instructing counsel will be responsible for marshalling the internal evidence from within the corporation both in respect of documentary and oral discovery. The basic rules, again, are matters which should be discussed in foreign counsel's Litigation Plan.

4.5 Use of Discovery Evidence in Another Proceeding

In the context of multijurisdictional litigation, there is frequently an issue associated with respect to the use of discovery evidence obtained in one jurisdiction in another jurisdiction. In Canada, this is strictly prohibited. A violation of the rule against the use of foreign discovery can result in contempt proceedings. The point to be taken here is that a failure to appreciate any limitations on the use to which discovery evidence can be put can result not only in sanctions at trial (rendering subject evidence inadmissible), but can also give rise to independent causes of action.

4.6 Privilege

Privilege is a complex topic even in the context of single jurisdiction. Adding multijurisdictional facts and litigation makes the subject more complex still. The basic issue is whether, and to what extent, legal advice received in one jurisdiction is compellable in another. Superimposed on this issue is the question - important in multijurisdictional cases – as to whether advice which is shared between counsel across jurisdictions remains privileged and, if so, to what extent.

More specific issues quickly proliferate. What is advice, and where does one draw the line between advice and information? Information which is conveyed to counsel for the purposes of receiving advice is not, in many jurisdictions, itself the subject of privilege.

[2] For example, some civilian jurisdictions incorporate a system of judicial investigation and seizure which have discovery-like effects but which, to the common law eye, appear at first glance to be forms of injunctive or Anton Piller relief.

What is privileged is the advice, not the fact. There are also issues as to who and who does not constitute a "legal advisor". In Canada, for example, there is no privilege in advice given by a non-attorney patent agent to a client.

Many jurisdictions support "common interest" privilege in which parties common in interest, who share legal advice, are entitled to maintain the privilege in that advice, at least in respect of the common interest. Thus, for example, privilege is not lost simply because the advice is provided by a single attorney to multiple plaintiffs or defendants common in interest. In "common interest" situations, it is helpful to sign a joint defence agreement.

That being said - and this is of particular interest in multijurisdictional litigation – in some countries no privilege arises in respect of advice given by an attorney as to the law of jurisdiction in which he or she has no right to practice.

Foreign counsel should set out, at least in a general way, the basic and common principles of privilege in the jurisdiction, in the context of multijurisdictional litigation. Instructing counsel should have a very clear indication from all of the litigation counsel, as to the impact on privilege (if any) arising from sharing of advice as between counsel across jurisdictions or, for that matter, with co-parties across jurisdictions.

"In-house" privilege is also a critical issue. While jurisdictions that recognize solicitor and litigation privilege also typically recognize the existence of that privilege as between in-house counsel and the corporation, there can be issues with respect to the scope of the privilege. Some jurisdictions discriminate between advice given by in-house counsel which is legal advice, as opposed to advice given by in-house counsel which is business or commercial advice.

5. OPINIONS, STATUS REPORTS, AND LITIGATON PLANS

5.1 Opinions

Counsel instructing foreign litigators should, at a minimum, request a litigation opinion. This may also be accompanied by a request for a budget. The essential purpose of the opinion is to gauge the prospects of success of a proceeding. The purpose of the budget is to obtain an indication of the likely cost going forward and, on occasion, to provide a basis for a negotiated retainer.

Both the opinion and budget are well known and valuable management tools in the context of managing domestic litigation. They have a place in managing foreign litigation as well. However, as we set out below, the fact that there can be and often are fundamental differences between the domestic legal systems with which instructing counsel are most familiar, and the legal systems in which they will be retaining and

instructing counsel, speaks to the need in some cases for a more comprehensive management tool.

5.2 Status Reports

The process of managing foreign litigation is made less effective if foreign counsel provides too much or too little information. Foreign counsel ought not to be reporting and seeking instructions on the *minutiae* of the day-to-day operation of the file. Nor, conversely, should instructing counsel ever be put in the position where he or she is left "in the dark" about a substantive development in the file.

Some instructing counsel prefer to set up a system of regular reporting, whether monthly or quarterly, supplemented by such additional reports or communications as may be required in the circumstances of the case. Regular reporting has advantages as it ensures a basic level of information and communication. The costs of requiring regular reports are typically marginal.

These systems are, however, often less than appropriate for complex files, and rarely appropriate for multijurisdictional files. More complex litigation requires more active levels of management and a closer understanding, between instructing and foreign counsel, what is important and what is not, why, and when.

