American Bar Association
Section of Intellectual Property Law

29th Annual Intellectual Property Law Conference

Refocusing the Damages Analysis in Patent Suits: New Techniques & ADR Options for Litigants & Damage Experts

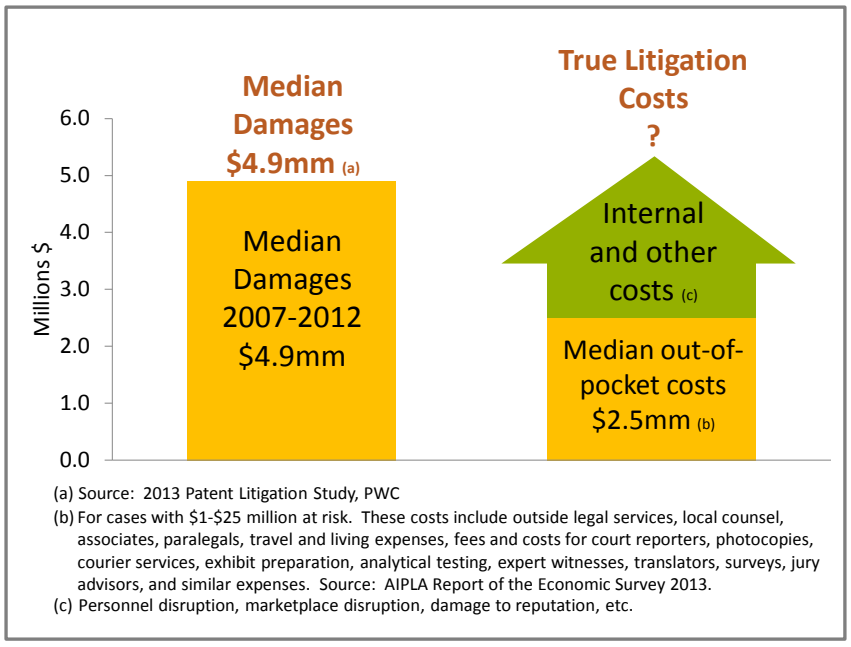
Carol Ludington
Ludington Ltd.

April 2-4, 2014
Arlington, Virginia

Refocusing the Damages Analysis in Patent Suits: New Techniques & ADR Options for Litigants & Damage Experts

By: Carol Ludington, CPA, CFF, CLP, ACIArb
Ludington Ltd.

Regardless of the realistic damages magnitude, most patent disputes are conducted using traditional practices, including written discovery, numerous fact depositions, exchanges of thousands of documents, e-discovery, Markman hearings, expert reports, expert depositions, motions, hearings and trial. The costs of litigation consume much or all of many damage awards. From 2007 through 2012, the median patent damage award was $4.9 million[1] and the median out-of-pocket costs were $2.5 million[2] (1/2 of the median award). In addition, the significant internal resources expended by the parties, such as time and energies responding to discovery requests and attending depositions, and the impact of uncertainties and disruptions that may be caused to a party's business by pending litigation, add to the true cost of litigation.



Too often, the realistic potential benefits do not justify the costs. For parties without sufficient resources, these litigation costs may make dispute resolution, and patent enforcement, inaccessible. However, there are alternatives to these costly practices.

[1] 2013 Patent Liability Study, PWC
[2] AIPLA Report of the Economic Survey, 2013

It is sometimes suggested 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, and improve the quality of damages analysis, 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.[3] In this paper, I will focus on a few such approaches, including early damages analysis, changes to traditional litigation scheduling, early exchange of data and non-traditional roles for damages experts.

EARLY DAMAGES ANALYSIS

Early damages analysis is an effective way to identify the magnitude of potential damages, provide focus on important issues, better match costs to the potential benefits, facilitate settlement, provide more efficient and effective discovery, and improve damages analyses.

Early damages analysis should be done by an experienced damages expert and should include communication with the attorney(s). This can be done 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 paper.

Early damages analysis can be conducted at varying levels of detail, at various stages in a dispute and at varying costs. One approach 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, 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.

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

Early damages analysis facilitates settlement

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 utilizing 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 provides 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 court are more likely to agree to requested discovery when the reasons for the request are clearly defined. After early damages analysis, experts are 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. 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 more effective discovery that results from early focus on important damages issues.

CHANGES TO TRADITIONAL LITIGATION SCHEDULING

Most patent litigation schedules include deadlines for Markman submissions that precede the end of fact discovery and precede any deadlines for damage expert reports. One result of this schedule is that much more time and attention are paid to technical and liability issues before damages. Often, most written discovery and depositions involving technical issues and witnesses are completed before attentions are focused on damages.

