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The authors provide tips on selecting counsel, making the best use of technology, and implementing creative billing options as ways to manage patent litigation in today's challenging economic climate.

Patent Litigation During the Recession—How to Get the Most Bang for Your Buck

BY WILLIAM J. ROBINSON AND STEPHAN J. NICKELS

In the midst of the current global economic crisis, which economists predict will extend at least through 2010, companies face a stark choice—cut costs or risk financial failure. This dilemma is heightened for technology companies with valuable intellectual property rights. Those rights are often their major assets which must be protected, yet the costs of protecting those rights can exceed available corporate resources. Most corporate IP counsel are well aware of the figures for patent litigation costs provided by the American Intellectual Property Law Association. According to the AIPLA's estimated costs for 2008, in cases where potential damages exceed $25 million, litigation costs can run as high as $5 million.

William J. Robinson is a patent lawyer with Foley & Lardner, Los Angeles. He may be contacted at wrobinson@foley.com. Stephan J. Nickels is patent lawyer with the Madison, Wisconsin office of Foley. He may be contacted at snickels@foley.com. The views expressed herein are those of the authors alone and do not necessarily reflect the views of Foley & Lardner.

The recession has caused many companies to drastically cut back on IP enforcement. Indeed, while the amount of patent litigation in the United States rose dramatically after the formation of the Federal Circuit in 1982, the year 2009 will be remembered as a time when IP litigation in general and patent litigation in particular dropped sharply. While the recession has been clearly a factor in this drop, it is merely one in a ''perfect storm'' of factors that have included ever-increasing, and often unjustifiably high, hourly rates for IP work, and a Federal Circuit populated by judges whose decisions reflect a much less pro-patent focus than those of their predecessors, leading to general uncertainty among companies as to whether to invest corporate treasure in obtaining, much less protecting, IP rights.

While a company may not have much choice about engaging in patent or other IP litigation when sued as a defendant, there are times when a company must engage in IP litigation as a plaintiff, such as when protecting its market against incursions by a competitor in-

fringing that company's patents, or when an employee goes to a competitor with valuable trade secrets.

When millions of dollars are at stake, companies must choose the best attorneys for their cases. But top-notch legal representation does not have to break the corporate bank under either a traditional hourly billing arrangement or the alternative arrangements that are suddenly in vogue.

Cost-effective litigation is possible in any case if outside counsel is selected and managed properly and if the client retains ownership of the case. ''Ownership'' means that a client is actively involved in tactics, strategy, and controlling costs. Giving up ownership can result in overstaffing and overworking of a case and the lawyers making all of the staffing and strategic decisions. The result can be an unfavorable result or even a favorable result—but at an exorbitant cost. Maintaining ownership of a case and cost control over it will undoubtedly provide a better result than putting a firm on autopilot and waiting for the invoice.

As described in an Oct. 5, 2009, article[1] in *Law360*, ''corporate counsel list a need to control legal costs as their top priority.'' This article describes several ways of reducing the cost of complex IP litigation matters, most of which are patent cases, whether a firm is hired to work by the billable hour or under an alternative billing structure. And, if a company wants a firm to work under a ''results, not effort'' approach, the company should be prepared to pay more for those results than it would under a traditional hourly arrangement since the firm is taking on some risk of making less than its hourly rate if it does not meet the agreed-upon definition of ''success.''

Thus, while there is never a free lunch, an hourly or even an alternative lunch can be a cheaper one if managed properly.

I. The Most Important Factors: Lead Counsel Selection and 'Body Count' Control

The axiom that ''clients hire lawyers not firms'' should never be ignored, particularly for significant litigation, and regardless of the kind of fee arrangement. Companies should choose a lead counsel whose staffing philosophy and billing approach match theirs, and who obviously has a track record of success.

Lead counsel should be selected by reputation and ability, not by firm. Furthermore, no lawyer should even be considered for a lead counsel role in a significant matter who has not had first chair jury trial experience in the kind of case (e.g., patent, copyright, trademark) being litigated. The absence of such trial experience can adversely affect that lawyer's tactical and strategic decisions during the litigation and thus drive up the cost of the litigation.