These types of cases offer a more rational and comprehensive management system – one which, ideally, (i) is capable of alerting instructing counsel to the relevant differences in the foreign law; (ii) identifies the legal and strategic issues in the foreign system, and plans towards them; (iii) focuses on the development of the relevant evidence suitable for use in that jurisdiction; (iv) anticipates the strategies of and challenges by the opposing party; (v) provides timelines; and, importantly, (vi) controls costs. These needs can be met by a Litigation Plan.

5.3 Litigation Plans and Budgets

In an appropriate case instructing counsel may consider requesting that the foreign counsel begin the retainer by preparing or discussing a Litigation Plan, which

(a) reviews the relevant facts;

(b) sets out the applicable substantive law;

(c) provides counsel's opinion as to the likelihood of success in light of the facts;

(d) discusses matters relevant to the selection of the appropriate jurisdiction or court;

(e) sets out the essential procedural differences in the jurisdiction, over the jurisdiction in which instructing counsel is most familiar;

(f) sets out the essential differences in the law of proof and evidence in the jurisdiction, over the jurisdiction in which instructing counsel is most familiar (to the extent that foreign counsel is aware of such differences);

(g) sets out the essential differences in the law of remedy in the jurisdiction, over the jurisdiction in which instructing counsel is most familiar (to the extent that foreign counsel is aware of such differences);

(h) articulates a step wise plan for the conduct of the litigation;

(i) provides an estimated timeline; and

(j) provides a budget estimate, broken down by stage.

By way of example, we attach as Appendix "A", a sample of the kind of Litigation Plan which Borden Ladner Gervais provides to foreign clients engaged in complex litigation in Canada.

Properly constituted, the opinion/Litigation Plan performs three functions. First, it requires outside counsel to consider and address the strategy for the whole of the case in a comprehensive manor and, equally, provides instructing counsel an assurance that comprehensive review has been conducted. Second, it serves an important pedagogical function; it helps to ensure that both counsel and client will operate with the same understanding and applicable principles. Third, and perhaps most importantly, the Litigation Plan establishes a budget against which foreign counsel may be required to account. In a world of limited resources, the litigation budget is an important, if not critical, feature, and this is all the more so true in the context of foreign litigation.

The Litigation Plan is an attempt at rational and comprehensive planning. Litigation, however, is a dynamic and inevitably adversarial process. It follows that the Litigation Plan can and should be amended and revised as the litigation develops and proceeds through various stages. A properly amended and developed Litigation Plan can serve as a primary management tool throughout the litigation.

6. CONTROLLING COSTS IN FOREIGN LITIGATION

Cost prediction and control is more problematic in foreign litigation than in domestic litigation, for at least three reasons.

6.1 Billing Against Budget

First, the procedural and substantive law differs from that with which instructing counsel is familiar. The novel features of an unknown legal system can make it extremely difficult for even well seasoned instructing counsel to properly budget litigation costs, or to comment on any budget produced by foreign counsel.

This problem can be addressed by requiring foreign counsel to provide a Litigation Plan or like document which identifies the essential differences of the foreign legal system from instructing counsel's domestic system. Knowing how and why procedures differ allows one at least some basis for understanding how and why costs will differ.

As we have described it, the Litigation Plan concludes with a budget which breaks costs down against particular, identified steps in the litigation. One important method of exerting control is to require that foreign counsel bill against that budget. Overages and shortfalls can be identified on an ongoing basis and addressed as required.

6.2 Mitigating or Shifting Cost Awards

Second, jurisdictions have their own rules with respect to an unsuccessful party's liability to reimburse a successful party for its litigation costs. In some jurisdictions and in some circumstances the obligation can be complete reimbursement. The issue of costs awards made during the course of and at the end of litigation should likewise be identified in the Litigation Plan or like document. Where cost sanctions exists, they can sometimes be shifted or addressed by making formal without prejudice offers to settle issues or whole actions early in the process.

6.3 Varying Exchange Rates

Third, exchange rates can change dramatically during the course of a retainer, with the result that the client may pay much more (or much less) than envisaged, quite apart from any departures from the litigation budget. Instructing counsel can attempt to address this issue in any of several ways – by requiring that foreign counsel bill in US dollars (which are "constant" to the client), by incorporating renegotiation clauses, or, in significant cases, by enlisting the assistance of the corporation's financial officer to enter a formal hedge contract.

7. SOME IMPORTANT *MINUTIAE*

As with many aspects of management, the devil is often in the details. The details of managing litigation in a foreign jurisdiction can be troublesome, to say the least. What

follows is a short list of minor and often picayune points which, if left unconsidered, can become very troublesome.

