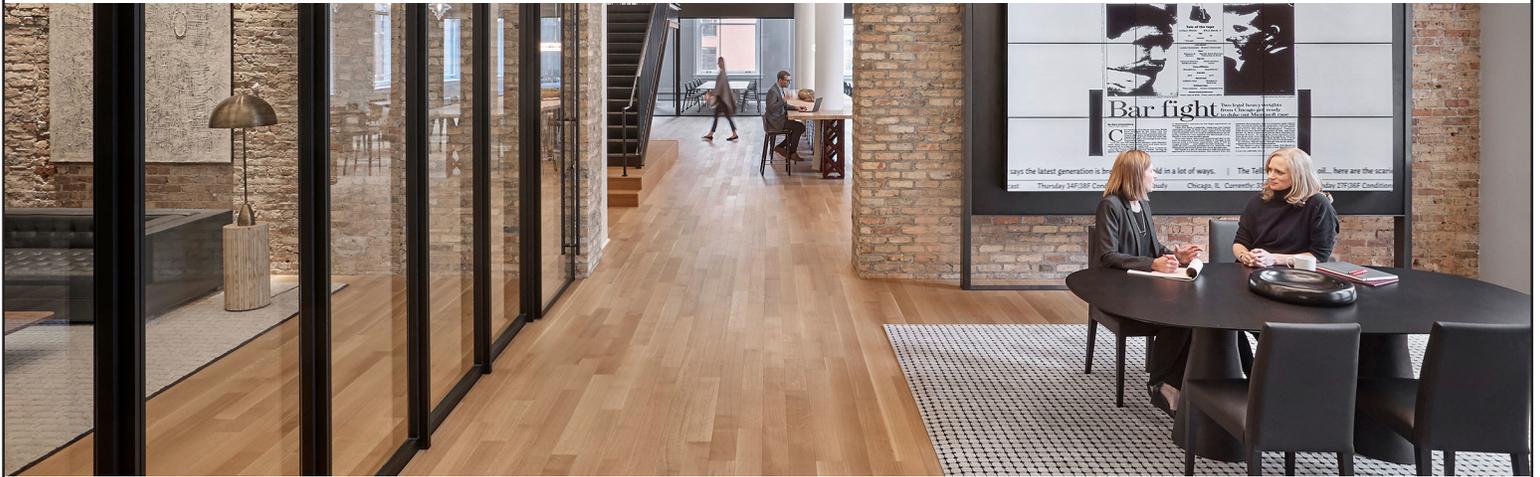


MARK LEVINE WRITES ARTICLE ON MANAGING LITIGATION COSTS



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Although there is no way to make patent litigation inexpensive, there are some good ways to minimize the costs. This article will focus on specific steps that can be taken to reduce uncertainty and therefore better value both the amount of damages at issue and the likelihood of success.

According to the American Intellectual Property Law Association, median patent litigation costs are \$5 million for suits with more than \$25 million at risk. Perhaps even more problematic, suits with less than \$1 million at risk have a median cost of \$600,000 – approximately 60% of the total amount at stake. (AIPLA, Report of the Economic Survey 2007, at 25). A significant portion of these costs occur after discovery has concluded.

Increasing the predictability of an outcome and the amount of money required to achieve that outcome can lower these costs. For example, by reducing uncertainty as to outcome, parties can accurately measure their chance of success and the level of potential damages. This allows the parties to value their case and determine whether remaining litigation costs exceed the probable return.

Reducing uncertainty with respect to attorneys' fees further helps in-house attorneys weigh the pros and cons of litigating, or continuing to litigate, a patent. The expected damages from any lawsuit can be determined by multiplying the total damages by the likelihood of achieving a particular result. The more accurately an attorney is able to measure those variables, and compare it with a good estimate of the amount they will spend on pursuing the litigation, the more likely they are to spend wisely and make good decisions about pursuing potential litigation.

At the end of the article, we provide several other actions that, while not necessarily designed to reduce uncertainty, also can be taken to promote cost-effective, successful litigation.

I. Reducing Uncertainty by Objectively Evaluating a Patent Prior to Starting Litigation.

The best way to limit the costs of litigation is to "think before you jump." Although easily said, it can be difficult to objectively analyze a patent and the prospects of infringement or validity. Further, since patent holders typically have less-than-perfect information regarding an accused product, claim charts and other techniques for evaluating the likelihood of success can turn out to be very far off. Nevertheless, the more preparation prior to filing a lawsuit, the better able you will be to assess prospects of success.