Selection of the right lead counsel is also a significant factor in managing litigation costs: a company will save time in not having to closely track or monitor them. Most importantly, a company should select lead counsel who has time to take an active role in the case, which means exercising day-to-day tactical control over the case, doing the major depositions and hearings, and being directly involved in preparation of the significant briefs. That lead counsel should be the one working with the company in formulating and maintaining a strategic plan and case budget, as discussed in more detail below.

A company should ask a potential lead counsel how much his or her prior IP cases have cost, as it will be an eye-opener as to how efficient that lawyer is. Inquiry should also be made about whether the firm makes a ''results oriented'' review before sending the bill and how much time is typically written off before a bill is sent. (''Zero'' will not be the right answer.) After the firm has been retained, clients should consider asking to see the ''pre-bills'' to see how much time was spent on a case versus how much time was billed to them.

Equally important to lead counsel selection is client control over the ''body count'' in the case, i.e., the size of the litigation team. The more lawyers on the case, the higher will be the fees. An early emphasis on staffing control is thus critical.

A company should inquire about the law firm's staffing philosophy and modify it as necessary. Staffing practices may vary widely among lawyers in a given firm. A typical patent case requires a three-lawyer team, plus a paralegal. Complex cases done under tight scheduling constraints can obviously require larger teams.

Litigation fees may be lower if more senior lawyers are used because they are usually more cost-effective, even with their higher hourly rates, than are the younger lawyers. While there are clearly places for young associates on a litigation team, the use of such lawyers should be carefully controlled. Many companies refuse to have associates with fewer than four years experience on their litigation teams, believing—often correctly—that the use of young lawyers will result in higher hours on the bill because they are paying for on-the-job training.

Failure by lead counsel or the client to manage the body count in IP litigation is the single most significant factor in the high cost of litigation. A client should know the danger signs that may indicate inappropriately high litigation costs or just general inefficiencies: lead counsel who does not become involved until just before trial, multiple lawyers limited to specific issues (e.g., validity or damages), multiple lawyers at depositions and hearings, paralegals charging for basic secretarial work, and unnecessary legal memoranda and non-e-mail correspondence. A client who stays involved in the case and maintains ownership will either seldom encounter such problems or will work with lead counsel to quickly solve them should they begin to occur.

The body count will also be reduced by effective client/lawyer teaming. Using the client's in-house staff as part of the litigation team to help achieve outcome and cost objectives (e.g., working with experts, document and fact gathering, and doing patent claim construction analysis) will not only result in financial savings, but also result in a better sense of ownership of the case by the client.

II. The Effective Use of Technology

Technology has forever changed the litigation process. The days of lawyers looking at paper ''pleading clips'' are over, as pleading clips are now PDF collections on remote servers. Documents are exchanged on digital media, and lawyers focus on obtaining metadata in produced e-mail files. Exhibits at trial are mere images on flat panels. Law libraries in firms are shrinking

[1] The article can be found at http://ip.law360.com/articles/123315.

   ISSN 0148-7965

or have been completely replaced by online services. Indeed, lawyers upload entire briefs to Lexis or Westlaw to have citations and block quotes checked.

The efficient use of technology in litigation will lower costs. Most firms, for example, can set up a client-firm intranet where all pleadings and significant documents are kept electronically. Clients can assess them at their leisure, and the lawyer time in keeping the client updated about filings is thus sharply reduced.

New generations of sophisticated litigation database software, such as Relativity, have become available that make review of outbound and inbound document production quick and easy. Review of outbound production is particularly important to avoid inadvertent production of privileged or work product material. Using keyword searching, a paralegal can quickly flag for lawyer review those documents that may be potentially subject to such protection.

For inbound document production from the opposition, ''hashing'' software exists that can be used to generate hashing codes for the documents. Hashing codes are used by programs such as Relativity to find and eliminate duplicate documents (which will have identical hashing codes), so that the remainder of the production can be quickly and efficiently reviewed using keyword searches. The foreign character searching capability of such programs even allows for foreign-word searches.