7.1 Travel

Travel arrangements will often be required for in-house counsel and relevant witnesses. In-house counsel should check to ensure whether there are visa requirements or other travel restrictions. Allowances must be made for failures in travel plans, whether caused by flight cancellations, illness or other personal circumstances. When people will be staying in a hotel for an extended period of time (e.g. for trials or hearings), a group rate may be negotiated.

7.2 Communications

The internet has resolved many communication issues. The ability to bring and send relevant documents considerably facilitates the efficient conduct of litigation. While electronic protocols are international, and while different types and versions of software are generally capable of communicating with one another, one can rest reasonably safe in the knowledge that if it can go wrong, it will go wrong. IT support may be required. One must also bear in mind that not all communication systems are secure, and that some are less secure in certain countries than they might be in others.

7.3 Foreign Counsel's Relationship with the Client

It is both necessary and important to the effective management of the case that instructing counsel interpose himself/herself between the client and foreign counsel, if only to establish the bounds of that relationship. Once those bounds are established, it may be appropriate, in a given case, to permit direct communication between foreign counsel and the client on issues of fact. Beyond that, however, instructing counsel should maintain firm control.

7.4 Formalities and Filing Requirements

"Formalities" are often not matters of real consequence in North American proceedings. They can, however, be matters of great consequence in civilian systems. Requirements that documents be "originals", "sealed", "notarized" or "commissioned" can mean different things in different circumstances. One not ought to assume that a Brazilian counsel, in saying that a document must be "notarized" either intends or means the simple process of "notarizing" known to U.S. attorneys.

Of equal or greater importance are requirements that documents be authenticated by the appropriate authority in the country from which they are produced and, more often than not, by the local consul or authority to the country to which they will be sent. Appropriate inquiries may need to be made of the relevant embassies.

8. CONCLUSION

As this short paper has set out, managing litigation in unfamiliar foreign jurisdictions poses difficult challenges for instructing counsel. These include choice of jurisdiction, different procedural and substantive rules, selection of counsel, ongoing management, and cost control. How instructing counsel approaches these issues will vary with his or her level of experience, knowledge of the foreign jurisdiction, and the importance of the case.

In high value cases in jurisdictions with which instructing counsel is unfamiliar, the "gold standard" is a comprehensive counsel selection process, combined with a Litigation Plan and Budget that is updated on an ongoing basis. It is obvious that not every foreign case requires "gold standard approach". However, bearing that approach in mind is instructive in designing and maintaining an appropriate process for the management of smaller or lesser cases.

APPENDIX A

PRIVILEGED & CONFIDENTIAL

By Email and Courier

September 1, 2010

Mr. Andrew Smith
ABC Corporation
P.O. Box 101
123 Main Street
San Antonio, Texas

Dear Mr. Smith

Opinion and Litigation Plan – ABC Corporation ats DEF Inc.
Our File: 876543-21

The ABC Corporation ("ABC") has been named as a Defendant in an action commenced in the Federal Court of Canada by DEF Inc., alleging infringement of Canadian Patent No. 2,111,111 (the '111 patent) by ABC's Morpheus product. ABC has requested that we provide our initial thoughts on validity and infringement in respect of the '111 patent, and a draft Litigation Plan, as a precursor to our possible retainer in this matter. This letter contains both.

We have relied on information contained in the documents provided and in the course of a day long technical meeting with yourself and ABC staff held in San Antonio on August 23, 2010. What follows is a preliminary indication of our views, given at your request in order to assist you in selecting counsel. It is provided on the basis of what we know at the moment, is subject to further consideration, and is not an opinion.

1. SUMMARY

It appears to us more likely than not that the Court will decide that the claims of the '111 patent are invalid in light of prior art. In any event, even if one or more of the claims are valid, it appears to us that it is more likely than not that the Court will find that the '111 patent is not infringed by the Morpheus product. Subject to the reservations expressed above, we consider it likely that ABC will succeed in this litigation.

As to the litigation itself, and as we explain in the second half of this letter, we recommend that ABC:

1. Defend the allegations of infringement and counterclaim for a declaration that the '111 patent is invalid;

2. Commence third party proceedings against GHI Corporation;

3. Require that DEF post security for costs in an appropriate amount;

4. Deliver a formal offer to settle;

5. Seek Confidentiality and Protective orders covering commercially sensitive aspects of the Morpheus system;

6. Seek an Order bifurcating liability and damages;

7. Seek an Order that the matter be case managed by a designated prothonotary; and

8. Seek a direction setting a trial date not more than two years from the close of pleadings.

2. OUTLINE

The opinion is divided into four sections – construction, validity, infringement and the litigation plan. Each of Sections 3, 4, and 5 begins with a concise summary of the applicable principles of law. The principles are then applied to an analysis of the claims of the '111 patent. Section 6 describes the litigation process generally and isolates the early stage issues upon which instructions are required. A *pro tem* litigation budget is provided.

