

**The Right Focus on Damages
(The Benefits of Engaging a Non-Testifying *Kovel* Expert)**

By Kristopher Boushie

Back in October 1997, I wrote an article for the *Legal Times* titled “The Right Voice at the Right Time – Focus on the Damages Case Early, With a *Kovel* Expert.” In that article I wrote that despite the fact that sizable patent damage awards were becoming almost routine, a wait-and-see attitude toward damages was all too common in patent litigation.¹ Too often the outside damages expert was retained with only limited time for fact discovery remaining. Even the best testifying expert cannot overcome poor or incomplete discovery. The attention paid to the development of the damages case often seems at odds with the value placed on the testimony of the damages expert.

Since 1997, the median patent damage award has more than doubled to \$6 million.² In the 1990s, 73 percent of patent awards were based on lost profits. In the 2000s, only 32 percent of patent damage awards were based on lost profits.³ In 1999, in *Kumho Tire*, the Supreme Court ruled that judges’ *Daubert*-related “gate keeper” function for evaluating and allowing expert testimony applied not only to scientific experts, but also to other expert witnesses – including damages experts.⁴ Over 10 years after publishing my original *Kovel* expert article, the “rocket

¹ Note that while the focus of this article is on patent litigation, the problem of not adequately analyzing and/or developing a damages case is not unique to patent litigation.

² See PricewaterhouseCoopers, PwC Advisory, Crisis Management, “2007 Patent and Trademark Damages Study,” http://www.pwc.com/extweb/onlineforms.nsf/weblookup/USENGADVOAdvisoryDocumentRequest?opendocument&sandpfile=2007_Patent_Study.pdf, accessed November 1, 2007, page 13.

³ In the 1990s, 3 percent of patent awards were based on price erosion, 24 percent of awards were based on reasonable royalty, and 73 percent of awards were based on lost profits. In the 2000s, through 2005, 3 percent of patent awards were based on price erosion, 65 percent of awards were based on reasonable royalty, and 32 percent of awards were based on lost profits. See PricewaterhouseCoopers, “2007 Patent and Trademark Damages Study,” page 23.

⁴ See *Kumho Tire Company, LTD v. Patrick Carmichael*, 526 U.S. (1999) and *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509, U.S. (1993).

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dockets” for litigation may have shifted from the Eastern District of Virginia to the Eastern District Texas and, more recently, the Western District of Wisconsin, but an analysis of damage exposure is still given short shrift by many outside counsel.

Corporate clients today are even more litigation cost conscious and are insistent that their legal problems be handled in an efficient manner. Paramount to the decision making of most companies is focusing on what a case is worth – in terms of cost to litigate, impact on market share, revenues, etc. With case settlement rates of over 60 percent, an accurate assessment of potential damages at the onset of litigation is vital in allowing client and counsel to weigh the potential risks and benefits of the case.⁵ Unfortunately for many law firms, the question of what a case is worth is one of the last questions answered. Too often outside counsel focuses almost exclusively on liability issues. These factors argue for earlier and more focused attention on the development of the damages case. Enter the *Kovel* expert.

Simply stated, a *Kovel* expert is a non-testifying expert consultant to the attorney. The term “*Kovel*” comes from a 1961 federal tax case: *United States v. Kovel*, 296 F.2d 918 (2d Cir. 1961), which sets forth the doctrine that an expert’s communications to an attorney are protected under attorney-client privilege where the expert is retained to assist the attorney in rendering legal advice to the attorney’s client. The privilege applies to non-testifying experts who serve in the limited capacity of consultants to the attorney.

⁵ Jay P. Kesan and Gwendolyn G. Ball, “How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes,” *Washington University Law Review*, Vol. 84, No. 2 (Illinois Law and Economics Working Paper Series, Working Paper No. LE05-027, 2006), pages 273-274.

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In *Kovel*, Judge Henry Friendly of the U.S. Court of Appeals for the 2nd Circuit wrote that “[the] complexities of modern existence prevent attorneys from effectively handling clients’ affairs without the help of others.” Friendly went on to explain:

Accounting concepts are a foreign language to some lawyers in almost all cases, and to almost all lawyers in some cases. Hence the presence of an accountant, whether hired by the lawyer or by the client, while the client is relating a complicated tax story to the lawyer, ought not destroy the privilege.... [T]he presence of the accountant is necessary, or at least highly useful, for the effective consultation between the client and the lawyer which the privilege is designed to permit. . . . What is vital to the privilege is that the communication be made in confidence for the purpose of obtaining legal advice from the lawyer.