The first challenge is to define what is meant by a successful litigation. Rarely is patent litigation an all-or-nothing situation. If infringement on certain claims is more important than others, that is best to know up front. Armed with that knowledge, you can structure your arguments to preserve your most valuable claims. Or, if it becomes clear that you will lose on those claims based on the claim construction, then you may prefer to settle rather than continue to litigate the less important issues.

It is also a good idea to find an expert who can evaluate the patent and the accused product prior to bringing a claim, or as early in the litigation as possible. If you are concerned about the discoverability of these studies and wish to ensure they are privileged, the expert can be a consulting expert. Another option is to use employees within the company and have them work at the direction of lawyers, and explicitly for the purposes of the litigation.

Whether you use experts or not, at the earliest possible stage you should create a detailed claim chart that compares the patent against the accused product and the prior art. This helps fulfill Rule 11 obligations, and forces outside counsel, as well as a possibly impassioned client, to objectively evaluate the patent. The discipline required for a detailed claim chart can tell you whether you are bringing, or defending, a case that is winnable. This will save you significant time and money in the long run, not only because you will avoid bringing and defending bad cases, but also because you will be better attuned to the key issues in the case and not likely to chase the red herrings and side show.

Some local rules also require parties to produce documents at the same time they are disclosing infringement and invalidity contentions. Use this requirement to force yourself to collect the key conception, reduction to practice, and prosecution documents ahead of time. This will help you anticipate and assess the value of any inequitable conduct arguments, as well your ability to swear behind any key prior art, if necessary.

II. Reducing Uncertainty Through Alternative Billing Structures.

The billable hour can wreak havoc on almost any litigation, and patent litigation is not exempt. Most are all-too-familiar problems: monthly bills coming in way over budget, unpleasant haggling between outside counsel and client, the time-consuming process of recording and scrutinizing bills, and the inability to predict litigation costs from one month to the next.

A good answer in most situations is to structure a flat fee arrangement. By arranging for a flat monthly fee, both outside counsel and client are able to focus on winning the case rather than billing, or challenging, the latest hours from various associates. Flat fees also allow a client to remove the unpredictability of litigation costs every month. This unpredictability is one of the major variables that creates uncertainty and therefore makes it difficult to measure the likely cost of any specific litigation.

A typical flat fee could be arranged as follows, with the numbers for example purposes only:

- Fee charged to client: \$150,000 / month.
- Amount actually invoiced: \$120,000 / month.
- \$30,000 is held back in reserve each month until the resolution of the case. For example, after one year, the "hold back" would be \$360,000.
- Upon a positive resolution of the case, the client pays all of the amount held back, plus a bonus that can be structured to be a multiple of the aggregate amount held back.
- If the case ends as a partial win (e.g., infringement on some, but not all, claims), the client pays the hold back but no bonus.
- Upon a negative resolution of the case, the client does not pay any hold back or bonus.

If you are a plaintiff, the fee can be arranged as a fixed amount per month, plus a percentage of the potential recovery. For instance (again, the numbers are examples only), a firm could charge a flat fee of \$50,000/month with no hold back, but with a bonus of 20 percent of any recovery. If the case settles with an agreement for future business or some other non-monetary arrangement, then the value can be assessed and charged accordingly.

By structuring the fees in this manner, the client knows exactly what they will be billed each month and can determine exactly how much it would cost to litigate for another six months. Clients can therefore more effectively determine the cost/benefit analysis of settling or continuing to litigate. The client also does not have to spend any time whatsoever reviewing bills and challenging how many associates worked on the case and for how many hours, or why researching personal jurisdiction took fifteen hours.

Flat fees also have the benefit of reducing fees by changing the incentives for outside counsel. Lawyers no longer have any incentive to engage in scorched-earth discovery, write long discovery letters, or bring futile motions. Instead, lawyers can be freed up to focus on the merits of the case, and winning. While this unfortunately does not mean that document review and letter-writing wars go away altogether, it has been our experience that they are greatly reduced by removing any marginal incentive to bill additional hours.