3. CONSTRUCTION

Claims construction is antecedent to consideration of both validity and infringement.[3] The construction of a patent is a question of mixed fact and law.[4] The patent is construed through the eyes of the person skilled in the art, as of the date the patent was open to public inspection. Canadian Courts have eschewed "a dictionary approach", as well as the "spirit of the claims approach" in favour of a doctrine of purposive construction. Thus the language of the claims, read in an informed and purposive way, governs.[5]

Resort may be had to the disclosure for the purpose of confirming the interpretation derived from examining the claims alone, or to disclose an ambiguity in the language of the claims that was not otherwise evident. The specification cannot, however, expand the monopoly specifically expressed in the claims. Canadian Courts have rejected the doctrine of prosecution estoppel. Statements made in the course of prosecution of the file should not be used to construe the claims. The doctrine of claim differentiation applies.[6]

A purposive construction results not only in a determination of the meaning of the elements of the claims, but also a determination whether the elements are essential or non-essential. Categorizing claim elements as essential or non-essential is a necessary prerequisite to the application of the infringement test. The central question is this - which elements would a person skilled in the art consider to have been required by the inventor to be present in the form claimed (and so are "essential"), and which elements would that person consider the inventor not to have required be present in the form claimed (and so are "non-essential")?

For an element to be considered non-essential it must be shown that (i) on a purposive construction of the words of the claim it was clearly not intended to be essential, or (ii) at the date of publication of the patent the skilled addressee would have appreciated that a particular element

[3] *Whirlpool Corp. v. Camco Inc.* 2000 SCC 47.
[4] *Abbott Laboratories v. Canada (Minister of Health)* 2008 FCA 94, para.20.
[5] *Whirlpool Corp. v. Camco Inc.* 2000 SCC 67.
[6] *Whirlpool Corp. v. Camco Inc.* 2000 SCC 67 at para. 61.

could be substituted without affecting the working of the invention. To put the second of these factors in slightly different terms, if the skilled worker had been told of both the element specified in the claim and the variant and asked whether the variant would obviously work in the same way, and his answer is yes, the element is non-essential. Conversely, if the skilled person would consider that the variant would not work in the same way, the element is essential.

In this context, "work in the same way" means that the variant (or component) performs substantially the same function in substantially the same way to obtain substantially the same result. In capturing variants which would work in the same way, the Canadian test captures colorable evasion, in much the same manner as does the American "doctrine of equivalents".[7]

Claims elements are presumed to be essential. Inventive elements are by definition essential. Distinguishing elements of dependent claims are by definition essential.

Schedule A provides a chart of the claims as issued under the '111 patent wherein all terms which needed to be construed have been given a purposive construction. This chart provides as well an identification of the essential elements, bolded and underlined, within the claims of the '111 patent. The claim construction and the identification of essential elements as defined in Schedule A is used consistently under the validity and infringement analysis.

4. VALIDITY

Patents are presumed valid, but that presumption is weak. The burden of proof of invalidity is upon the person alleging invalidity. The standard of proof is a simple balance of probabilities.[8]

Our validity analysis is premised upon our review of the prosecution history and a prior art search. We believe the results to be as complete as is reasonably possible. Other pieces of prior art may come to light as the matter proceeds.

We believe that prosecution history and prior art engage the Canadian doctrines of lack of patentable subject matter anticipation, obviousness, and bad faith, all as set out below. Of these, obviousness is the most helpful. We review and apply all four doctrines.

4.1 Lack of Patentable Subject Matter

The Patent Appeal Board has recently held that patent claims must define a "technological" advance that is either a physical object or an act or a series of acts performed by "some physical agent upon some physical object and producing in such object some change either of character or of condition."[9] The Board considers the "substance of the invention," to be that which "has been added to human knowledge by the claimed invention." In the case then before it (which was Amazon's "one-click" system), the Board concluded that the substance of the invention was a set of rules for carrying out online orders. These rules were not technological, but instead related to business decisions with business implications. As such they constituted unpatentable subject matter. The decision is presently under appeal.

