

In cooperation with Ryuka IP

September 1, 2011





# What You Need to Know Before Bringing a U.S. Suit (and Many Apply to Defensive Measures)





#### Introduction

- U.S. patent litigation is expensive and complicated: Cost \$ 3-6M where reasonable exposure exists (minor troll cases excluded)
- A company must consider many factors for U.S. litigation beyond patent validity and infringement
- Today's presentation focuses on considerations for manufacturing clients





#### Ten Considerations

- 1. Knowing the Business Objectives
- 2. Deciding Where to Bring Suit
- 3. Identifying the Strongest Patents
- 4. Talk First or Sue First?
- 5. Factoring in Reexamination/Motion to Stay





#### Ten Considerations

- 6. Consider the Patent Counterattack (worldwide)
- 7. Preparing the Business and Engineering Teams for Litigation
- 8. Communicating with U.S. Counsel During the Litigation
- 9. Containing Costs, Especially Discovery Phase Costs
- 10. Litigation Resolution







- The business objectives will affect the entire strategy
  - Protect market share- E.g., seek to exclude new entrant or established competitor
  - Demonstrate IP dominance to potential or existing customers
  - Generate licensing revenue from competitor or particular supply chain companies
  - Mechanism to push a business relationship



- Protect market share E.g., seek to exclude new entrant or established competitor
  - Expect long and hard fight with competitors
  - Business team will have a better vested interest to support litigation team
  - Must ensure commercial importance/value of competitor
    - Especially important to consider patent counterattack



- Demonstrate IP dominance to potential or existing customers
  - Customers may be using infringing third party suppliers who copy instead of invest in their own R&D
  - Show potential customer that purchasing your product frees it from an infringement risk



- Generate licensing revenue from competitor or particular supply chain companies
  - Demonstrate return on IP investment to managers
  - Support expanding market use of technology
  - Protect premium being paid by other licensed suppliers





# Consideration #2: Deciding Where to Bring Suit





- U.S. federal court system is complex, including many federal district courts, federal appellate courts, and the U.S. Supreme Court
- Patent appeal cases go the U.S. Court of Appeals for the Federal Circuit, usually reached after spending millions of dollars on the case
- U.S. case may be part of larger worldwide strategy





- U.S. federal district courts are widely different
  - Speed of the case (docket speed)
  - Patent knowledgeable judges
  - Established local patent rules
  - Patentee win rates
  - Likelihood to grant stays pending reexamination





- Speed of the case (docket speed)
  - The fast dockets are called "rocket dockets"
    - E.D. Va
    - W.D. Wisc.
    - M.D. Florida
    - E.D. Texas *formerly* a rocket docket
    - ITC



## Consideration #2: Where to Bring Suit

#### Comparison: Docket speed (all cases)

<u>Venue</u>	<u>Overall</u>	On Merits
Northern District of California	14 mos.	24 mos.
Western District of Wisconsin	6	10
Southern District of California	12	17
Eastern District of Texas	13	23
District of Delaware	16	28

<sup>\*</sup> Usually broad range by specific judge





- Patent knowledgeable judges
  - District of Delaware
  - Eastern District of Texas
  - Northern District of California
  - Southern District of California
  - Western District of Wisconsin
  - ITC





- Patentee Win Rates Highest (Last five years at least with at least 30 contested judgments):
  - Delaware
  - Middle District of Florida
  - New Jersey
  - Eastern District of Texas
  - Eastern District of Virginia
  - Northern District of Texas



\* LegalMetric



- Patentee Win Rates Lowest (Last five years at least with at least 30 contested judgments):
  - Arizona
  - California Eastern
  - California Southern
  - Ohio Southern
  - Washington Western



\* LegalMetric



- What if Defendant moves to transfer the case to another forum: "motion to transfer" under Section 1404
  - Some courts give more weight to plaintiff's choice of forum, and therefore keep the case
    - E.g., ED Texas
  - Others are more likely to transfer if another court is more convenient under section 1404
    - E.g., WD Wisconsin or ED Virginia





