

We've Been Sued *Where?*

Early Strategies for Coping with Sudden Federal I.P. Lawsuits in Surprising Places

By Peter J. Karol¹

Over a recent one year period, well over 700 new intellectual property lawsuits were filed in the United States District Courts for the Eastern and Western Districts of Texas (with federal courthouses located in Beaumont, Lufkin, Marshall, Sherman, Texarkana, Tyler, Austin, Del Rio, El Paso, Midland-Odessa, Pecos, San Antonio, and Waco); more than 300 in the Middle District of Florida (Jacksonville, Ocala, Orlando, Tampa, and Ft. Myers); over 125 in the District of Minnesota (St. Paul, Minneapolis, Duluth, and Fergus Falls); almost 200 in the District of Nevada (Reno and Las Vegas); and about 250 here in the District of Massachusetts (courthouses in Boston, Worcester and Springfield). And I regret to report that only 22 such cases were filed in the District of Hawaii over that same period.²

These are, of course, only a random handful of the ninety-four federal judicial districts in the United States, many located in rather remote parts of the country, and in any one of which a complaint for patent, trademark or copyright infringement may be filed. While there is a centralized appellate court for patent cases (the Federal Circuit) in the United States, when Congress formed that court it expressly declined to create a specialized trial court for all patent cases. Thus, intellectual property plaintiffs in the U.S. (unlike their counterparts in many European jurisdictions) are presented with a dizzying range of geographies for filing suit.

¹ Attorney, Bromberg & Sunstein LLP, Boston, MA. ©2008 Bromberg & Sunstein LLP.

² See 2007 Annual Report of the Director: Judicial Business of the United States Courts, Table C-11, available at: <http://www.uscourts.gov/judbus2007/contents.html>.

One can imagine the reaction of in-house counsel at a company in, say, Copenhagen when, at 11 pm on a Friday night in August, she learns that an entity she does not know has sued her company's wholly-owned U.S. subsidiary for patent infringement in Marshall, Texas, Fergus Falls, Minnesota, or Springfield, Massachusetts. Keep in mind that Fergus Falls, to take one, is located about 180 miles northwest of Minneapolis, and 50 from Fargo, North Dakota. It lists a population of about 13,500 people and has no public airport. In January, Fergus Falls averages a low of 3 degrees Fahrenheit and once hit minus 40 in February.

This paper seeks to provide strategies for coping with the immediate aftermath of such filings, prior to the filing of an Answer. It first considers the critical issues that must be addressed in the first ten days of receipt of a complaint for infringement of intellectual property in federal court (focusing on patent infringement). It then looks at the U.S. rules regarding transfer of cases to more convenient jurisdictions, and other related strategic considerations. Finally, it concludes with the perhaps unwelcome observation that despite its best efforts, a party sued in an unfamiliar jurisdiction in the United States may simply need to pack for an extended stay there.

I. Blueprint for the First Ten Days

Within days, perhaps hours, of having an intellectual property lawsuit filed against your company in a remote part of the United States, you could be enjoined from selling your product anywhere in the country. An initial evaluation of the complaint is thus imperative in intellectual property disputes.

A. Determine the Immediate Schedule

Any opening defensive strategy will depend critically upon timing. The question is simple: how quickly do I need to respond to this filing? The analysis, however, is more complicated.

(i) Identify Urgent Motions for Preliminary Injunctive Relief

First consider whether plaintiff has sought preliminary injunctive relief, and if so when any opposition is due. Less common in patent cases than in trademark and copyright case (success rates being higher in the latter two), such a request for an immediate halt to the operation of defendant's business may procedurally take a few forms.

In the most extreme cases, a plaintiff will seek a temporary restraining order ("TRO") under Fed. R. Civ. P. 65(b). This request for relief is particularly daunting in remote jurisdictions because it may be granted in the absence of the defendant, yet the relief may be national in scope. To qualify, plaintiff must, among other things, "clearly show that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition." It is not uncommon to find plaintiffs moving for a TRO, for example, to prevent copyright or trademark infringement of T-shirts at a one-time event such as a concert, or to prevent a former employee from sharing a secret source code with a direct competitor.

