Economics of Patent Litigation in the United States

Procedures and Strategies

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Scope of this Presentation

Overview of US IP litigation system

Attorneys' fees – who pays?

- The "American" rule and exceptions

Realistic & accurate litigation budgeting

Assembling & effectively managing an IP litigation team

Successful negotiating strategies

Types of IP Litigation

IP Litigation includes:

- District court patent infringement
- ITC proceedings
- Patent validity challenge (IPR, PGR, CBMR)
- Trademark, service mark infringement
- Trade dress infringement
- Copyright infringement
- Misappropriation/theft of trade secrets

This presentation focuses on district court patent infringement litigation, typically being the most expensive

US Litigation Fees & Costs

Most expensive, most complicated, and slowest patent litigation system in the world, by wide margin

According to “2017 AIPLA Report of the Economic Survey” (conducted every other year):

US Patent Litigation

Legal Fees	Amount at Stake			
	< $1M	$1-10M	$10-25M	>$25M
1st Quartile	$0.3M	$0.5M	$1.0M	$1.5M
Average	$0.6M	$1.5M	$2.4M	$3.8M
3rd Quartile	$0.9M	$2.0M	$4.9M	$5.9M

Pre-Suit Strategic Thinking

- Check whether *Rule 11* of Federal Rules of Civil Procedure is satisfied (e.g., non-frivolous action)
- Set up goal-oriented strategy (e.g., injunction or money)
- Form litigation team (e.g., budgeting – attorney/expert fees, discovery expenses, employees' time)
- Identify weakness—assess potential impact on case
- Strengthen position (e.g., IPR, reissue, reexamination)
- Identify key witnesses and documents

US Litigation – Attorneys' Fees

The "American Rule"

In US patent litigation, each party pays all its own legal expenses, except in rare circumstances

Exceptions to the American rule:

- Rule 11 sanctions – *extremely* rare
- "Exceptional case" awards -- have increased, but …

NEVER count on these exceptions applying in your case

Pre-Complaint Investigation

FRCP Rule 11 must be satisfied by lawyers for both plaintiffs and defendants. Rule 11 requires attorneys to certify to court that, after conducting an inquiry reasonable under the circumstances:

- Lawsuit is not filed for improper purpose
- Legal positions taken are not frivolous
- Fact assertions supported by evidence

Sanctions (typically attorneys' fees) can be awarded if Rule 11 is found by court to have been violated

