

1 David M. Kleiman (State Bar No. 194955)
2 Email: davidkleiman@lapatents.com
3 21900 Burbank Blvd, Third Floor
4 Woodland Hills, CA 91367
5 Telephone: (818) 884-0949
6 Facsimile: (818) 332-4373

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8 Counsel for
9 AVALINX, INC.

10 UNITED STATES DISTRICT COURT
11 CENTRAL DISTRICT OF CALIFORNIA
12 WESTERN DIVISION

13 SHFL ENTERTAINMENT INC., a
14 Minnesota Corporation
15 Plaintiff,
16 vs.
17 AVALINX INC., an Ohio corporation,
18 Defendant.

19 Case No. 12-CV-7473 DSF (MRWx)
20 DISCOVERY MATTER
21 MEMORANDUM IN SUPPORT OF
22 DEFENDANT AVALINX'S MOTION:
23 (1) To Compel Plaintiff To Provide A
24 Computation Of Its Damages

25 Fact Discovery Cutoff: 10/11/2013
26 Final Pretrial Conference: 3/17/2014
27 Trial Date Estimate: 4/8/2014

28 (2) To Compel Plaintiff To Produce
Requested Documents & Things

29 Date: May 29, 2013
30 Time: 9:30 AM
31 Court: Courtroom H – 9th Fl.
32 Michael Wilner

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1 I. **INTRODUCTION**

2 On May 6, 2013 the Court encouraged the parties to meet and confer further for
3 a potential resolution without Court intervention of the pending discovery disputes
4 between them. The parties have met and conferred further, and have potentially
5 resolved a number of their discovery disputes. Particularly, the parties have agreed
6 (1) on the form of a stipulated protective order concerning confidential information,
7 (2) to a limit of 146 requests for admission (“RFA”) under Rule 36(a)(1)(A) per
8 party, with Avalinx agreeing to respond by June 9 to 146 out of SHFL’s 241
9 propounded RFAs, (3) that SHFL will answer by June 9 Avalinx’s RFAs 1-3 that
10 were remaining in dispute, and (4) that SHFL will supplement by June 9 its
11 responses to Avalinx Interrogatories Nos. 1-8 (for interrogatories 2, 3, 5 and 6 in
12 accordance with amendments agreed to by Avalinx)¹.

13 However, the parties have been unable to resolve a small number of remaining
14 disputes between them concerning discovery requested by Avalinx that is highly
15 relevant to key issues in this case, and has the potential to greatly reduce the time
16 and expense necessary to resolve these issues. Specifically, SHFL is refusing to
17 provide a computation for each category of damages it is claiming as required under
18 Rule 26(a), and is refusing to produce requested documents from other lawsuits and
19 disputes that involved the same intellectual property SHFL is asserting here in this
20 action against Avalinx.

21 Avalinx does not wish to unnecessarily burden the court with resolving
22 discovery issues. However, the discovery at issue was requested on March 5 and
23 Avalinx has been actively attempting to get SHFL to agree to produce the discovery
24

25 ¹ The parties continue to disagree on whether Avalinx’s eight interrogatories
26 have exceeded the initial limit of 25 set forth under Rule 33. SHFL has informed
27 Avalinx that it will not answer any more interrogatories from Avalinx without a
28 court order. As Avalinx may not propound more interrogatories the parties have
agreed to defer Court resolution of this dispute until when, and if, it is ripe.

1 since requesting a meet and confer on April 12, 2013 concerning SHFL’s April 8
2 refusals to provide it. Avalinx has met and conferred with SHFL multiple times
3 beginning on April 22, 2013 on these remaining discovery issues all to no avail.
4 SHFL has made it abundantly clear that the only way Avalinx will receive the
5 requested discovery is through a Court order.

6 Accordingly, Avalinx respectfully asks, for the reasons elaborated on herein,
7 that the Court order SHFL to produce a computation of damages in accordance with
8 the requirements of Rule 26(a), and to produce the documents responsive to
9 Avalinx document requests Nos. 12 and 13 for other lawsuits and disputes
10 involving the intellectual property SHFL is asserting here in this action.

