

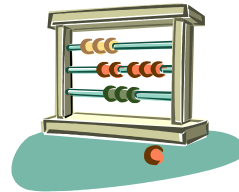
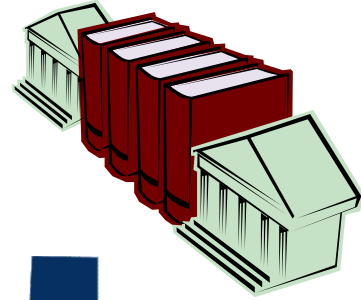
# **U.S. Litigation**

## **(Strategic Preparations and Statistics)**

Thomas K. Scherer

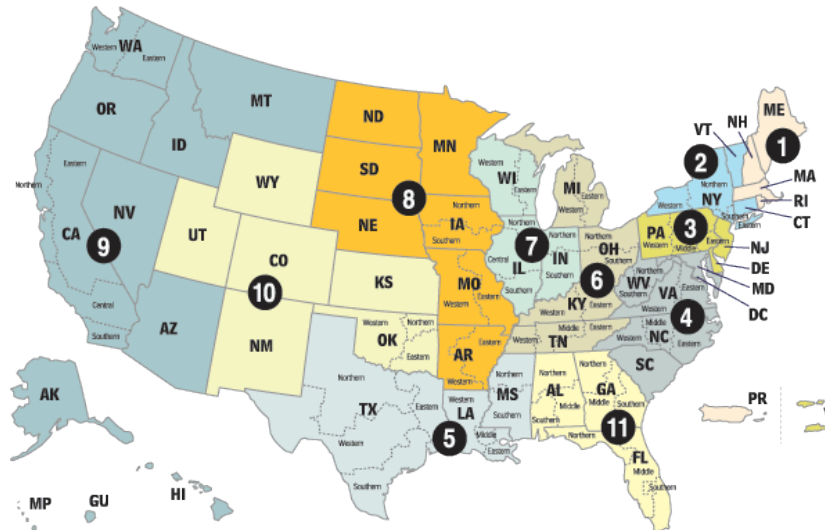
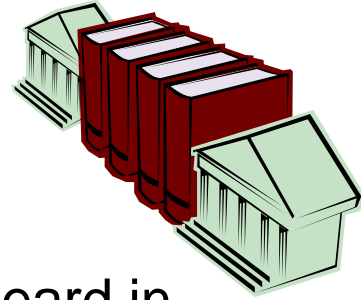
# U.S. Litigation

- Federal and State Court, ITC actions
  - Considerations of speed and remedies involved
- Eastern District of Texas
  - Considerations of speed and factors involved
- Patent Trolls/NPEs
  - Who they are and what they do
  - Strategies for dealing with one
- Hurricane Plans
  - Way to be prepared for litigation
- Litigation Statistics
  - Average costs for intellectual property litigation



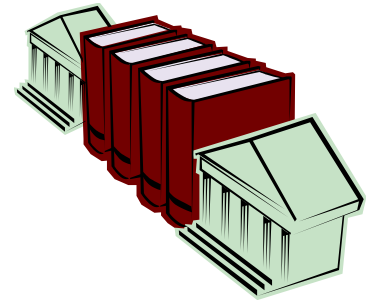
# Federal and State Court

- Parallel State and Federal Court systems
  - 50 States, 94 Federal Districts in 11 Circuits
  - Patent cases always heard in Federal Court
  - Trademark, copyright, and trade secret may be heard in State or Federal Court depending on circumstances
  - District Judges have discretion to set litigation timelines



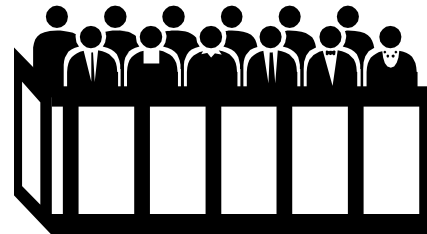
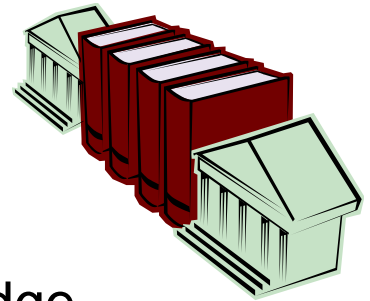
# Federal and State Court

- Remedies - both Federal and State Courts can grant:
  - Injunctions
    - Preliminary
    - Permanent
    - No longer granted automatically (eBay case)
  - Monetary Damages
    - Reasonable royalties
    - Lost profits
    - Enhanced Damages (willful infringement)
  - Attorney's fees
    - Prevailing party in exceptional cases



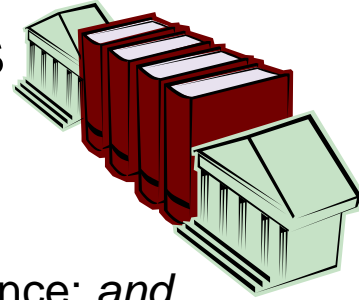
# Federal and State Court

- Whether in Federal or State Court, the presiding judge probably will not:
  - Have detailed knowledge of IP law
  - Have a technical background
- Plaintiff has a right to trial by jury
  - Jury almost never has technical or legal knowledge
  - Jury makes ultimate decision of validity/infringement



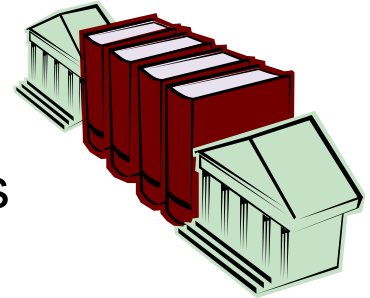
# Federal and State Court

- Experts have critical role of explaining issues
  - IP litigation is often a “battle of the experts”
  - Often, the winner has an expert with:
    - requisite background, knowledge, education, and experience; *and*
    - an ability to relate favorably to the judge and jury
  - Testifying Expert
    - Someone who will testify at trial
    - All documents and data viewed or created by expert are subject to discovery
    - Attorney must limit the testifying expert’s access to information
  - Consulting Expert
    - Someone who merely aids with technical aspects of the case
    - Consulting experts do not testify
    - Work product of consulting experts are not subject to discovery



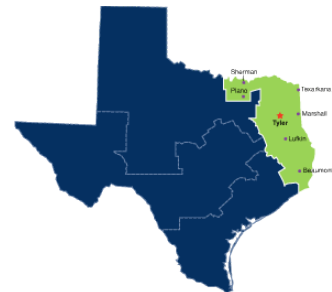
# ITC Actions

- International Trade Commission (ITC)
  - Known as “Section 337 Investigations”
  - Jurisdiction over *imported products* only
  - Injunction/Exclusion order are the only remedies
  - Fast-track action (15-18 months)
  - Plaintiff must show domestic industry and use of technology
  - Timelines are set by rule, are short, and are non-extendable
  - Answers in ITC investigations are
    - due quickly after Notice of Investigation issued (20-30 days)
    - typically more complex than answers in U.S. District Court as detailed exhibits such as defensive claim charts are generally included
  - Discovery requests may be served shortly after the investigation is initiated
    - may result in response to requests for production and interrogatories being due even before the original answer is due