In the *Amazon* decision, the application was rejected because i) the substance of the claimed invention was not an act performed by some physical agent upon some physical object and

[7] *Whirlpool Corp. v. Camco Inc.* 2000 SCC 67 at para. 55.
[8] *Eli Lilly Inc. v. Apotex Inc.* 2009 FC 991 at paras. 348-350.
[9] *Re Patent Application No. 2,246,933 (March 5, 2009), Patent Appeal Board. (Amazon)*

producing in such object some change either of character or condition, ii) it was a business method which is in a defined class of non-statutory subject matter, and iii) it claimed subject matter that was in form and substance "not technological".

The '111 patent relates to … [analysis excluded].

4.2 Anticipation

Prior art references anticipate a later claim if a person skilled in the art, doing what the prior reference told him or her to do, would inevitably infringe the later claim. The prior art need not be an exact description but it must disclose and enable the later claimed invention. The disclosure must be understood without trial and error. However, if there is disclosure, then with respect to enablement, a certain amount of trial and error experimentation is permitted. If the claimed invention is directed to a use different from that previously disclosed and enabled, then such claimed use is not anticipated.[10]

The material date of disclosure by a person other than the inventor is the claim date, which is generally the priority date (provided the claimed subject matter is supported by the priority application). The material date for disclosure by the inventor is one year prior to the filing date, which is the PCT filing date for the purposes of the present discussion.

We have found … [analysis excluded].

4.3 Obviousness

In assessing obviousness, the Court must[11]:

1. Identify the notional "person skilled in the art";
2. Identify the relevant common general knowledge of that person;
3. Identify the inventive concept of the claim in question;
4. Identify what, if any, differences exist between the matters cited as forming part of "state of the art", and the inventive concept of the claim as construed;
5. Inquire whether, without any knowledge of the alleged invention as claimed, those differences constitute steps which would have been obvious to the person skilled in the art or, conversely, whether they require any degree of invention.

As is apparent, a key element in obviousness analysis in Canada is an identification of the inventive concept. Where the inventive concept is not clear from the claims itself, it may be inferred from the claims and the specification.[12]

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[10] *Apotex Inc. v. Sanofi Synthelabo Canada Inc.* 2008 SCC 61; *Abbott Laboratories v. Canada (Minister of Health)* 2008 FC 1359 at para.75.
[11] *Apotex Inc. Sanofi Synthelabo Canada Inc.* 2008 SCC 61 at para. 67.
[12] *Apotex Inc. v. Sanofi Synthelabo Canada Inc.* 2008 SCC 61 at para. 77; *Eli Lilly Inc. v. Apotex Inc.* 2009 FC 991 at para. 413.

In respect of the fifth step in the test, the Court will consider a variety of factors, including whether it was more or less self-evident that it was being tried to work, the extent, nature and amount of the effort required to achieve the invention, whether the prior art created a motive to find the solution, whether the prior art taught away from the solution, and finally, whether the invention of the patent was "obvious to try".

In this context, a thing is "obvious to try" if it is very plain. Under this doctrine, an invention is not made obvious because the prior art would have alerted the person skilled in the art to the possibility that something might be worth trying. Rather, the invention must be more or less self-evident. There must be a substantial expectation that that which is to be tried will succeed. As such, the "obvious to try doctrine" is very different from the "worth a try doctrine" received in some other countries.[13]

In our opinion… [analysis excluded].

Schedule B contains a detailed analysis of the essential elements of the '111 patent and their reference in the identified prior art.

4.4 Lack of Good Faith

Canada, unlike other jurisdictions such as the United States, does not have an explicit statutory provision directed to issues of fraud. Section 53 of the *Act* provides that a patent is void if any material allegation in the petition of the applicant in respect of the patent is untrue and is wilfully made for the purpose of misleading. However, s. 73(1)(a) of the *Act* provides that an application is deemed to be abandoned if applicant does not reply "in good faith" to "any requisition" by an Examiner. Where an applicant fails to respond to a requisition and the application is not reinstated within the year provided to rectify the situation, the patent application is abandoned as a matter of law. [14]

On thorough review of the file wrapper, we note that … [analysis excluded].

5. INFRINGEMENT

Where the impugned device or process lacks an essential element, there is no infringement. The lack of or variation in a non-essential element in the impugned device or process is of no consequence. It does not render the device or process non-infringing. Thus, if fewer than all essential elements identified in the independent claims are found in the Morpheus product then the application cannot infringe the independent claims of the '111 patent. If it does not infringe the independent claims then by definition it does not infringe the dependent claims. A detailed infringement analysis is contained under Schedule C. All claims of the '111 patent have been compared to ABC's Morpheus product.