11
12 **II. MOTION TO COMPEL PLAINTIFF TO PROVIDE A COMPUTATION**
13 **OF ITS DAMAGES**

14 [A] party must, without awaiting a discovery request,
15 provide to the other parties: . . . a computation of each
16 category of damages claimed by the disclosing party—
17 who must also make available for inspection and copying
18 as under Rule 34 the documents or other evidentiary
19 material, unless privileged or protected from disclosure,
20 on which each computation is based, including materials
21 bearing on the nature and extent of injuries suffered

22 Fed. R. Civ. P. 26(a)(1)(A)(iii)

23 SHFL has failed in its Rule 26(a) initial disclosures to provide the required
24 computation of its damages. See Declaration of David M. Kleiman (hereinafter
25 “Kleiman Decl.”) Exh. 2. As shown below, SHFL has only recently presented two
26 bald unexplained numbers:

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1 SHFL's total damages are ongoing. In the event that
2 SHFL succeeds in this action, it will be entitled to, at
3 least, statutory damages for copyright infringement, actual
4 and/or compensatory damages, disgorgement of profits
5 including but not limited to Avalinx's gross revenues it
6 received as a result of the sale of the infringing games,
7 and reasonable royalties for patent infringement, in excess
8 of \$434,000 computed based on documents available to
9 SHFL as of the date of these supplemental disclosures.
10 Further, SHFL will likely prevail on its copyright and
11 other infringement claims and will be entitled to recover
12 its attorneys' fees and costs pursuant to applicable fee
13 shifting provisions, in excess of \$150,000. In addition,
14 SHFL will be entitled to declaratory judgment and
15 injunctive relief and potentially, exemplary, trebled and/or
16 punitive damages, as well as, prejudgment interest.

17 Kleiman Decl. Exh. 2 (SHFL's April 19, 2013 Suppl. Initial Disclosures).

18 There was no computation provided to explain how these numbers were
19 arrived at. The rule is clear that Avalinx is entitled to a break down by *each*
20 *category* of damages SHFL is claiming, and to a "computation" for *each category*
21 of such damages and all supporting documents or other evidentiary material. Fed.
22 R. Civ. P. §26(a). *Design Strategy Inc. v. Davis* 469 F.3d 284, 295 (2nd Cir.
23 2006)("[B]y its very terms Rule 26(a) requires . . . a "computation," supported by
24 documents."). Simply providing a bald number at the end of a sentence listing all
25 possible categories of damages SHFL is claiming is not the required computation.
26 It provides absolutely no explanation for how that number was calculated, let alone
27 a computation for each category of damages.

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1 During the meet and confer process SHFL claimed that it had calculated the
2 numbers it set forth in its supplemental Rule 26(a) disclosure. Avalinx is entitled to
3 know those calculations for each category of damages SHFL is claiming. This is
4 necessary for Avalinx to productively evaluate the case for purposes of both
5 settlement and defense of the action. It is also relevant to the Court making
6 decisions on, *inter alia*, discovery matters. See Fed. R. Civ. P. § 26(b)(2)(C)(iii).

7 SHFL is not permitted under the rules to withhold its required damages
8 computations until expert discovery:

9 A party must make its initial disclosures based on the
10 information then reasonably available to it. A party is not
11 excused from making its disclosures because it has not
12 fully investigated the case or because it challenges the
13 sufficiency of another party's disclosures or because
14 another party has not made its disclosures.

15 See Fed. R. Civ. P. § 26(a)(1)(E).

16 The rules governing the timing of expert disclosures simply set deadlines for
17 the identification of testifying experts and providing their written reports. See Fed.
18 R. Civ. P. §26(a)(2). There is nothing in the rule that permits a party to withhold its
19 damages computation until the end of fact discovery when it is time to produce an
20 expert report. The rules of discovery “should be construed and administered to
21 secure the just, speedy, and inexpensive determination of every action and
22 proceeding”. Fed. R. Civ. P. § 1. A computation of SHFL’s damages as required
23 under Rule 26(a) may greatly facilitate the parties being able to resolve this matter.
24 Accordingly, pursuant to Rule 37(a)(3)(A), Avalinx respectfully asks the Court to
25 order SHFL to provide the required computation of its damages for *each category*
26 of damages claimed (e.g. for statutory damages \$X and the computation for getting
27 \$X, etc. . .) based on the information reasonably available to SHFL presently.

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1 **III. MOTION TO COMPEL PLAINTIFF TO PRODUCE REQUESTED**
2 **DOCUMENTS AND THINGS**

3 Rule 34(a) permits each party to serve the opposing party with document
4 requests within the scope of Rule 26(b) that are "relevant to any party's claim or
5 defense . . ." or, for good cause shown, "relevant to the subject matter involved in
6 the action." Fed. R. Civ. P. 26(b). In responding to Rule 34 requests, "the response
7 must either state that inspection and related activities will be permitted as requested
8 or state an objection to the request, including the reasons." Fed. R. Civ. P.
9 34(b)(2)(B).

