

LITIGATORS CORNER: The “Perfect” (i.e., “Winnable”) Contingent Fee Case Revisited



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Over the years, I have written several *IP Today* columns about contingent fee IP litigation. When I first addressed the topic in my November, 1998 column, only a handful of intellectual property litigation attorneys nationwide were trying these cases on a contingent fee basis. Today, even some attorneys who once criticized the practice are now trying cases this way. While it must be pointed out that not all contingent fee cases are “big winners,” those of us who try IP cases on a contingent fee basis find it worthwhile.

The most famous contingent fee inventor, Jerry Lemelson, made himself and his attorney extremely wealthy. Our firm, too, has won several such cases over the past ten years, including one verdict for \$47 million and, another for \$45 million — both to solo inventors. Many attorneys have asked me how to tell if a case is worth taking on a contingent fee basis. In this column, I will again share my observations as to which characteristics make such cases “winnable.”

The intellectual property litigation firm that takes contingent fee cases may spend thousands of hours per case, and a significant amount of money for expenses, including disbursements for deposition transcripts, travel, copying, experts, etc. (These expenses can run as high as tens of thousands of dollars to several hundreds of thousands of dollars for one case.) Therefore, the “winnable” case should allow for the recovery of significant damages — either on a reasonable royalty basis, or in the form of lost profits. The best contingent cases result from situations where the infringer has actually used the infringed product for a long time, so there are meaningful damages, i.e., significant lost profits, to be paid. (In one of our firm’s contingent fee cases, the infringed product had actually been used for 10 years prior to the trial!) Lost profits are not likely if the plaintiff is an individual inventor who cannot afford to manufacture his product and has no licensee to manufacture it. However, if your client has a licensee who both manufactures and sells his invention, you can seek lost profits so long as other legal criteria are met. The licensee can also share the costs of the lawsuit.

In the best case scenario, the infringing party is also committed to future use of the product. Then you can get past damages, as well as — either through negotiation or lawsuit — a licensing agreement to pay for future use of the product. Of course, the infringing party must be able to pay these damages. There is no point in pursuing the best infringement case, if it offers no prospect of reward. (For instance, some companies would not have been able to pay the \$40 million-plus we won for some of our clients.) After all, if you can earn your hourly billing rate doing less risky litigation, there is no point in turning down an hourly representation for a risky contingent fee case that will not pay significantly more.

If the case cannot be settled, plan for an extended fight with well-funded defendants who may believe that delay and obstruction are a more meritorious defense than non-

infringement. You may have to litigate the case for several years, fighting through numerous obstacles — like a multi-week deposition of your inventor-client, a kind of grueling interrogation that even police departments aren’t allowed.

Payment of disbursements is another practical issue. If the client cannot pay them, your only choice is to advance them, or the client must locate investors. That, of course, is an additional financial burden on your firm, and you cannot undertake many such cases. Of course, any financial arrangement must comply with the pertinent rules of conduct and ethical requirements in effect in your state and court.

Before taking any contingent fee case, carefully examine the patent and file history, because the defendants will attack every way they can. Were statements made by the inventor or the examiner that can be used by the defendants to construe the claims such that the infringing device is not covered by the claim? If so, is there a legal basis to argue that the statement does not affect the scope of the claim, or is there a credible argument that the claim still covers the accused product? Don’t necessarily be deterred, because many attacks I have seen are wrong or over-stated. Nevertheless, you need to know what to expect. No prosecution history is perfect.

Just as important as choosing the right case is choosing the “right client.” In fact, in a contingent fee case, this is crucial. First, the ideal contingent fee inventor-client must be a convincing witness for the case to be winnable. One wag suggested that the best inventor is a dead one: then you don’t have to worry about him! However, juries like to see inventors, and a convincing client who can testify about the overwhelming difficulties the solo inventor faces is really your ace, providing a spark of creativity that the defendants lack, and can only ape. (Anyone who says that patent cases are dry and dull hasn’t tried one on behalf of an individual inventor or a small, entrepreneurial company!)

In addition, the ideal client will be committed to helping you whenever — and as much — as necessary. Beware the contingent fee client who expects you to do all the work, including obtaining their patents and figuring out why their patent was infringed. Try not to work with such clients. A contingent fee case with an uninterested, uninvolved client is not necessarily

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doomed, but it will be much more difficult to litigate, and the disbursements (which you may be advancing) will be much higher.

On the other hand, a committed and enthusiastic contingent fee client can be a huge asset in many ways, including by acting as an expert; helping with the collection and production of relevant documents; helping to review documents produced by the other side; tracking down information about potential infringers; helping with responses to interrogatories, etc. So the entrepreneurial inventor just starting a business may not be the best contingent fee client, because the business will take the lion's share of his time, and you will be left paying for experts to make up for his unavailability.

Some contingent fee clients don't want to make any financial contribution at all. But one of our best clients was an inventor who paid us \$100 every month like clockwork. In addition, she even sent us a very kind note with every payment. It isn't a reach to say that those of us who worked with her were dedicated. (By the way, her case turned out extremely well.)

The ideal client must also be decisive, because the window for critical decisions may be narrow. So, if the client is a group of investors in a patent, make sure one person is authorized to make important decisions about filing suit, settlements, and so forth. An uncommitted client is potentially disastrous for a contingent fee case.

Make sure your client is forthcoming. Some clients hold things back, usually

unwittingly. Grill your client about sales, public uses, payment of maintenance fees (I've seen Lexis err on this one), and about trade secrets that may relate to the invention. Inventors sometimes feel they must hold something back to protect their best ideas. If they do, immediate best mode and enablement problems may result. All of these will haunt you if they come out for the first time during a deposition.

If you expect to win your case, choose your court as well as you can, as allowed by jurisdiction and venue. Courts vary greatly in their speed, and in their willingness to insure that discovery does not become disproportionate to the available resources and issues involved. A courthouse far from your firm's office will require local counsel and perhaps additional travel, thus adding to the expense. At least one fast-track district — the Eastern District of Virginia, in Alexandria — has decided that its good work earned it the traditional reward: more work, and therefore instituted a policy transferring cases to other divisions. Rumor has it that the judges of the Eastern District quietly agreed that patent cases would be transferred more often, too. A transfer of a case to another venue on the unannounced ground that a particular district or division has too many patent cases is shaky, but contingent fee plaintiffs cannot afford to fight any procedural battles.

The winnable case must have a strategy. The first step in most cases should be to attempt negotiation, with a proposal that can be portrayed as benefiting everyone. As often as not, negotiations will fail. Not all

contingent fee cases that look promising at first can actually be won. Both you and your client must be prepared to recognize signs that the case is no longer worth pursuing. That's one of the reasons to avoid billable litigation. There is a tendency to keep the meter running. Contingent fee cases don't suffer from that problem.

To borrow from the lexicon of Balkan politics, an exit strategy is necessary. If a lawsuit results, you and your client must have thought beforehand about how far to go with the suit, and whether (and when) to stop. For example, you may want to pursue discovery in a software copyright case long enough to get source code and evaluate the infringement. If the infringement is weak, then the case may no longer be worth pursuing.

Contingent fee litigation is a bit like gambling. It's fun, but risky. Do all you can to improve the odds: real damage, a good client, and a good infringement case. And, as in gambling, don't be afraid to fold if your hand is no good. 