Initial *ex parte* TRO relief is limited to ten days, but that ten days may be extended by the Court for "good cause," and could be potentially devastating to an active business even over just that short period. A particularly aggressive plaintiff, for example, might have filed its complaint and TRO on the eve of a new U.S. product launch in order

to create the maximum disruptive impact. An order granting a TRO can theoretically be issued on the spot by a sitting federal judge.

U.S. judges tend to be sensitive to abuses of the TRO procedure, and to the potential unfairness of granting relief without allowing defendant an opportunity to be heard. Thus, TRO's are rarely granted. Nevertheless, given the time constraints, it is critically important for a defendant to identify a pending motion for TRO as soon as possible, and immediately retain counsel in the relevant jurisdiction to go on record with defendant's opposition. While the Rule does not require actual notice for a TRO, it does require plaintiff's attorney to certify "any efforts made to give notice." Accordingly, the packet of materials served with the complaint will almost inevitably alert defendant that a TRO has been requested.

Often in federal court, a motion for a TRO will be combined with a motion for preliminary injunction under Fed. R. Civ. P. 65(a). Unlike with a TRO, a defendant must be given notice of a motion for preliminary injunction. The Court, however, is at liberty to schedule an accelerated briefing schedule for hearing the motion. In a recent trademark case, for example, a Court denied our client's motion for a TRO on the day the complaint was filed, but agreed to hear the preliminary injunction motion nine days later (giving defendant just seven days to submit its brief in opposition). As the key preliminary injunction standard—likelihood of success on the merits of the case—looks to the underlying worth of the suit, the challenged party here had to prepare its entire defense to the litigation in just one week. The Court went on to grant a preliminary injunction against defendant's further use of its trademark just eleven days after the

lawsuit was initiated. Unlike a TRO, a preliminary injunction ordinarily lasts for the duration of the litigation.

Thus, while a defendant served with a motion for preliminary injunction might have a few more days to prepare its defense than one facing a TRO, it will still be forced to move rapidly to retain counsel and prepare its arguments and evidence. The Court has the option of taking live evidence at a preliminary injunction hearing, or deciding the motion on the papers with or without oral argument. In addition, one judge in Boston routinely consolidates the preliminary injunction hearing with a trial on the merits, often leading to a full trial within two to three weeks of filing the complaint. Needless to say, this puts enormous pressure on the parties to settle or prepare for a lightning-fast trial schedule.

(ii) Identify Whether Plaintiff Served The Complaint

If the complaint was not accompanied by a motion for preliminary injunction or a restraining order (usually true for patent cases), identify next whether and when plaintiff attempted to serve its complaint, and if so, when the response is due. Focus first on whether the plaintiff intended to serve your company—an analysis of whether service was technically proper (under the Federal Rules or the Hague procedures) can follow later.

In United States courts, it is not uncommon for a plaintiff in an intellectual property case to file its complaint, but, rather than formally serve the complaint, send only a courtesy copy of the complaint to defendant or its counsel. Indeed, the Rules allow a plaintiff up to 120 days to serve the papers. Fed. R. Civ. P. 4(m). A courtesy copy will often be sent by some rapid form of communication such as e-mail or fax. But

whatever the means chosen, a complaint forwarded informally will not include a summons and will not constitute service. Thus a defendant in such a case will have no formal deadline for responding.

A plaintiff might choose to file but not immediately serve the complaint for a number of reasons. First, it secures a choice of venue. As detailed below, under the first-to-file rule, in cases where adverse parties have both filed cases covering the same subject matter in different federal districts, federal courts will generally defer to the court where a complaint was first filed regardless of whether that complaint was first served. Second, in certain circumstances, filing of the complaint may itself constitute notice sufficient to trigger damages liabilities. See, for example, 35 U.S.C. §287(a) (filing of an action for patent infringement constitutes notice in the absence of patent marking). Third, the filing of a complaint without service sends a temperate message to the adverse party. In most cases, it suggests that plaintiff, while serious about bringing suit in a forbidding locale, is still willing to strike a deal at the negotiating table.

