

How to Try an Intellectual Property Case Economically

By Ted Lee



In 1986, I made a presentation to the Southwestern Legal Foundation in Dallas on the topic of trying intellectual property cases economically. Later, *The Patent Law Annual* published my article on the same subject.¹ Recently, I had occasion to review that article again, and it reminded me that “the more things change, the more they stay the same.” Although many of the tactics leading up to, and including, trial have endured despite the passage of more than two decades, some substantial changes have also occurred, particularly in discovery. Today, well over 90% of the information in any litigation exists in electronic form,² and the amount of electronically stored information (ESI) available for production is mind-boggling — so much so that in most complex lawsuits, it is cost-prohibitive to review all of the ESI that may relate to the litigation. Given the high costs associated with courts and attorneys having to wrestle with the complexities of managing the tremendous volume of ESI, alternative dispute resolution has received increasing emphasis. Fewer than 2% of all filed cases actually reach trial,³ and undoubtedly, the cost of litigation has contributed to the dwindling numbers of trials.⁴

SKYROCKETING COSTS OF LITIGATION

Companies are spending significantly more on litigation than in years past, with numerous companies spending more than \$1 million annually in litigation. In 2009, Fulbright & Jaworski, L.L.P. commissioned its sixth annual survey targeting trends in modern litigation.⁵ Out of the respondents in the survey, 13% of small companies (less than \$100 million in gross revenue) spent over \$1 million annually in litigation costs in 2009, compared to 4% in 2007.⁶ Approximately 38% of mid-size companies (gross revenue between \$100 million and \$1 billion) spent \$1 million annually in 2009 compared to 26% in 2007.⁷

In 2001, the American Intellectual Property Law Association (AIPLA) began an annual survey on the “typical cost of litigation” for intellectual property matters.⁸ Predictably, the report showed an increase in the median litigation cost for intellectual property cases over the 2001-2009 period.⁹ AIPLA divided its survey into the following three categories of cases: (1) less than \$1 million at risk; (2) \$1-25 million at risk; and (3) more than \$25 million at risk.¹⁰ Shockingly, the median litigation cost in a typical patent infringement suit with less than \$1 million at risk was \$650,000.¹¹ Since plaintiffs sometimes lose and the amount at risk is often substantially less than \$1 million, the amount spent on litigating the claim can very well surpass any potential recovery. Even where \$1-25 million is at risk, the median litigation cost of \$2.5 million seems exorbitant.¹²

Despite the skyrocketing cost of intellectual property litigation, the number of newly filed intellectual property cases dramatically increased between 2003 and 2006. For the annual period ending March 31, 2006, 12,015 intellectual property cases were filed, up from 8,403 for the annual period ending March 31, 2001.¹³ Since 2006, the number of newly filed cases has declined to 8,923 for the annual period ending March 31, 2009.¹⁴

Even today, while the high costs of trying such suits remains unyielding, the number of intellectual property disputes is significantly higher than six years ago, especially in the Western District of Texas.¹⁵ Attorneys cannot afford to turn a blind eye to their clients’ ability to afford such costly litigation.¹⁶ The rising costs of trying an intellectual property case can have far-reaching effects and may even cause parties with meritorious claims to forego litigation — which in a patent case, for instance, can lead to the preservation of invalid patents.¹⁷

THE PRE-TRIAL (REALLY) MATTERS

Temporary Restraining Order and/or Temporary Injunction

Upon filing a lawsuit, a plaintiff must decide whether to request a temporary restraining order and/or a preliminary injunction. In my experience with patent infringement lawsuits, a request for a temporary restraining order and/or preliminary injunction wastes time and money

