Bloomberg BNA

BNA's
Patent, Trademark
& Copyright Journal®

Reproduced with permission from BNA's Patent, Trademark & Copyright Journal, 85 PTCJ 260, 12/14/2012. Copyright © 2012 by The Bureau of National Affairs, Inc. (800-372-1033) http://www.bna.com

DISCOVERY

The authors argue that new rules promulgated by the U.S. International Trade Commission to limit the scope of electronic discovery could bring down the cost of intellectual property litigation.

Limiting E-Discovery in Intellectual Property Litigation: The International Trade Commission Follows a Warmly Welcomed Trend

BY JAMES R. KLAIBER AND LEIGHTON E. DELLINGER

According to Chief Judge Randall R. Rader of the U.S. Court of Appeals for the Federal Circuit, "the greatest weakness of the U.S. court system is its expense. And the driving factor for that expense is discovery excesses."[1] A litigant faced with an infringement claim of questionable merit is far more likely to agree to a rash or unjust settlement when the alternative is long-term litigation and its accompanying excessive costs. According to Rader, excessive e-discovery costs are an "unhealthy tax on innovation and open competition."

Pushing back on this trend, the International Trade Commission, on Oct. 2, 2012, proposed new rules limiting electronic discovery to reduce the cost of intellectual property disputes it hears.[2] The ITC conducts investigations into allegations of certain unfair practices in import trade, as authorized by Section 337 of the Tariff Act of 1930.[3]

Overview of Section 337 Proceedings.

The Tariff Act of 1930, better known as the Smoot-Hawley Tariff Act, was enacted as the world entered the first stages of the Great Depression. An attempt to protect American jobs and farmers from foreign competition, Smoot-Hawley increased nearly 900 American tariffs on imports and damaged global trade relations. The protectionist tariffs were largely repealed by Roosevelt and the Democratic Congress with the Reciprocal Trade Agreement of 1934; however, other provisions of Smoot-Hawley have endured—such as Section 337, which makes importation of certain goods into the United States unlawful.

Under Section 337, parties seeking exclusion of infringing products may submit complaints to the ITC for adjudication predicated on "[b]oth utility and design patents, as well as registered and common law trade-

[1] Randall R. Rader, *E-Discovery in Patent Litigation—A Model Order to Quiet the Tail that Wags the Dog*, 27th Annual Intellectual Property Law Conference, American Bar Association Section of Intellectual Property Law, *available at* http://apps.americanbar.org/intelprop/spring2012/coursematerials/docs/E-Discovery_in_Patent_Litigation/TheState_of_PatentLitigation-ChiefJudgeRader.pdf.

James R. Klaiber is a partner and Leighton E. Dellinger is an associate with Pryor Cashman, New York, and both specialize in intellectual property litigation.

[2] U.S. International Trade Commission, E-Discovery Limits—USITC Considers Proposal to Streamline Section 337 Investigations (Oct. 5, 2012) (84 PTCJ 1007, 10/12/12), *available at* http://www.usitc.gov/press_room/documents/featured_news/ediscovery_article.htm.

[3] 19 U.S.C. § 1337.

marks," in addition to "[o]ther forms of unfair competition involving imported products, such as infringement of registered copyrights, mask works or boat hull designs, misappropriation of trade secrets or trade dress, passing off, and false advertising."[4] The primary remedy in these proceedings is exclusion of infringing products, but the commission may also "issue cease and desist orders against named importers and other persons engaged in unfair acts that violate Section 337."[5]

Section 337 investigations, similar to judicial enforcement actions, "often involve claims regarding intellectual property rights, including allegations of patent infringement and trademark infringement by imported goods."[6] As such, these proceedings are subject to the same abuses and problems prevalent in other intellectual property litigation forums. In recent years, Section 337 investigations have become a favored forum for intellectual property enforcement, as filings have almost tripled in the last five years.[7]

Intellectual Property Cases Subject to Disproportionately High E-Discovery Costs.

