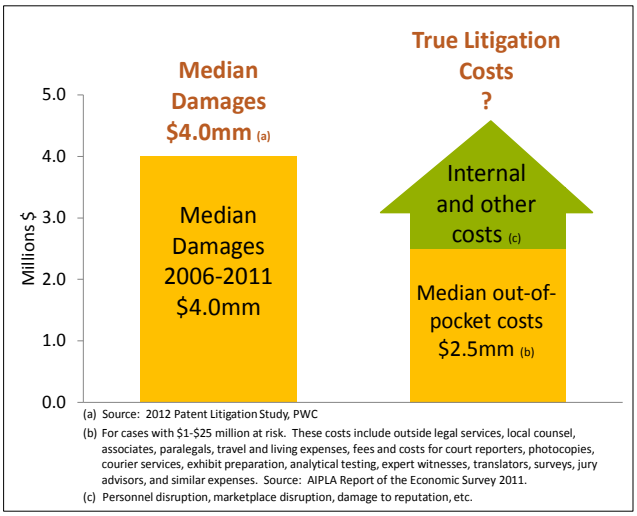
Patent Litigation – One Size Does Not Fit All
By Carol Ludington, CPA, CFF, CLP, ACIArb[i]

Each patent infringement case is unique, with different technologies, different parties, different damages and different dynamics. Despite these differences, I frequently observe that most patent disputes are conducted with the same one-size-fits-all approach. Regardless of whether realistic damages are $100 thousand or $100 million, most patent disputes are conducted using traditional litigation practices that include several rounds of written discovery, numerous fact depositions, exchanges of thousands of documents, e-discovery, Markman hearings, expert reports, expert depositions, various motions, hearings and trial. All of this costs the parties millions of dollars and requires significant court resources. Although alternative dispute resolution procedures such as mediation are sometimes successful in resolving patent disputes, they are frequently done too late in the litigation process to significantly reduce costs. Too often, by the time mediation occurs most discovery has been done and the related costs already have been incurred.

In many cases, the costs of litigation consume much or all of any damage award. From 2006 through 2011, the median patent damage award was $4 million,[ii] and the reported average cost of litigation was $2.5 million[iii] (nearly 2/3 of the median award). However, these reported costs include only the external costs of litigation. They do not reflect the significant internal resources expended by the parties (such as internal time and energies to respond to discovery requests and to attend depositions) or the impact of uncertainties and disruptions that may be caused to a party's business by pending litigation. Therefore, the true cost of litigation is much higher than the reported average costs.

Too often, even for parties with the resources to pay these litigation costs, the potential benefits do not justify the cost. For parties without sufficient resources, these litigation costs make dispute resolution, and patent enforcement, inaccessible. In other words, in some cases, nobody wins. However, there are alternatives to these costly practices.



TAILOR CASE MANAGEMENT TO EACH CASE

I often hear the suggestion that the way to make patent litigation less expensive is simply to do the same things that are typically done, but do them faster and cheaper. But this merely nibbles around the edges of these costs. Instead of this one-size-fits-all approach, why not tailor the dispute resolution process to each particular case and better match the costs to the potential rewards?

To dramatically reduce the costs of patent litigation, conscious changes to traditional procedures need to occur, and these alternative practices need to be implemented early in a case, before traditional discovery occurs. There are many ways that this can be accomplished, particularly if careful attention is paid to selection of case management approaches from the start of a case.[iv] In this article, I will focus on a few such approaches, including early damages analysis and cooperative procedural agreements.

EARLY DAMAGES ANALYSIS IDENTIFIES STRATEGIES FOR EFFECTIVE CASE MANAGEMENT

I have found early damages analysis to be an effective way to address case management issues. Early damages analysis (a) results in a litigation strategy that is tailored to the case, (b) better matches the costs to the potential benefits, (c) provides focus on important issues, (d) facilitates settlement, (e) results in more efficient and effective discovery and (f) can improve outcomes.

Early damages analysis should be done by an experienced damages expert and should include communication with the attorney(s). I typically perform early damages analysis as a consulting or testifying expert retained on behalf of one of the parties, but the same process could be done by a jointly-retained damages expert, as discussed later in this article.

Early damages analysis can be conducted at varying levels of detail, at various stages in a dispute and at varying costs. My early damages analysis approach typically involves a very limited number of documents, if any, a small number of interviews, limited research or other information, and verbal communication with the attorneys. This process does not have to be expensive and can be done by an experienced damages expert without voluminous documents, and before discovery has occurred. The relatively small cost of early damages analysis is typically more than offset by the significant savings of time and cost that result from early resolution and efficiencies.

Early damages analysis can reduce unpleasant surprises

Too often I see cases in which a significant damages issue is an unpleasant surprise to one or more parties because they did not adequately address damages before incurring substantial litigation time and costs. Early damages analysis can help minimize these unpleasant surprises.

Early damages analysis facilitates settlement

In my experience, there is often significant disparity between a patentee's and an alleged infringer's view of the amount of patent infringement damages ("expectation gap"), and these differing views can interfere with an early and cost-effective resolution of patent infringement claims. Narrowing this expectation gap can facilitate settlement. In cases in which I perform early damages analysis, it is not unusual for the matter to resolve soon after, because at least one of the parties has a clear understanding of the damages issues and magnitudes in the case and is able to narrow the expectation gap by clearly articulating this information. Also, a party well-informed by an early damages analysis is often more confident regarding the appropriateness of a settlement.

Early damages analysis can facilitate discovery

Early damages analysis provides focus on the important damages issues and a better understanding of the information useful to address those issues. This can help to focus discovery and to provide more specificity in the discovery requests.