because courts view the remedy as “drastic and extraordinary” due to the exacting standard of proving “substantial likelihood of success on the merits.”¹⁸ Likewise, for a trademark infringement case, unless a plaintiff can clearly demonstrate infringement, a court likely will not grant a motion for preliminary injunction.¹⁹ On the other hand, with regard to copyright infringement cases, if the plaintiff can show a clear case of absolute copying with no question of fact as to whether the copying is “substantial,” then requesting a preliminary injunction may be worthwhile.²⁰ Even more so in cases involving theft of trade secrets, temporary restraining orders and/or preliminary injunctions are often very useful. A grant of injunctive relief early in the litigation prevents a defendant from further using the trade secrets. However, if a judge denies the motion for injunctive relief, a permanent injunction after succeeding on the merits could be meaningless given the damage already inflicted by the use of trade secrets. Once the preliminary injunction is denied, the case becomes primarily one of damages.

Requesting a temporary restraining order and/or preliminary injunction generally results in significant expenditures very early in the lawsuit. Facts must be gathered, affidavits prepared, and motions and briefs drafted and filed. If the court grants injunctive relief, a bond must be posted. Typically, after a court grants a temporary restraining order, expedited discovery is also granted. A hearing on the preliminary injunction then usually follows the expedited discovery. These events occur in a very short span of time, meaning hefty attorney’s fees and expenses. On the brighter side, a preliminary injunction is

often outcome-determinative.²¹ Therefore, although requesting temporary relief may substantially increase upfront costs, knowledge by both parties that the court’s order likely forecasts the overall outcome may save money in the long run.

Discovery Plan (Electronically Stored Information (ESI))

The initial conference of attorneys is the critical time to cooperatively discuss the forms in which the ESI exists and the cost/burden of its production. Numerous articles have been written emphasizing the importance of realistically conferring to resolve ESI issues in the initial conference.²² Cooperation can greatly reduce the cost of litigation by avoiding countless attorney hours spent drafting motions to compel and arguing over which party should bear the price of production. If a party does not behave sensibly during discovery, far worse can occur than simply an unfavorable production of documents.²³

Since electronic discovery is probably the most expensive item in complex civil lawsuits, especially intellectual property cases, a party should give considerable thought to, and put effort into, the Rule 26(f) conference and planning the production of electronic discovery. ESI presents a tremendous burden even for Fortune 500 companies, much less for smaller entities. ESI is one of the reasons companies are choosing law firms that have specialized e-discovery practices to help reduce litigation costs.²⁴ For that reason, a party must make reasonable, directed, and often limited requests for ESI. Reasonable behavior by one party will more likely be reciprocated, leading to reduced overall costs.

Your Request for Discovery

Discovery requests should IMMEDIATELY be sent following the Rule 26(f) conference. While it depends upon the case, a party may start by deposing the opposing party’s information technology (IT) employee. In this manner, a party can receive valuable information concerning the discoverable ESI and its manner of storage. However, this preemptive measure is normally necessary only when the opposing party has refused to cooperate in the Rule 26(f) conference. Assuming that each party identifies the ESI, drafting of document production requests may begin.

Even with electronic searching, the immense number of documents is overwhelming. The cost of culling through the relevant documents, even electronically, by both the producing party (to filter privileged information) or by the requesting party (in search of the “smoking gun”) often may be cost-prohibitive. Studies show that some defendants even settle lawsuits on unfavorable terms solely to avoid the cost of electronic discovery.²⁵ Many organizations are still struggling to develop cost-effective procedures to manage ESI production.²⁶

Generally, a court will order the production of ESI if the requesting party shows that its need for the discovery outweighs the burden or cost of locating, retrieving, and producing the information.²⁷ The court will weigh the willingness of the requesting party to share the cost related to retrieving the ESI in determining whether good cause has been shown.²⁸ Once the ESI is produced, the entirely new, and often more costly, task of reviewing the ESI ensues. It can prove extremely helpful to have an IT expert available in order

¹Ted D. Lee, *How To Try an Intellectual Property Case Economically*, 24 PAT. L. ANN. 7-1 (1986).

