INTELLECTUAL PROPERTY LITIGATION
General Information for Litigants

Purpose
Intellectual property litigation involves allegations of the unlawful infringement of a party's exclusive rights in:

- patents;
- trademarks;
- copyright;
- industrial designs;
- trade secrets; or
- confidential information,

or some combination of the above.

Generally, the primary purpose of such a lawsuit is to seek an injunction from the courts preventing or prohibiting further infringement of the injured party's exclusive rights. The secondary purpose is for the injured party to recover profits or damages from the infringing party for any past infringement.

Since the parties are often competitors in the marketplace, they may be highly motivated to succeed in such litigation. In some cases, the potential profits and losses are substantial. Consequently, such litigation can be highly adversarial.

Cease & Desist Letters
In most cases, a lawsuit is preceded by the exchange of correspondence between the parties to determine whether the dispute can be amicably resolved without the expense and risk of court proceedings.

The intellectual property owner (or their legal counsel) will first send a *cease and desist letter* to the allegedly infringing party. This letter generally serves two purposes:

- alerting them of the alleged violation; and
- requesting their voluntary compliance with a set of demands, which may or may not include the payment of a sum of money for damages or unlawful profit.

The recipient may or may not respond. Any response is then evaluated to determine whether a lawsuit is warranted or the parties should pursue settlement negotiations.

Lawsuit
Like other forms of litigation, an intellectual property lawsuit is formally commenced when the allegedly injured party files a written claim with a court. In Canada, most intellectual property lawsuits are decided by the Federal Court and, on average, take from one to three years to complete if pursued through to the conclusion of a trial.

In the context of a lawsuit, the allegedly injured party is known as the "plaintiff" while the allegedly infringing party is known as the "defendant". Where there is a counterclaim, the plaintiff will also be identified as a "defendant by counterclaim" and the defendant will also be identified as a "plaintiff by counterclaim". If there is more than one plaintiff or defendant and a dispute arises between them, there may also be cross-claims with the parties identified as plaintiffs and defendants by "cross-claim".

Pleadings
The first step in a lawsuit is for the parties to exchange pleadings. These are detailed written allegations which are intended to ensure that each party is fully informed of the factual allegations made against them and to which they need to respond. Although pleadings may later be amended in appropriate circumstances, parties are encouraged to "put their best foot forward" at the outset.

The pleadings are not evidence. The allegations contained in the pleadings will be considered unproven unless admitted by the party against whom they are made. Credible evidence will be required to prove any un-admitted allegations before they will be accepted by the court as fact.

The typical steps in this stage are:

- plaintiff serves a copy of a *statement of claim* on the defendant;
- defendant serves a *statement of defence* on the plaintiff, which will usually include a counterclaim;
- plaintiff serves a *reply* on the defendant together with a *defence to any counterclaim*;
- defendant serves a *reply* on the plaintiff to any defence to counterclaim.

In actions involving a registered intellectual property right, the defendant will routinely serve a counterclaim alleging that the subject registration is invalid on various grounds.

Documentary Evidence

The second step in a lawsuit is for the parties to identify relevant documentary evidence and to exchange copies of any such evidence in their possession or under their control. In this regard, both parties are required to identify ALL relevant documents, whether helpful or harmful to their interests.

This also includes both paper and electronic documents. Accordingly, steps should be promptly taken at the commencement of any action to preserve all relevant electronic documents, including email.

To complete this step, each party is required to serve an affidavit on the other party known as an *affidavit of documents*. In this affidavit, a representative of each party is required to swear that they have undertaken a review of their records to identify all the relevant documents and attach a list of such documents in four categories:

- documents in its possession, power or control that it does not object to producing;
- documents in its possession, power or control that it objects to producing because they are privileged (such as correspondence with legal counsel);
- documents that were formerly, but are no longer, in its possession, power or control; and
- documents in the possession, power or control of a person who is not a party to the action.

Copies of the available documents are often served on the opposing party together with the affidavit in one or more bound volumes.

Where the parties are competitors, sensitive commercial documents (like financial data and customer lists) may be exchanged under the protection of a *confidentiality order.* Such an order restricts access to certain documents so that only legal counsel and/or experts may review them. Often such orders are issued by the court on the consent of both parties, but the terms of such an order may be determined by the court where the parties cannot agree.

Oral Examinations

The third step in a lawsuit is for a representative of each of the parties to be asked a series of oral (or sometimes written) questions by opposing counsel about the matters in dispute. These *examinations for discovery* are intended to ensure that the parties are familiar with all the available oral evidence prior to trial.

Where a party is a corporation, only one person is usually produced for examination.

This individual has a duty to ensure that they are reasonably familiar with all the evidence in the possession of the corporation and its employees. This may involve reviewing documents and/or conducting short interviews of fellow employees who may be called as witnesses at trial.

Depending on the nature of the case, examinations for discovery can last anywhere

from a few minutes to several days. Generally, there is no judge or decision-maker present during the examinations. The questions and the answers are recorded by a reporter who then prepares a transcript that is available to all the parties.

Trial Record & Pretrial Conference

The fourth step in a lawsuit requires one of the parties to file a *trial record* with court in which it requests a trial. This usually prompts the court to invite both the parties to file a more complete *pretrial memo* and to attend a *pretrial conference* with a judge to prepare for the trial. In this report and meeting, the parties will review:

- the unresolved issues;
- the number of witnesses, including any expert witnesses;
- the volume of documentary evidence, including any admitted documents;
- the estimated number of days required to complete the trial and the available dates for the court, all witnesses and counsel; and
- any efforts to settle the dispute.