Opposing counsel or the judge are more likely to agree to requested discovery when the reasons for the request are clearly defined. After early damages analysis, I am often able to assist resolution of discovery disputes by articulating the relevance of requested information.

Early damages analysis can improve outcomes

There have been a number of patent cases in recent years in which courts have reduced or eliminated claimed damages as a result of inadequate data, information or analysis. Traditional, boiler-plate discovery often does not elicit sufficient information to address issues such as entire market value and apportionment, and opportunities for discovery related to these issues often pass before a party focuses on them. As a result, damage experts are sometimes faced

with the task of trying to address issues without adequate information. This problem can be alleviated by early focus on important damages issues and by the more effective discovery that results from early damage analysis.

COOPERATIVE PROCEDURAL AGREEMENTS CAN FACILITATE RESOLUTION OF DAMAGES ISSUES

Although it may be difficult to envision cooperation between the parties in the often-contentious world of patent litigation, many benefits can be derived from the parties' cooperation in developing an agreed-upon set of procedures designed to facilitate effective dispute resolution. In the following paragraphs, I provide suggestions for cooperative procedural agreements related to damages. These examples are intended to highlight possible alternative dispute resolution techniques. I am not suggesting that these approaches are appropriate for any particular case. However, elements of these approaches, or variations on these themes, may be useful in any case, if properly tailored to the case.

In these hypothetical examples, the parties in a patent infringement dispute negotiate a cooperative procedural agreement ("parties' agreement") that utilizes an experienced damage expert to expedite resolution of damages issues. Early in the litigation process, preferably before traditional discovery has been done, the parties agree to the role of the damages expert, agree to the process to be followed, and agree whether the joint damages expert's determinations will be binding or non-binding. [v]

The examples below identify two possible scenarios.

Example 1 - Joint Damages Expert

- The parties jointly retain an experienced damages expert as a "joint damages expert."
- In place of traditional damages discovery, the joint damages expert conducts an early damages analysis similar to the early damages analysis previously described, except that the joint damages expert has the benefit of access to information from all parties. Based on this early damages analysis, the joint damages expert provides feedback to the parties (orally or in writing) regarding his/her determinations related to appropriate damages measures, likely magnitude of damages and important damages issues.
- The parties or their attorneys provide a response to the joint damages expert's preliminary determination in a format prescribed in the parties' agreement. After consideration of the parties' responses, the joint damages expert would provide his/her determinations.
- If the parties' agreement specified that the joint damage experts' determinations would be binding, the parties would proceed to resolution of liability issues without further costs or expenditures of resources related to damages.
- If the parties' agreement specified that the joint damages expert's determinations would be non-binding, the parties would proceed to mediation. The joint damages expert would assist in the mediation in a role specified in the parties' agreement.
- If the matter does not resolve through mediation, the joint damages expert may assist with discovery. For example, the joint damages expert may assist with identifying information to be produced by each party or may help resolve damages discovery disputes (helping to avoid costly motions to compel).

Example 2 - Damages Expert as an arbitrator

In this hypothetical example, the parties in a patent infringement dispute negotiate a cooperative procedural agreement that utilizes an experienced damage expert as an "arbitrator."[vi]

For example, the parties' agreement may provide for the following:

- Each party retains its own damages expert ("the party experts").
- The parties jointly retain a joint expert to serve as "damages arbitrator."
- The parties agree to the scope of the damages arbitrator's role. For example, the damages arbitrator may be asked to make a determination regarding the amount of damages, may be asked to make a determination regarding certain damages issues, or may simply be asked to make determinations regarding damages discovery disputes.
- Each party's damage expert performs an early damages analysis and presents their determination to the damages arbitrator in a prescribed format (either verbally or in a written format that is less extensive than a typical damages expert report).
- The damages arbitrator may gather additional information from the party experts using witness conferencing.[vii]
- The damages arbitrator makes a determination regarding the matters within the damages arbitrator's scope as defined by the parties' agreement.

I realize that there are many reasons why the above scenarios may not be appropriate in a particular case, and that there are many details that would need to be addressed in any such cooperative process. There are also a multitude of other procedures and combinations of procedures that could be utilized. I provide these examples to encourage creative thought about alternative approaches to traditional litigation procedures.

A TAILORED PROCESS IS THE SOLUTION

Instead of a one-size-fits-all approach to patent litigation management, implementing creative procedures tailored to fit each case can provide many benefits at significantly lower costs, better match the costs to the potential benefits and make patent enforcement more accessible.

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[ii] :PWC, 2012 PATENT LITIGATION STUDY: LITIGATION CONTINUES TO RISE AMID GROWING AWARENESS OF PATENT VALUE (2012).

[iii] AIPLA, REPORT OF THE ECONOMIC SURVEY 2011 (2011). Costs include outside legal and paralegal services, local counsel, associates, paralegals, travel and living expenses, fees and costs for court reporters, photocopies, courier services, exhibit preparation, analytical testing, expert witnesses, translators, surveys, jury advisors, and similar services.

[iv] Although this article focuses on damages, similar concepts could also be applied to liability aspects of cases.

[v] This is only a partial list. Any such agreement would likely address many other considerations.

[vi] I use the term "arbitrator" in this example to refer to a decision-maker in an alternative dispute resolution capacity that is not necessarily a traditional arbitration process.

[vii] Witness conferencing is a technique sometimes used in international arbitration that involves a structured "conversation" between the experts and the arbitrator that is managed by the arbitrator. My experience as a participant in witness conferencing is that it can be a very useful tool to provide the arbitrator with information that the arbitrator needs to render a decision.