# LITIGATORS CORNER:
# A Contingent Fee Victory

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One of my columns last year was about what makes a winnable contingent fee case. (See *Intellectual Property Today*, November, 1998). A later column discussed how to pay for contingent fee litigation. (See *Intellectual Property Today*, January, 1999). In March, our firm completed a successful contingent fee case on behalf of an independent inventor.

We followed the principles I described in my earlier column. And we had some luck, too. Our client, Noel Atkinson, was an engineer from Indianapolis who began working independently after twice losing jobs in the 1980's because his employers were successively bought out by the same Japanese company. Having been burned twice, he formed his own company and continued developing technology for communications, including improvements for scanning radios. These radios are now computer-controlled, and they are used by hobbyists, news organizations, and others to search for radio transmissions involving aircraft, police, fire, and other services. A scanner radio can store hundreds of frequencies and search across many bands, such as FM radio, television, aircraft, police, etc.

Like the ideal contingent fee client I described in my November article, Mr. Atkinson was committed to the success of his case. Even though he was an entrepreneur, he took time off from his business, turning down projects so that he would have adequate time to help us. He explained the technology to us, gathered documents regarding his activities, helped prepare for and attended depositions, analyzed documents produced by the defendants, and came to Chicago to meet with us whenever necessary. He was our expert on radio technology and circuitry. Best of all, he was an excellent witness: friendly and knowledgeable, all in the low-key midwestern salt-of-the-earth mold. He could explain the intricacy of a phase-locked loop circuit — a part of one of his trade secrets — using simple analogies, like the use of a household thermostat to control a furnace and the temperature of a room. He was indeed the "right client" for this contingent fee case.

Not only was Noel the ideal client. His case had a solid factual foundation, and his claims had merit. In addition, he started off the right way. Several years earlier, before he ever came to us, he had consulted an attorney in Indiana for guidance on how to conduct his consulting business, as well as to prosecute some patents, one of which was related to our case. The same attorney helped him formulate a license agreement with a Japanese company — who turned out to be a defendant in our case — that had asked Noel to provide consulting services. When he ultimately came to us, he needed our help to pursue a breach of that license agreement by the Japanese company. The purpose of the agreement was for Noel to provide consulting services to the Japanese company (we'll call it XYZ) in order to develop high-speed scanner radios. Noel licensed XYZ to make and sell commercial products using *a portion* of his technology, described in a pending patent application. While the agreement also provided that Noel would disclose additional technical information about scanner radios, XYZ was only allowed *to evaluate* the remainder of the technology, and could not use it in any other way. That technology had to be kept in confidence, and returned to Noel if the relationship ended. Noel therefore kept control of the bulk of his technology. Second, he retained his ownership of the copyright protecting the computer software that was used to operate a prototype radio designed for the Japanese company.

However, XYZ went far beyond what the agreement allowed it to do. It made unlimited commercial use of several trade secrets that it only had the right to study and evaluate. It copied and distributed the software designed by Noel's company and used to control the radios, thus infringing the copyright, too. The commercial use was in computer-controlled scanner radios that were sold for years in the United States through a large and extremely high profile U.S. marketer of foreign-made electronic consumer products, the second defendant in the case. Both defendants thus made millions of dollars from Noel Atkinson's trade secrets, without paying him for their use.

Not only did the case have legal merit; it also had equities favoring our side. We proved that Noel had been treated unfairly, because XYZ's president testified that he had been to America many times over thirty years and had an American lawyer review the license agreement before signing it. And, fortunately for us, he admitted that, nevertheless, he took and used the trade secrets and ignored Noel's rights. He justified himself on the ground that, in Japan, he would have the right to do so!

We kept this lawsuit simple. In most trade secret cases, the plaintiffs try to make the scope and number of trade secrets as broad as possible; and the defendants try to narrow them down, whittling away at both the scope and number. This, of course, complicates and expands discovery, leading to time- and money-draining arguments and discovery disputes. In this case, only four trade secrets were identified as misappropriated. Each was described, and the commercially sold radios in which each trade secret was used were identified by model and model number. No patent claims were asserted because, frankly, the defendant did not infringe any patents. The claim of copyright infringement was equally specific.