In any event, whatever plaintiff's motivation, the takeaway for the non-U.S. practitioner is that there is no deadline for a response when the complaint has not been formally served. Thus, such a party may prepare its defense without immediate time pressures. Keep in mind, however, that the absence of a hard deadline does not allow a complaint to be ignored until the chief executives return from the South of France. Many critical strategic decisions must still be made without delay, especially those relating to venue. The complaint may also be served at any time, triggering a hard deadline.

Once the complaint is served, the defendant's answer will generally be due within twenty days from the date of service. Fed. R. Civ. P. 12. This deadline, however, is

extendable, and a plaintiff is generally well-advised to agree a reasonable extension (such as two weeks to a month) if requested. Note also that plaintiff may, alternately, request a voluntary waiver of service under Rule 4(d)—identifiable by the accompanying waiver letter. In such a case, a defendant may elect to waive formal service, in which case the answer will not be due until 60 or 90 days after the request was sent, according to whether the defendant is or is not present in the United States, respectively. Finally, any deadline may effectively be forestalled by filing a range of pre-Answer motions (failure to state a claim, motion for more definite statement, and the like). The propriety of any such motion will depend on the case at hand, and would need to be discussed with U.S. counsel.

B. Select Trusted Intellectual Property Litigation Counsel

Whether or not you are facing a motion for preliminary relief, it is essential that knowledgeable, professional, and cost-efficient U.S. counsel be retained within days of receiving a complaint for infringement in the United States. There is no magic trick to picking counsel. As with everything, personal referrals from trusted contacts are probably the leading indicator. A few other tips should help the process along.

First, pick counsel with intellectual property litigation experience. In the United States, intellectual property cases are a breed apart, almost always requiring specialized knowledge and experience—not only of complex technologies but also complex law. If anything, extensive patent litigation experience is preferable to experience in a discrete technical field. This may be different, for example, from the criteria used to pick patent prosecution counsel. Many unhappy patent litigation relationships result from a

preoccupation with finding an exact match in a technical field. U.S. intellectual property litigations last longer than many marriages. Best to make sure the fit is sound.

Local knowledge is important, but can be overemphasized early in a case. Often, for example, the best strategy may be to counter sue in a completely different geographic region. This analysis requires a broad national perspective. Thus, it is generally preferable to choose the overall strongest litigation counsel in the United States, and let them retain local counsel for special local knowledge. This may appear more expensive, but can actually be highly cost-efficient if done properly, and is usually well worth any short-term expense.

Be mindful, also, that the courthouse where the complaint was filed is not always the location where the litigation will be held, and thus local counsel might not be quite as “local” as first thought. In the District of Massachusetts, for example, a plaintiff may file in any location; however, the case will be assigned to the appropriate division (Boston, Worcester, or Springfield) according to factors such as the plaintiff’s or defendant’s place of business. Thus, for example, a complaint filed in Boston might be automatically assigned to Worcester.

As with many other considerations at the outset, the earlier U.S. counsel is selected, the better. Because of the strictness of U.S. conflict of interest rules, it may take a few false starts over a number of days before available counsel may be found to assist in the case. (For the same reason, avoid sending all but the most basic, public facts in an initial communication with prospective counsel, until a conflict check has been cleared).

C. Prepare Case Background for U.S. Counsel

An organized, prepared defendant will spend significantly less money at the outset on legal fees as compared to one which relies on U.S. counsel to ask all the questions, work-up the background facts, and identify all the key documents. These include:

- All communications with the plaintiff on the subject matter of the suit (even those that appear perfunctory or routine);
- Defendant's intellectual property and potential counterclaims (counter suits are often essential to change-of-venue strategies, as discussed below);
- Detailed manuals or schematics of accused products or processes; and
- Jurisdictional evidence (central to escaping an inhospitable jurisdiction is demonstrating the absence of any connection between defendant and its accused products and that region).

Keep in mind that much of this information will inevitably take longer to amass than first thought. Given the sometimes frenetic pace of U.S. litigation, any head-start will be invaluable.