10 Pursuant to Rule 37(a)(3)(B)(iv), "[a] party seeking discovery may move for
11 an order compelling an answer, designation, production, or inspection" if "a party
12 fails to respond that inspection will be permitted — or fails to permit inspection —
13 as requested under Rule 34." Fed. R. Civ. P. 37(a)(3)(B)(iv). The party who resists
14 discovery has the burden to show that discovery should not be allowed, and has the
15 burden of clarifying, explaining, and supporting its objections. *Cable & Computer*
16 *Technology Inc. v. Lockheed Sanders*, 175 F.R.D. 646, 650 (C.D. Cal. 1997).

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A. **Avalinx Request For Production No. 12**

REQUEST NO. 12: All pleadings, motions, pre-trial court briefs or
presentations (including those related to claim construction hearings or
technology tutorials), expert reports, interrogatory responses, responses
to requests for admissions, privilege logs, deposition transcripts,
deposition exhibits, exhibit lists, witness lists, trial transcripts, trial
exhibits, hearing transcripts, jury instructions, verdict forms, court
orders, judgments, appeal briefs, and appellate decisions from any

1 litigation where the ASSERTED INTELLECTUAL PROPERTY was
2 at issue.

3
4 **RESPONSE TO REQUEST FOR DOCUMENT NO. 12:** SHFL

5 incorporates by reference each of the foregoing General Objections.
6 SHFL further objects to this Request to the extent it calls for disclosure
7 of documents protected by the attorney-client privilege, the work
8 product doctrine, or any other applicable exemption from discovery.
9 SHFL further objects to this Request as vague and ambiguous, overly
10 broad, and unduly burdensome.

11 SHFL further objects to this Request to the extent it uses terms that are
12 defined by incorporating multiple definitions.

13 SHFL further objects to the extent this Request seeks information that
14 that is in the possession of independent parties over whom SHFL has
15 no control, or that is publicly available and hence equally available to
16 all parties to this litigation.

17
18 See Kleiman Decl. Exh. 4.

19 SHFL has failed to respond that it will produce the requested documents.
20 Documents from prior litigations involving the asserted intellectual property at
21 issue in this action are clearly relevant and discoverable. The requested documents
22 are likely to contain a wealth of information directly relevant to many of the issues
23 in this action concerning the same intellectual property (e.g. construction of the
24 patent claims, validity of the patents, strength of SHFL's alleged trademarks, expert
25 opinions related to SHFL's asserted intellectual property, a reasonable royalty, lost
26 profits, impeachment materials, substantive defenses raised against the intellectual
27 property, estoppel against SHFL on prior positions it adopted, etc. . . .).

1 In an effort to reach a compromise on this discovery request Avalinx offered
2 to exclude from its scope any documents that Avalinx could download directly from
3 court websites through PACER. However, this was not satisfactory to SHFL.
4 SHFL simply insisted that it was “overbroad” and “unduly burdensome” because
5 SHFL was such a “large company” owning so many intellectual property rights.
6 None of these objections have any merit.

7 SHFL is a large publicly traded company with annual revenues in the
8 hundreds of millions of dollars who has retained Glaser Weil Fink Jacobs Howard
9 Avchen & Shapiro LLP (“Glaser Weil”) a full-service law firm with 110 attorneys
10 in Century City and Las Vegas to litigate this case against Avalinx, which is a small
11 Ohio business having less than 10 employees. It was SHFL’s decision to pursue
12 this litigation and assert eight U.S. patents, nineteen registered trademarks, and two
13 registered copyrights against Avalinx on account of three discontinued apps with
14 relatively small sales (the amounts of which have been confidentially disclosed to
15 SHFL). Clearly the large size of SHFL and the volume intellectual property rights
16 SHFL chose to assert in this action against Avalinx should not be factors that
17 prejudice Avalinx’s discovery into such intellectual property rights.