As you will note … [analyses excluded].

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[13] *Schering Plough Canada Inc. et al. v. Pharmascience Inc.* 2009 FC 1128, paras. 101 and 316.
[14] *Ratiopharm Inc. v. Pfizer Inc.* 2009 FC 711, paras. 196 to 205; *Lundbeck Canada Inc. v. Ratiopharm* 2009 FC 1102, paras. 329 and 352; *Mycogen Pant Science Inc. v. Bayer Bioscience N.V. et al.* 2009 FC 1013, para. 17.

6. LITIGATION PLAN

The litigation plan is intended to provide the reader with a basic description of the patent litigation process, the procedural issues which will arise in the litigation, and the costs. Specific recommendations as to strategies are made.

6.1 Background

The most material features of the patent litigation system in Canada are as follows:

1. Almost all patent litigation in Canada is conducted in the Federal Court, before a single judge.

2. The Federal Court has only a limited jurisdiction to try third party claims. Indemnity claims are sometimes ruled outside of its jurisdiction.

3. Provincial superior courts have jurisdiction to try infringement cases and some form of invalidity cases.

4. Provincial superior courts have a broad authority to try third party claims, including indemnity claims.

5. Interlocutory injunctions are rarely granted.

6. A Defendant may discover each inventor of any patent asserted against that Defendant, in addition to a representative of the Plaintiff.

7. Bifurcation of liability and damages issues is ordinarily available if the parties agree and encouraged by many judges.

8. Judicial mediation is available but not mandatory.

9. Trials of two to three weeks are not uncommon. This is in part a result of the limited discovery process and the fact that experts cannot be deposed prior to trial.

10. Case management is available if requested or at the instance of the Chief Justice.

11. At any point in a case managed proceeding a party may request that a trial date be assigned. The Court will endeavour to try the action within two years.

12. A successful Plaintiff is entitled to damages or an accounting of profits (at its election), as well as a permanent injunction.

13. The accounting and injunction may be denied on equitable principles, but this is rare.

14. In an accounting:

    - profits are allocated according to the value contributed to the Defendant's wares by the patent;

- the profit is the difference between the Defendant's profit attributable to the invention and its profit had it used the best non-infringing option;

15. As to damages:

    - where the patentee sells its patented product it is entitled to profits on the sales it would have made but for the presence of the infringing product in the market;

    - for those sales made by the infringer that the patentee would not have made, or where it does not engage in the sale of its patented product or process in Canada, the patentee is entitled to a reasonable royalty.

16. A patentee is also entitled to "reasonable compensation" for infringement after publication but before issue. Reasonable compensation is in the nature of a reasonable royalty.

17. An unsuccessful litigant ordinarily compensates a successful litigant for a portion of its legal costs.

18. The cost consequences of winning or losing can be magnified by making or receiving a formal offer to settle.

19. Because costs are an issue in every Canadian proceeding, rules exist governing the circumstances in which a foreign Plaintiff must, as a condition of commencing a proceeding, post security for costs.

6.2 Security for Costs

DEF is a foreign Plaintiff. It recently emerged from Chapter 11 proceedings. It clearly lacks assets in Canada. Under the circumstances, we recommend that an Order be sought requiring DEF to post security for costs, as a condition of proceeding with its claim.

6.3 Statement of Defence and Counterclaim

ABC is entitled to supplement its defence of the infringement allegations made by DEF with a counterclaim for a declaration that DEF's patent be declared invalid. An invalid patent cannot be infringed. Even if the patent is valid, its claims are limited by their terms and may not be infringed. Thus, even if the invalidity action is dismissed, ABC may nonetheless achieve its objectives by demonstrating that the Morpheus product is non-infringing.

6.4 Third Party Claim

ABC acquired the Morpheus product from GHI Corporation. Under Article 5 of that contract, GHI agreed to indemnify and hold ABC harmless from all claims, losses, and damages incurred by ABC based on any claim or demand that the Morpheus process constituted an infringement of the intellectual property right of a third party. The indemnity agreement is plainly applicable to the claim asserted by DEF against ABC. We have put GHI's counsel on notice.

6.5 Re-examination, Re-issue and Disclaimer

Where a Defendant alleges that the patent being sued upon is invalid having regard to prior art, it is open to the Plaintiff to seek re-examination or re-issue of the patent, or to disclaim certain of its claims. Without belabouring distinctions between re-examination, re-issue, and disclaimer, suffice to say that each could be used in an attempt to narrow the claims in order to avoid prior art, and a finding of obviousness.