# Eastern District of Texas

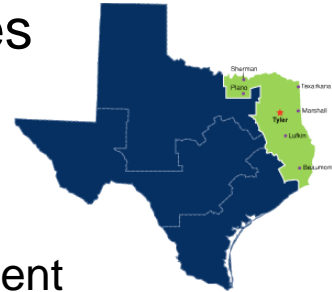
- EDTX - the Patent Litigation Capital of America
  - Geographically:
    - Extends from just north of Dallas, up to the Oklahoma border, east to the Louisiana border, and south to counties north of Houston
  - Court is held in:
    - Tyler, Beaumont, Sherman, Marshall, Lufkin, and Texarkana
      - Most patent lawsuits are filed in Tyler and Marshall
- Why are so many cases filed in EDTX?
  - Rocket Docket
    - Extremely sophisticated with respect to patent cases
    - Very aggressive time deadlines for pre-trial and trial
    - Time from start to finish was initially less than one year
  - Plaintiff-friendly juries
    - Consider patent infringers to be “cattle thieves”





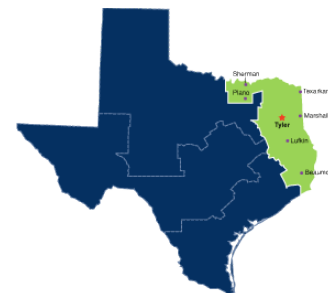
# Eastern District of Texas

- Why are so many cases filed in EDTX?
  - Strict enforcement of deadlines and discovery rules
    - Established a set of complex rules detailing timelines for infringement contentions, validity contentions, and claim construction
    - Must be familiar with the local rules of court regarding patent matters
    - Judges have little patience for those not following the rules *exactly*
  - Historical unwillingness to transfer venue
    - Motion to transfer – 28 U.S.C. § 1404(a)
    - Difficult to obtain transfer when the suit is filed in the plaintiff's home forum (most Patent Trolls/NPEs establish headquarters in EDTX)
    - Plaintiff usually can assure that the suit remains where filed
    - Judges do not typically grant these requests, unless defendants can show no connection with the EDTX (i.e., no products *ever* sold there)



# Eastern District of Texas

- Why are so many cases filed in EDTX?
  - Allow for wide open discovery
    - Mandatory production requirement
      - *All* relevant information must be promptly produced
    - *No* exceptions
  - Coupled with new E-discovery rules, discovery is the most expensive part of patent litigation
  - E-Discovery
    - New electronic discovery rules of documents in civil cases
    - Companies involved in civil litigation must meet within the first 30 days of a case's filing to discuss how to handle electronic data
    - The discussion must encompass retention practices, the types of records required and their electronic format, as well as what is considered "accessible"
    - Having an internal electronic file retention policy helps immensely



# Patent Trolls / NPEs

- “Patent Troll” was originally used to identify entities:
  - Said to go on “fishing expeditions,” i.e., “trolling” the waters, in order to find ways to generate revenue from patents
- “NPE” (Non-Practicing Entity) is now the preferred terminology for referring to:
  - Individual inventors who do not produce or commercialize the patented invention but sue corporations for infringement
  - Companies who purchase patents as tools for licensing and enforcement and not for commercial production
  - Patentees who patent technologies for the sole purpose of collecting license fees
    - The number of NPE patent lawsuits has increased
    - From 600 cases in 2010 to 1,143 cases in 2011
      - May even be more cases due to the difficulty of identifying NPE cases



# Patent Trolls / NPEs

- Negative Effects

- Unreasonable licensing fees
  - Threat of injunction outweighs value of patent
  - Lack of proper apportionment of damages
- Litigation expenses
  - Plaintiff's attorneys on contingent fee
  - Inconvenient forum (EDTX)
- Hinder technological and industrial growth
- Negative public perception of patents



- Positive Effects

- Create a secondary market for patents
- Opportunity for small inventors to obtain return on investment in their inventions



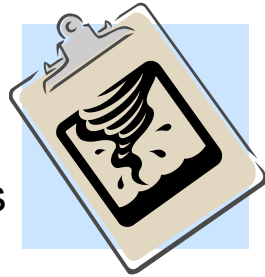
# Litigation Strategies

- When confronted with Patent Troll/NPE litigation
  - Expect aggressive behavior
  - Act quickly in response
    - Typically, plaintiffs are already prepared
  - Review the party's litigation history and weigh the risks
  - Consider negotiating a running royalty and then making *Medimmune* attack post-license
  - Look into quality of patents being asserted, and attempt to invalidate patents through reexamination or DJ action
  - **Warning** - Reexamination may invoke de facto estoppel:
    - Any claim held valid under reexamination will be significantly more difficult to invalidate in subsequent litigation or proceedings
    - Ideally, reexamination should be requested based on prior art that the examiner failed to adequately consider



# Litigation Strategies

- “Hurricane Plans” for litigation
  - Being prepared for litigation *before* it happens
    - Whether plaintiff or defendant, taking steps to be ready helps
    - Allows the litigation process to proceed more efficiently
    - Saves time and money
    - Makes entire litigation team’s job easier
  - Establish procedure for identification of involved individuals
    - Must be customized for particular company / division
    - Important to have information readily available to legal department
      - Employee / contractor roles, responsibilities, and contact information
  - Assemble the appropriate litigation team quickly
    - Company legal department members
    - Trial counsel and local counsel
    - Opinion counsel (*different* from trial counsel!)
    - Litigation support personnel (experts, vendors, etc.)



# Litigation Strategies

- “Hurricane Plans” for litigation
  - Interview key individuals and collect evidence
    - Sanctions can be imposed for poor evidence collection/preservation
  - Plan for electronic and documentary evidence
    - Balance reasonability of data inclusion with data targeting
    - Clearly define scope and monitor implementation of hold
  - Consider sources of electronic and documentary evidence
    - Paper files
    - Electronic files on desktops, laptops, and mobile devices
    - Electronic files on company servers, third-party servers (e.g., cloud)
  - Designate custodians for collected evidence
    - Evidence must be properly stored, maintained, and updated
    - Evidence must be reviewed for privilege
    - Evidence must be prepared for production



# Litigation Strategies

- “Hurricane Plans” for litigation
  - Be aware that “notice letters” can start litigation
    - No longer are required to actually threaten suit
    - Declaratory judgment action can be supported by:
      - Identification of patent and product
      - Apprehension of suit
    - Care should be taken when drafting and sending such letters
    - Careful review should be made upon receipt of such letters
  - Plan reaction to lawsuit or threat letter
    - Initial analysis
    - Identification of problem patents
    - Early engagement of invalidity searches on problem patents
    - Obtaining opinions on searched, problem patents
    - Determining defenses and infringement positions





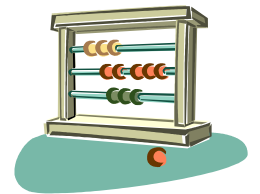
# Litigation Strategies

- “Hurricane Plans” for litigation
  - If you are sued, *immediately* begin working with counsel – do not delay
    - Is this a non-infringement case or an invalidity case?
    - Have opinions of counsel been drafted?
    - How much are the damages involved?
  - If a suit is only threatened – consider filing suit first
    - In the United States, a plaintiff has 120 days from the date of filing to serve a Complaint upon the defendant(s).
    - To reserve a preferred venue/forum, a plaintiff can file suit and not serve, spending up to the next 120 days putting their case together, acquiring additional evidence, and (sometimes) attempting to settle the dispute.