Intellectual property cases, involving more e-documents and emails subject to discovery than other cases, are subject to disproportionately high costs—a 2010 Federal Judicial Center report determined that "Intellectual Property cases had costs almost 62% higher [than other cases], all else equal. . ."[8]

Under the current ITC rules, litigants identify key players in the opposing party—called "custodians"—and request access to all the custodians' emails and e-documents related to the dispute. In a Section 337 investigation involving the development of new technology, the number of custodians working on a project and the number of collected documents can be extremely high; higher still when attorneys use the expense of e-discovery as a tactical weapon to drive up their opponents' costs or try to force a settlement. Pursuant to broad requests, parties are required, at great expense, to search and produce large volumes of electronically stored data—a small minority of which is usually relevant to the investigation.[9]

The societal cost of expensive dispute resolution exceeds the burden on individual litigants. More and more parties to intellectual property disputes are experiencing extortion by litigation—they acquiesce to settlements in cases lacking meritorious claims just to avoid the expense of full dispute resolution. According to Rader, "Settlement, by and large, is essential to the success of the U.S. system of dispute resolution. Without settlements, the system would collapse under its own weight. Nonetheless, those settlements must occur on fair, neutral, and justified economic terms, not as the result of stratagems, threats, or fears. Otherwise our system is failing."[10]

The Proposed ITC Rules.

To prevent this failure in Section 337 proceedings, the ITC has proposed rules intended to limit the scope of e-discovery to "foster the speed, fairness and thoroughness" of investigations, according to a recent press release.[11] Based on a year-long study and input from litigants, academics, district court judges, and bar associations, the proposed rules are written to be "flexible, reasonably simple, and easy to administer."[12]

Generally speaking, the new rules will limit expenses with four measures. First, litigants will indicate whether electronic documents such as email are being sought. The rules will also presumptively limit the number of custodians whose files will be searched, the locations of those documents, and the search terms that will be used. This proposed provision includes a cost-shifting measure for litigants that choose to exceed the presumptive limits. Third, the rules will require focused search terms limited to specific, contested issues. And finally, the proposed rules will allow privileged documents to be exchanged without losing privilege.[13]

These rules are part of a more comprehensive package that the ITC has proposed to pare down e-discovery costs and streamline the discovery process for parties involved in Section 337 investigations. According to a recent ITC press release, that package includes three additional key provisions.

First, the ITC has instituted a voluntary pilot program for the administrative law ludges responsible for adjudicating ITC Section 337 proceedings. This program includes "meet and confer requirements, submission to the ALJ of a detailed discovery statement, and an optional preliminary conference to resolve issues identified in the discovery statement."[14] This program is intended to improve ALJs' case management and streamline the process of adjudication of Section 337 investigations within the ITC.

The second provision of the ITC's comprehensive plan to limit e-discovery costs is a model Administrative Protective Order (APO). ALJs commonly issue orders to protect highly sensitive confidential business information disclosed in the course of proceedings. In order to "provide more consistency among investigations and provide parties more certainty as to protections afforded for confidential information in Section 337 pro-

[4] U.S. International Trade Commission, Section 337 Investigations, Answers to Frequently Asked Questions, *available at* http://www.usitc.gov/intellectual_property/documents/337_faqs.pdf.

[5] U.S. International Trade Commission, Intellectual Property Infringement and Other Unfair Acts, *available at* http://www.usitc.gov/intellectual_property/.

[6] *Id.*

[7] U.S. International Trade Commission, Number of Investigations Instituted by Calendar Year, *available at* http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf.

[8] Emery G. Lee III and Thomas E. Willging, *Litigation Costs in Civil Cases: Multivariate Analysis* 8 (Fed. Judicial Ctr. 2010).

[9] U.S. International Trade Commission, E-Discovery—Commission Takes a Step Forward, *available at* http://www.usitc.gov/press_room/documents/featured_news/ediscovery2_article.htm.

[10] Rader, *supra* note 1.

