WIN PATENT DISPUTES WITHOUT LOSING YOUR SHIRT

Paul J. Sutton provides a practical guide to successful patent litigation.

Few US companies are able to avoid being drawn into litigation. Of all the types of litigation, patent litigation is considered to be among the most challenging. Lately, there has been an explosion of patent cases. The combination of complex patent laws and complicated technologies, along with ever-increasing legal costs, poses a challenge that directly affects the bottom line. Huge potential jury awards, disruptive and costly discovery proceedings, and enormous outside counsel fees all come into play. Today, the median legal costs associated with a simple U.S. patent infringement litigation are approaching $5 million. These litigation costs often include hundreds of thousands of dollars in expert witness and non-legal fee costs. Business individuals and in-house counsel responsible for supervising patent litigation need information that will enable them to efficiently manage their patent cases.

PATENT LITIGATION CAN BE EFFECTIVELY MANAGED IN WAYS THAT WILL VERY SIGNIFICANTLY DRIVE DOWN LEGAL FEES AND COSTS, WITHOUT COMPROMISING QUALITY OR ULTIMATE SUCCESS.

Intellectual property is increasing in value to many companies that are using patent litigation to increase or maintain market share—in times of prosperity as well as during downturns in the economy. Patents are being used, and in some instances misused, as weapons toward such ends. There are many companies whose businesses are based principally on intellectual property, such as patents. And investors and shareholders alike recognise that recent US court decisions have upheld patents covering diverse fields, including business methods.

That said, there is no reason why your company needs to write a blank cheque to obtain a successful outcome. Patent litigation can be effectively managed in ways that will very significantly drive down legal fees and costs, without compromising quality or ultimate success.

Staying involved from the beginning will generate efficiencies that can result in enormous savings. By participating in key decisions during the course of litigation, the client avoids being surprised and is in a position to monitor and control costs. Before entering any such litigation, actively and aggressively engage your outside counsel in a rigorous pre-retention discussion of the merits of your case and the strategy to be followed. You will greatly benefit from this initial assessment of the strengths and weaknesses of your case. An honest assessment of weaknesses in your case may encourage you to consider initiating settlement discussions before costs begin climbing. Frank face-to-face discussion between principals will often save you money and may result in settlement or a narrowing of the issues in dispute.

Having a single in-house lawyer or IT contact is critical to enhancing and maintaining the ongoing dialogue between outside counsel and the client. Costs will rise without such a contact, and there will be a greater potential for unfortunate miscommunications and surprises when invoices for legal services arrive.

Have you considered alternative dispute resolution? Whether by way of arbitration, binding or non-binding mediation, or some other mutually agreed means, legal ADR costs are often but a fraction of those associated with court proceedings. Furthermore, it permits the principals or top executives of the parties to get into the same room with one another, if desired. There are countless instances where principals are able to not only settle a case during or after ADR sessions, but also have an opportunity to explore mutually beneficial business opportunities between them that may not be directly related to the dispute at hand.

Does your business insurance policy cover any aspect of patent litigation costs? Examine your policy. Where a patent infringement complaint includes an allegation of infringement by virtue of an "offer for sale", some insurance policy advertising clauses may trigger help to a defendant in the form of coverage for reasonable legal defence fees. It is rare in most instances, however, for defendants to enjoy the benefit of insurance that will cover the bulk of their legal costs.

Know your factual story for the jury very early on. This will permit you to focus resources and will enable you to identify the information needed during discovery to flesh out your case. A number of top litigators prepare their trial opening statement at the beginning of their case, so that all pre-trial activities are performed within the context of that statement. This will result in far lower overall legal costs than would be encountered where there are un-focused pursuits of extraneous information.

Have you obtained legal fee quotes (or caps) directed to phases of the litigation? While the specific facts of each case may be different, there will often be reasonable expectations as to what type of motion and discovery practice will be required of you and/or your opponent. Fee quotations directed to various stages of litigation, even if exceeded, tend to result in an overall reduction in litigation costs. Such arrangements are becoming common and can be subject to periodic review/adjustment where appropriate. Remember that a fee arrangement that is not fair to either the client or outside counsel will result in unnecessary and costly tensions.

Is a contingency or non-hourly fee arrangement something to consider? As the cost of hourly legal services continues to increase, the demand for the contingency option is becoming more compelling to some. By carefully considering choosing outside counsel willing to take on a US case on a contingency fee basis, companies need not compromise their standards of quality. It is no longer necessary to choose a second-rate legal team since first-rate teams are often available on a contingency or alternative fee arrangement.