Lawyers who are skilled in such programs as PowerPoint and Blender can prepare their own graphic exhibits and animations for use at hearings and trial, which will also reduce the cost of outside graphics firms. In the digital world of the 21st century, effective trial presentation requires graphics. The more skilled a firm is at producing them in-house, the lower the cost of litigation will be.

III. Traditional Billable Hour Work—Take an Active Approach and Stay Involved

The traditional hourly arrangement is alive and well and even preferred by some companies who have learned through experience that when they are plaintiffs, they receive a larger percentage of an award by judgment or settlement if their lawyers are hourly. An hourly arrangement should always be at least investigated when hiring a firm because the posted hourly rates are always negotiable, and particularly now when the available supply of IP litigation talent exceeds the demand. Companies should not be bashful in bargaining on rates.

Once an hourly rate has been set, the best way to control costs is for a client to be actively involved in the case. From the beginning, the client should work with outside counsel to determine tactics, strategy, staffing, and technology decisions. The first 90 days of the lawsuit are critical in terms of defining priorities and realistic case objectives. As a result, it is important to do two things at the outset—develop a strategic case plan and budget.

Clients should work with lead counsel before the case is even filed to prepare a strategic case plan and budget, and then update both quarterly. The strategic plan is important because litigation is a strategic business decision involving the commitment and employment of significant corporate resources. The plan identifies the ultimate strategic business goals for the litigation and the most efficient way to accomplish them.

The case plan defines activities and timing for every stage of the litigation—from initial fact investigation through discovery, dispositive motions, claim construction, and trial. The plan also identifies the major uncertainties and the structuring of their relationship to each other and to the potential outcome (e.g., claim construction issue uncertainties have an effect on infringement and thus on success and damages). Ultimately, the plan defines for counsel and client management the objectives of the suit and the resources to be committed to those objectives.

The budget should focus on the outcome and cost objectives. The client should discuss the result it wants and how much it will cost to achieve that result. Case budgeting should be done by case phases: fact investigation, discovery, motions, pretrial, and trial. Limits should be set for activities (staffing, discovery, motions, trial, and experts).

Fundamentally, the budget is used not only to keep track of where the money is going, but also to evaluate tasks that only marginally increase the probability of victory (e.g., remote prior art searches and discovery sanctions motions).

It is important, however, to view the budget as an estimate because there is no control over the costs imposed by the tactics of the opposition. Furthermore, clients should be flexible on budget changes because more than a three-month advance view may be difficult after litigation starts. New issues and expenses will inevitably arise during the course of litigation which could not have been predicted in advance.

Most firms will have some type of budget-tracking tool, be it a sophisticated online program or a simple budget update e-mail from lead counsel. Some firms have gone so far as to implement software tools that can show how much the case has cost and is costing by the hour on a daily, monthly, or cumulative basis. Thus, a client should be easily able to track where the money is going and whether it is being used effectively. Not only does this control costs, it leads to better work product because resources can be focused on the most important tasks.

IV. Alternative Billing Options—Shared Risk But Higher Fees If You Win

The recession has put the billable hour under a microscope. According to a recent *Wall Street Journal* report (''Billable Hour Under Attack,'' dated Aug. 24, 2009)[2] some big companies ''are ditching the hourly structure—which critics complain offers law firms an incentive to rack up bigger bills—in favor of flat-fee contracts.'' The report noted that ''money spent on alternative billing arrangements has totaled $13.1 billion this year, versus $8.6 billion in the like period of 2008,'' and that ''63% of the surveyed lawyers planned to increase their use of alternative billing arrangements.''

While the ''rack[ing] up of bigger bills'' should have been avoidable by using the strategies and tools discussed in the previous section, alternative billing arrangements are getting a lot of attention today. Alternative billing arrangements are different from straight contingency fee arrangements, but do in some instances try to graft the characteristics of contingency fee arrangement onto an hourly rate structure.

[2] The report can be found at http://online.wsj.com/article/SB125106954159552335.html.