D. Discovery Obligations—Litigation Holds

As is well-known these days, U.S. discovery obligations can be onerous and massively expensive, particularly in intellectual property litigations. One of the largest (if infrequent) expenses can be the recovery, from back-up tapes and other burdensome sources, of lost or inaccessible electronic data. A party, later in a lawsuit, might move a court to force its adversary to spend hundreds of thousands of dollars to recover lost data, or even to sanction the adversary for losing the data. Whether a court agrees to do so

could depend on whether, earlier in the litigation, defendant took reasonable steps to reduce the risk of such loss.

In particular, in the first few days after a lawsuit has been filed against your company, an important way to minimize discovery risk exposure in any jurisdiction is to send out a so-called “litigation hold” letter. The recipient list for this internal (though potentially discoverable) communication, usually sent via e-mail, should include anyone at the company who might be in possession of information (whether electronic or paper) even arguably relevant to the case. The communication briefly describes the nature of the case, and, in essence, tells recipients to preserve all potentially relevant information. The goal here is to show a judge that your company took reasonable and good faith measures to retain data once you learned of the claim. If, despite these measures, data is missing then it might not be your fault.

The litigation hold must be sufficiently detailed (ideally explaining what must be retained and what may be deleted) and comprehensible to the recipients (who are usually not lawyers). It should also contain specific procedures for implementation. Whether a litigation hold letter is acceptable depends heavily on the facts of the case. Accordingly, all litigation hold letters should be approved in advance by U.S. counsel.

II. Transfer and Related Concerns

Can’t we move the case somewhere else? This, or its equivalent, is one of the more common questions asked of U.S. counsel where a client has been sued in an inhospitable jurisdiction (judged either by the remoteness of the place or its plaintiff-friendly reputation). The answer, loosely, is: “Maybe, but don’t get your hopes up.” Generally, plaintiff’s choice of forum is given significant weight in the United States.

See, e.g., Gulf Oil Corp. v. Gilbert, 330 U.S. 501, 508 (1947) (“[U]nless the balance is strongly in favor of the defendant, the plaintiff’s choice of forum should rarely be disturbed.”). Thus, transfers and related motions tend to be disfavored. There are numerous strategies, however, for tempering this sometimes harsh rule.

The Federal Rules provide a few different procedural vehicles for moving a case to a different forum, or achieving a similar result. Some are discussed below. They all, however, rely largely on the discretion of the judge. Some judges (and some jurisdictions) are disinclined to let go of any case over which the court is permitted to assert jurisdiction.

A. Statutory Transfer Under § 1404(a)

The statute governing transfer between districts of the federal courts, 28 U.S.C. § 1404(a), provides: “For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought.” Because the Federal Circuit does not apply its own interpretation of this statute, *Winner Int’l Royalty Corp. v. Wang*, 202 F.3d 1340, 1352 (Fed. Cir. 2000), each of the eleven regional circuit courts of appeal has its own guidance for applying this loose-fitting language. Thus, the transfer analysis undertaken by a court in Las Vegas may be a shade different from that applied in Arkansas. In all cases, however, it will largely be a discretionary decision with the burden on the defendant to prove the case warrants a transfer.

Generally, the Court will be balancing a number of private convenience interests of the litigants (loosely, plaintiff’s choice, location of the parties and the witnesses, place where the main events occurred, location of the documents and other evidence, and

prejudice to either party) and the public interests of the judicial system generally (administrative issues, the preference to decide local issues locally, jury concerns, and choice of law considerations).

Underlying the analysis will usually be an inclination to leave plaintiff's choice alone even if seemingly arbitrary or self-serving. Although the location of defendant is clearly part of the calculus, it tends to receive surprisingly little weight on balance. Thus, the cases are legion where neither party was resident in the filed jurisdiction, nor could witnesses be found there, but where the court declined to transfer the case. Often, for example, the allegedly infringing sales are being made across the country, including in the remote area where filed. This can be enough to convince the court that it should hear the case.

