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Phased Discovery in Patent Litigation: A Powerful Tool Within the Existing Litigation Framework for Combating Actions by Non-Practicing Entities

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There is much debate over how to curtail patent litigation by ***non-practicing entities ("NPEs").*** A NPE (sometimes referred to as a ***"Patent Troll")*** is an individual or entity who typically accumulates patents not for the purpose of developing a product, but for commercial exploitation, demanding that alleged infringers purchase licenses from the NPE or enter into settlements.[1] The fear of high-cost patent litigation can cause alleged infringers to settle with the NPE for some amount less than the overall cost to mount a defense, regardless of whether there is any wrongdoing.

Multiple patent litigation reform bills that focus on curtailing NPE patent litigation are pending. (See http://www.ipo.org/index.php/advocacy/hot-topics/patent-reform/) These bills aim to disincentiveize abusive NPE litigation by, among other things, requiring heightened pleading standards (S. 1013 —Patent Abuse Reduction Act), implementing a mandatory fee unless the non-prevailing party was substantially justified or special circumstances make an award unjust (S. 1612 – Patent Litigation Integrity Act), and making high-volume sending of bad faith demand letters to end users, who are not resellers, a deceptive trade practice (S. 2049 — ***Transparency in Assertion of Patents Act***). These bills are commendable, and if passed may prove effective. But litigants and judges can start curbing litigation abuse now by working within the current framework to rein in litigation costs through proactive and creative case management. Keeping litigation costs relatively low incentivizes alleged infringers to mount defenses and frustrates the NPE business model.

In particular, one method that is underused within the existing framework is for a litigant to request phased discovery when litigating against an NPE. Phased discovery can conserve judicial resources while allowing the court and the parties to (1) focus on the key preliminary issues, (2) significantly narrow the scope of the disputed issues early in the case, and (3) ferret out frivolous claims much earlier in the litigation process.

Unwired Planet, LLC. v. Square, Inc., Case No. 3:13-cv-00579-RCJ-WGC (D. Nev. 2013), is an example of implementing phased discovery against an NPE.[2] The court issued a Discovery Plan and Scheduling Order whereby discovery in Phase I would be limited to basic discovery necessary for preparation for aMarkman hearing and the initial settlement conference. (Id. at p. 2 (pdf here).) The court also implemented cost reduction measures in Phase I, such as only allowing a limited number of depositions on specific topics and capping non-expert depositions at four hours. (Id. at p.

5.) Phase II would begin after the court entered a Markman order and would include general discovery on all issues that remained in the case, e.g., fact discovery on damages, invalidity defenses, etc. (Id. at pp. 3, 6-7.) The court concluded a phased discovery approach was consistent with Federal Rule of Civil Procedure 1 and also relied upon Vivid Techs., Inc. v. Am. Sci. & Eng'g, which held that in patent cases district courts have "broad powers of case management, including the power to limit discovery to relevant subject matter and to adjust discovery as appropriate to each phase of litigation." 200 F.3d 795, 803-4 (Fed. Cir. 1999), citing Fed. R. Civ. P. 16(b), (c); 26(b); 42(b) (finding that the district court did not abuse its discretion in denying some discovery in connection with the claim construction phase of the proceeding).

When considering whether to advocate for phased discovery, several key factors should be considered:

- The likelihood that a particular claim construction of one or more terms will be dispositive of the NPE's infringement claim(s).

- The amount of fact and expert discovery to be conducted regarding issues other than claim construction and how a particular construction could impact the scope and volume of discovery on these other issues.

- Whether the local rules explicitly bestow upon the court greater flexibility in case management and discovery issues. For instance, the Local Rules for Patent Cases before the United States District Court for the District of Nevada allow the court to "modify the obligations and deadlines of these Rules based on the circumstances of any particular case, including, without limitation, the simplicity or complexity of the case as shown by the patents, claims, products, or parties involved." LR 16.1-3; see also United States District Court Northern District of California Patent Local Rules, Patent L.R. 1-3 (same in all material respects); United States District Court Northern District Dallas Division, Miscellaneous Order No. 62, ¶ 1-2 (allowing the court to modify, eliminate, or extend the deadlines and obligations within the patent rules).

In short, implementing staged discovery in appropriate cases can be a powerful tool for combatting patent litigation by non-practicing entities within the existing framework.

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[1] This article excludes from its definition of NPEs patent owners, such as universities and semiconductor design houses, who may develop technology and patent inventions, but do not practice the claimed invention. (See The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition p. 8 n. 5 (distinguishing types of patent holders), available at http://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf).

[2] Lewis Roca Rothgerber LLP is one of Square, Inc.'s counsel of record in the above matter.

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