NEVER COUNT ON WINNING AN AWARD OF RULE 11 SANCTIONS

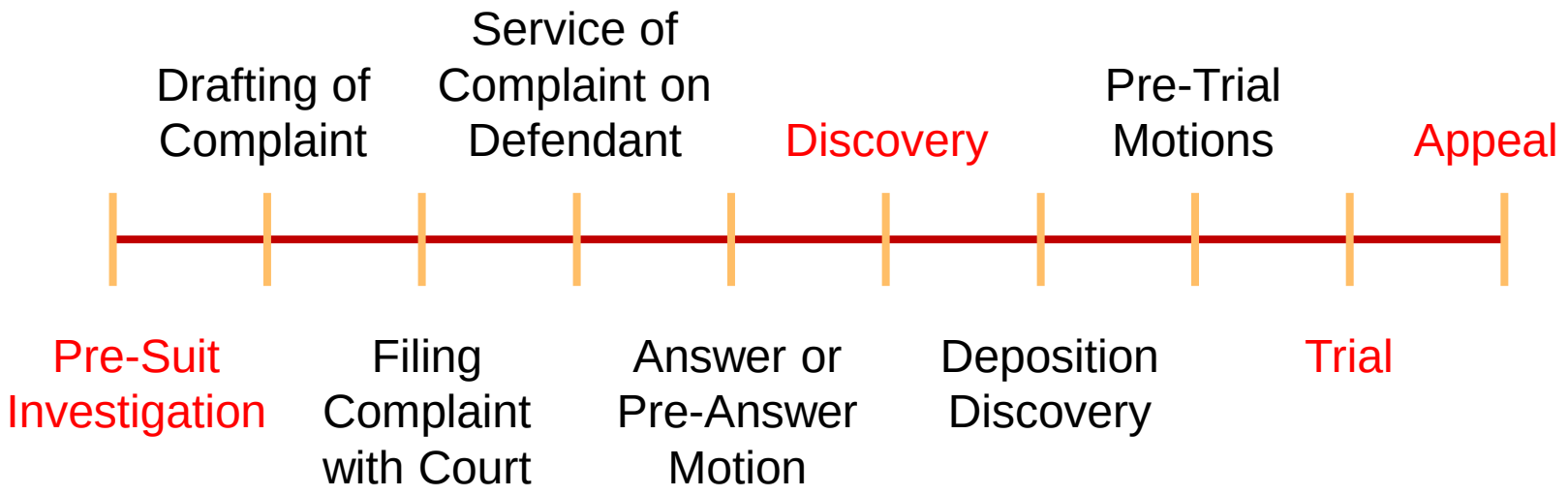
“Exceptional Case” Awards

Section 285 of US patent law is an attorneys’ fee-shifting mechanism:

- “The court in exceptional cases may award reasonable attorney fees to the prevailing party”
- Note: the statutory fee-shifting mechanism is discretionary, not mandatory
- U.S. Supreme Court decisions have made it somewhat easier to win an exceptional case award of attorney fees, but …

NEVER COUNT ON WINNING A SEC. 285 EXCEPTIONAL CASE AWARD OF ATTORNEY FEES

US IP Litigation Typical Chronology
(ignoring impact of IPR, PGR, CBMR procedures)



Many US Federal Courts

United States Supreme Court (highest appellate court)

United States Courts of Appeals (intermediate appellate court)

- 13 Judicial Circuits throughout United States, typically consisting of several states and/or US territories
- Federal Circuit – handles ALL appeals of patent cases

United States District Courts (Trial Court)

- *One or more district court in each of the 50 states and US territories*

Local Patent Rules

One supposed advantage of US federal judicial system is uniformity of practice in district courts in all fifty states

- more theoretical than actual

Patent infringement litigation, in particular, has split into two very different types of systems:

1. Traditional “unformatted” federal court litigation, and

2. “Structured” patent litigation, in accordance with Local Patent Rules

Local Patent Rules *(cont.)*

Local Patent Rules were pioneered by District Judge Ronald M. Whyte in the US District Court for the Northern District of California (ND Cal) in 2001

ND Cal's Local Patent Rules were designed to deal with district court's need to:

- Conduct claim interpretation hearings, called "*Markman* hearings," in an orderly manner
- Address recurring issues and disputes that typically arose in course of pre-trial discovery and case preparation in patent litigation

Local Patent Rules *(cont.)*

•Patent Rules modeled on the original ND Cal Rules now govern conduct of patent infringement litigation in 31 (of 94) district courts:

- N.D. California
- S.D. California
- D. Delaware
- N.D. Florida
- N.D. Georgia
- D. Idaho
- N.D. Illinois
- N.D. Indiana
- S.D. Indiana
- D. Maryland
- D. Massachusetts
- D. Minnesota
- E.D. Missouri
- D. Nevada
- D. New Hampshire
- D. New Jersey
- E.D. New York
- N.D. New York
- S.D. New York
- E.D. North Carolina
- M.D. North Carolina
- W.D. North Carolina
- S.D. Ohio
- N.D. Ohio
- W.D. Pennsylvania
- W.D. Tennessee
- E.D. Texas
- N.D. Texas
- S.D. Texas
- D. Utah
- E.D. Washington
- W.D. Washington

Patent Cases – Special Chronology

Typical Local Patent Rules special procedures include, in sequential order:

- Production of evidence of infringement
- Disclosure of asserted claims and infringement contentions
- Production of evidence describing accused products/processes
- Disclosure of invalidity contentions
- Exchange of proposed claim terms and phrases for construction
- Exchange of proposed preliminary claim constructions, with supporting evidence

Patent Cases – Special Chronology *(cont.)*

Typical Local Patent Rules special procedures, in sequential order:

- Exchange of proposed responsive claim constructions, with supporting evidence
- Filing a joint disputed claim terms chart
- Filing opening claim construction briefs
- Filing responsive claim construction briefs
- Claim construction (Markman) hearing
- Supplemental disclosure of asserted claims and infringement contentions (after court issues its claim construction order)
- Supplemental disclosure of invalidity contentions (after court issues its claim construction order)

Discovery - Purposes

►Uncover enough facts to eliminate need for a trial

►Discover enough about strengths and weaknesses of your case to enable an educated and rational decision about whether to settle and for how much

►Eliminate or minimize chance of surprise at trial

►Assess your witnesses and other side's witnesses in advance of trial

Discovery - Scope

Rule 26(b)(1):

Parties may obtain discovery regarding any nonprivileged matter that is **relevant to any party's claim or defense** and **proportional to the needs of the case**, considering the importance of the issues at stake in the action, the amount in controversy, the parties' relative access to relevant information, the parties' resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit

Discovery – Limitations on Scope

- Rule 26(b)(2) limitations
  - Discovery sought is unreasonably cumulative or duplicative
  - Discovery sought can be obtained from some other source more convenient, less burdensome, or less expensive
  - Party seeking discovery has had ample opportunity by discovery to obtain information sought
  - Burden or expense of proposed discovery outweighs its likely benefit, taking into account needs of the case, amount of controversy, parties' resources, importance of issues at stake in the litigation, and importance of proposed discovery in resolving the issues

  - **MEANINGLESS** AND **NEVER ENFORCED**

Litigation Discovery Methods

Initial disclosures (Rule 26)

- Provides only basic, very limited information

Oral depositions (Rules 30 & 45)

- Primary fact-gathering tool

Production & inspection of documents/things (Rule 34)

- Most expensive phase of discovery, requiring greatest care and attention

Litigation Discovery Methods *(cont.)*

Written interrogatories (Rule 33)

- Very limited value in most cases, due to lawyers' skill in drafting unresponsive, evasive answers

Requests to admit (Rule 36)

- Likewise of very limited value, for same reasons

Resolving Issues Before Trial

Motion to Dismiss – very rarely granted

Motion for Judgment on Pleadings – also rarely granted

- Where court can rule one way or another based solely on documents filed by parties (complaint, answer, counterclaims, and their exhibits)

Resolving Issues Before Trial

(cont.)

Motion for Summary Judgment

- Where no facts that are material to issue to be decided are in dispute
- Court can accept undisputed facts and rule one way or another by applying law to those undisputed facts
- Issues:
  - Parties may argue about which facts are disputed or undisputed
  - Typically some discovery must take place before this motion can be filed
- Form:
  - Memorandum of Law
  - Declarations with exhibits
  - Statement of undisputed material facts
  - Proposed findings of fact and conclusions of law

Pretrial Orders

Typically required by trial courts

– Vary in content and detail

Typically identify:

- Issues still in dispute
- Witnesses
- Evidentiary issues (what evidence should be included, refuted)
- Exhibits to be offered

“Housekeeping” document — to help trial run smoothly, <u>with no surprises</u>

Jury Instructions

Describe standards that jury is to apply to issues that jury is asked to decide

– "Model Jury Instructions" - put together by bar associations or other groups

Different courts may use different sets of instructions

– Try to modify the "model" instructions to the individual case

– Judges get nervous with modifying - they don't like to be reversed by Court of Appeals