The risk which the patentee runs in invoking any of these mechanisms is that their use constitutes an admission that the claims in their present form are defective. If the re-issue, re-examination, or disclaimer fails, the admission prevails and can be used against the patentee to substantial effect in the litigation.

It is by no means clear that DEF meets the minimum criteria for any of these procedures or that, if it does, that it can employ any of them successfully. We will monitor these issues going forward.

6.6 Scheduling

Cases proceed according to a schedule determined by counsel for the parties, on agreement. Where counsel cannot agree, the court can impose a schedule. Generally speaking, it takes a period of about two years to prepare a case for trial. A request can be made, at the outset of a proceeding, for a trial date to be set, such that a trial will commence within two years. We recommend that such a request be made in this case, and that the litigation schedule be drawn accordingly.

6.7 Documentary Discovery

Documentary discovery obligations are broad. In the present case, DEF will be obliged to produce, at a minimum, the inventor's notes and records as they relate to the alleged invention, all internal communications in respect of the invention including its internal files in respect of the patents applied for (save and except to the extent that they are protected by solicitor-client privilege). Absent bifurcation (discussed below) DEF will be obliged to make full financial production as well.

Conversely, ABC will be obliged to produce its engineering files in respect of the Morpheus product, including developmental notes and analysis. Similarly, absent bifurcation, ABC will be obliged to make full financial production. We have already discussed ABC's obligation to preserve potentially relevant documents.

As is apparent, the discovery rules may require the disclosure of highly confidential and commercially sensitive documents. Confidentiality and protective orders offer some protection, as does bifurcation, discussed below.

6.8 Confidentiality and Protective Orders

While a party engaged in discovery gives an implied undertaking that it will not use the material discovered for any purpose other than the lawsuit, parties typically agree to enter Confidentiality Orders which apply to a broader array of documents and which are not subject to the many exceptions of an implied undertaking.

As in the United States, Confidentiality Orders limit the number of persons to whom a receiving party may distribute documents classified as confidential. In the present case, it is to be expected that both parties will seek to limit the number of persons to whom their confidential documents could be distributed to three or four identified individuals, counsel and designated experts.

A Protective Order permits either party to file specifically described documents with the Court, under seal, so that they never form part of the public record. The same applies to discovery and trial testimony in respect of the subjects of those documents. Parties are typically able to reach agreement as to the terms of an appropriate Protective Order. We recommend that Confidentiality and Protective Orders be obtained.

6.9 Bifurcation

Bifurcation would allow ABC to focus on the liability issues in the first phase of the trial, and so avoid diverting resources to address difficult damages issues. Bifurcation also precludes the immediate necessity of disclosing a broad range of sensitive financial documents.

The price paid for those advantages is that, if the '111 patent is valid and infringed, the requisite disclosures will have to be made and the damages issues addressed in circumstances where ABC's negotiating position would be poor.

The relevant factors here are the chances that liability will be found and ABC's sensitivity of the disclosure of financial documents that will be required to be disclosed in that event. There is a better than even chance that the patents will be found invalid and an even chance that, if valid, they will be found not to be infringed. We assume, that the financial documents required to be disclosed are highly sensitive. In these circumstances, we recommend that ABC move for bifurcation.

6.10 Experts

Expert evidence will be of critical importance in the case. We have discussed the need to identify and select one or more experts to provide evidence as to the common general knowledge, state of the art, and construction of the patent, as well as the obviousness and anticipation issues.

6.11 Mediation

There is no mandatory mediation in the Federal Court. The Court will, however, be reluctant to book trial dates unless it is assured that there exists a plan for mediation at some point sufficiently in advance of the trial date.

In the ordinary course, the parties agree to schedule a one half day mediation, after discoveries and a pre-trial conference, to solicit the possibility of settlement having regard not only to the discovery evidence, but to the expert reports. These mediations can be private or they can be conducted with the assistance of the case management prothonotary or, if one has been appointed, the case management judge.

We recommend that the ordinary course be followed here. Even if there exists no reasonable basis for settlement, the mediation itself provides a great deal of informal discovery and disclosure which can be very useful at trial.

6.12 Formal Offers

Formal offers to settle can substantially shift the cost consequences of winning and losing, if they are open and unaccepted when the trial commences. A Plaintiff who does better in a final judgment than its offer is entitled to tariff costs to the date of the offer and to double those costs thereafter. A Defendant is *prima facie* entitled to no costs to the date of the offer and double costs thereafter. Given that the costs of a trial can reach several hundred thousand dollars, the doubling of costs can be a significant inducement to parties to give serious consideration to offers.