²THE SEDONA PRINCIPLES: BEST PRACTICES RECOMMENDATIONS & PRINCIPLES FOR ADDRESSING ELECTRONIC DOCUMENT PRODUCTION 2005 ANNOTATED VERSION 7 (Jonathan M. Redgrave et al. eds. 2005).

³Federal Judicial Caseload Statistics March 31, 2007, Table C-4, available at <http://www.uscourts.gov/caseload2007/tables/C04Mar07.pdf> (reporting that only 1.3% of all cases filed in 2006 in the United States District Courts reached trial).

⁴Ben Katzenellenbogen, *Trends in Patent Litigation*, 899 PLI/PAT 275, 279 (2007) (arguing that the rising cost of patent litigation could be correlated with the decrease in patent litigation trials).

⁵Fulbright & Jaworski, L.L.P., Fulbright’s 6th Annual Litigation Trends Survey Report (2009).

⁶*Id.* at 26.

⁷*Id.*

⁸Am. Intellectual Prop. Law Ass’n, *AIPLA Report of the Economic Survey 2007* (2007).

⁹*Id.* at 26 (median patent infringement suits increased from \$250,000 to \$350,000; trademark infringement suits from \$102,000 to \$150,000; copyright infringement suits from \$101,000 to \$150,000).

¹⁰*E.g., id.* at I-92.

¹¹*Id.*

¹²*Id.* at I-93.

¹³Federal Judicial Caseload Statistics March 31, 2001, Table C-3, available at <http://www.uscourts.gov/caseload2001/tables/C03Mar01.pdf>; Federal Judicial Caseload Statistics March 31, 2006, Table C-3, available at <http://www.uscourts.gov/caseload2006/tables/C03Mar06.pdf>.

¹⁴Federal Judicial Caseload Statistics March 31, 2007, Table C-3, available at <http://www.uscourts.gov/caseload2007/tables/C03Mar07.pdf> (11,507 copyright, patent, and trademark cases commenced in 2007); Federal Judicial Caseload Statistics March 31, 2008, Table C-3, available at <http://www.uscourts.gov/caseload2008/tables/C03Mar08.pdf> (9,754 copyright, patent, and trademark cases commenced in 2008); Federal Judicial Caseload Statistics March 31, 2009, Table C-3, available at <http://www.uscourts.gov/caseload2009/tables/c03mar09.pdf> (8923 copyright, patent, and trademark cases commenced in 2009).

to assist in determining the most cost-efficient method of reviewing the ESI.

The primary question to resolve is how to quickly “separate wheat from the chaff.” Although many different options exist to assist in the process, all beyond the scope of this paper, some methods recommended by IT professionals include: keyword searching, concept searching, sampling, indexing, “light” processing, near-duplication detection, e-mail threading, clustering analysis, and taking the long view.²⁹ The most cost-efficient and accurate manner of culling through ESI still remains undetermined.

The Increasingly Elusive “Smoking Gun”

The quest for the “smoking gun” that will assure a victory has spawned countless hours of thumbing through page after page of seemingly irrelevant documents. Due to the now enormous amount of ESI and the possibility that computer searches will not return relevant documents even if reviewed, all clients have to ask themselves — with the advice and direction of their attorneys — how much time, effort, and expense should be spent looking for the proverbial “smoking gun.” At some point, a balance must be struck. The *best* evidence that provides a party with the *greatest* probability of winning may come at such a high cost that it begins to severely diminish the recovery. A cost-benefit analysis in some situations may suggest that an attorney try a case even though the evidence in hand is only average, simply because of the physical and financial impossibility of trying to locate the “smoking gun.” On the other hand, trying a case with only average evidence decreases the likelihood of winning. As a result of the electronic age, this trade-off

is becoming evermore present in each action and is a predicament that must be thoroughly addressed by counsel and client alike.