To paraphrase the judge, the use of a *Kovel* expert is not only beneficial, but in many cases necessary.

A *Kovel* expert’s work product, prepared on behalf of attorneys in the context of litigation or in anticipation of litigation, can also be protected under the attorney work product doctrine. If a *Kovel* expert testifies, then privilege is lost. If a former *Kovel* expert becomes a testifying expert (by being disclosed or identified as such), then, under Federal Rules of Civil Procedure Rule 26(a)(2)(B), “the data or other information considered by the witness in forming the opinions” must be disclosed – potentially turning over harmful, previously protected, information.

Every case presents its own set of facts. To obtain the evidence necessary to prove or rebut a claim for damages, a practitioner must be familiar with both evidentiary requirements and corporate record keeping practices. Every company’s books and business records are different. Even Fortune 500 corporations can, and do, keep poor records when it comes to identifying specific product or product-line sales and profitability. Therefore, someone on the attorney’s

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team needs to be familiar with how to navigate through financial documents and other business records. For purposes of assessing damages in patent cases, *Kovel* experts are most often accountants or economists.

Partners staffing a patent case (and in-house attorneys overseeing billing) should ask themselves several questions:

- Are associates, who are often tasked with handling discovery on damages issues, best qualified to assess the completeness of business records or the adequacy of information necessary to prove or disprove damages⁶?
- Is it really cost-effective for the client to have to file multiple damage-related discovery requests, where fewer and better prepared requests could have achieved equal or better results in a more timely manner?
- Do they or their associates have enough objectivity to determine whether the damage theory espoused by their own testifying damages expert would pass a *Daubert* challenge (and what additional information or support would be necessary to better insulate their expert from a successful challenge)?
- What is the cost of a frustrated client whose daily operations are unduly interrupted in order to educate young associates, not just about the client's business, but about basic financial record keeping?

⁶ The author has been involved in several cases where the patent holder had no manufacturing or selling capabilities and sought reasonable royalty damages. The plaintiff's damages-related discovery requests were largely limited to top-level financial information from the defendant. Initially, the defendant was relieved at the limited nature of the discovery requests and only gathered and produced what was asked. This would have been to the defendant's ultimate detriment since the plaintiff's request reflected its approach to damages, which was to apply a royalty to total product sales revenues, even though the patent related to only a limited feature. The defendant needed to conduct much more extensive internal discovery to show the low marginal contribution of the patented invention to its total revenues.

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The answer to these problem questions is often the retention of a *Kovel* expert. Hiring a *Kovel* expert experienced in developing the damages case allows the attorney to focus on legal issues. It results in more complete and cost-effective discovery, because a qualified *Kovel* expert can help write narrower, more relevant discovery requests (and responses to such requests); can offer expertise in identifying and reviewing damages-related documents; and can work with and identify 30(b)(6) fact witnesses. The use of a *Kovel* expert permits better case organization, more careful development of the facts and issues, and ultimately, more control over the testifying expert.

The fact that a *Kovel* expert's work product is not discoverable means that he is able to view "the good, the bad, and the ugly." While facts should never be hidden from the testifying expert, a *Kovel* expert's insight can be critical to assist counsel in providing the proper context surrounding certain facts before they are presented to the testifying expert. In addition, a *Kovel* expert can assist in developing worst-case scenarios and in providing a better sense of reality for settlement discussions. He can also assist in preparing for fact and expert depositions, in forming rebuttal arguments, and in developing cross-examination strategies.

Because much of the benefit in using a *Kovel* expert depends on either attorney-client privilege or work product doctrine extending to the *Kovel* expert's work product, the attorney must be careful in protecting that privilege. One important step is to draft a separate retainer agreement for the *Kovel* expert. This agreement should spell out the nature and scope of the assignment and specify that the expert is there to assist the attorney in providing legal advice to the client. The agreement should state that all communications are confidential and that the expert cannot disclose to anyone the nature or content of any information submitted to him. The

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agreement should also identify the attorney's unqualified right to possess and control all work papers, records, and other documents being held by the *Kovel* expert solely for the attorney's convenience. If the expert has performed prior non-*Kovel* services for the client, the attorney should also beware of additional limits on the attorney-client privilege under *United States v. Adlman*, 68 F.3d 1495 (2nd Cir. 1995).

