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Winning the Patent Battle Without Spending an Arm and a Leg: A Challenge to Corporate Counsel

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When patent litigation cannot be avoided, it is necessary to consider three parameters in handling the case: (1) positioning for mediated resolution; (2) preparation for trial (BATNA[1]) and (3) cost control.

I. Litigation: Winning the Battle[2] & Losing the War

In the year 2000, patent infringement litigation in a midrange[3] case cost an average of $797,000 through discovery or $1,499,000 through trial. *Economic Survey*, American Intellectual Property Law Association (AIPLA) (2001). The internal costs to companies and managers, in time, money, distraction and lost business opportunities, are less documented, but no less real.

In a typical midrange case, the patent owner's "ask price" for a paid up license is about $500,000. An apparently simple choice is presented: Pay the patent owner $500,000 or pay more in legal expenses to venture in harm's way. The accused infringer often refuses to pay and the owner often files a complaint. The accused retains counsel and together they construct a strategy that goes something like this:

"The patent owner's case is weak and the $500,000 ask price is unreasonable. It would be a wrong signal and a waste of time to negotiate. We'll take discovery and dispose of the case on motion. Sooner or later, the owner will learn the error of their ways."

Conventional patent litigation engenders hostility and bad feelings between all concerned. Discovery is exhaustive and exhausting. Communications are defensive and demanding. This kind of conflict is expensive.

In one scenario, often imagined but seldom fully realized[4], the accused goes through trial and obtains a judgment of invalidity or non-infringement. With no money changing hands between the parties, the accused[5] party pays legal expenses of $1.5 million and the patent owner pays about the same amount in legal expenses, i.e., $1.5 million.[6] The patent owner loses while the accused wins a Pyrrhic victory.

In another trial scenario, the patent owner proves infringement, sustains the validity of the patent and proves damages, which, for the sake of discussion, we will assume to be $1.5 million. The accused party pays damages of $1.5 million plus legal expenses of another $1.5 million for a total cost of $3 million. The patent owner recovers $1.5 million in damages but pays out the same amount in legal fees[7] for a net gain[8] of $0. Here, the accused party loses while the patent owner wins a Pyrrhic victory.

Most patent cases settle, often near the end of discovery, which can be a year or more into the litigation, at a cost of about $800,000 for each party in legal expenses.[9] At this stage, the parties often are tired of litigation, poorer for fees and costs, and sensitized to increasing risk and escalating expenses. The parties tend to collapse into settlement, rather to fully negotiate an outcome based on principles and interests. Let's assume for the sake of discussion that pursuant to settlement the accused pays $300,000 to the patent owner. The net cost to the accused is $1.1

[1] Best alternative to a negotiated agreement (BATNA).

[2] "Winning" and "battle" are competitive terms that may surprisingly lead in the wrong direction when overall outcome is considered, see generally Fisher and Ury, *Getting to Yes* (Penguin 2d ed. 1991), as discussed further below. Although competitive behavior is the norm in litigation, see J. Cooley, *Mediation Advocacy* 108-09 (NITA 1996) (five principal conflict behaviors), it is seldom the most effective behavior for obtaining the best overall outcome.

[3] The AIPLA Economic Survey grouped cases into three levels of risk, with the midrange case involving $1-25 million at risk. Since the survey, the trend of patent attorneys joining large law firms has continued, which has further increased the average cost of patent litigation.

[4] As in all civil cases, at least about 95% of all patent cases settle short of trial. Given that settlement is the norm, the focus should be on early and principled negotiation based on interests.

[5] Even if proved innocent of infringement allegations, the wrongfully accused party generally cannot recover legal expenses or damages. For a full analysis of this issue and related legal theories, see Beem, "Recovering Attorney Fees and Damages When Defending Against Bad Faith Patent Litigation: Remedies Under Rules 11 and 68, 35 U.S.C. 285, Handgards (Antitrust) and Unfair Competition Laws," 80 Journal of the Patent and Trademark Office Society 81 (1998).

[6] *Economic Survey (AIPLA)*, *supra*.

[7] The AIPLA Economic Survey does not take into account alternative fee arrangements, e.g., contingent fee litigation.

[8] It would be delusional to suppose that a patent owner who "breaks even" on paper suffers no harm to the business during the years of conflict.

[9] *Economic Survey (AIPLA)*, *supra*.

million, while the net cost to the owner is $500,000. Both parties lose financially.