Aside from the cost-reduction aspects of flat fee arrangements, flat fees create effective incentives to win. The flat fee, with a performance bonus, allows lawyers the opportunity to bet on themselves and align their own incentives with those of their client. If they win the case, both client and outside counsel are happy. If they lose, the silver lining, albeit often thin, is that the client does not have to pay the additional bonus and therefore likely will have paid significantly less in attorney fees than if they had lost after waging a war of billable hours.

A large challenge in dealing with flat fees stems from the fact that your opponent may not be on a flat fee. This generally results in receiving discovery requests that ask for every last one of your client's documents, letter-writing battles of attrition, and having to respond to the questionable motions that you did not generate. This can have a greater effect on outside counsel than the client because the client pays a flat fee no matter how hard their outside counsel works. (But keep in mind that collecting documents in response to broad requests takes up time from the client as well.)

The effect of the wars of attrition in a flat fee billing arrangement can be somewhat trickier. To be profitable, an outside counsel has to take into account the fact that his/her opposition may not have similarly aligned incentives. The best way to counter this is to expect and plan for it upfront. When agreeing to a flat fee arrangement, outside counsel should take into account the costs that will be associated with litigating against an hourly biller. Nevertheless, the entire litigation will undoubtedly be cheaper and more focused on the merits when one, if not both, sides have a flat fee arrangement.

III. Reducing Uncertainty Through Scheduling.

A case schedule that requires early Markman hearings or allows filing of early summary judgment briefs can greatly affect the cost of litigation. Although litigants have little control over the judge they get and will be unable to influence the speed at which the judge will resolve discovery disputes and issue rulings on the merits, there are several approaches litigants can take to make the litigation more cost-effective. Each of these approaches has the primary objective to reduce uncertainty. While not every strategy will get you to a complete resolution of the matter, they will often narrow the issues in the case and allow you to greater predict your chances of success.

First, if you are not in a jurisdiction that has local patent rules, try to get your opponent to agree to schedule claim construction prior to significant discovery, including fact discovery and expert reports. Claim construction is frequently dispositive, with a ruling one way or the other that forecloses infringement or all-but guarantees invalidity. In these cases, the claim construction ruling effectively ends the case by promoting settlement or dismissal.

Late claim construction can be a huge waste of money and effort. In nearly all scenarios where claim construction occurs after an expert report, the experts will either have to provide numerous alternative opinions based upon the effect various constructions would have on the patent's validity and the accused product's infringement. Or experts will have to revise the opinions they earlier issued under the assumption that the claims meant one thing, only to find the judge has interpreted them to mean something else. This is time-consuming and expensive.

Late claim construction also postpones debates over language and creates a situation where both sides appear to talk past one another. Only if everyone has a clear understanding of what the terms mean can they proceed to argue whether the accused product infringes.

More and more courts have followed this approach, which was led by the Northern District of California. The District of New Jersey, for example, has recently adopted new patent rules that provide for claim construction early in the litigation. The Northern District of Georgia also has such rules. The Northern District of Illinois is currently considering similar rules whereby a claim construction hearing would be scheduled approximately one year after the complaint is filed. In addition to an early claim construction, these courts implement a specific process for filing invalidity and infringement contentions that can have the effect of narrowing the issues needing resolution.

Another approach to limit costs is by bringing an early summary judgment motion to eliminate as many of the claims, patents, or accused products at issue as possible. Federal Rule of Civil Procedure 56 permits a party to file for summary judgment on all or part of a claim *at any time*, so long as it is more than twenty days since the

action commenced. Although summary judgment motions are rarely filed so early in the litigation process, if you feel strongly about your motion, it can be a great way to limit the issues and hence dramatically reduce costs. It can also be an effective way to earn credibility with the judge.

We took this approach a few years ago when defending an alleged infringer. We found that, prior to significant discovery in the case, we were able to get a ruling that 95% of our client's products did not infringe as a matter of law. Discovery on the remaining 5% was minimal and the case quickly settled.

In theory, requests for admission and interrogatories should have a similar effect of limiting the triable issues. However, in our experience, since lawyers typically craft their answers very carefully, in reality the narrowing effect is often rather small.

Another opportunity to increase predictability occurs following the claim construction ruling. Once a ruling has been handed down, consider carefully, and as objectively as possible, whether any of the constructions are outcome determinative. If so, you may waste a tremendous amount of time and money simply proceeding to fact and expert discovery, dispositive motions, and trial.