B. Counter Suits and Jurisdictional Challenges

Because the likelihood of winning transfer under § 1404(a) is relatively low in many jurisdictions, defendants have developed creative tactics for encouraging transfer or achieving a like outcome. The common ground is the filing of a counter suit in a favorable jurisdiction immediately, or soon after receiving the complaint. Defendant may also couple, in the original, unfavorable jurisdiction, a conventional motion to transfer with a more aggressive challenge to the legitimacy of the suit. This challenge will usually be on personal jurisdiction or forum non conveniens grounds (arguing in essence that the district court is not permitted to hear the case, even if it wants to).

Imagine, for example, that our Copenhagen company owns a Delaware subsidiary with its main U.S. headquarters in New York City. Plaintiff files a complaint for patent infringement against both parent and subsidiary in the Eastern District of Texas for a

product sold nationally, but only indirectly and even then in extremely small quantities in Texas. Defendants might choose to immediately bring their own new lawsuit in the Southern District of New York (covering Manhattan). The suit could be for both a declaratory judgment of non-infringement of the patents asserted by plaintiff in the first suit, and also for infringement of defendants' own patents.

Thus, in this hypothetical, there are now two suits pending simultaneously, in respective jurisdictions. The next step is for defendants to move to transfer the first case to New York, where it can be joined with the later case. This motion to transfer could be coupled with an additional attack on the first suit, such as a personal jurisdiction challenge. Defendants, in other words, would assert not only that Texas is inconvenient, but that they have too few contacts with Texas to allow an exertion of jurisdiction by a court sitting there.

Because this situation is fairly common in federal practice, the law has developed the so-called "first-to-file" rule. Under that rule, where two suits covering the same subject matter are pending in two respective jurisdictions, the court in the second-filed jurisdiction (New York) will generally defer to the court where the case was first filed (Texas). This is true whether or not the original complaint was served before the second case was filed.

Notice, however, how defendants' strategy here has created arguments against or even ways around the first-to-file rule. First, and most immediately, the motion to transfer has gained considerable legs because there is now a suit in New York covering not merely the Texas infringement claims, but also defendants' counter suit (which is not part of the Texas case). Assuming that New York has more of a connection to both suits

(for example, if both defendants' and plaintiff's products are sold there), the balance shifts from the usual transfer case. Defendants have placed a finger on the scales.

This change in the balance, however, may not itself overcome the first-to-file rule. The real key here is defendants' jurisdictional attacks. If just one of the two defendants is able to demonstrate a jurisdictional failure in the first suit, the second suit suddenly becomes the preferred forum. Only in New York can the court exert jurisdiction over all parties. Moreover, if both defendants can demonstrate a jurisdictional failure, plaintiff's Texas suit must be dismissed in its entirety. Suddenly defendants' New York complaint has become the "first-filed" suit.

Alternatively, defendants may consider intentionally orchestrating the two suits to proceed simultaneously. Perhaps defendants know that plaintiff's Texas suit is being financed on a contingency basis, and suspect that plaintiff has insufficient resources to fight a two-front war. In such a case, defendants may be best served not to include a declaratory judgment count in the New York suit, but rather only to bring a complaint for infringement of their own patents. Plaintiff may still attempt to consolidate the two cases in Texas, but defendant could resist consolidation by pointing to the very real differences in both cases (completely different patents and products). Should defendant win on its jurisdictional challenge in Texas, it could immediately amend to include the declaratory judgment count in New York. Should it lose the Texas motion, it at least has its second suit pending in a favorable jurisdiction, which acts as a continuing pressure point on plaintiff.

III. Conclusion

Regardless of whether the complaint has been served, a company sued for intellectual property infringement in a remote or inhospitable U.S. jurisdiction will need to address the suit immediately. Whether preparing counterclaims, a motion to transfer, or a jurisdictional attack, or simply selecting U.S. counsel, this time period is critical in developing a strategy for the litigation—particularly with respect to venue.

No matter how clever the litigators or how strong the brief, however, there is always a chance that the case is staying put where filed. Even if you believe the district court erred in denying your motion to transfer, that decision likely cannot be appealed until the end of your case. Thus, never rule out the possibility of an extended stay in that unknown expanse of country. In the end, you might just find yourself learning to love Fergus Falls and the one-thousand lakes located within just an hour's drive of the city.