18 The documents requested are quite narrow and specific in scope. It is
19 expressly limited to litigation involving the intellectual property rights asserted here
20 in this action (not all of SHFL’s intellectual property). Furthermore, the request
21 seeks particular documents from other litigations involving the intellectual property
22 at issue here. It does not simply seek “all documents” (which Avalinx does not
23 want to receive) but only specific documents that are clearly intended and likely to
24 lead to the discovery of admissible evidence concerning the intellectual property
25 rights at issue in this action. It should be noted that this is substantially narrower in
26 scope than SHFL’s corresponding document requests propounded to Avalinx:

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SHFL REQUEST FOR PRODUCTION NO. 149:

Please produce any and all Documents relating to any disputes, complaints, lawsuits, litigations, arbitrations, mediations or other dispute resolution procedures in which YOU have been or are currently involved and which relate to any of the ACCUSED GAMES, including without limitation any Documents produced, discovery responses, pleadings, court orders and opinions.

SHFL REQUEST FOR PRODUCTION NO. 154:

Please produce any and all Documents from any prior or current litigation or dispute relating to the ACCUSED GAMES.

SHFL REQUEST FOR PRODUCTION NO. 155:

Please produce any and all transcripts of testimony given at a deposition, hearing, trial, or other proceeding by any person relating to the ACCUSED GAMES.

See Kleiman Decl. Exh. 5.

It is clearly hypocritical for SHFL to be demanding “all documents” from litigations and disputes involving Avalinx’s products, but refusing to produce *any documents* from litigations and disputes involving the intellectual property rights at issue in this case. Perhaps SHFL has something it is trying to hide.

SHFL’s assertions of undue burden also ring hollow. First and foremost, SHFL can’t be allowed to complain of a burden that it created on account of the

1 amount of intellectual property rights it has chosen to assert in this action in an
2 effort to overwhelm a small Ohio business on account of the sales of three
3 discontinued apps with relatively small sales². Second, SHFL has been unable to
4 articulate any facts to support its assertion of the request being unduly burdensome.
5 When asked by Avalinx SHFL was unable to even quantify the number of disputes
6 involving the asserted intellectual property, let alone any facts to support a claim of
7 undue burden in producing the requested documents from such litigations.

8 The reality is that the intellectual property rights in this action only date back
9 to 1994, with most being substantially later in time (after 1998), and some as recent
10 as October 2012 after this action was first filed. Accordingly, the records for any
11 disputes involving such intellectual property rights are likely to have been in the
12 relatively recent past and be readily available and easily produced by SHFL in
13 electronic form. Thus, Avalinx is unaware of any particular facts to support an
14 assertion by SHFL that it would be unduly burdensome for SHFL to produce the
15 requested documents (and Avalinx did ask about this).

16 SHFL has also asserted to Avalinx that the request is objectionable because
17 it calls for the production of information that may be confidential to third parties
18 involved in such other disputes. That is not a valid basis for objection, certainly not
19 a blanket objection refusing to produce any documents from other litigations. The
20 confidential information of third parties can be safeguarded under the protective
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22 ² For example, many of the registered trademarks SHFL has included in this
23 action are for goods or services that clearly have nothing to do with the accused
24 apps (e.g. trademark registrations for selling lottery tickets, providing facilities for
25 card game play-off events, selling playing cards with a layout cloth, and providing
26 live casino games in gaming establishments.) It is Avalinx's position that SHFL's
27 strategy has been to overwhelm Avalinx (e.g. sue Avalinx first in Nevada, then in
28 California, then amend to add eight patents, then propound 241 RFAs and 157
document requests, and then delay and stonewall on discovery) all to get Avalinx to
capitulate to SHFL's unreasonable settlement demands.

1 order the parties have recently agreed should be entered in this case, as well as the
2 provisions of any protective order entered in the other litigations.

3 Accordingly, the documents requested by Avalinx are specific and highly
4 relevant to the claims and defenses in this action. Production of such documents
5 could help save enormous expense in this case concerning the discovery and
6 resolution of issues that may have already been addressed in other litigations
7 involving the same intellectual property rights at issue here. There is no legitimate
8 justification for SHFL to be objecting to this discovery. Accordingly, Avalinx
9 respectfully asks that the Court order SHFL to produce the requested documents.

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11 **B. Avalinx Request For Production No. 13**

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13 **REQUEST NO. 13:** All communications that discuss or refer to the
14 ASSERTED INTELLECTUAL PROPERTY or any dispute involving
15 the ASSERTED INTELLECTUAL PROPERTY, including but not
16 limited to all correspondence with any person YOU have accused of
17 infringing the ASSERTED INTELLECTUAL PROPERTY.