In the present case, the appropriate offer is … [analysis excluded]

7. REMEDIES AND DAMAGES

In its Statement of Claim, DEF seeks a permanent injunction and monetary compensation in the form of damages or an accounting, for patent infringement. It also seeks reasonable compensation (in lieu of damages) for pre-issuance infringement, and interest on sums awarded.

7.1 Injunction

While injunctive relief is discretionary, and while there are contract cases in which courts have refused injunctions where the Plaintiff has conducted itself inequitably, there are few patent cases in which injunctive relief has been withheld from a successful Plaintiff. A permanent injunction will almost certainly issue if any one claim in the ‘111 patent is valid and infringed.

7.2 Damages

In a damages award, the starting point is the revenue earned by the Plaintiff selling its product that is the subject of the patent. Again, the Plaintiff can argue that deductions should be made, and those deductions allowable are the same as in the accounting of profits analysis.

In this case … [analysis excluded].

7.3 Accounting of Profits

This is an equitable remedy pursuant to which a successful Plaintiff can ask the Court to require the Defendant to pay out its net profits. Recent case law has also suggested that the overall revenues are limited to the difference between what was made using the infringing materials, and what would have been made if a non-infringing solution had been used.

In this case, … [analysis excludes].

7.4 Reasonable Compensation / Reasonable Royalty

In cases where the Plaintiff does not use the invention itself, but rather licenses the invention to others to use, then the damages awarded to a successful Plaintiff consist of a reasonable royalty. In this case, DEF would lead evidence of the royalty rates it charges to other entities to use its invention.

In this case … [analysis excluded].

x

7.5 Interest

The interest payable on any monetary compensation is simple, unless the Plaintiff claims and proves an entitlement to compound interest. We are not aware of facts which would support a claim for compound interest.

8. PRO TEM BUDGET

Attached as Schedule D is a *pro tem* budget. For present purposes, professional fees are calculated at an average rate of $425 per hour. The litigation team consists of myself ($650 per hour), Mr. Harper ($400 per hour), and Mr. Ignatieff ($250 per hour), both of whom you have met. Our accounts are rendered in writing or electronically, monthly, as you may require. Paralegal time is calculated as a block of 100 hours at $165 per hour. We provide a monthly statement which tracks professional fees against the *pro tem* budget, so that underages and overages are apparent.

9. CONCLUSION

Our conclusions are set out in Section 1. We attach the draft Statement of Defence and Counterclaim and draft Third Party Claim for your review and comment. We look forward to answering any questions you may have. The Defence and Counterclaim and Third Party Claim are due to be served and filed on October 13, 2010.

Yours very truly,

Kevin L. LaRoche

Encl.

1. Schedule A – Claim Construction
2. Schedule B – Obviousness Analysis
3. Schedule C – Infringement Chart
4. Schedule D – Budget
5. Schedule E – draft Statement of Defence and Counterclaim
6. Schedule F – draft Third Party Claim

Schedule "D"

	Phase		Budget (avg. $425/hr)
1.	Initial retainer, technical meeting, preparation of validity and infringement report, litigation plan	100	$42,500
2.	Draft pleadings	40	17,000
3.	Pleadings motions and one interlocutory appeal	50	21,250
4.	Second client interview re: documentary production, review documents, prepare affidavit of documents	35	14,525
5.	Review documents produced by opponent	30	12,750
6.	Prepare corporate witness for discovery	20	8,500
7.	Prepare for inventor(s) discovery	25	10,635
8.	Prepare for discovery of opponent	30	12,750
9.	Attend / conduct all discoveries	40	17,000
10.	Discovery Motions and one interlocutory appeal	40	17,000
11.	Retain / instruct / assist independent expert to prepare report(s) in chief	100	42,500
12.	Retain / instruct / assist independent expert to prepare reply report(s)	40	16,600
13.	Pre-trial conferences / mediation	30	12,750
14.	Trial prep, including witness prep and training (2.5 days for each day of trial) - 25 days x 8 hours per day = 200 hours	200	85,000
15.	Trial (10 days estimate) – 100 hours x 2 counsel = 200 hours	200	85,000
16.	Post trial	25	10,625
17.	Communications	50	21,250
18.	Paralegal time at $165 per hour	100	16,500.
	Total	1155	$490,875

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