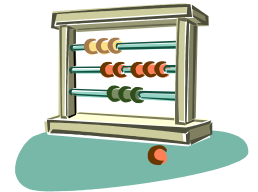
# Litigation Statistics

- Sources for intellectual property litigation costs
  - American Intellectual Property Law Association (AIPLA) conducts survey of U.S. lawyers in law firms and corporations every two years and publishes results
  - Statistics from the 2011 Report of the Economic Survey
    - Litigation Costs
      - Patent, Trademark, Copyright, Trade Secret Misappropriation
      - Costs until end of discovery and total cost through trial
    - Trademark Opposition Costs
    - Two-Party Interference Proceeding Costs
    - *Inter Partes* Patent Reexamination Costs
  - U.S. Courts' websites provide caseload statistics
  - LLM is a Texas-based litigation support company
    - Provides customized e-discovery and case management software
    - Maintains real-time statistics on litigation timing and costs

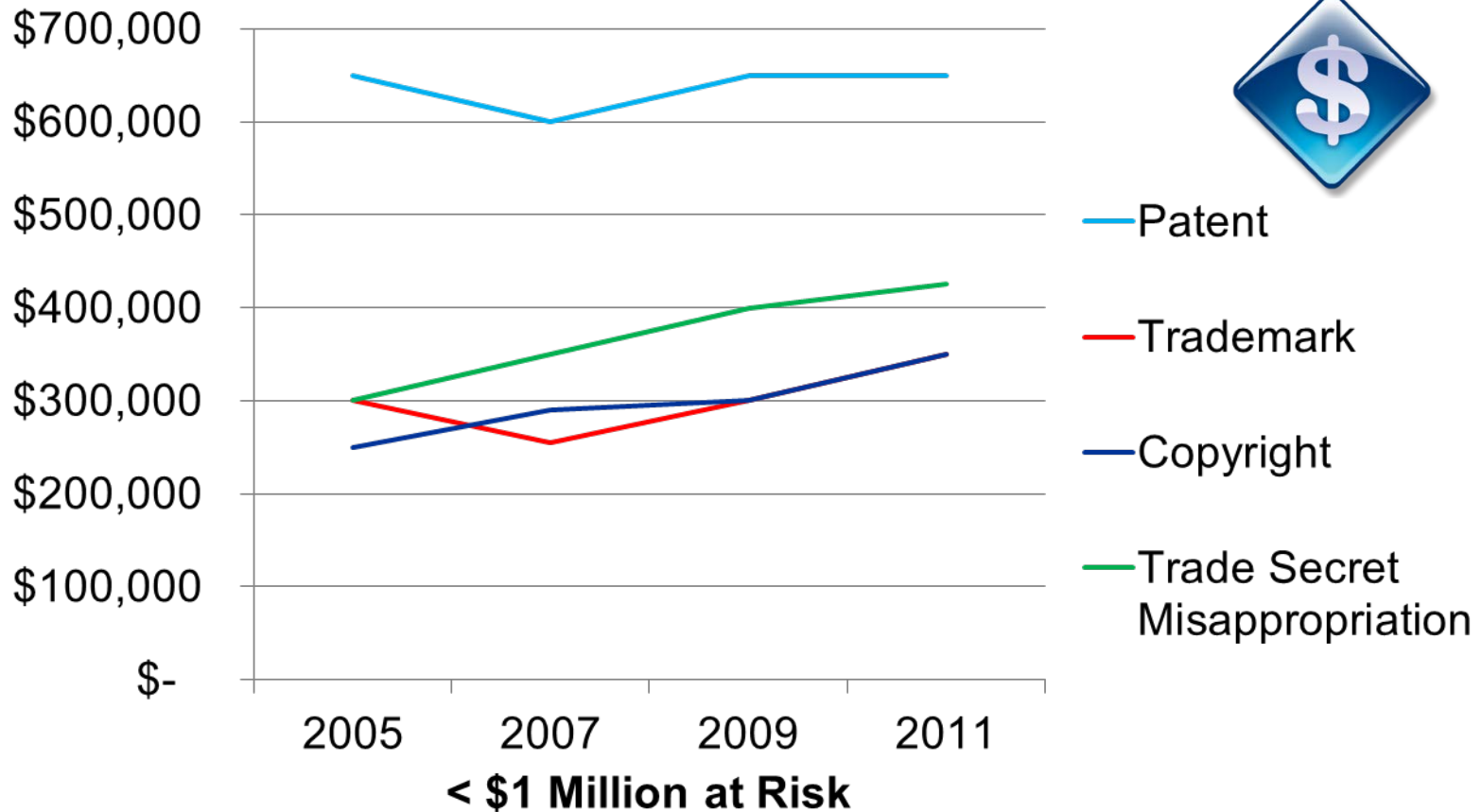


# Litigation Statistics

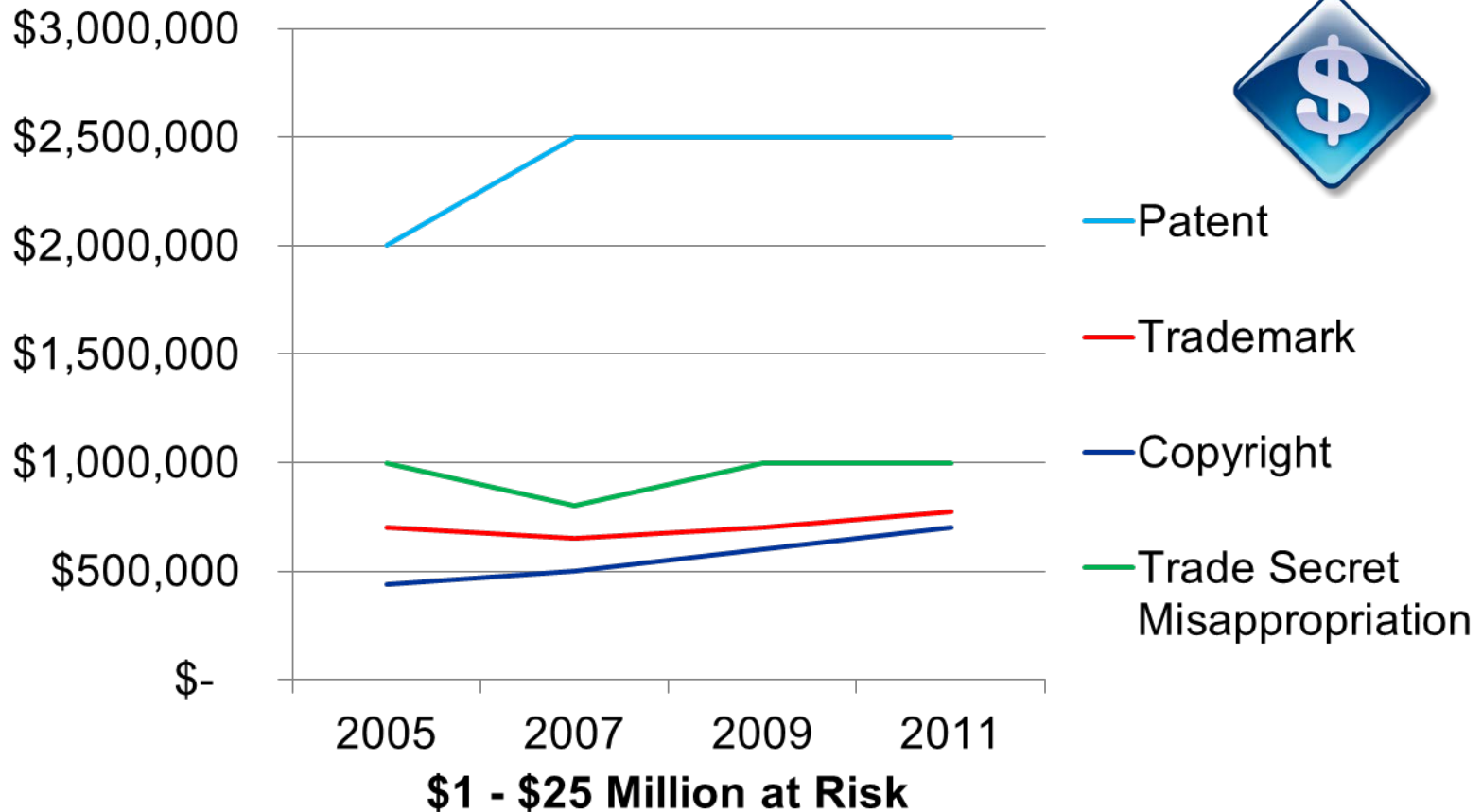
- Active District Court intellectual property litigation
  - 25,334 patent law suits in U.S.
    - 4,037 in Texas Districts
    - 3,026 in Eastern District of Texas
  - 28,372 trademark law suits in U.S.
  - 27,359 copyright law suits in U.S.
  - Average time to trial in District Courts - 36 months
  - 4,980,441 average pages of documents produced during discovery in patent law suits
- 426 appeals of patent law suits heard by the Court of Appeal for the Federal Circuit (CAFC) in 2011
  - 14% reversal rate of District Court decisions
  - Average time from docketing to disposition - 9-10 months