[11] E-Discovery Limits—USITC Considers Proposal to Streamline Section 337 Investigations, *supra note 2.*

[12] *Id.*

[13] *Id.*

[14] E-Discovery—Commission Takes a Step Forward, *supra note 2.*

 COPYRIGHT © 2012 BY THE BUREAU OF NATIONAL AFFAIRS, INC. PTCJ ISSN 0148-7965

ceedings,''[15] the ITC has promulgated a model APO. The proposed model APO is unique because it includes a source code provision proposed by the ITC Trial Lawyers Association.[16] The proposed Source Code Provision designates a list of ''Source Code Qualified Persons'' who are permitted to see any source code produced in the course of the proceeding, such as outside counsel, ITC employees including the presiding ALJ, court reporters and experts. The provision also places controls on the manner of production. For example, when produced, source code must be made available on only two ''stand-alone'' computers, machines not linked to any network including the internet or an intranet, kept in a secure locations, and password-protected.[17] Though the model APO may be amended and customized to fit a particular Section 337 dispute, it should standardize parties' expectations and streamline the process of implementing protections for confidential information.

The third provision of the package to reduce e-discovery costs involves standardization of the production of metadata. Metadata is ''data that describes other data, as in describing the origin, structure, or characteristics of computer files, webpages, databases, or other digital resources.''[18] The ITC proposal package encourages ALJs to include an instruction in their ground rules, issued at the beginning of a Section 337 proceeding, that metadata will not be produced except upon agreement of the parties or upon a showing of good cause in a motion filed by the requesting party.[19]

These measures, in conjunction with the proposed e-discovery rules, should limit time and cost spent managing Section 337 proceedings and negotiating protection for confidential information and the production of metadata.

Similar Developments in Federal Courts.

The proposed new ITC rules track similar developments in other courts around the country. Last year, at the behest of Rader, the Advisory Council of the Federal Circuit created a special subcommittee to draft new model rules to limit the costs of e-discovery, particularly the production of email.[20] The model rules promulgated by the special subcommittee, intended to be ''a helpful starting point for district courts to use in requiring the responsible, targeted us of e-discovery in patent cases,''[21] have been adopted by the Advisory Counsel of the Federal Circuit.[22] Similar Model Orders have been adopted in federal districts across the country, including the Eastern District of Texas and the District of Delaware, both popular patent litigation forums.

According to the Advisory Council of the Federal Circuit, the main cost areas for e-discovery are collection, processing, review, production, and post-production.[23] The Model Order limits costs in these areas by restricting email discovery to the period after the parties have engaged in ''core'' discovery[24], which concerns only the patents at issue, prior art, the accused products, and relevant financials, the ''most consequential'' issues in a patent dispute.[25] After core discovery, parties are permitted to continue the discovery process but the proposed rules impose presumptive limits on the number of custodians (up to five), keyword search terms for each custodian's e-documents (up to five), and the relevant time frame for culling purposes.[26] By requiring ''core'' discovery before production of emails, the Model Order delays these ''often tangential'' search costs until the attorneys have a chance to review the core documents and focus an additional email search on a particular issue. By placing presumptive limits on the number of custodians and search terms, the Model Order minimizes unnecessary costs currently imposed by collection, processing, review, and production of excessive or cumulative documents.

As with the ITC proposed rules, the parties may jointly agree to modify the presumptive limits or request court modification with a showing of good cause.[27] If a party requests a court modification, the Model Order requires that party to pay the costs of the additional production. Discussing this measure, Rader said, ''I believe cost shifting will encourage more conscientious requests, as we all know, when you are ordering drinks at a bar, you order a little more wisely when you know you are paying the tab!''[28] The Model Order also implements attorney-client and work product protections for produced documents; these provisions are intended to limit the cost attributed to attorney pre-production review for privileged or sensitive but irrelevant documents.[29] Finally, the Model Order presumptively excludes metadata (absent a showing of good cause).[30]

Similar Model Orders have been adopted in the Eastern District of Texas and the District of Delaware. The Eastern District of Texas adopted the Model Order pro-

[15] *Id.*

[16] According to the American Heritage Dictionary, source code is ''code written by a programmer in a high-level language and readable by people but not computers; source code must be converted to object code or machine language before a computer can read or execute the program.''

