LITIGATORS CORNER:

Disbursements: More Costly Than You Might Think

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Inventing is difficult enough. But that is only the beginning of the beginning, to borrow from Winston Churchill. Getting and then protecting a patent is actually much harder than the process of inventing itself, as I wrote in my December 2004 column, "The Gobi Desert Revisited." After the invention, there are years spent dealing with the PTO. After that hurdle has been surmounted, there are the still-hopeful inventor's efforts to manufacture or commercialize the invention.

Many of our clients have endeavored to manufacture; some have succeeded, perhaps not so spectacularly as the two men — Robert Noyce and Gordon Moore — who left their jobs and risked much to start Intel. (I love mocking the giant corporation that has lost sight of its roots.) But more inventors fail in their efforts to manufacture, so the only remaining way they can benefit from their years of toil is to license their inventions to others.

Unfortunately, licensing, like inventing, isn't easy. Sometimes a potential licensee can be persuaded of the value of the new technology. But on other occasions, a company is already using the technology and profiting from it, and sees no reason to give up any profit for the use of the new technology. This disrespect for the individual inventor is really a reflection of the disrespect for the patent system, which is, in turn fostered by members of the media who rush to judgment and simply repeat each other about the evils of "trolls." This unfavorable media attention increases the resistance to licensing.

That means that an inventor who wishes to license may have to resort to litigation. Company B will not pay to license a technology that Company A is using without a license. Something has to be done about Company A, which has refused a license. Negotiating has been made harder by a recent decision of the Federal Circuit, which eases the requirements for a potential licensee who wishes to file a declaratory judgment suit seeking a judgment of non-infringement and invalidity of a patent.

As I have written in this column before, contingent fee litigation is the only way to go for most individual inventors, and even for businesses. It eliminates the huge hourly fees generated by clumps of big-firm lawyers working repetitively and at cross purposes. But it does not eliminate all the expense. **The disbursements remain**. Disbursements include little things, like filing fees and postage. They include big things, too. The largest expense results from the use of experts, who are so common in patent litigation. This expense can be substantial. As a rough rule, disbursements can be twenty to twenty-five percent of the total cost of a patent suit. So, if a suit would cost one million dollars, disbursements could exceed two hundred thousand dollars.

That's a sum beyond the means of most inventors. There are ways to reduce disbursements. I described a number of these in "Be Cheap: A Crucial Secret to Successful Contingent Fee Litigation," in August, 2003. But disbursements cannot be eliminated.

The biggest contributor to disbursements is the use of experts. In a recent case I had, experts accounted for two-thirds of the total disbursements in the case. Like Clint Eastwood and John Russell in *Pale Rider*, everyone has his gunslinger. Experts who testify have to be paid; and the law says they cannot be compensated with a share in the recovery, on the theory that they would be biased if so compensated. I am amused by this theory when I see highly-paid experts offering ludicrously biased opinions on behalf of well-funded litigants. (Of course, they know that if their testimony leads to a win for their client, they will be hired again.)

There are other ways to handle disbursements. One is for the law firm to advance them, with the disbursements being repaid out of any recovery from the litigation. That may or may not be a feasible way to go, depending upon the amount of disbursements, and how many cases a particular firm handles. Over the years, and despite the changes to the Federal Rules of Civil Procedure, ostensibly made to simplify litigation, disbursements have only gone up. So have fees; large firms are paying new associates as much as $160,000 per year as a starting salary — more than many federal judges earn. One thing that discourages most law firms from advancing disbursements is the fact that — according to the IRS — disbursements advanced by a law firm are not a business expense. The IRS says they are loans, and states that no deductible expense arises unless the loan cannot be collected. This can make it difficult for a firm to advance expenses. The number of cases a firm handles may be another reason disbursements won't be advanced.

So the inventor and would-be licensor need to find another way. One is to sell the patent, or get a patent investor. That is what occurred in one of our firm's controversial cases, *Techsearch v. Intel*. The company that owned the patent went bankrupt when its efforts to commercialize the invention failed. Techsearch bought the patent, and sued Intel. Of course, that will get the inventor and the company branded as "trolls." See my February, 2006 column, "Patent Trolls — Or Not?".

But the inventor has to be careful. Some of the companies that will assist in enforcing a patent are extremely greedy. One of our clients contacted a well-known company before he contacted us. The company offered to support his litigation in exchange for ninety percent of all recoveries. That's right: ninety percent. You are no better off than a struggling guitar player trying to get a recording deal with the "JAWS Record Company." Companies like this are to be avoided. There are sharks in this business, just as in any other. An inventor should, however, be willing to give up a significant part of any recovery, but nowhere near ninety percent. Litigation is chancy, and the investor is taking a chance, along with the inventor.

Many individual inventors approach our firm on their own. Others have lawyers, perhaps a patent prosecutor or a general attorney, who is trying to help. In either case, there are several things you as attorneys, advising your clients, need to think about and propose to your client, in order to answer the questions that any patent investor will probably ask.

If your client decides to seek an investor, advise him to do at least two things. First, be prepared. Second, look at more than one potential investor, if possible. To be prepared, do your homework; think ahead about the questions a potential investor will ask. You can kill two birds with one stone here, because these are the same questions a litigation firm will likely be asking. Can infringement be proven? To address this, you should have gathered any evidence of infringement that you can. Then, compare that evidence to at least one claim of the patent. These days, this comparison is best made with a claim chart. Make a table with the claim of the patent broken down in the rows of the left-hand column. In the right-hand column, list the evidence supporting the presence of that claim element in the infringer's apparatus or method. Also important: List the source of that evidence, whether it is a brochure, an operator's manual, a data sheet, or a web site page. Claim charts without sources are not nearly as persuasive to prospective investors and lawyers. The assertion that someone infringes because "the way this patent claims is the only way it can be done" is not the way to make your case.

Estimate, as best you can, the sales of the infringing device or method. You do not have to be versed in the details of damage theories in patent litigation, but at least assemble the basic numbers. Many individuals are surprised to hear that their case is not economically feasible. Keep in mind that a contingent fee litigation firm might be investing a million dollars, or more, of its time in your client's case. To recover the value of that time in a reasonable royalty case, the revenue generated by the sales of the infringing product needs to be thirty million dollars to recover damages of three million dollars, at a royalty rate of ten percent, assuming the law firm is paid one third of the recovery. I use a reasonable royalty as an example because that is the most common damage theory in contingent fee cases, since most contingent fee plaintiffs do not manufacture. And since they usually haven't manufactured, they aren't eligible for a recovery of lost profits, which requires proof that the plaintiff would have made the sale, but for the actions of the infringer.

Assemble the documents, too. You should have copies of your client's patents available, along with the prosecution history of the patents. It isn't the best approach to tell a potential investor, or potential litigation attorney, that he can get the patents from the web. You have to show that your client will be hands-on, and is willing to help. Part of the prospective investor's or lawyer's evaluation is whether the client will be helpful and dependable.

Once you and your client have done your homework, you can look into prospective investors and lawyers. Don't believe anyone who guarantees success.

There may be one other way to go: the "bare bones" approach. You have to forego most discovery and avoid the use of experts entirely. This is an extraordinary gamble, but may be the only avenue you have. IPT