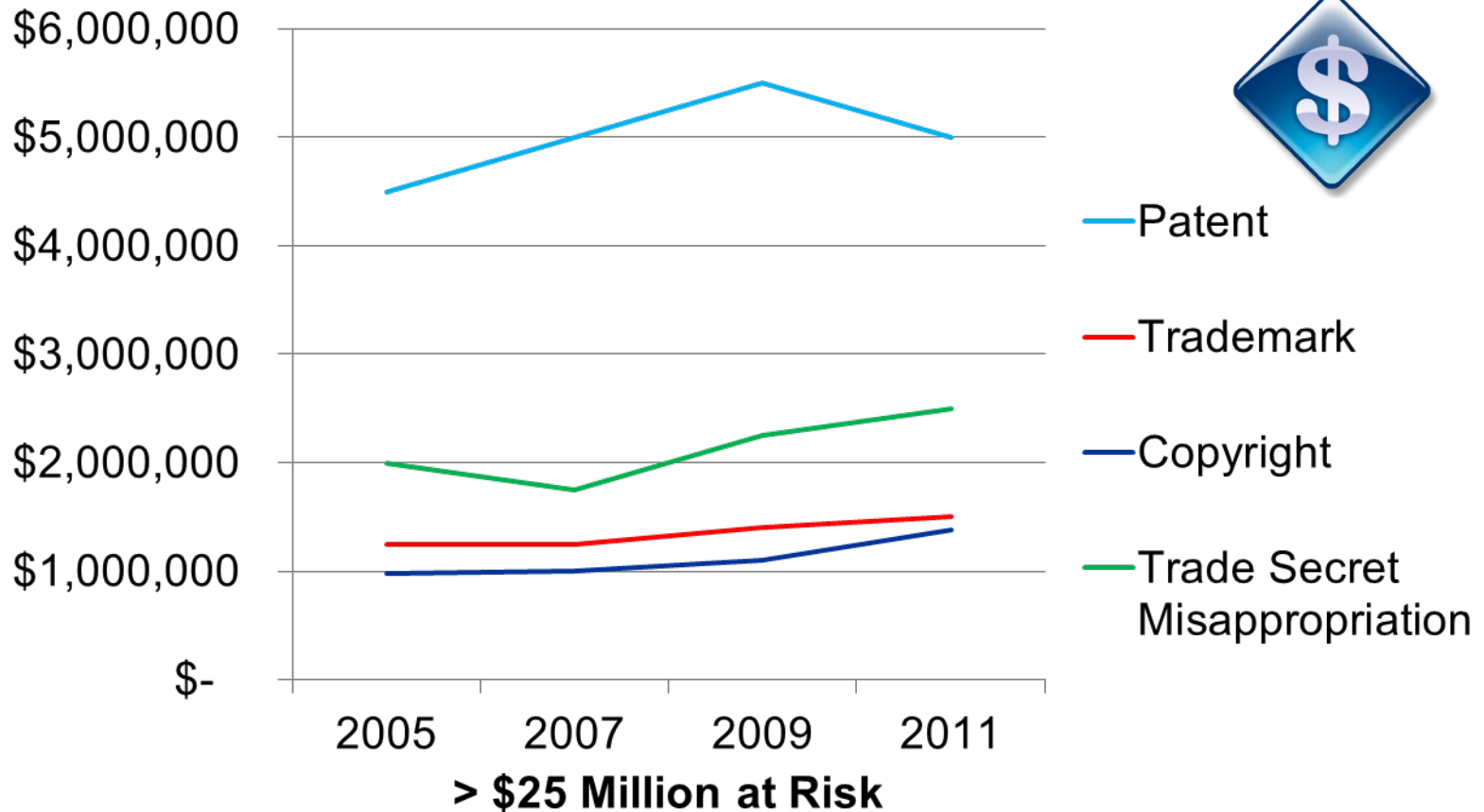
# Litigation Statistics



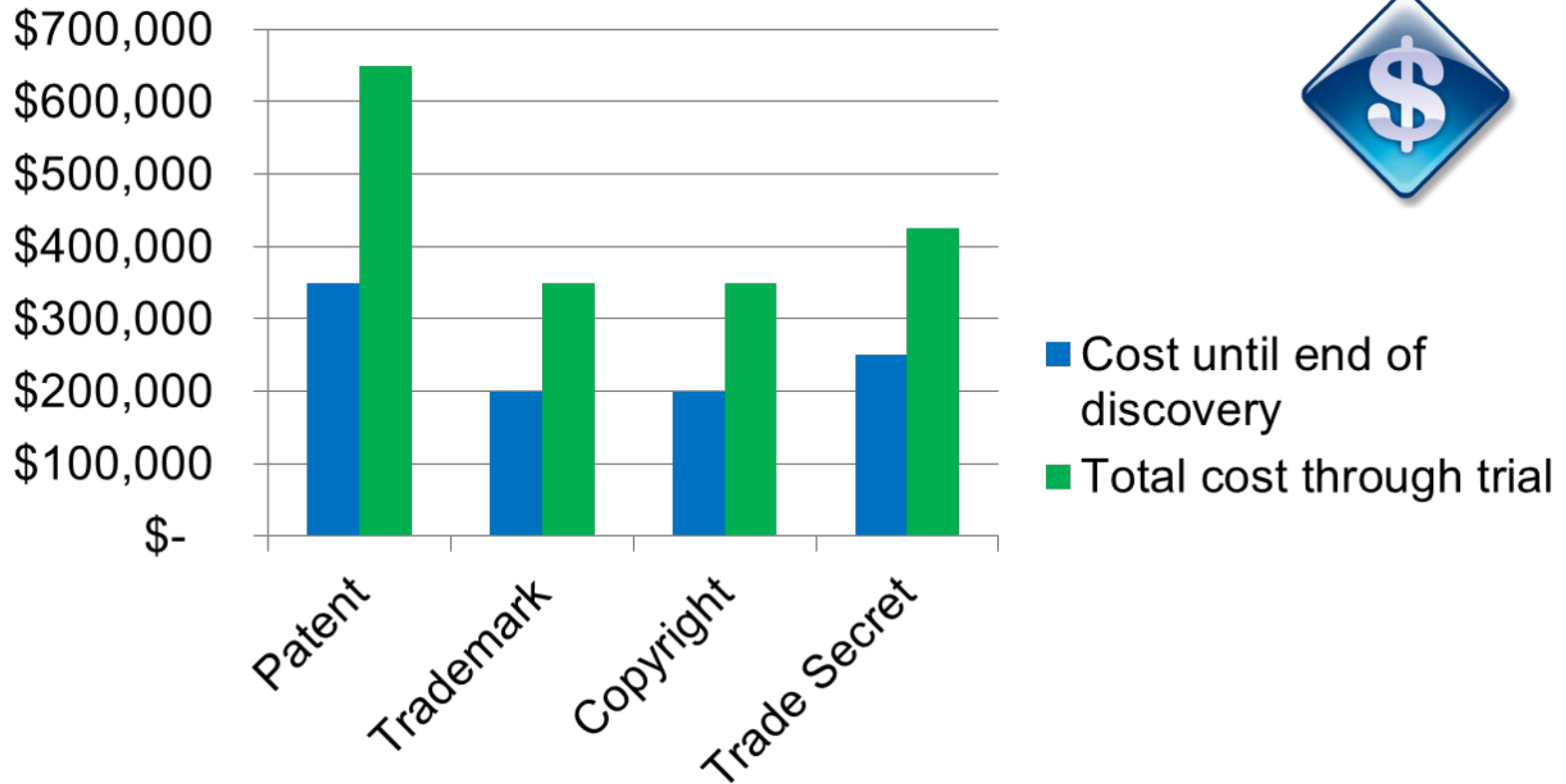
# Litigation Statistics



# Litigation Statistics

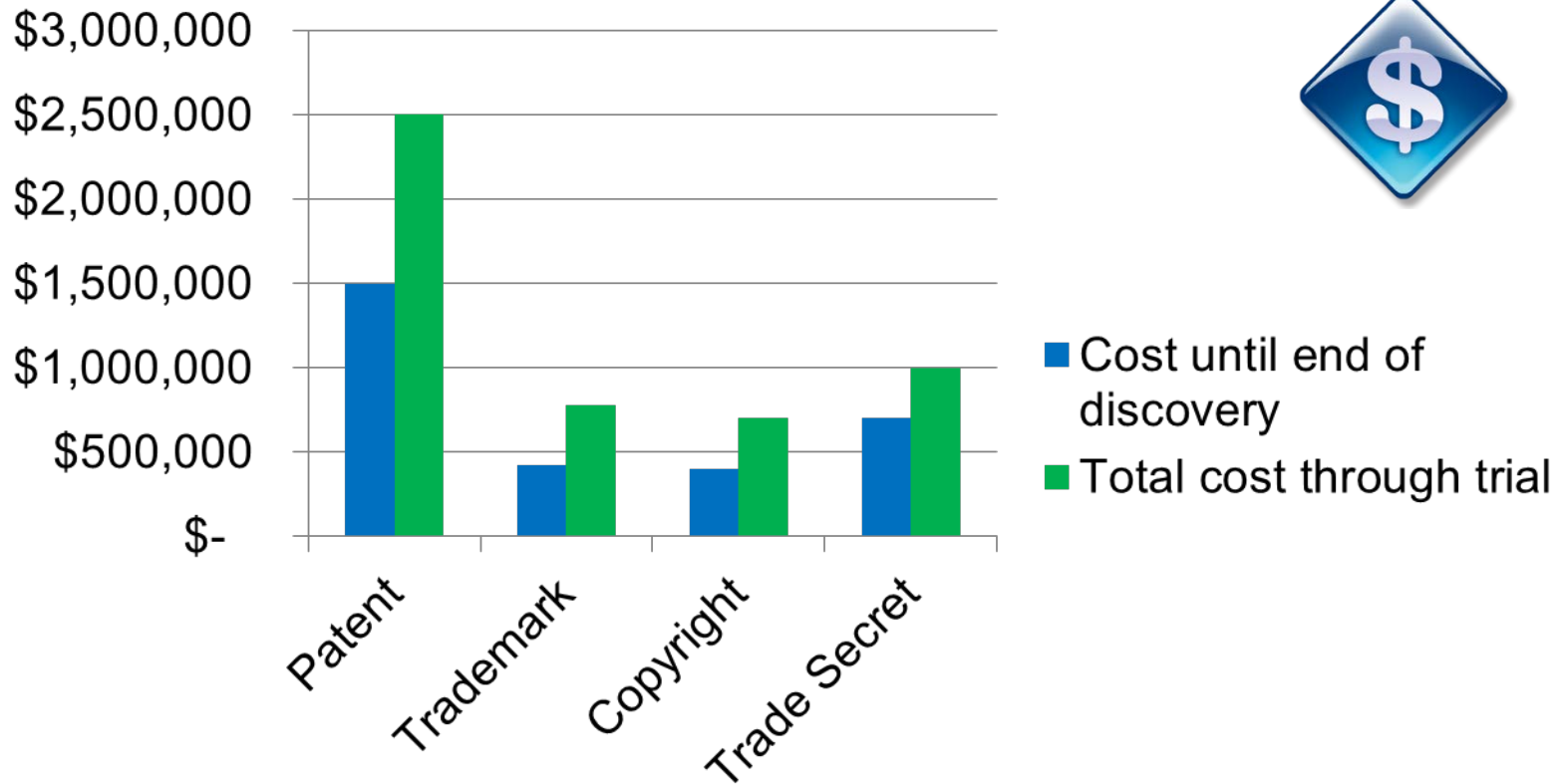


# Litigation Statistics



**< \$1 Million at Risk in 2011**

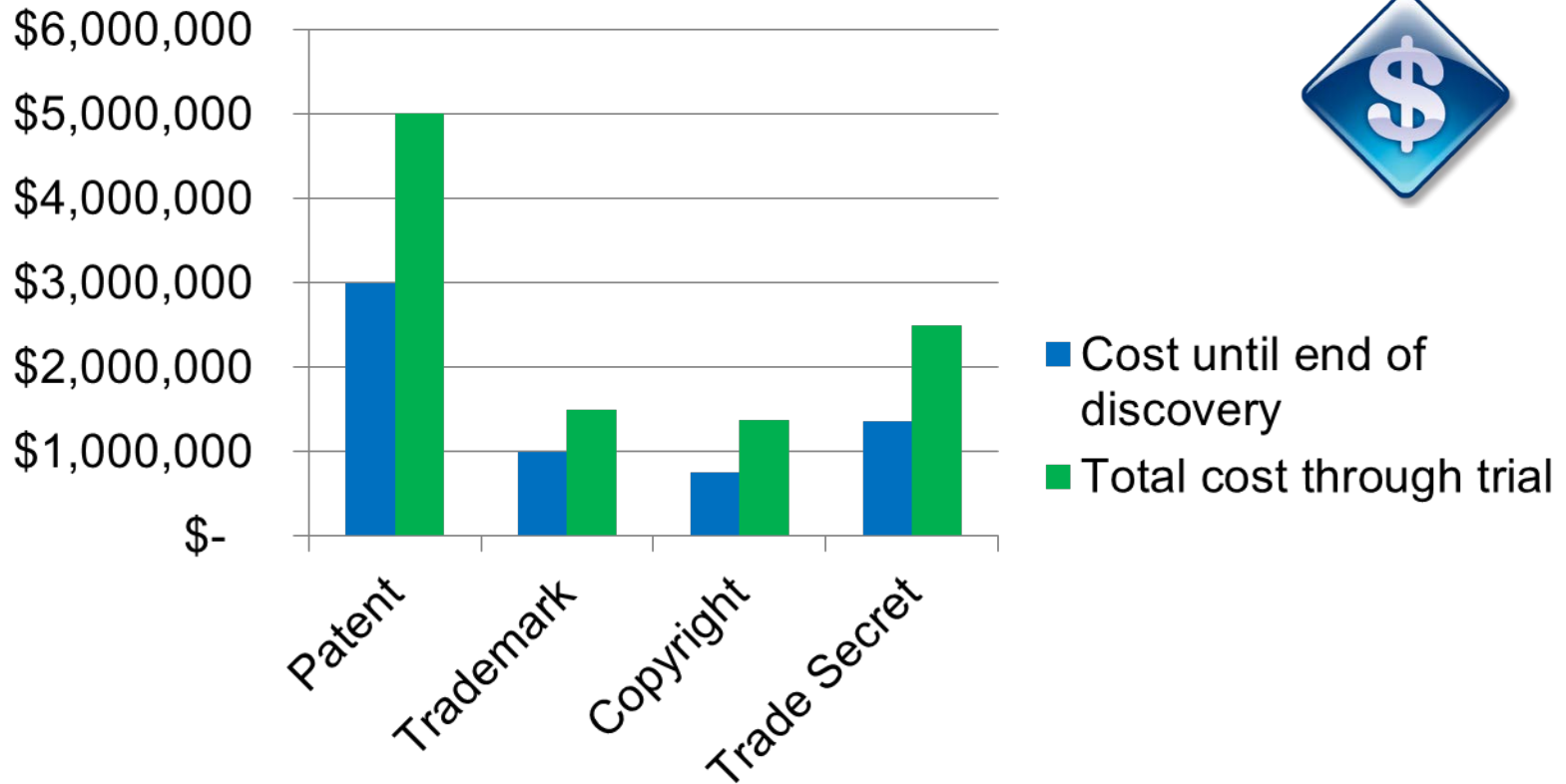
# Litigation Statistics



**\$1 - \$25 Million at Risk in 2011**



# Litigation Statistics



**> \$25 Million at Risk in 2011**

# Litigation Statistics

- Patent Litigation – 2011
  - Less than < \$1 Million at risk
    - Cost until end of discovery – \$350,000
    - Total cost through trial – \$650,000
  - \$1 - \$25 Million at risk
    - Cost until end of discovery – \$1,500,000
    - Total cost through trial – \$2,500,000
  - More than \$25 Million at risk
    - Cost until end of discovery – \$3,000,000
    - Total cost through trial – \$5,000,000



# Litigation Statistics

- Trademark Litigation – 2011
  - Less than < \$1 Million at risk
    - Cost until end of discovery – \$200,000
    - Total cost through trial – \$350,000
  - \$1 - \$25 Million at risk
    - Cost until end of discovery – \$425,000
    - Total cost through trial – \$775,000
  - More than \$25 Million at risk
    - Cost until end of discovery – \$1,000,000
    - Total cost through trial – \$1,500,000



# Litigation Statistics

- Copyright Litigation – 2011
  - Less than < \$1 Million at risk
    - Cost until end of discovery – \$200,000
    - Total cost through trial – \$350,000
  - \$1 - \$25 Million at risk
    - Cost until end of discovery – \$400,000
    - Total cost through trial – \$700,000
  - More than \$25 Million at risk
    - Cost until end of discovery – \$750,000
    - Total cost through trial – \$1,375,000