- Defendant may file a request at the U.S. Patent and Trademark office to reexamine the patent, and then ask the Court to stay the case pending reexamination
  - Could relieve litigation pressure on defendant for 2-3 years
  - Defendant could build defenses/mount better counterattack during that time



## Consideration #2: Where to Bring Suit

#### Comparison: Stays pending re-examination

<u>Venue</u>	% Stayed
Northern District of California	61
Eastern District of Virginia	40
Southern District of California	81
Eastern District of Texas	33
District of Delaware	62
International Trade Commission	0

<sup>\*</sup> Can be very judge-specific





#### Issues and Options

#### **International Trade Commission § 337**

- Administrate Law Judge ("ALJ")
  - Similar to federal district court judge
  - Makes first decision, called Initial Determination

#### Commission

- Reviews ALJ's Initial Determination
- Commission's Determination is subject to review by President
- Can appeal to CAFC

#### • I.T.C. Staff Attorney

Acts as third party litigant on behalf of the public interest





#### Issues and Options

#### I.T.C. v. U.S. District Court

- No jury trials in I.T.C. (decisions made initially by ALJ's)
- No money damages in I.T.C.
- I.T.C. remedy is to exclude infringing products from United States
- Participation of I.T.C. staff attorneys
- Broad in rem jurisdiction
- Must prove domestic industry



#### Issues and Options

#### Speed of Proceedings in I.T.C.

- ITC decides whether to investigate within 30 days of complaint
- "Target Date" for final I.T.C. decision 15 months after decision to investigate
  - Initial determination usually about 1 year after decision to investigate
- Fact Discovery, e.g., 6 months
- Trial/hearing typically lasts 1-2 weeks





#### Issues and Options

#### **Available Remedies Under Section 337**

- Exclusion Order Bar infringing products from coming into U.S.
  - **General Exclusion Order:** Enforceable against products (<u>all</u> importers)
  - Limited Exclusion Order: Enforceable only against products of named Respondents (defendants)
- Cease-and-Desist Order
- Temporary Exclusion Order
- Civil Penalties for Violation of Exclusion Order





#### Issues and Options

#### Section 337 Disposition Statistics

- Many cases settle:
  - 59% were settled or subject to a consent order or Complaint withdrawn before conclusion (vs. 95% in court)
- Of the 41% that go to trial:
  - 23% result in a finding of a violation
  - 18% result in a finding of no violation





#### Issues and Options

#### Parallel or Successive Proceedings

- Patent owner can file infringement case in U.S. district court before, at the same time, or after I.T.C. case is filed
- If the same patents are at issue, Respondent in I.T.C. can seek stay of U.S. district court case until I.T.C. case resolved
- I.T.C. will not stay Section 337 proceeding in favor of a parallel district court proceeding, even if district court case was first filed





# Consideration #3: Identifying the Strongest Patents



- Factors to consider: Infringement
  - Number and breadth of assertable claims in patent
  - Clean worldwide prosecution?
  - Claim coverage
    - Component vs. device vs. system claims
    - Apparatus vs. method claims
    - Direct infringer vs. indirect infringer
  - Are continuations on file to react to unexpected defenses?

- Factors to consider: Validity
  - Presumption of validity
  - On-sale or previous disclosure bar issues
  - Basic prior art review
  - Consider strongest defense against obviousness challenge under U.S. Supreme Court *KSR* case
  - Are continuations on file to react to unexpected invalidity defenses?



- Factors to consider: Damages
  - Damage base according to claimed structure
  - Want ability to go back six years if possible
  - Want some threat for future royalties/injunction
  - Marking issues?
    - Consider company or licensee use
    - Method vs. apparatus claims
  - Was actual notice provided when?



- Factors to consider: Additional
  - Inventorship and inventor strength
    - Want strong witnesses and avoid unnecessary challenges
  - Confirm SSO declarations if at issue
  - U.S. patent versus non-U.S. counterparts (fit within worldwide assertion)
    - Do certain patents in family provide stronger offensive case in different country?





