

Intellectual Property

COMMENTARY

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Exploring Partnership-Based Billing for Patent Litigation

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For both client and counsel, patent litigation often brings frustration and disappointment because, so often, expectation does not match the end result even when the client is victorious. If expectations and end results are to more closely match at litigation's end, both attorney and client must candidly explore all aspects of the litigation before it begins, particularly attorney fees and costs. In patent and other intellectual property suits in particular, nowhere is there greater disparity between expectation and end result than in the area of fees. When this disparity is too great, even victory feels like defeat.

While the subject of alternative billing comes up from time to time, few litigators actually take the leap from straight hourly billing in IP/patent suits. There are plenty of obstacles standing in the way of new billing methods, not the least of which is significant up-front planning to develop a practical and reliable approach for creating mutually rewarding compensation agreements.

Barriers to alternative patent litigation billing include risk-averse lawyers who prefer or need to play it safe. Other barriers include a client with a shaky case, insufficient funds at the outset to cover expenses or a case with insufficient reward potential. These are all valid reasons to avoid alternative billing and should be heeded.

Some clients and cases lend themselves well to alternative billing, but to be successful with the concept, patent litigators and clients must commit to developing a true partnership where both share the risks and the rewards.

Partnership billing gives smaller companies and individual patent holders the opportunity to assert claims against deep-pocketed opposition when it otherwise would be beyond their financial means. For other companies, the concept makes it more affordable to take a bolder offensive to protect patents. For patent litigators, partnership

billing means getting involved in the earliest stages of a case and becoming an integral part of the business team.

Creating and Managing Expectations

With the potential for millions of dollars and several years of litigation looming, "shared risk and reward" scenarios can create some level of certainty for client and litigator even in the midst of patent interpretation and litigation uncertainty. One of the most critical success factors, however, is a thorough understanding of the client's expectations and goals for the case.

While underlying factors often make it difficult to judge probable outcomes, a patent litigator is in a key position to make sure clients do not lose sight of realistic goals. Areas to explore include whether the client is realistic about the risk-reward potential, the profit contribution of the patent and whether it is worth a full-fledged fight, and the scope of the protection the client seeks: patent protection against applications within an entire industry or against more narrowly defined competition.

Clients have an obligation not to spend more on litigation than what is ultimately at stake and not to unbearably tax their financial wherewithal. Clients must keep business interests in mind and make sure spending and the pursuit of the win do not outweigh potential outcomes. The more involvement a lawyer has in the early stages of forming expectations, the more effective the risk management advice and litigation strategy. As a result, clients often find themselves with a better understanding and greater control of the process.

Together, the client and patent litigator should agree on clear, specific and reasonable goals, a phase-by-phase strategy for litigation, and the risks, benefits and costs of each phase. In addition, the attorney and client should

discuss unknown variables and what-if scenarios as well as compensation in the event the client receives non-monetary rewards.

Budgeting and Key Decision Points

The time to determine whether a case is affordable is before events start heating up, not halfway through the case. Is it a bet-the-farm issue? Then move boldly. Is there a point where the client would be spending more money on the case than it is worth? Then a decision can be made ahead of time about how far to proceed toward a point of no return before making a real push for alternative avenues of resolution.

For clients, establishing budget parameters for each phase of litigation takes a good deal of guesswork out of how much a case will cost and informs their critical decisions about how hard to push and how best to proceed. This is not contingency billing, but a true partnership between attorney and client.

The attorney projects what it will cost to take a matter through each level of litigation (using a decision-tree-type approach), allowing the client to assess the costs and benefits of each "branch" of the litigation and, therefore, to make better decisions each step of the way. Budgeting is also a planning tool for outside counsel, as careful consideration must be given when committing time and resources to the case while staying on budget. As a result, clients benefit from a cost-effective approach to litigation.

The budget breakdown should follow critical path components and incorporate points at which the terms of the representation may need adjustment. Areas for budgeting may include:

- Case analysis and research. Clients should expect to pay outside counsel for due diligence in assessing the strengths and weaknesses of the case. This is the wisest money a client will spend because the analysis also forms the foundation for the litigation strategy;
- Informal licensing discussions;
- Pre-litigation settlement issues;
- Onset of litigation (this can be different from "adverse pleadings" phase);
- Pleadings both anticipated and unanticipated (this can be a critical "branching" point);
- Filing counterclaims (and assessment of possible triggering of any insurance coverage);
- Initial disclosures;

- Discovery (written and electronic, production of documents, informal);
- Depositions;
- Dispositive motions;
- Final pretrial conference;
- Trial;
- Appeals (and preliminary appeals after injunction); and
- Settlement negotiations.