From these scenarios, it can be seen that even in the "best case," the outcome of patent litigation may be less than desirable. Why do the parties litigate? Ostensibly, it is because they have a vigorous dispute, a strong difference of opinion, a dramatic difference in perspective. At least one and perhaps both sides have unrealistic expectations regarding process, strategy, cost and outcome.

In any scenario, corporate counsel may have to answer hard questions from management concerned about legal bills. It is better to consider at the outset questions of attorney selection, strategy, budget, alternative dispute resolution and likely outcomes.

In attorney selection, it is important to consider specialized patent expertise, familiarity with Federal Circuit precedent, litigation experience, mediation, negotiation and licensing skills, hourly rates and lean staffing. Strategy should be practical but creative and based on experience in managing cases to satisfy multiple parameters. Boasts of aggressive "no holds barred" litigation practices and jury trial victories may be more appropriate for other kinds of cases than patent litigation, in which the landmark *Markman* decision held that patent construction is a legal question for the court based primarily on patent law. In view of the prevalence of eventual settlement, every strategy should consider early use of mediation or other dispute resolution techniques balanced against likely litigation outcomes, i.e., the best alternative to a negotiated agreement (BATNA). Last but not least, it is essential to have a written litigation plan and budget.

II. Mediation: Even Though It's More Satisfying to Fight

Mediation[10] is a highly effective way to resolve patent infringement disputes, but someone must take the initiative and at least some level of cooperation is required. Patent infringement disputes typically occur between competitors without any contractual relationship and often without any desire to mediate. Attorneys may not encourage mediation and, even if considered, there is no certainty of reaching agreement before entering the legal process.

The biggest obstacle to peace, we say, is that our adversary prefers war. Our adversary, of course, says the same thing about us. The typical result is years of protracted, expensive, exhausting litigation ending in a settlement that is unsatisfactory to all while permitting all to claim victory. Our own experience verifies the stark realities of Kafka, *The Trial,* and Dickens, *Bleak House*.

Despite the availability and attractiveness of other dispute resolution techniques, federal litigation is the most frequently used process in patent disputes, even though few cases are finally resolved by court judgment . For purposes of this paper, the onset of litigation is assumed.

Again, there is no doubt that mediation can be highly effective in resolving disputes. But when litigation cannot be avoided, the question becomes not how to mediate, but how to conduct patent litigation in such a manner as to encourage and facilitate timely, effective use of mediation.

III. Lit-Med: Getting to Yes in the Litigated Patent Case

The challenge to corporate counsel[11] is to treat patent litigation as a part of, rather than as a mutually exclusive alternative to, dispute resolution, and to select and instruct outside counsel accordingly.

A. Litigate for Settlement, Trial & Cost Control

There are three principal goals in effective patent litigation:

1. Position for settlement;
2. Prepare for trial[12] (BATNA); and
3. Control legal expenses.

These three parameters are not inconsistent. Contrary to conventional practice, preparation for trial requires neither unlimited expenses nor burned bridges. Litigation and mediation (lit-med) can be complementary, especially when litigation behavior is modified from typical confrontational, evasive or abusive conduct. This is not easy, but it requires training and discipline, because the fighting instinct is strong, especially when provoked.

B. The Dale Carnegie School of Patent Litigation

Dale Carnegie, in *How to Win Friends and Influence People*, got it right. Carnegie's techniques begin with refraining from criticism, i.e., "if you want to gather honey, don't kick over the beehive." *How to Win,* Part 1, Chapter 1 (1936). In years of patent litigation, I have yet to hear an attorney, a party or a witness agree with criticisms leveled by their adversary. Instead, criticism causes the adversary to dig in deeper and to respond in kind. See also *Getting to Yes* 108 (suggesting principled negotiation in lieu of criticism).

Carnegie's "big secret of dealing with people" is nothing more than recognizing and appreciating their importance as human beings. *How to Win,* Part 1, Chapter 2. But in conventional patent litigation, attorneys revel in belittling parties, witnesses and especially each other.

The last of Carnegie's fundamental insights is to consider the other party's point of view and to talk in terms of their interests. *How to Win,* Part 1, Chapter 3. In typical patent litigation, in contrast, the other party's interests

[10] Other techniques for dispute resolution also can be considered, but mediation is suggested because of its flexibility and opportunities for client participation and creativity.

[11] Corporate counsel are uniquely positioned to make or influence decisions for the company, e.g., to settle or to litigate, and their selection and instructions to outside counsel play a critical role in the conduct and overall outcome of disputes.