### Consideration #4: Talk First or Sue First





### Consideration #4: Talk or Sue?

#### • Factors:

- potential tactical (dis)advantages
- mood of the negotiation
- history between the parties
- market considerations





### Consideration #4: Talk or Sue?

- Tactical advantages of filing early:
  - A fast suit can create pressure;
  - A fast ITC action can create much pressure
  - Talking first could allow the infringer to file a declaratory judgment action, securing a better forum;
  - Talking first could allow an early reexamination request, making a stay of litigation more likely;
  - market conditions may require immediate suit.





### Consideration #4: Talk or Sue?

#### • However:

- an early lawsuit can sometimes poison business-like negotiations;
- a lawsuit may trigger countersuits and affect other businesses;
- a lawsuit is a commitment it is hard to back out;
- talking first may reveal strengths and weaknesses of the case.





### Consideration #5:

### Factoring in Reexamination / Motion to Stay





#### Consideration #5: Reexamination

- An accused infringer can request reexamination of a patent by the U.S. PTO.
- Reexamination runs in parallel to litigation (dual-track)
- Chances of invalidity are higher in reexamination, making it often a "race to the finish" with litigation





#### Consideration #5: Reexamination

- A court can stay a litigation pending reexamination
- This is a lower risk with certain judges and certain courts (D. Del., E.D. Tex.)
- If a reexamination is *ex parte* only (for patents issued on applications filed before Nov. 29, 1999), the chances of survival for the patent are much higher
- If a stay is granted, the defendant risks the estoppel provisions for *inter partes* reexam





### Consideration #6:

### Consider the Patent Counterattack (worldwide)





#### Consideration #6: Counterattack

- Most competitors will have their own patent rights.
- A possible countersuit must always be considered.
- IP rights should be considered worldwide in this context (at least for important markets).
- This may require a competitor portfolio evaluation prior to initiating talks or suit.





# Consideration #7: Preparing the Business and Engineering Teams for Litigation





#### Consideration #7: Be Prepared

- Business team, engineering team should be briefed on the potential litigation so that they understand what products, technology and facts are involved
- Business team and engineering team should help identify key people involved in product/technology and key documents
- Senior management should be significantly and substantially involved in understanding process and progress of preparation for litigation





### Consideration #7: Be Prepared

- The U.S. has very broad discovery rules and obligations for parties involved in litigation
- Procedures and parameters setting forth requirements are set forth in the Federal Rules of Civil Procedure, Rules 26 and 34 and includes identification of key witnesses (Rule 26) and collection of documents and electronically stored information (Rule 34).





### Consideration #7: Be Prepared

- The obligation to preserve evidence begins when the party has reasonable belief that a litigation may arise from events
- When preparing for litigation, collect relevant documents and identify relevant witnesses
  - Review key documents
  - Interview key witnesses



# Collection of Documents — The Stakes Are High

- Volume of electronic records increasing exponentially
  - Over 90 percent of all data is now electronic and 70 percent of electronic documents are never printed
- Spoliation
  - Monetary Sanctions
  - Adverse Inferences
  - Criminal Sanctions



# People, Process, and Technology

- Effective e-discovery requires a number of people, with varying skills and input
- A consistent, comprehensive, cost-effective, defensible process is required
- Needed involvement will include:
  - Management
  - In-house legal department
  - IT personnel
  - Business representative
  - Trial counsel
    - Zubulake v. UBS Warburg (SDNY) -
      - Counsel must speak with all "key players" in the litigation to determine how evidence maintained and
      - "Counsel must become familiar with client's document retention policies as well as data retention architecture"



### Pre-Litigation Procedure

- Set up and understand the structure
  - Criteria for use of in-house personnel and outside resources
  - Continued involvement of Management personnel
  - Identify vendor and establish contract terms
  - Identify data retention and destruction policies
  - Identify data recovery procedures and cost
  - Establish litigation hold system



# Notice to "Hold" Documents for Litigation

- Document Retention/Destruction Policy
- Who should receive notice to hold and provide relevant litigation documents?
  - Key players checklist
  - IT personnel
  - Outside agents
- Who should issue litigation hold?
- Who will monitor compliance
  - Both outside counsel and client are responsible to monitor compliance
  - Confirmation and Repetition