In some cases, only the lawyers are required to attend a *pretrial conference*, but the courts may ask a representative of the parties to attend as well so that the opportunities to settle the dispute can be reviewed. The judge who conducts the pretrial conference cannot preside at the trial.

Trial

The fifth step in a lawsuit is the trial. A trial is a highly ritualized proceeding with strict rules governing all aspects of its conduct. Most intellectual property trials are decided by a single judge without a jury.

The typical steps in a trial are:

- opening statements by counsel for each party, which may include the presentation of statements of fact, document briefs and expert reports to the judge;
- plaintiff calls its witnesses to testify, each of whom are:
  - *examined in chief* by the plaintiff's counsel;
  - subject to potential *cross-examination* by defense counsel; and
  - if cross-examined, subject to potential *re-examination* by plaintiff's counsel;
- plaintiff may "read in" sections of the transcript from the examination for discovery of the defendant
- defendant calls its witnesses to testify, each of whom are:
  - *examined in chief* by defense counsel;
  - subject to potential *cross-examination* by plaintiff's counsel; and
  - if cross-examined, subject to potential *re-examination* by defense counsel;
- defendant may "read in" sections of the transcript from the examination for discovery of the plaintiff
- closing arguments by counsel for each party, which may include the presentation of written arguments to the judge;
- written decision issued by the judge, usually days or weeks after the conclusion of trial;
- written or oral argument presented to the trial judge as to whether the unsuccessful party should be required to pay the legal costs incurred by the successful party and, if so, how much; and
- costs order issued by the trial judge.

In intellectual property disputes, it is not uncommon for trials to be divided into two parts. This is referred to as *bifurcation order*.

Where such an order has been issued, the trial will address only the validity of any intellectual property registration and the liability of the defendant for infringement. If the registration is upheld as valid and the defendant is found to be infringing the plaintiff's exclusive rights, a *reference* is then conducted to determine the nature of the relief to be awarded, including:

- the terms of any injunction; and
- the sum of any monetary damages to be awarded to the plaintiff.

Bifurcation orders are often considered advantageous in intellectual property disputes because: (a) liability on the merits can be determined faster and at less cost; and (b) the disclosure of sensitive financial information relating to the defendant's profits is postponed until liability is determined.

Appeals

The unsuccessful party in any lawsuit may appeal the decision of the trial judge to a higher court. The sixth and final step in a lawsuit is therefore:

- to consider whether an appeal is warranted and, if so, to pursue an appeal; or
- to respond to an appeal launched by an opposing party.

It is important to remember that witnesses are only examined and cross-examined at trial. The trial judge is therefore in a unique position to assess the credibility of each witness and their testimony. Consequently, where there is a factual dispute, the appeal courts will rarely overturn the findings of the trial judge, especially where those factual findings are based on an assessment of the credibility of witnesses.

Generally, an appeal will only be successful where the appellant can establish that the trial judge made:

- an error interpreting the law;
- a combined error of fact and law which results in a misapplication of the law; or
- *palpable and overriding* error of fact, usually in the misinterpretation of undisputed facts.

Appeals from the Federal Court are usually heard by a panel of three judges at the Federal Court of Appeal who may:

- uphold the trial decision;
- overturn the trial decision and substitute their own decision; or
- quash the trial decision and order another trial.

Any further appeal is heard by a panel of judges at the Supreme Court of Canada. However, it is necessary to first seek the leave to appeal to the Supreme Court of Canada, usually on the grounds that the issues in dispute are the subject of conflicting lower court decisions and/or a matter of national importance. This is a high threshold and, in the past, few intellectual property lawsuits have qualified for an appeal to the Supreme Court.

Motions & Summary Judgment

At almost any point in a lawsuit the parties may seek interim orders from the court by way of a motion to resolve procedural disputes. Routine procedural motions include:

- motions seeking to strike out all or part of a pleading;
- motions to amend a pleading;
- motions seeking further particulars to supplement a pleading;
- motions seeking further and better documentary disclosure; and
- motions seeking answers to questions asked at examinations for discovery which were not answered or were answered inadequately.

Motions for procedural orders may also be sought during the course of trial, especially about the admissibility of certain forms of evidence. In most cases, procedural orders may only appealed with leave of another judge.

Summary judgment may also be sought by either party by way of a motion at almost any point in a lawsuit. However, such a motion will only be successful if the court is satisfied that there are no *genuine issues* in dispute that require a trial. Where findings of fact are dependent on the credibility of witnesses, a motion for summary judgment is unlikely to be successful.

To discourage vexatious and unwarranted procedural motions, the unsuccessful parties on any motion may be required to pay a sum of money towards the legal costs of the successful party. Since cost awards are considered discretionary, they are rarely set aside on appeal.

Settlement

The parties are strongly encouraged to consider the options for settlement at every stage of a lawsuit. Indeed, most lawsuits settle prior to trial.

The court rules and procedures are designed to ensure that the parties are fully aware of ALL the evidence prior to trial and, consequently, the risk of success or failure at trial.

The court rules are also designed: (a) to reward parties that make reasonable offers to settle; and (b) to punish parties that refuse to accept reasonable offers to settle. This is accomplished through the rules governing the award of legal costs after trial. For instance, when the trial judgment is less than a previous offer to settle refused by the successful party, the rules encourage the trial judge to reduce the sum of legal costs awarded to the successful party.

Settlement may be negotiated by various means, including:

- the exchange of written offers to settle;
- the attendance of the parties and their counsel at a settlement meeting;
- the attendance of the parties and their counsel at a settlement conference with a judge who assists the parties in the negotiation of a settlement; and
- the attendance of the parties and their counsel at a mediation where a private mediator assists the parties in the negotiation of a settlement.

The options for the settlement of any lawsuit should be canvassed early and often.