Instead, consider stipulating to the outcome based on the claim construction, dismissing any other issues without prejudice, and appealing the claim construction immediately. This approach has been fully accepted by the Federal Circuit. See, e.g., *Paragon Solutions, LLC v. Timex Corp.*, 566 F.3d 1075 (Fed. Cir. 2009); *Ventana Med. Sys. v. Biogenex Labs., Inc.*, 475 F.3d 1173 (Fed. Cir. 2006).

However, there are important caveats of which litigants should be aware. The Federal Circuit has explained that the consent judgment must be sufficiently explicit for the court to determine the consequences of any ruling it makes. For example, in *Jang v. Boston Sci. Corp.*, 532 F.3d 1330 (Fed. Cir. 2008), the parties agreed that a claim construction ruling issued by the district court had resolved the outstanding issues. Therefore, the parties stipulated to noninfringement so long as the district court's claim construction was upheld.

The Federal Circuit first noted that there was nothing theoretically wrong with the approach the parties took:

It is clear that a judgment entered based on a stipulation may in appropriate circumstances be reviewed on appeal. Indeed, this court has reviewed stipulated judgments based on a claim construction when the judgments were entered with the express purpose of obtaining appellate review of the claim construction.

Id. at 1334. However, the court explained, such stipulations are only reviewable "if it is possible for the appellate court to ascertain the basis for the judgment challenged on appeal." *Id.* at 1334-35. The court went on to find that it was not possible to determine, based on the stipulation, how each claim construction ruling would affect infringement. As a result, the court vacated the consent judgment and remanded the case.

While litigants should review their stipulations carefully in light of *Jang*, the benefits of such a stipulation continue to outweigh the risks in many cases. A realistic assessment of the claim construction ruling promotes efficient, and effective patent litigations.

IV. Other Ways To Achieve Successful, Cost-Effective Patent Litigation

In addition to the strategies discussed above for reducing uncertainty in litigation, we list in this section several additional ways that litigants can control the costs of litigation while still ensuring the best chance for success.

A. Discovery Management

Discovery is almost always expensive. None of the recommendations below will provide a cheap solution. The best that litigants can often hope for is to keep costs to a reasonable amount. In this section we focus on this objective and in making sure that the money is a way that provides an advantage overall in the litigation.

First, to the extent possible, if documents originated in an electronic format, keep them that way. If, instead, the documents were originally hard copy, have them scanned and, at least for any important documents, make them text searchable. It is remarkable that lawyers who work with patents on the cutting edge of technology nevertheless continue to litigate like they are still in the 1980s.

Numerous electronic document production tools and repositories are available. Most are expensive, none is perfect and many will cause headaches and agony at some time or another. However, these tools can be tremendous productivity enhancers. The ability to find a document within seconds, while taking a deposition two thousand miles from your office, should be incentive enough to recognize that there is a cost/benefit tradeoff that is worth examining.

These tools can house your production documents and allow you to search the text of every email, or every prior art reference, quickly and efficiently. If you were wondering whether the inventor, or a prior art reference, discussed the term "rotary popping plate" (see U.S. Patent No. 1,195,017 entitled "Popcorn Machine"), you could go to your online document repository and search. There is something to be said for certain strategies being moderately expensive, yet still cost-effective.

One way to save time and money when collecting electronic documents is to try and agree with your opposing counsel on what types of metadata to gather. Metadata is the electronically stored information about documents that is not readily accessible to users. The metadata, for example, can tell you when a document was last modified and by whom. Agreeing to what metadata both sides will collect can prevent difficult arguments later – particularly since metadata can be forever altered, if not specifically preserved, when copying and producing the documents.

If possible, litigants should also agree on the search terms that will be used to search electronic media for responsive documents. If your opponent is reasonable, you will be able to agree on a list of terms that both sides should search for and thereby avoid future battles.

Either way, make sure to take time to talk with your custodians before you start collecting electronic data. Custodians rarely keep the specific documents and emails you will need in a separate folder or thumb drive. Instead, they will be mixed in with numerous other projects, personal emails, etc. Loading all of these documents into a search tool and reviewing them can be extremely expensive. Instead, filter upfront by asking the custodian where you are likely to find the right documents. Also, ask for the ways each custodian referred to the product or patent. Were there code names that they used to describe it? Or slang that they used in

informal settings?

There are also some less expensive tools that may allow you to filter documents you need without loading them into a more expensive tool with greater functionality. If you don't need all the functionality for every step of your process, there's no reason to pay for it.