Initial Interrogatories

In many cases, the trial counsel will not know the principal players in the lawsuit. Deposing the CEO of a Fortune 500 company (if a deposition could even be obtained) would be fruitless, as he or she likely has no knowledge about the subject matter of the lawsuit. The purpose of the initial interrogatories is to find the responsible parties, which in turn offers clues to the most relevant deponents. Additionally, initial interrogatories are useful in locating key documents. Now that many documents are stored on computers, questions about a document’s location on the computer system, and about the computer system itself, are also important. Furthermore, a party should inquire about the form in which, and by whom, the ESI is maintained. While a party may include interrogatories concerning damages, expert witnesses, attorney’s fees, and knowledge, it is probably premature. However, given the continuing duty to supplement,³⁰ requesting information concerning these issues likely would cause no harm. Remember, each side has a limited number of interrogatories, unless leave of court is obtained to expand that number;³¹ therefore, one must use the interrogatories wisely.

Initial Depositions

Since discovery normally devours the majority of the funds in any IP litigation,³² taking an early, accurate, and to-the-point deposition of key witnesses is critical. Second-tier depositions can be left until later,

as interim developments may render those depositions useless. Whether to first depose a corporation pursuant to Rule 30(b)(6) is often a question which arises early in discussing depositions.³³ On the one hand, deposing the corporation (or more specifically a corporate designee) cuts to the heart of the matter and could uncover crucial information, shortening the lawsuit substantially. However, without a sizable knowledge base derived from deposing individuals, it may be difficult to specify the areas on which the Rule 30(b)(6) witness will be deposed. Additionally, the opposing party may designate multiple individuals to act as the corporate designee among different areas of examination.

On the other hand, first deposing some of the principal actors enhances the knowledge about the occurrences in the matter, allowing for a better deposition of the corporate designee, but this could lead to extra expenditures when similar or better information could have been uncovered by deposing the corporation. Either way, during that first round of depositions, a party should depose the corporate designee so that the corporation commits itself to a particular position.

Marginally Fruitful Discovery

One of the hardest decisions for IP attorneys to make is when to stop discovery. A study of civil cases in Hawaiian courts in 2004-05 revealed that approximately two-thirds of the cases were resolved without any discovery requests.³⁴ By contrast, most attorneys handling IP litigation have a tendency to depose every conceivable witness and examine every document (though doing so is becoming impossible

¹⁵Federal Judicial Caseload Statistics March 31, 2003, Table C-3, available at <http://www.uscourts.gov/caseload2003/tables/C03Mar03.pdf> (76 copyright, patent, and trademark cases commenced in 2003); Federal Judicial Caseload Statistics March 31, 2009, Table C-3, available at <http://www.uscourts.gov/caseload2009/tables/c03mar09.pdf> (140 copyright, patent, and trademark cases commenced in 2009).

¹⁶Lee, *supra* note 1, at § 7.02.

¹⁷Christopher A. Harkins, *Fending Off Paper Patents and Patent Trolls: A Novel “Cold Fusion” Defense Because Changing Times Demand It*, 17 ALB. L.J. SCI. & TECH. 407, 436 (2007).

¹⁸*Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1092 (1994).

¹⁹See, e.g., *Brennan’s, Inc. v. Brennan*, 512 F. Supp. 2d 559, 573 (S.D. Miss. 2007) (“[T]here is a possibility of confusion, but having considered and weighed the digits of confusion, as discussed herein, the court concludes that plaintiff has failed to establish a likelihood of proving anything more than a possibility of limited confusion.”).

²⁰See, e.g., *Live Nation Motor Sports, Inc. v. Davis*, No. 3:06-CV-276-L, 2006 WL 3616983, at *3 (N.D. Tex. 2006) (granting preliminary injunction where copying of work was largely undisputed).