Trial

Court may have parties waiting for open date

May need to proceed on very short notice

Jury selection

- Voir dire (“to see, to say”) – questions put to jurors to try to determine suitability for case, or bias for or against client’s case
- Each side gets a number of “peremptory strikes”
- Judge can strike whoever he/she wants

Trial *(cont.)*

Once jurors are selected, case begins

- Opening arguments
- Plaintiff goes first (typically)
  - Presents witnesses, examines
  - Defendant cross-examines
- Defendant goes second (typically)
  - Presents witnesses, examines
  - Plaintiff cross-examines
- Plaintiff may get one more chance – “first” and “last” word

Taming the Litigation Beast's Appetite for Money

Litigation lawyers (and their professional staff) are typically paid by the hour

As a result, there are two fundamental truths about the cost of litigation:

1. **FAST** litigation is less expensive than slow (or endless) litigation
2. A **SMALL** legal team is less expensive than a large team

The IP Litigation Team

As is true in any team sport, the two basic roles of good management are:

1. Assembling an appropriate team

2. Effectively managing the team

8 Rules for Assembling a Suitable Legal Team

1. A ship can have only one Captain; don't hire two (or more!)
2. "Mixing oil and water" is a hopeless endeavor; match the team leader's style to your own preference and comfort level
3. Match staffing level to real value and risk of the case
4. Most (but not all) patent infringement cases can be effectively handled by one partner and one or two associates
5. AVOID OVERSTAFFING!

The Suitable Legal Team *(cont.)*

6. On-the-job training is great, so long as it is not <u>your</u> job the new lawyers are being trained on …
   - Staff your team with more experienced, more efficient lawyers
   - Do not allow unlimited substitution of associates
7. KEEP THE TEAM SMALL!!
8. Choose a pragmatic lead lawyer / team leader who has lots of experience handling cases like yours
   - Stated differently, choose your lawyer like you would choose your brain surgeon

10 Guidelines for Effectively Managing the Legal Team

1. Develop a detailed case budget, on a per-activity category basis, at the outset
   - Monitor budget performance/variance at least quarterly
   - Consider various alternative billing arrangements
2. Develop a theme of the case as early as possible
   - Review and update regularly
3. Establish regular and efficient status reporting
   - Short, weekly or bi-weekly conference calls with outside counsel will reduce “surprises”
4. Set a detailed schedule and stick to it, to the greatest extent possible – abide by deadlines

Guidelines for Effectively Managing the Legal Team *(cont.)*

5. Focus on doing only what truly matters

- Identify, quickly as possible, your opponent's most serious weakness ("silver bullet" or "stake through the heart") and relentlessly pursue it
- Most cases settle when one party realizes it will lose on just one critical issue; everything else becomes irrelevant

6. Avoid doing things having little or no consequence

- Motions having low probabilities of success, or of little significance even if likely to succeed
- Meaningless discovery disputes
- Consider requiring PRE-APPROVAL for all motions

Guidelines for Effectively Managing the Legal Team (cont.)

7. Use private negotiations and alternative dispute resolution procedures, but only at appropriate times (the “swinging door” approach to settlement openings)
8. Be an accessible resource, not an obstacle or hindrance, to your outside litigation team; provide assistance in the following ways:
   - Assist with document collection and review
   - Provide IT/technical/financial expertise where appropriate
   - Establish a single key person vested with suitable authority to make day-to-day litigation management decisions

Guidelines for Effectively Managing the Legal Team (cont.)

9. Maintain an open line of communication with your adversary – remember, the dispute is YOURS

10. Insist on civility between counsel in all circumstances; do not permit arrogant personality games between opposing counsel and your lawyers

Negotiate to Win

- Whether Plaintiff or Defendant, ALWAYS prepare to WIN AT TRIAL!

- A positive WINNING attitude is essential to any successful negotiated resolution.

- Follow the “swinging door” approach to timing of settlement negotiations (whether private or in the context of court-mandated ADR procedures)

ご清聴ありがとうございました

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