B. Demonstratives – Worth A Thousand Words, And Several Thousand Dollars

Another entry in the category of "expensive, but often worth it" is effective demonstratives. Particularly in patent cases, where the subject material can be extremely complex and claim language is anything but transparent, a simple demonstrative can go a long way toward explaining your case to the judge or jury.

Two of the best ways to save costs when creating demonstratives are to (1) keep them simple, and (2) sketch them out carefully yourself before handing them off to a graphics designer.

Simple graphics, those without a lot of fancy animations and moving parts, are often easier to understand. While a highlighted color-coated diagram from Figure 1 of the patent may not look as nice initially as a 3-D animation, it is ultimately easier for a fact-finder to relate to the actual claims of the patent. Also, using drawings from the patent itself will force you to stick to the actual claims and specification and not overlook important details. Simple graphics can be less expensive to create since they do not require the time and expertise that the fancy, flashing, rotating graphics do.

Another way to limit costs when creating graphics is to make sure you sit down with the graphics designer and spend as much time as possible upfront drawing what you have in mind. An extra hour spent before you start to design the graphics on the computer can save you several hours later.

C. Controlling Expert Costs

One of the ways that patent litigation can get very expensive, very quickly, is through the use of experts. Patents often require several different experts to cover the industry, as well as the particular technologies at issue. And that doesn't even include the damages expert. There are, however, a couple ways litigants can help control costs.

First, avoid having experts with overlapping responsibilities. There is sometimes a temptation to prepare a few experts so that you can decide, as it gets closer to trial, which one you would like to use. If one gets dinged up a bit during a deposition, you can use the other, the thinking goes. However, this is expensive, and an expense that not every company can afford. When having more than one expert on the same subject, you also incur the risk that the experts will take contradictory or inconsistent positions with one another. Even if one expert largely avoids pitfalls in his deposition, he will still be susceptible to cross examination based on the other experts' positions. This wipes out the benefits you thought you had created by allowing yourself the opportunity to delay choosing which expert to use. Instead, do your homework, carefully interview the expert, read his/her background material, and choose carefully.

Another way to reduce the cost of experts is to come to an agreement with your opposing counsel that communications with experts, and draft expert reports, will not be discoverable. The result is quicker and easier communication with experts. Make sure, however, that you have such an agreement in writing before you

proceed.

D. Handling Multi-Party Litigation

If you have been sued for infringement, consider entering a joint defense agreement with other defendants. Under a joint defense agreement, parties can share experts and unload some of the burden of taking all the depositions and incurring all the discovery expenses. Still, be mindful of your responsibility to your own client and be sure that you do not have goals that might conflict with those of another defendant. Conflicting interests can not only destroy the privilege, but can also create serious ethical issues.

E. Patent Litigation Insurance

Companies that want to control costs and make litigation expenses more predictable may want to look into patent insurance. Insurance is available to defend against allegations of infringement and also to reimburse a patent holder for the expenses of enforcing the patent.

To get more detail on patent litigation insurance, you can look online or read several articles that discuss the pros and cons. See, e.g., J. Rodrigo Fuentes, *Patent Insurance: Towards a More Affordable, Mandatory Scheme*, 10 Colum. Sci. & Tech. L. Rev. 267 (2009); Jean O. Lanjouw & Mark Schankerman, *Protecting Intellectual Property Rights: Are Small Firms Handicapped?*, 41 J. Law & Econ. 45 (2004);

F. Litigation Financing

There are several companies that can assist with financing patent litigation. The firms will provide financing either as a loan or as equity, taking a portion of any damages in return. Before engaging one of these companies, however, be sure to carefully consider the ethical obligations under your state's bar and to carefully examine what role the investor will have in the litigation strategy.

CONCLUSION

There are numerous ways that litigants can lower the costs of litigation while still preserving their ability to effectively pursue, and win, their case. In this article, we have chosen to focus mainly on ways that uncertainty can be reduced both in terms of the outcome and the cost of achieving that outcome. In so doing, litigants are better able to assess their own chances of success and the probable damages. By comparing that number with a good estimate on the fees and costs that will be incurred, hopefully litigants will be better informed and better able to determine how to efficiently and effectively pursue litigation.

We welcome comments and suggestions. Please direct them to mark.levine@bartlitbeck.com.

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