[17] Source Code Provision to be inserted in Model Commission APO, *available at* http://www.usitc.gov/press_room/documents/featured_news/Ediscovery_attachment1.pdf.

[18] American Heritage Dictionary.

[19] Metadata Provision to be inserted in ALJ Ground Rules, *available at* http://www.usitc.gov/press_room/documents/featured_news/Ediscovery_attachment2.pdf.

[20] In his presentation to the 27th Annual Intellectual Property Law Conference hosted by the American Bar Association Section of Intellectual Property Law, Rader unveiled the Model Order as the first of a number of measures proposed to limit costs in intellectual property litigation. The other measures included a more efficacious summary judgment process, better utilization, rules, and procedures for the Patent Pilot Program, better trial court case management, and control of abuse by non-practicing entities.

[21] An E-Discovery Model Order, *available at http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf.*

[22] Rader, *supra* note 1.

[23] An E-Discovery Model Order, *supra* note 21, at FN2.

[24] Model Order Regarding E-Discovery in Patent Cases, at paragraph 8, available following ''An E-Discovery Model Order'' at http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf.

[25] An E-Discovery Model Order, *supra* note 21.

[26] Model Order Regarding E-Discovery in Patent Cases, supra note 24, at paragraphs 10 and 11.

[27] *Id.* at paragraph 2.

[28] Rader, *supra* note 1.

[29] Model Order Regarding E-Discovery in Patent Cases, *supra* note 24, at paragraphs 12-14.

[30] *Id.* at paragraph 5.

mulgated by the Advisory Committee to the Federal Circuit, with only a few changes. For example, it allows for eight presumptive custodians and 10 presumptive keyword searches, it excludes the cost-shifting measures, and it excludes some of the protections for inadvertently produced documents that violate attorney-client privilege.[31] The District of Delaware has adopted a different variation—10 presumptive custodians and 10 presumptive keyword searches and a six-year limit on e-discovery in patent cases after the ''core'' discovery phase.[32]

The proposed rules for ITC Section 337 proceedings and the Model Order in the Federal Circuit appear to part of a larger trend toward using special rules to manage intellectual property litigation. For example, in 2001, the Northern District of California was the first district court to adopt local rules specifically for patent cases. The Northern District of California kicked-off a slow movement—since then, special patent rules have been adopted in 25 other district courts around the country.[33] The Northern District of Illinois published a preamble to their local rules, describing their purpose:

> *''These Local Patent Rules provide a standard structure for patent cases that will permit greater predictability and planning for the court and the litigants. These Rules also anticipate and address many of the procedural issues that commonly arise in patent cases. The Court's intention is to eliminate the need for litigants and judges to address separately in each case procedural issues that tend to recur in the vast majority of patent cases.''*[34]

The proposed rules for ITC Section 337 proceedings and the Model Order in the Federal Circuit are the first examples of this trend expanding beyond the district courts. We can only hope that this small, but significant, extension of the public policy initiative to limit litigation costs for intellectual property litigants will lead to an improved system of dispute resolution—one in which parties make settlement decisions based on the merits of claims, and not because a deal offered is cheaper than true justice.

---

[31] U.S. District Court for the Eastern District of Texas, General Order Amending Local Rules, *available at* http://www.txed.uscourts.gov/cgi-bin/view_document.cgi?document=22217.

[32] U.S. District Court for the District of Delaware, Electronic Discovery Default Standard, *available at* http://www.ded.uscourts.gov/court-info/local-rules-and-orders/guidelines.

[33] Local Patent Rules: Patent Rules Made Easy, Basics, *available at* http://www.localpatentrules.com/basics/.

[34] U.S. District Court for the Northern District of Illinois, Local Patent Rules, Preamble, *available at* http://www.ilnd.uscourts.gov/home/_assets/_documents/Rules/localpatentrules-preamble.pdf.

 COPYRIGHT © 2012 BY THE BUREAU OF NATIONAL AFFAIRS, INC. PTCJ ISSN 0148-7965