²¹3 Roger M. Milgrim, MILGRIM ON TRADE SECRETS, § 14.01[9] (2008) (“[T]he preliminary injunction motion may prove evidentiarily free-swinging and wide-ranging and the result obtained is often dispositive.”); see also Douglas Lichtman, *Uncertainty and the Standard for Preliminary Relief*, 70 U. CHI. L. REV. 197, 203 (2003) (suggesting that the preliminary injunction hearing could be outcome-determinative by changing the positions of the parties or due to a judge’s predisposition to agree with a previous ruling).

²²Julie Grantham, Mark L. Greenwald, Xavier Rodriguez, *E-Discovery: New Rules and Challenges* (2007) (presented at the Intellectual Property Law Section State Bar of Texas annual meeting focusing on Intellectual Property in the Digital Age); Mia Mazza, Emmalena K. Quesada, Ashley L. Sternberg, *In Pursuit of FRCP1: Creative Approaches to Cutting and Shifting the Costs of Discovery of Electronically Stored Information*, 13 RICH. J.L. & TECH. 11, 82 (2007) (stating that the “producing party should consider engaging the requesting party in discussions regarding specific search and sampling methodologies to be used in the discovery of ESI” because “[r]aising and resolving these issues at the front-end of discovery not only reduces the costs of managing relevant data, but it also may serve to diffuse potential discovery disputes”); Tracey L. Boyd, *The Information Black Hole: Managing the Issues Arising from the Increase in Electronic Data Discovery in Litigation*, 7 VAND. J. ENT. L. & PRAC. 323, 334 (Spring 2005) (“Litigants who meet in the early stages of litigation will be better equipped to get their files in order, to determine what procedures they may need to comply with . . . and to estimate the likely costs associated with producing the requested data.”).

with ESI) before feeling adequately prepared for trial. Because of the tremendous cost of IP litigation, attorneys must learn when to stop discovery. Send interrogatories and requests for production, depose the key players, and STOP! Do not investigate every rabbit trail imaginable. If trial counsel does a good job of extracting relevant information in the initial round of depositions, other than the testimony of experts, discovery may essentially be over. While the opposing party and its attorney may engage in gamesmanship, it is not a good practice to follow suit or permit them to perpetuate the process.

Use of Form Pleadings and Briefs

Pleading books contain a form for almost every conceivable IP pleading, including complaints, answers, affirmative defenses, and counterclaims. Do not reinvent the wheel. Use form pleadings modified to the unique facts of every case. Motions and responses thereto can likewise be located in form books. Also, do not hesitate to borrow from previously filed motions and briefs. The author has found that once the facts are articulated in a brief, almost all of the remaining necessary information is contained in statutes, the rules, or the Advisory Committee notes. Very few additional cases need be cited.

Even in preparing and filing a *Markman* brief³⁵ in a patent infringement suit, the law is mostly boilerplate. Previously filed briefs can be used to modify the boilerplate in minimal time. The attorney must then argue the desirable claim construction consistent with the boilerplate law. Thus, the attorney can greatly reduce the time involved in researching the law while spending more time applying the facts consistently with the law.

Expert Witnesses

The expert witnesses should be retained very early in the case. Depending upon the IP case and the location of the venue, there may be a great or limited number of available experts. Many cases cannot resolve or settle until there is some indication as to the experts' opinions, especially damages experts. In particular, defendants have a tendency to be illogical about settlement until faced with an adverse impression by an expert.

Another reason to obtain an expert early is to have the option of initially using the "retained expert" as a "consulting expert." The consulting expert can indicate the evidence necessary to render a favorable opinion. With this information, the trial attorney knows more clearly what information should be targeted. Thereafter, once the information is discovered, the consulting expert can render his opinion and be designated as a "testifying expert."