There are several versions of alternative arrangements and each has its pros and cons. One example is a flat fee agreement. This works well for certain types of predictable work, such as patent applications or simple collection matters. But flat fees are difficult to implement for complex matters such as patent litigation, where it is hard to estimate the amount of attorney time that will be required. Moreover, ''a client can't expect to have the absolute best team of [trial] lawyers from a firm, and have the lawyers give up all the other work they could be doing on a regular-fee basis, to work 18 hours a day for months of time on a flat-fee engagement.''[3]

An example of where flat fee arrangements can backfire is cases where there are multiple defendants, as particularly happens in the Eastern District of Texas, where the defendants form Joint Defense Groups in order to supposedly split up the work. The frequent reality is that most of the work gets done by the firms whose clients have the most liability exposure and that many of the other firms do little. Firms may offer a ''too good to be true'' flat fee in JDG situations, in hopes that they can do minimal work in order to simply make the most profit from that arrangement, with their strategy based on other defendants doing all of the work.

As in NASCAR races, such firms plan to do no more than simply draft behind the lead car and get pulled down the track. So, if a client wants a flat fee arrangement, it should reach a clear understanding with its firm as to precisely what will and will not be done in the case, particularly since plaintiffs often tend to settle out the most aggressive defendants and then pounce upon those defendants who are left and who have done little to prepare the merits of their own case.

One variation of the flat fee agreement is a ''not-to-exceed'' approach, where the law firm caps its fees for the entire matter or certain phases of the litigation, but also has significant control over the case. The obvious benefit of this approach is that it gives the client some level of certainty—as it knows the fees can only be so much. But as with a straight flat fee model, this can be difficult to employ in complex, unpredictable matters. It may also allocate too much risk to the law firm and create a disincentive to explore all options when unexpected issues arise that drive the fees beyond the not-to-exceed threshold. The client may also be giving up control over staffing and the case may end up being the training case for the young associates. As noted, there is no free lunch.

Another variation of the flat fee arrangement is a series of segmented flat fees for various parts of the case (e.g., discovery, motions, pre-trial, and trial). Under such an arrangement, if the fees are not used, the firm keeps them. If more than the fees are expended, it is at the firm's cost. This kind of arrangement poses particular challenges in cases where, for example, there are no limits on the number of summary judgment motions that can be filed, or where the discovery involves large document productions and many third party depositions and/or where the trial is much longer than anticipated. Because law firms will want to minimize risk, the segmented fees are likely to be larger than would result in an hourly arrangement.

Perhaps the most attractive alternative billing option for complex IP litigation is a success fee, or ''results, not effort'' model. Under a typical success fee arrangement, the law firm bills at a discounted hourly rate but tracks the deferred time, i.e., the time that would normally have been billed but was not because of the discount. The client and firm then agree to various benchmarks under which the firm can recover a portion of the deferred time, starting at zero percent for a bad result and going up to a premium recovery exceeding 100 percent for a very good result.

This model can also be implemented by tying the success fee to the judgment or settlement, where the law firm will be paid a percentage of the recovery rather than a percentage of the deferred fees. This can even work in the defense of litigation, where the premium is based on the potential damages eliminated. Either way, the success fee model limits the client's costs if the case does not go well and creates incentive for the law firm to work hard and efficiently to obtain a good result. The downside, from the client's perspective, is that it will generally pay more for a good result than it would under the traditional billable hour approach. But, that is not an unfair result given the risk that the firm was willing to take.

An ''efficiency incentive'' model can also work well, depending on the matter. Under this approach, a flat fee is used in combination with a traditional billable hour approach. The firm will provide a quote for each phase, track its billable hours, and if the phase is completed under budget, the firm will receive a percentage of efficiency savings and the client receives the remaining benefit. If the phase is completed over budget, the firm absorbs the risk and the client pays a percentage of the overage up to an agreed upon maximum limit.

Whatever alternative fee approach is chosen, the best way for the client to get good value is to take an active role in the case, just as it is with traditional billable hour work. Clients must work with lead counsel to select the best model and then define realistic expectations and limits within that model. And remember that alternative billing options are relatively new. Law firms are still ''feeling their way'' through this process. Although there are going to be many successful, mutually beneficial alternative fee agreements, others will leave the client wishing it had stuck with the traditional billable hour approach and just managed it better.

[3] WSJ report, quoting Barry Ostrager, a Simpson Thacher & Bartlett partner who handles civil trials.

  PTCJ ISSN 0148-7965