### Best Practices For U.S. Discovery

- Understand the company's legal obligations to identify key witnesses and documents and particularly electronic records
- Develop and implement effective tape backup policies and practices
- Develop and implement and effective electronic records and e-mail retention policy
- When litigation arises, develop and follow discovery protocol addressing electronic evidence
- Senior management should be significantly and substantially involved in developing, implementing and enforcing electronic records management hold, retention, and hold polices





### Consideration #8:

### Communications with U.S. Counsel During the Litigation



- A constant stream of information benefits both the Japan team and the US team
  - Cultural differences and differences in legal systems set up inherent barriers to be overcome
  - U.S. litigation can have very complicated procedures and practices
  - Communications provides an opportunity for education and discussion
  - More information promotes a sense of control
    - Higher client satisfaction results!

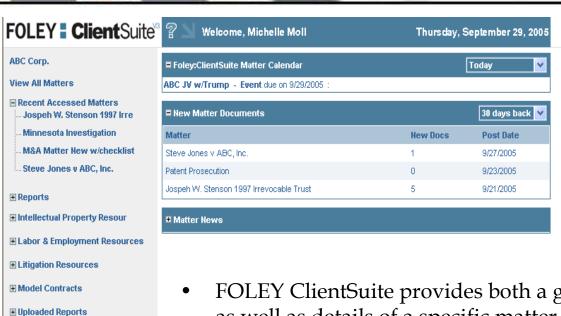


- Communications can occur in obvious ways, but should be regularly scheduled
  - Appointment of a company liaison is recommended
  - Telephone conferences, videoconferences, status report emails, "Skype"-based videocalls
  - Face-to-face visits
    - Presumes that litigation counsel visits Japan regularly!
  - Visits to the U.S. by company representatives



- Communications can occur by constant access to litigation documents and information
  - "Extranets"
    - Ex. FOLEY "ClientSuite"
    - Provides constant availability to documents, independent of U.S. counsel involvement
  - Access to Accounting information
    - Ex. FOLEY "Budget Management Tool"



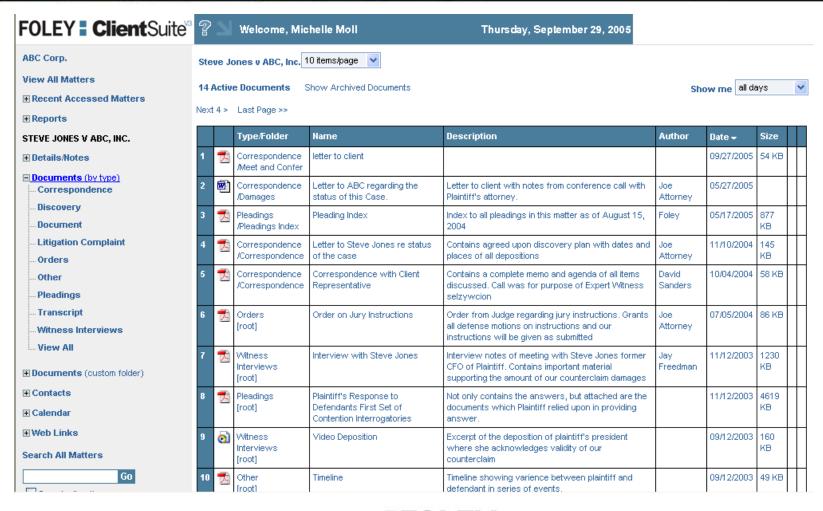


- FOLEY ClientSuite provides both a global picture of all matters as well as details of a specific matter
- Ability to instantly access information on any matter through a secured extranet Web site
- The resource module can be customized to contain the content clients want