[12] Motions for summary judgment or other final disposition often are attractive but cannot be forced on a federal court and denial or inaction normally cannot be appealed.

are consciously and deliberately ignored.

Carnegie, quoting Woodrow Wilson, could have described litigation behavior in stating: "If you come at me with your fists doubled, I think I can promise you that mine will double as fast as yours." *How to Win,* Part 3, Chapter 4.

Conventional litigation behavior increases expense and hostility without any corresponding benefit. It works against preparation for trial or settlement.

On the other hand, as Wilson continued, "[I]f you come to me and say, 'Let us sit down and take counsel together, and, if we differ from one another, understand why it is that we differ from one another, just what the points at issue are,' we will presently find that the points on which we differ are few and the points on which we agree are many, and that if we only have the patience and the candor and the desire to get together, we will get together."

C. Prepare for Trial To Settle Cases

An agreed resolution based on principles and interests should be the desired and expected outcome. But as taught by Fisher and Ury, the development of a "best alternative to a negotiated agreement" (BATNA) provides both powerful leverage and a strong fallback position.

In patent infringement litigation, the standard BATNA of both parties is a judicial resolution, usually by trial. The litigation battlefield is strewn with casualties from one or both of the two most common injuries, i.e., overspending and ill-preparation. It seems to be the common belief that ill-preparation is more likely to be fatal than overspending, in any event, most litigants and their attorneys throw themselves with abandon into the contest. But to truly improve one's BATNA requires increasing one's chances of obtaining a favorable judgment without spending an arm and a leg.

An experienced patent lawyer can quickly investigate and analyze the facts based on legal principles well known to the patent lawyer. Often a theory of the case can be developed within days. Discovery can focus on obtaining needed evidence and uncovering the opponent's arguments and proofs.

In an insightful article entitled "Showing Your Hand: A Counterintuitive Strategy for Deposition Defense," Northwestern law professor Steven Lubet demonstrates the typical short-sightedness of concealing one's cards in discovery. Lubet argues persuasively that deponents should be prepared to present the strengths of their case for likely settlement instead of hiding the ball for unlikely trial.

Given that the great majority of cases settle, they should be litigated with a view towards a negotiated settlement. In other words, we will be well served if, contrary to convention, we prepare the case for trial without hammering the adversary.[13]

Mediator and former U.S. Magistrate Jack Cooley, in *Mediation Advocacy*, describes behaviors that can facilitate resolution and other behaviors that tend to prevent or disrupt resolution. The disruptive behaviors resemble the conventional approach to litigation. As Cooley points out, there is more than one way to be assertive, thus, collaboration can be as assertive as competition, and more likely to result in agreement. See also Fisher & Ury ("focus on interests, not positions").

D. Reduce Legal Expenses to Develop BATNA

The AIPLA Economic Survey found substantially lower legal expenses for patent cases estimated to be lower in risk. In cases where the risk was assessed at under $1 million, legal expenses were reported at $250,000 through discovery or a total of $499,000 through trial. If the "midrange" case described at the beginning of this paper can be carved down to the latter scale by eliminating non-essential legal work, a 66% cost savings can be achieved.

The largest expenses in patent litigation are associated with discovery, discovery disputes, motion practice, related legal research, and large teams of attorneys. Thus, cost savings can be achieved by limiting discovery, avoiding disputes and unnecessary motions, and by using a single experienced patent attorney to run the case. The case should be pushed simultaneously toward mediated resolution and development of BATNA through cost effective preparation for trial. Simplifying a case not only saves money but it increases the likelihood of success. See generally, Beem, "The Abraham Lincoln School of Patent Litigation: Plain English, Simple Exhibits & Uncommon Humor" (AIPLA Annual Meeting October 1998) at http://www.beemlaw.com. One of the biggest challenges in trying a patent case is to separate the wheat from the chaff, and there is a lot of chaff generated in the typically overblown discovery process. Targeted discovery with an eye toward dispute resolution and the alternative of trial is likely to lead to a favorable outcome.

Conclusion

When patent litigation cannot be avoided, the case should be positioned for early and effective mediation based on principles and interests while developing BATNA through trial preparation and cost control.

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[13] "The case that is prepared for trial settles, but the case that is prepared for settlement has to be tried." Inadequate preparation in false hopes of settlement gives rise to the loser's battle cry: "We'll reverse it on appeal." Fisher and Ury urge negotiators to strengthen their positions by improving their BATNA, which, in patent litigation, means efficient and effective preparation for trial.