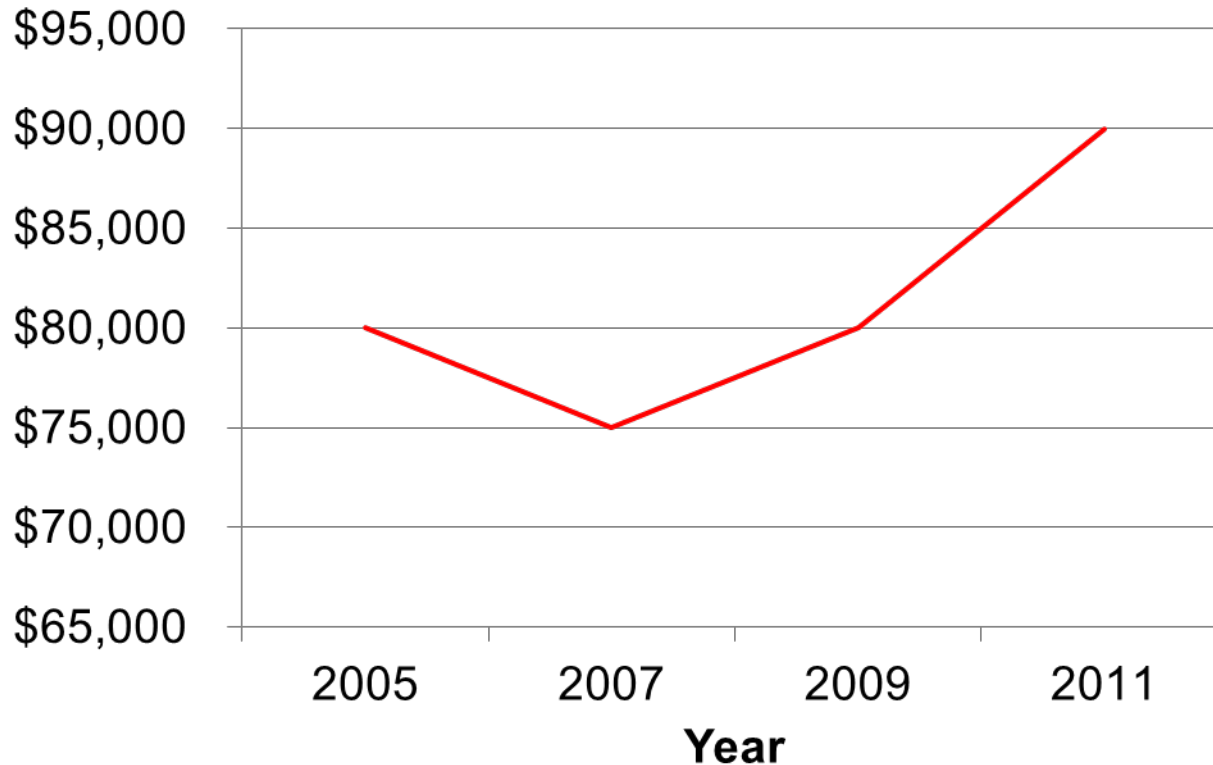
# Litigation Statistics

- Trade Secret Misappropriation Litigation – 2011
  - Less than < \$1 Million at risk
    - Cost until end of discovery – \$250,000
    - Total cost through trial – \$425,000
  - \$1 - \$25 Million at risk
    - Cost until end of discovery – \$700,000
    - Total cost through trial – \$1,000,000
  - More than \$25 Million at risk
    - Cost until end of discovery – \$1,360,000
    - Total cost through trial – \$2,500,000