Unfocussed discovery was not a problem in this case. As I noted in my February, 1999 *IP Today* article, whether the case is billable or contingent, too much discovery can be worse than too little. For instance, in another of our cases, the defendant has taken roughly ten thousand pages of deposition testimony. No jury could ever come close to digesting it all. Reading it would take several weeks. A recent news article about an antitrust case said that the judge did not even stay in the courtroom while depositions were being droned into the record. What sense does it make to read something from one piece of paper so that it can be recorded onto another piece of paper? And the emphasis on deposition testimony is overdone. As a federal prosecutor, most of the cases I tried were ones where I had not had the opportunity to depose the defendants. Only where the defendant appeared in the grand jury and waived his or her rights did I have a chance to get testimony in advance of trial. Otherwise, I had to depend on what I could accomplish at trial. Our cases could be complex, for example, the purchasing on margin of "leverage contracts" in gold and silver, where the defendants — contrary to their promise to their customers — deliberately did not hedge, which would have enabled them to deliver the gold and silver to any customer who paid the balance of his purchase. All these criminal activities were accomplished in the midst of the Hunt brothers' attempt to corner the silver market. We had to meet a higher burden of proof, too: beyond a reasonable doubt. We could prove complex crimes without the need for deposition testimony.

In this case, we cut discovery to the bare bones. Only the two defendants were deposed, and those depositions were brief. The defendants had several technical experts and one damage expert; we deposed none of them. Only one out-of-town deposition was taken. No deposition was attended by more than one lawyer, who was assisted by our client.

Paper discovery was equally limited. We issued only seven interrogatories. Our document requests were also limited in number. Instead of the sixty, seventy, or even hundreds of document requests popular with many litigators, we issued only twenty-five requests. Most of those were quite specific in nature. We did not issue any requests for admissions. We served everything the old-fashioned way: by U.S. Mail, in order to economize.

Proceedings in court were limited. We filed only one motion to compel. Again, luck played a role; our adversaries did not employ scorched-earth tactics. The minimization of discovery paid off. By the time we were ready to commence trial, the disbursements were less than $50,000.

Another benefit flowed from the fact that our case involved trade secrets and copyright infringement, and not patent infringement. Had the complaint been for patent infringement, our solo inventor-client would have been limited to damages calculated on a reasonable royalty basis. Because he did not manufacture products employing the intellectual property at issue, he would have been unable to seek lost profits as part of a claim for patent infringement. Yet, under trade secret and copyright infringement theories, he was able to assert a claim for the defendants' profits.

The damages were there. The Uniform Trade Secrets Act allows damages under an unjust enrichment theory; see, for example, Illinois' enactment, 765 ILCS §1065/4. The Copyright Act only requires the plaintiff to prove what the defendant's revenues were. See Title 17, United States Code, §504(b). The defendant has to prove costs, and can prove that only a portion of the profits is attributable to the trade secret or the copyrighted work. The defendants in our case did not adequately show costs. They attempted to prove that the trade secrets constituted only a small portion of the value of the radios sold, but their experts' opinions relied on unidentified sources and were generally so speculative that the court excluded them. The defendants' failure therefore redounded to the benefit of our client.

My earlier column stated that contingent fee cases are like gambling. We decided in this case when it was time to collect our winnings and walk away from the table. We opted to settle. It was not an easy decision, because a trial might have resulted in a much larger verdict, but would have entailed more delay, an almost certain appeal, and judgment enforcement proceedings in a foreign country. On the eve of trial, the case settled for just under three million dollars. As the judge said in our settlement negotiations, "Bears win, bulls win, but hogs get slaughtered." Not a bad return for an investment of $50,000 and our time. So, the lesson here: Contingent fee cases can be done, and they can be done efficiently and reasonably economically, if you adhere to a few simple principles. IPT