Certainly, certain variables will change the situation mid-course. After all, neither lawyer nor client has control over opposing parties and their counsel, including their decisions about when or if to settle. Therefore, phases may also include a fee element contingent on various milestones.

A strong litigation strategy takes change into consideration and builds in contingencies for unknown events: injunctive relief, counterclaims such as insurable counterclaims that could lead to changed incentives, claims giving rise to a potential recovery on non-patent issues that could be leveraged for the patent fight and the breadth of a validity fight as ultimately impacted by prior art not known to client or counsel at the time of signing on for representation.

Structuring Partnership-Based Agreements

In-house and outside counsel should draw on personal and institutional past experience to develop a mutually agreed-upon budget for the case. At the outset, both client and counsel should feel the compensation package fairly rewards both sides. The time to agree on what success looks like and preserve the client-lawyer relationship is before litigation begins.

A written agreement should then be drafted outlining the "deal" sufficient to address both the client's expectations and counsel's forecasts and deliberate disclosures so both can overtly agree they are headed in the same direction. Wherever possible, no expectation should be left open for interpretation on either side.

In a recent case partnership billing allowed a smaller client to hire Parr Waddoups Brown Gee & Loveless while not mortgaging his future. Without partnership billing, the client would not have been in a position to properly protect his patent because the opposition was a large corporation. The agreement was a tiered approach based on results and how quickly the case was resolved.

The compensation structure in the case was aligned with three phases of litigation and the “sums recovered” for each phase. The “sums recovered” included royalties, license fees, special damages, general damages, exemplary damages, and any other damages or payments awarded or recovered in the form of cash, property or installment payments.

In general, the three phases and compensation for each were:

- Sums recovered before pleadings are filed:
25 percent of recovery prior to any pleading adverse to the client being filed.

If the client prevailed through judgment or settlement during this phase, outside counsel was entitled to the larger of the 25 percent contingent fee or 10 percent of license fees or future royalties pertaining to the technology until total payments received equaled 120 percent of the law firm’s hourly fees and unreimbursed costs pertaining to the representation.
- Sums recovered after adverse pleading, but before depositions:
33.33 percent of recovery after any pleading adverse to the client being filed and prior to the filing of any notice of deposition.

If the client prevailed in procuring a settlement agreement, injunction, or a license or royalty agreement outside counsel was entitled to the larger of the contingent fee or 10 percent of license fees or future royalties until total payments received equaled 125 percent of the law firm’s hourly fees and unreimbursed costs pertaining to the representation.
- Sums recovered after the filing of any notice of deposition:
40 percent of recovery after the filing of any notice of deposition.

If the client prevailed in procuring a settlement agreement, injunction, or a license or royalty agreement, outside counsel was entitled to the larger of the contingent fee or 10 percent of license fees or future royalties until total payments received equaled 130 percent of the law firm’s

hourly fees and unreimbursed costs pertaining to the representation.

With this type of agreement our firm had an incentive to maximize both the client’s result and our fee without injuring his interests on a license fee to which he was already entitled. The license was insurance for the attorneys that we would likely be made whole, and perhaps much more, on our anticipated fees. Both the case and the prospects for payment were solid and warranted moving forward.

Partnership billing agreements can also use compensation methods such as blended rates, contingencies with a cap on the total fees received or discounted hourly rates in exchange for a success fee. Another tiered approach is a 50/50 split on an agreed portion of the recovery, which then shifts in the client’s favor (60/40, 70/30) at various stages of litigation or recovery. Alternatively, the defined portion of any recovery subject to a contingent fee can shift depending on outcomes of various phases or other agreed-upon criteria.

Embarking on the path of partnership billing for patent litigation takes up-front planning, a mutually agreed-upon set of realistic expectations with budget parameters, trust, and open and frequent communication throughout the process to revisit client expectations and monitor the budget. In appropriate cases, partnership billing can strengthen the client-lawyer relationship by ensuring the best outcome for all involved. In the end, the likelihood that expectations will match ultimate results is maximized and the chance of severe disappointment is reduced significantly. With this approach, victory can actually feel like victory for both client and counsel.

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