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19 **RESPONSE TO REQUEST FOR DOCUMENT NO. 13:** SHFL
20 incorporates by reference each of the foregoing General Objections.
21 SHFL further objects to this Request to the extent it calls for disclosure
22 of documents protected by the attorney-client privilege, the work
23 product doctrine, or any other applicable exemption from discovery.
24 SHFL further objects to this Request to the extent it seeks private,
25 confidential, proprietary, trade secret, or other sensitive business data
26 or information without a suitable protective order in place in this
27 action.
28

1 SHFL further objects to this Request to the extent it is vague and
2 ambiguous, overly broad, unduly burdensome, and seeks information
3 that is not relevant to this action or likely to lead to the discovery of
4 admissible evidence.

5 SHFL further objects to this Request to the extent it uses terms that are
6 defined by incorporating multiple definitions.

7 SHFL further objects to the extent this Request seeks information that
8 that is in the possession of independent parties over whom SHFL has
9 no control, or that is publicly available and hence equally available to
10 all parties to this litigation.

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12 See Kleiman Decl. Exh. 4.

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14 As part of the meet and confer process Avalinx agreed, in an effort at
15 compromise, to limit the scope of this request to just communications that discuss
16 or refer to any dispute or allegation of infringement involving the asserted
17 intellectual property. SHFL however was not agreeable to this.

18 The communications being sought are likely to contain information that is
19 highly relevant to the same issues in this case as those set forth above for actual
20 lawsuits (e.g. construction of the patent claims, validity of the patents, strength of
21 SHFL's alleged trademarks, opinions related to SHFL's asserted intellectual
22 property, a reasonable royalty, lost profits, impeachment materials, substantive
23 defenses raised against the intellectual property, etc. . . .). However the
24 communications sought here are broader than just the litigation documents sought
25 by request No. 12 because not all disputes concerning the intellectual property
26 rights necessarily resulted in litigation. For example, it is certainly conceivable that
27 when SHFL sent a demand letter to a business asserting infringement of any of the

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1 rights at issue in this case that communications occurred that may have resulted in a
2 settlement, or possibly SHFL backing off altogether.

3 Perhaps such communications contained information about prior art that an
4 accused party found which raises substantial issues concerning the validity or
5 enforceability of SHFL's rights. 35 U.S.C. §282. Perhaps such communications
6 contained information regarding what a reasonable royalty rate should be which
7 may be used for impeachment in this case. Perhaps such communications stated a
8 demand that an accused infringer must buy other unpatented products from SHFL
9 in order to have a license. This would be responsive and highly relevant to
10 Avalinx's misuse defense. See e.g. *Princo Corp. v. International Trade Com'n*, 616
11 F. 3d 1318, 1326-31 (Fed. Cir. 2010). These are just some examples of why it is
12 improper for SHFL to refuse to produce communications discussing or referring to
13 the intellectual property it is asserting against Avalinx in this action.

14 SHFL has asserted to Avalinx that the request is "unduly burdensome".
15 However, SHFL has failed to provide any facts to support such an objection. SHFL
16 just has generally asserted that it is a "large company" that owns "hundreds of
17 intellectual property rights". Again, this request is narrowly tailored to seek
18 communications concerning the intellectual property rights at issue in this action,
19 not all of SHFL's intellectual property rights. When asked by Avalinx SHFL was
20 unable to even articulate how many disputes there have been, or how much
21 correspondence there is concerning SHFL alleging infringement against others. For
22 all Avalinx knows the quantity is relatively small.

23 As discussed above, many of the intellectual property rights in this action are
24 relatively recent in time. Accordingly, the communications sought here are likely
25 to have been in the relatively recent past and be readily available and easily
26 produced by SHFL in electronic form. Thus, Avalinx is unaware of any particular
27 facts to support an assertion by SHFL that it would be unduly burdensome for
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1 SHFL to produce such highly relevant documents. Accordingly, to the extent
2 SHFL has such documents in its possession, custody or control SHFL should be
3 ordered to produce them.

4

5 **IV. CONCLUSION**

6 Avalinx asks that Court order SHFL to produce a computation of damages in
7 accordance with the requirements of Rule 26(a), and to produce the documents
8 responsive to Avalinx document requests Nos. 12 and 13 for other lawsuits and
9 disputes involving the intellectual property SHFL is asserting here in this action.

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11 Date: May 8, 2013

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s/David Kleiman
David M. Kleiman
Counsel For Avalinx Inc.

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