# Litigation Statistics

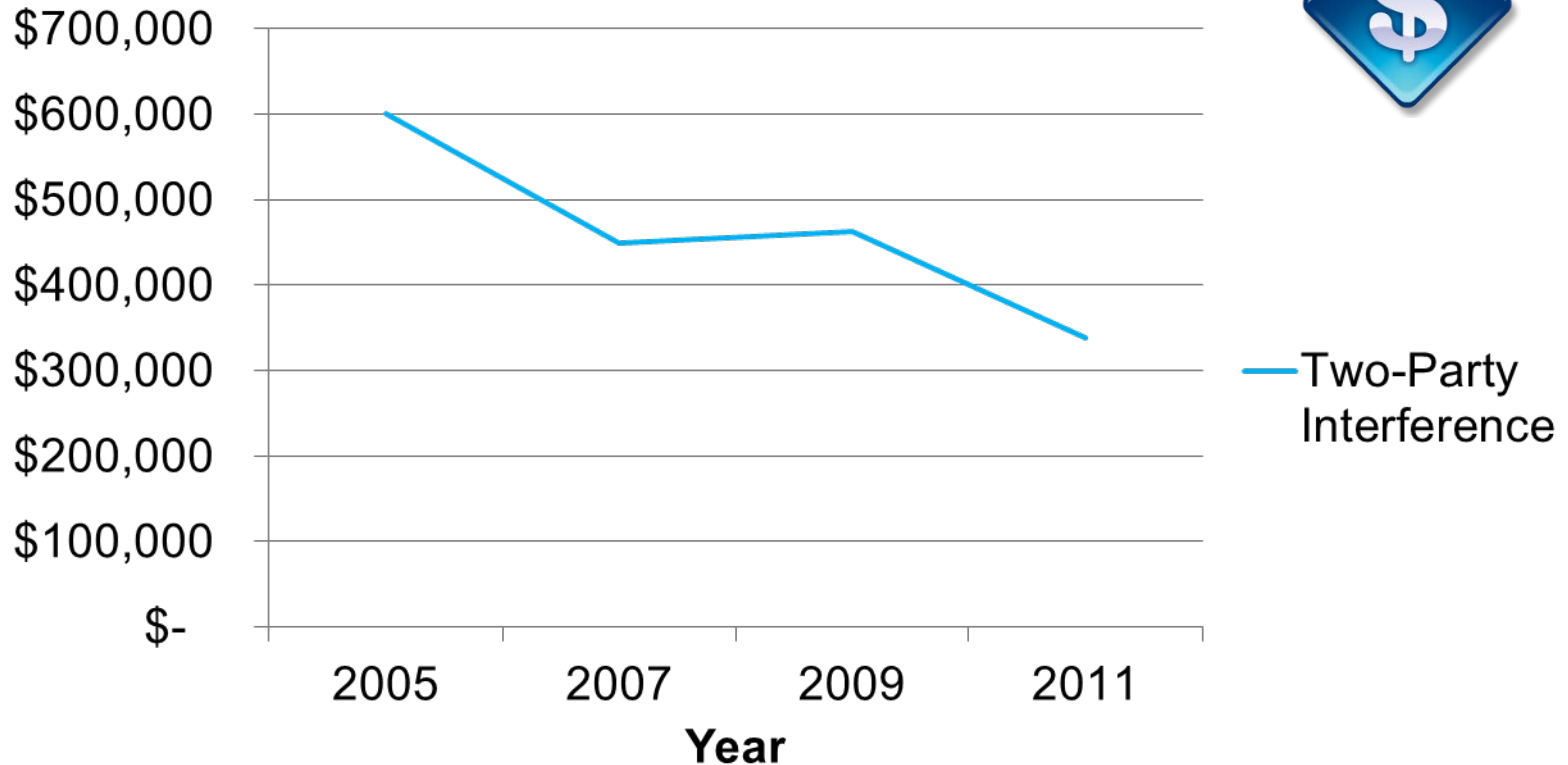
## Trademark Opposition trend



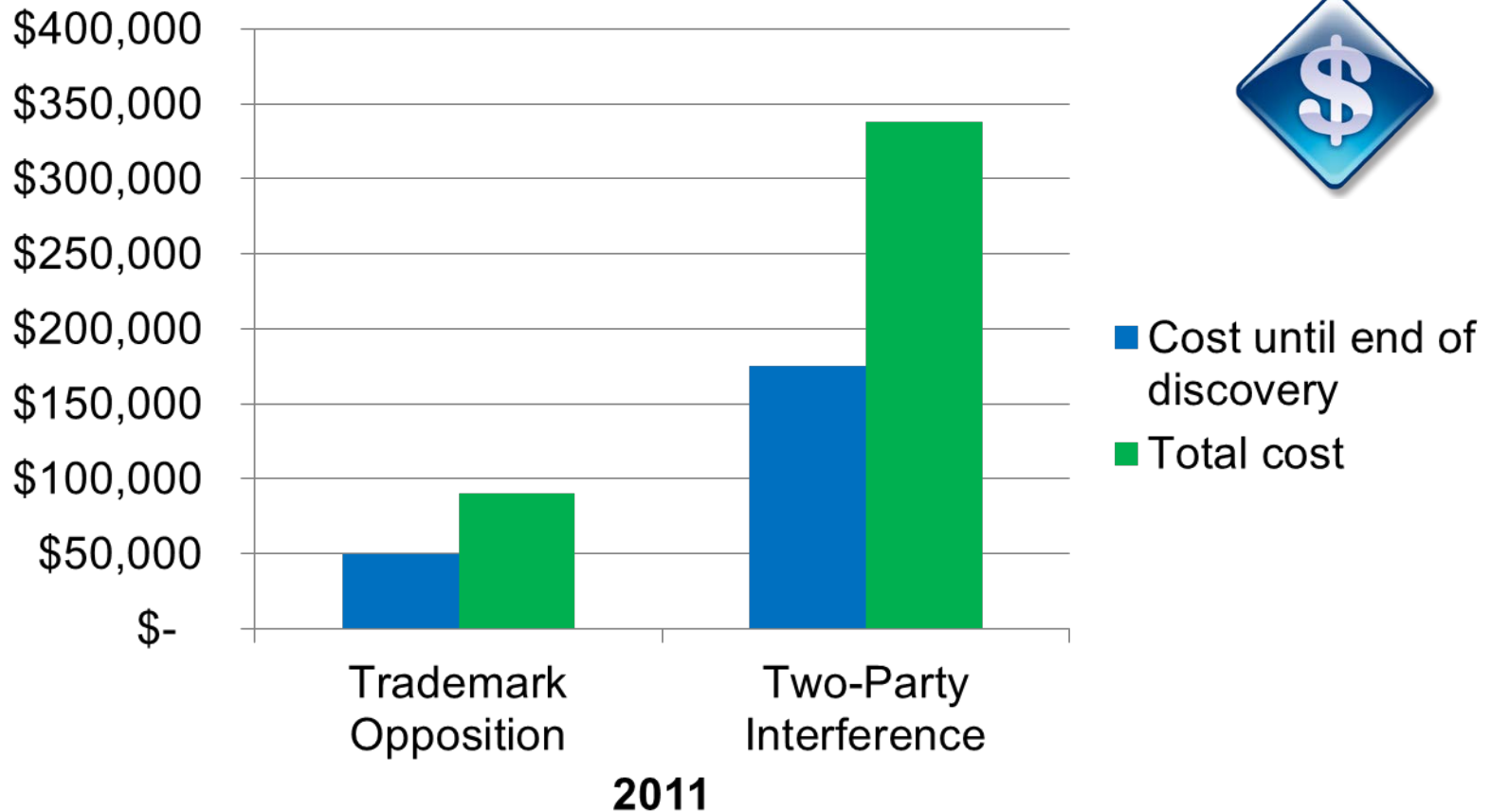
— Trademark Opposition

# Litigation Statistics

## Two-Party Interference trend



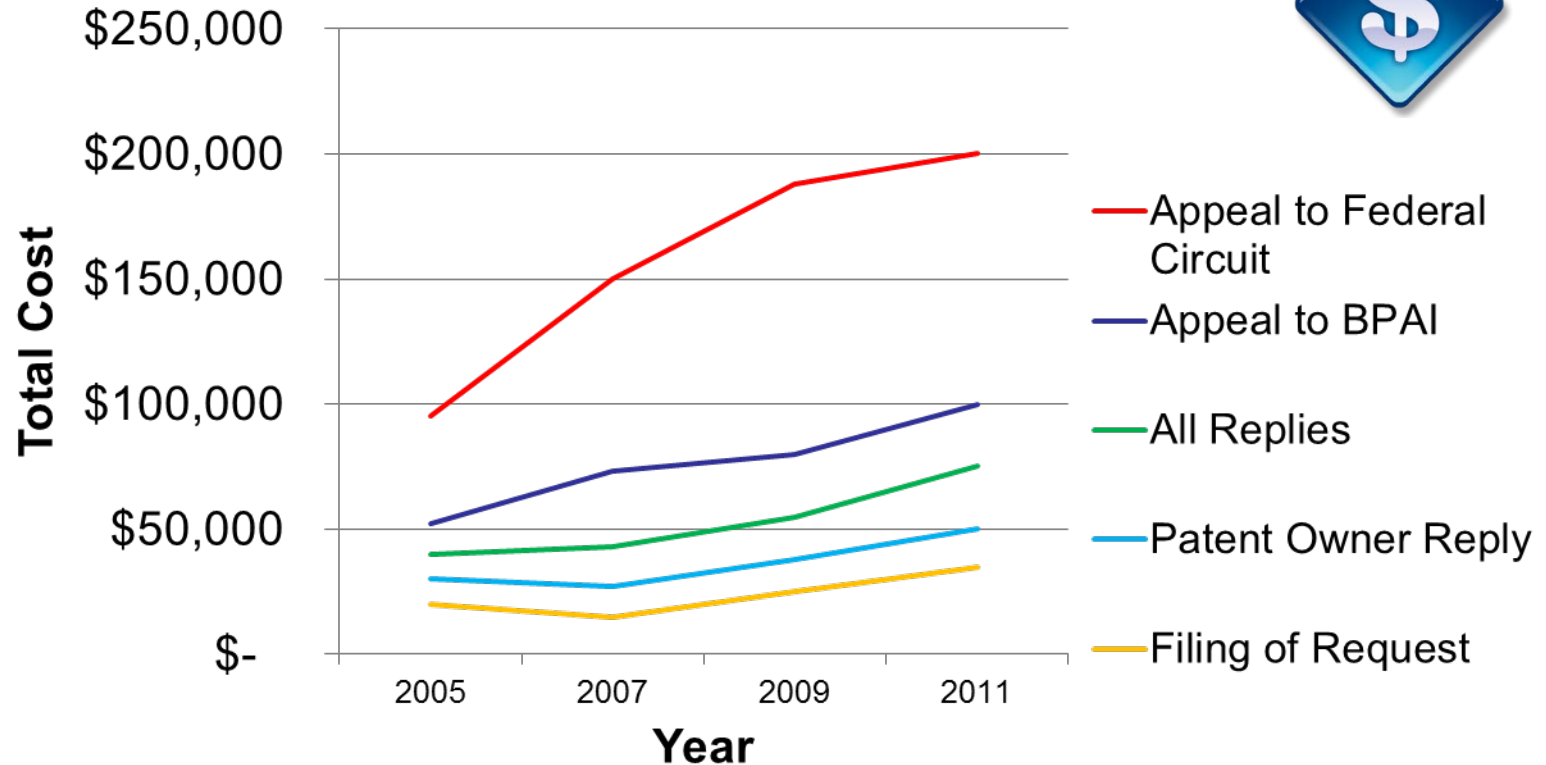
# Litigation Statistics





# Litigation Statistics

## *Inter Partes* Reexamination trend



# Litigation Statistics

- Trademark Opposition – 2011
  - Cost until end of discovery – \$50,000
  - Total Cost – \$90,000
- Two-Party Interference Proceeding – 2011
  - Cost until end of discovery – \$175,000
  - Total Cost – \$338,000
- *Inter Partes* Reexamination – 2011
  - Through filing request – \$35,000
  - Inclusive of first patent owner response – \$50,000
  - Inclusive of all patent owner responses – \$75,000
  - Inclusive of an appeal to the board – \$100,000
  - Inclusive of an appeal to Federal Court – \$200,000





# THANK YOU

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