SETTLEMENT

The goal of the IP litigator and the client should be to resolve the case at the earliest possible stage. In my experience, the two most common times a controversy settles are (a) after the lawsuit has been filed and each side has conducted an initial investigation, but prior to the commencement of discovery; and (b) after the first round of discovery. Smaller cases have a tendency to settle immediately prior to discovery, while larger cases normally require an initial round of discovery before the parties seriously sit down and talk. Because the vast majority of cases settle, the objective of the IP litigator should be to reach the stage of settlement as quickly

and as inexpensively as possible. Disputing issues with little probability of success is not using the statistics to the client's advantage.

CONCLUSION

The tremendous cost of IP litigation cannot continue. Already, there is a public outcry concerning the cost of litigation, with IP matters drawing some of the greatest concern. The tremendous increase in IP litigation, as well as patent-friendly Courts, has caused a backlash of fewer and fewer cases being tried. Parties settle cases based on the economics involved, not based upon liability. Simultaneously with the growth in IP litigation and the reduced number of trials, electronic discovery has come of age. Now, the critical issue in IP litigation is how to produce, receive, and cull the ESI at a minimal cost.

Litigants should attempt to make concise, direct cuts to get to the heart of the matter as early as possible with minimum cost. If the dispute can be resolved in this manner, great. However, if not, do not hesitate to try the case without exploring every rabbit trail in existence.



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²³*Coleman (Parent) Holdings, Inc. v. Morgan Stanley & Co., Inc.*, No. CA 03-5045 AI, 2005 WL 674885 (Fla. Cir. Ct. 2005) (entering default judgment against producing party for host of discovery abuse, including repeated unjustifiable refusals to agree to discovery search protocols); *Bullard v. Roadway Express*, 3 F. App'x 418, 422 (6th Cir. 2001) (affirming district court's dismissal of complaint after plaintiff's failure to comply with discovery rules).

²⁴*Fulbright & Jaworski. L.L.P.*, Fulbright's 6th Annual Litigation Trends Survey Report, at 59 (2009) (noting that 26% of respondents are using law firms with specialized e-discovery practices to help reduce litigation costs).

²⁵Ann Kershaw, A. Kershaw, PC, *Public Hearing on Proposed Amendments to the Federal Rules of Civil Procedures*, Dallas, at 59 (January 28, 2005), available at <http://www.uscourts.gov/rules/e-discovery/DallasHearing12805.pdf> (33% of respondents to a survey reported settling due to e-discovery issues); ABA Digital Evidence Project Survey on Electronic Discovery Trends and Proposed Amendments to the Federal Rules of Civil Procedure, Preliminary Report, at 31 (2005) (10% of respondents agreed that their organization settled a case to avoid financial costs of e-discovery).

²⁶ABA Digital Evidence Project Survey, *supra* note 25, at 30 (65% of respondents reported that their organization had not developed a cost effect procedure for searching ESI for privileged material).

²⁷Fed. R. Civ. P. 26, Advisory Committees Notes, 2006 Amendments.

²⁸*Id.*

²⁹Adam I. Cohen, *How New Technology Reduces the True Cost of E-Discovery*, LEGAL TECH NEWSLETTER (L. J. Newsletters, New York, N.Y.), May 2007; Mazza, *supra* note 22, at *21, *34, *69.

³⁰Fed. R. Civ. P. 26(e).

³¹Fed. R. Civ. P. 33.

³²*E.g.*, Am. Intellectual Prop. Law Ass'n, *supra* note 8, at I-92 to I-93 (average cost of patent infringement litigation with less than \$1 million at risk, at end of discovery \$461,000 and average cost of entire litigation \$767,000; with \$1-\$25 million at risk, at end of discovery \$1,589,000 and average cost of entire litigation \$2,645,000; with greater than \$25 million at risk, at end of discovery \$3,340,000 and average cost of entire litigation \$5,499,000).

³³Fed. R. Civ. P. 30(b)(6).

³⁴John Barkai, et al., *A Profile of Settlement*, 42 J. AM. JUDGES ASS'N 34, 36 (2006), available at <http://digitalcommons.unl.edu/ajacourtreview/22/>.

³⁵*Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996).