For a *Kovel* expert to be valuable, he needs to have experience in patent damages litigation. Good *Kovel* experts often have experience testifying as an expert witness. They have an understanding of legal terminology and procedural issues, and experience in developing a case from fact and expert discovery, through pre-trial preparation, to trial testimony. The *Kovel* expert can also be a source in identifying testifying experts, since they very often have strong working relationships with other experts and consulting firms.

Because a testifying expert's work is discoverable, a *Kovel* expert should never double as a testifying expert. The problems of blurring the lines between serving both as a consultant to counsel and serving as a testifying expert are illustrated in *Trigon v. United States*, (204 F.R.D. 277 (November 9, 2001)). In *Trigon*, Analysis Group/Economics ("AGE") provided both consulting and testifying services to the United States' (Department of Justice) attorneys. In a hearing, the court stated that the United States was "playing with fire" by using AGE in both capacities.⁷ The court also warned the United States that ghost writing by AGE for the United States' testifying experts would not be acceptable.⁸ Ultimately, because of AGE's dual role and because of its role in directly supporting other testifying experts, protection of work product was lost and the court ordered additional discovery and the production of communications between

⁷ *Trigon v. United States*, 204 F.R.D. 277, 280 (November 9, 2001).

⁸ *Trigon v. United States*, at 281.

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AGE and counsel. These communications uncovered that AGE was ghost writing expert reports for the United State's other testifying experts. The court precluded any further involvement by AGE in developing or presenting expert testimony to be offered by the United States, stated it was willing to draw an adverse inference respecting "substantive testimony and credibility of the [United States'] experts...based on evidence presented at trial, and ordered that Trigon was entitled to the recovery of attorneys fees and costs incurred as a consequence of the spoliation of evidence.⁹

Having a *Kovel* expert allows the attorney to supervise and control the testifying expert more effectively. Because much of the preliminary discovery work has already begun before the testifying expert is brought in, many issues and potential problem areas have been identified. As a result, there can be a more focused exchange of data between the client and the testifying expert, and the testifying expert is better able to direct his efforts.

The work of the *Kovel* expert need not be duplicated by the testifying expert. The identification of key company personnel, information, and documents by the *Kovel* expert can be passed, through the attorney, to the testifying expert. Certain compilations and summaries of data can also be provided to the testifying expert indirectly through his or her staff. These compilations and summaries should not contain opinions or analytical conclusions. Further, this work should not be shown to the testifying expert prior to the testifying expert's staff passing the work through their own internal quality control processes and making any revisions they deem necessary. Ultimately, what is shown to the expert has become his own staff's work product.

⁹ *Trigon v. Untied States* at 291.

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While many practitioners hire *Kovel* experts today, their use is not widespread. Many practitioners are simply unaware of the benefits offered by such experts. They are accustomed to running matters as they always have before, which never involved bringing in consultants to assist them in preparing cases. Another explanation, offered by a practicing intellectual property attorney, is that patent attorneys who concentrate on technical questions may be less familiar with, and therefore tend not to focus on, damages issues.

Changing an individual lawyer's or an entire practice group's litigation strategy can seem risky. But use of *Kovel* experts should not be considered an all or nothing decision. An attorney can experiment by hiring a *Kovel* expert for limited aspects of a case, such as discovery requests or document reviews. The attorney can then weigh the expert's usefulness and decide whether to expand his role.

A unique benefit to in-house counsel and their companies of using a *Kovel* expert is the ability of a *Kovel* expert to develop extensive company- and industry-related expertise and to develop strong working relationships with a company's employees. Unlike a testifying expert who appears biased if they work for the same company on too many engagements, using the same *Kovel* expert builds a level of company-specific expertise that can, and should, be used case after case. This expertise can be utilized on multiple engagements where the company is represented by many different outside law firms – with substantial efficiencies and savings to the client.