Although technical/liability topics and damages are often viewed as two separate and distinct pieces, that is not true. Many damages considerations, such as identifying what aspects of a product are patented, the advantages or benefits derived from use of the patented technology, entire market value and available alternatives or design-arounds, include technical considerations. Too often, technical discovery has been completed and technical witnesses have been deposed before focus shifts to these "damages" topics, and opportunities to gather useful information have been missed.

Earlier attention to damages helps to identify damages-related information that may be provided through technical discovery and improve the quality of damages analyses. Including damages-related deadlines in litigation schedules, such as deadlines for early damages analysis, early exchange of basic data, and early settlement discussions or mediation helps identify information to be obtained during "technical" discovery and avoids these missed opportunities.

EARLY EXCHANGE OF DATA

The way companies process, store and access data has changed dramatically over time, but litigation discovery practices have not evolved at the same pace. For example, in most patent cases, the parties eventually exchange financial data. Although the types and extent of this data differ from one case to another, basic data reflecting sales units, revenues, costs and profits related to relevant products are typically (eventually) exchanged. This basic data is often fundamental to identifying the magnitude of damages. Without this information, it is often difficult to reach a settlement or to focus damages discovery. Unfortunately, before this basic data is exchanged, several rounds of written discovery often occur, large numbers of documents are produced, and motions to compel are sometimes necessary. Although the parties may disagree about the nature and amount of damages, and may disagree about what products or time periods should be included in damages, there is rarely disagreement about the sales units and revenues for each product and time period. Each damage expert typically includes a summary of sales units and revenues of relevant products, and rarely do the experts differ as to these amounts. Unfortunately, obtaining this data often involves lengthy and time-consuming discovery. This cumbersome discovery process is often the result of a lack of specificity regarding what data is needed, and less than effective communication regarding what data is needed. Companies used to have a limited number of reports and could only produce what they had. Now, databases maintained by many companies provide the ability to capture a wide variety of data in seemingly infinite combinations. As a result, even with the best of intentions, without sufficient specificity in discovery requests, there can be a disconnect between the data desired and the data produced.

One way to avoid this problem, and to avoid time-consuming and costly discovery, is to specify basic data to be exchanged before traditional discovery occurs. For example, each party can be provided with a spreadsheet with column headings and rows labelled. Each party can complete the spreadsheet with its data and then produce the completed spreadsheet. At this point, each party has basic data that can help frame the damage analysis. Although damages discovery will likely still be needed, inefficient discovery of this basic data can be avoided, and time and energies can be focused on the issues.

Simple changes in discovery practices, such as the one described above, can reduce time spent by the parties, the attorneys, the experts and the courts. Although this may sound simple, it does require early cooperation between the parties that rarely occurs. If the parties are unable to agree, incorporating a requirement for this data exchange in an early phase of the litigation schedule could help facilitate this process.

NON-TRADITIONAL ROLES FOR DAMAGES EXPERTS

Patent damages analyses typically include damages experts retained by each party. Each testifying damage expert prepares their own analysis, prepares one or more reports, is deposed and testifies at trial. Usually the experts differ in their analysis and conclusions, the issues are typically not "narrowed", differences are not "resolved", and the judge or jury are left to sort it out at trial.

Use of damages experts in non-traditional roles could help facilitate early settlement, streamline discovery, narrow the issues and provide assistance in evaluating damages. Examples include a court-appointed damages expert and a damages expert as arbitrator or special master.

A joint damages expert or court-appointed damages expert (sometimes referred to as a "damages neutral") could be in addition to, or in place of, each party's separately retained expert. This damages neutral could perform an entire damage analysis, prepare a written report, be deposed and testify at trial in the same way that damage experts typically do. This may help narrow the issues and provide clarity. If this is done in place of each party retaining a separate expert, total cost could be significantly reduced. However, if this is done in addition to each party retaining its own expert, total litigation costs could increase. Either way, with this approach, the full discovery process would still occur and the elapsed time may not be reduced.

Another approach is for the damages neutral to perform an early damages analysis that is communicated to both parties. By identifying realistic potential damages magnitudes and identifying issues, the expectation gap may be narrowed, and early settlement may be facilitated. If the dispute is not resolved, the damages neutral may help facilitate discovery to provide efficiencies and improve the quality of available information.

If settlement does not occur, a damages expert, serving as an arbitrator or special master, can use their expertise to effectively reach a determination.

There are many variations of these approaches that could be implemented to fit the needs of any particular case.

A TAILORED PROCESS IS THE SOLUTION

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