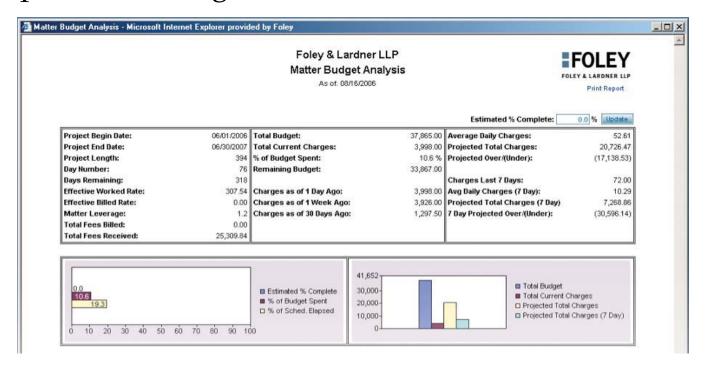
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Foley's "Budget Management Toolkit" allows a client's continued access, to monitor costs and disbursements daily compared to budget.







### Consideration #9:

### Containing Costs, Especially Discovery Phase Costs





- Prepare a "written" budget estimation
  - Month-by-month basis
  - U.S. counsel should update the budget every 3 months
  - "Alternative fee" arrangements?
- Monitor the budget every month
  - Ask for detailed explanations as to variances
- Keep the US Litigation Team members constant and small during the litigation



- Use technology effective to cut costs
  - U.S. patent litigation is almost "paperless"
    - Decreases costs
- Take an active role in the litigation
- Choose the "e-discovery vendor" wisely
  - Potential savings of 50% among vendors in Japan





### Consideration #10: Litigation Resolution



### Consideration #10: Litigation Resolution

- 93% of litigations settle before trial
  - Settlement should always be considered
- Most companies consider litigation as an investment and consider a "return on investment" for the litigation costs
  - But litigation could provide non-\$\$\$ benefits
    - Protecting market share
    - As a sales tool **FOLEY**



### Consideration #10: Litigation Resolution

- Almost all courts provide for or require "court-ordered mediation"
  - Conducted by "U.S. Magistrate Judge", a court-appointed attorney, or an attorney mutually chosen by the parties
  - These "mediation" procedures are less successful with patent litigations compared to other types of litigations, unfortunately.



### Consideration #10: Litigation Resolution

- Certain times in a litigation seem to be considered more suitable to discuss settlement than others
  - Just before discovery starts
  - Just after discovery ends
  - After the Markman hearing
  - After the Markman decision
  - Before trial





### Foley's IP Practice





- Representative Japanese Licensing & Litigation Clients
- Over 100 Patent Litigation Cases for Japanese clients
- Very Extensive Patent Prosecution and Counseling Practice







Pavan K. Agarwal
Partner
Vice-Chair – IP Department

- Practices in various patent law areas, including IP litigation and licensing, as well as counseling through negotiations, opinions and prosecution
- Mr. Agarwal represents numerous hightech clients, with a focus on electronics
- He has published various articles, including "Patenting In-Line With the Federal Circuit"
- Admitted to practice before the Federal Circuit and registered to practice before the United States Patent & Trademark Office







Stephen B. Maebius Partner Chair – IP Department

- IP Department Chair and member of the firm's Management Committee
- Led multiple teams on complex IP counseling and transaction matters, including IP diligence reviews, opinions, international portfolio management, licensing, litigation and parallel reexaminations, patent term extensions and interferences
- Two IP transactions were awarded "Deal of Distinction" status by the Licensing Executives Society.
- Founding chair of the firm's Nanotechnology Industry Team, and former co-chair of the Life Sciences Industry Team







Hon. Sharon R. Barner
Partner

- Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director, U.S. Patent and Trademark Office (2009-2011)
- Former Chair, Foley IP Department
- Focused on complex IP litigation, IP strategic counseling, and IP risk management
- 24 yrs patent litigation in wide ranging technologies including computer hardware/ software, consumer products, business method patents, internet technology, and biotechnology
- Lead or worked on over 60 IP cases in D.Ct and CAFC, including multi-defendant cases







Michael D. Kaminski
Partner
Co-Office Managing Partner
Tokyo Office

- Member of the IP Litigation and Mechanical & Electromechanical Technologies, Chemical, Biotech & Pharmaceutical Practices
- Conducts "first chair" litigation in Federal District Court
- Been involved in many Litigation ranging from pharmaceuticals, LEDs, automotive safety device, radiological contrast agents
- Admitted to practice in Illinois, District of Columbia Court of Appeals, Sixth Circuit Court of Appeals







Harold C. Wegner
Partner

- Recognized as an authoritative voice on cutting edge domestic and international patent issues
- Focuses on appellate patent issues, reexamination and other complex matters at the U.S. PTO
- Globally, crafts strategies for multinational companies, particularly Chinese and Japanese patent enforcement and management
- Former director of the Intellectual Property Law at the George Washington University Law School
- Visiting professor at Tokyo University and spent several years as a Mitarbeiter at the Max Planck Institute for Intellectual Property Law in Munich
- Lectured at the Kyoto University







Matthew A. Smith Senior Counsel

- Senior Counsel, Firm's Electronics Practice
- Focuses on intellectual property litigation and counseling, particularly involving issues related to integrated circuit design, IC manufacturing and computer software
- Serves as an adjunct professor at the George Washington University Law School
- Author of the treatise "*Inter Partes Reexamination 2d,*" published by West (a Thomson Reuters business), which provides the first in-depth analysis of *Inter Partes* Reexamination practice before the U.S. PTO



# Foley's Lifecycle Approach

- Foley attorneys take a holistic approach in addressing client's IP needs, and are capable of delivering the services.
  - Nearly 200 attorneys in Foley's IP department
  - Nearly 150 attorneys practicing IP Litigation
- Chemical, Biotechnology & Pharmaceutical
- Electronics
- Information Technology & Outsourcing
- IP Litigation
- Mechanical & Electromechanical Technologies
- Trademark, Copyright & Advertising
- Privacy, Security & Information Management



- 90% of IP attorneys have technical degrees
- 40% of IP attorneys and legal personnel have Ph.D.s/M.S.'s
- Many are former PTO
   Examiners and/or
   Researchers



### Industry Recognition









- Ranked among the **top five** in "Who Represents America's Biggest Companies" by *Corporate Counsel* magazine (2010)
- Top 10 largest intellectual property practice in the United States, and the largest IP practice among the general practice firms (*IP Law 360* 2009)
- One of the *only* general practice firms in the country to be recognized as a leader for both patent litigation (by Corporate Counsel magazine) and patent and trademark procurement (by IP Today)
- Top patent litigation firms (*IP Law & Business* 2005 2010)
  - Top 15 patent litigation defense firm (2002 2010)
  - Top 15 total district court cases (2009 2010)
- Top 12 firm for the number of patents issued (*Intellectual Property Today* 2002 2010)
- Among Top Trademark Firms (*Intellectual Property Today* 2003 2005, 2007-2010)





#### Foley's Technology Breadth

#### **Electronics / Mechanical**

Chemical/ Pharmaceutical/ Nanotech/Cleantech

Protein chemistry
Chemical engineering
Specialty chemicals
Pharmaceutical chemistry &
delivery systems
Physical & natural products
chemistry
Organic/inorganic chemistry
Agricultural chemistry &
engineering process
Photographic material &
processing
Photovoltaic

Medical devices
Material sciences
Semiconductor fabrication
Semiconductor circuit design
Memory & logic system analysis
Microprocessor system evaluation
Electrolytic apparatus & processes
Optical and fiber-optic system
design

Solid state gas censors

**Energy storage** 

45+ PhD's 30+ Masters

Stem cell
Personalized medicine
Synthetic biology
Molecular biology
Endocrinology
Genetic engineering
Agricultural biotechnology
Industrial biotechnology
Immunology
Biochemistry
Vaccines

New Media/Internet/ Software/Other Content Technologies

Business methods
Financial services
applications
Healthcare IT
Computer programming,
including business software
Communications systems
design – wired & wireless
Smart grid
e-commerce
Online data privacy &
security

Biotech/Bio-Pharmaceutical/ Regenerative Medicine