A growing number of firms are willing to consider taking on matters on a contingency or some other alternative, non-hourly fee ar-

rangement. The hourly attorney will be paid regardless of the outcome and is usually happy to be engaged to litigate a new matter regardless of the merits. The contingency lawyer, on the other hand, much like in a joint venture, has a direct financial interest not only in the ultimate outcome of the case, but in the way the case is handled.

Is there an opportunity to pool resources among multiple defendants? While the interests of co-defendants may not always be aligned, common interests can be identified. Sharing of defence resources and evidence is beneficial. Co-defendants who are competitors may nonetheless pool resources. Since written joint defence agreements are discoverable, avoid giving opposing counsel the ability to misrepresent to a jury the nature of such agreements. Written joint defence agreements may not be necessary.

Have you chosen the right tribunal before which to litigate? A patentee may want to select a fast track tribunal. The US International Trade Commission will render a decision in little over a year. The ITC does not award damages but grants injunctive-type *in rem* relief against the importation of infringing products. Some District Courts have "rocket dockets", whereby the defendant(s) are initially at a disadvantage. Choosing the right tribunal may reduce your costs.

Choose your litigation team carefully. A tension exists between the use of more experienced attorneys and junior attorneys with lower hourly rates. The use of a more experienced attorney may get a better result at a lower cost. It is essential to assemble a team whose members interact well with one another. A fragmented team will often duplicate efforts, thereby driving up costs. Assemble the right mix of senior and junior team members.

Retain your expert(s) before your opponent hires them. By retaining testifying and non-testifying experts very early in patent litigation, you will be able to define critical issues upon which to focus discovery efforts. Retaining highly qualified experts prevents their being used against you by adversaries.

Avoid unnecessary discovery disputes. Pick your discovery battles carefully. Don't waste your credibility with the judge by fighting over discovery issues that are, in the long run, unimportant. "Scorched earth" tactics usually benefit lawyers, not their clients, and always run up fees at an alarming rate. One can be tough without being wasteful.

Summary judgment motions will often narrow the case, thereby reducing costs. Similarly, serving early requests for admissions will help narrow issues before trial.

Hire non-lawyer technical advisors as "in-house" experts and appoint people at lower hourly rates. This will assist with discovery and co-ordination of team activities.

Identify your best witnesses early on. Employees and expert witnesses must be retained. Identify such individuals early on and "cement" their anticipated testimony so that there are no surprises at trial.

Choose an e-discovery vendor and negotiate preferred rates early on. Outsourcing of document production tasks may be feasible. Define the vendor's tasks and maintain control over its activities so that costs do not run wild.

An early Markman hearing may be helpful. The Markman determination is one of the most crucial parts of a patent litigation. The scope and meaning of the patent is defined by the judge. Markman hearings may occur at various times during patent cases—before or during discovery, just prior to or during the trial, and sometimes after trial and before the jury is charged. Try to align the Markman timing with your business strategy.

Since success in patent litigation may depend upon issues totally unrelated to the technology covered by the patent, it is advisable to encourage consistent communications between client and litigation team.

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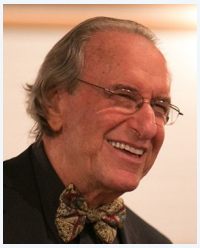
CO-DEFENDANTS WHO ARE COMPETITORS MAY NONETHELESS POOL RESOURCES. SINCE WRITTEN JOINT DEFENCE AGREEMENTS ARE DISCOVERABLE, AVOID GIVING OPPOSING COUNSEL THE ABILITY TO MISREPRESENT TO A JURY THE NATURE OF SUCH AGREEMENTS.



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Paul J. Sutton was selected by *Super Lawyers* magazine in 2006, 2007 and 2008, and is listed in *Strathmore's Who's Who*. With four decades of law firm and corporate experience concentrated in intellectual property law, including serving as Gulf + Western Corporation's in-house patent counsel, Sutton has successfully counselled clients in all aspects of patents, trademarks, copyrights, licensing, trade dress, trade secrets, unfair competition, patent misuse, false advertising, grey goods, computers, the internet and anti-counterfeiting. He has a proven track record in patent and trademark litigation, representing clients at the trial and appellate levels before federal and state courts, the U.S. International Trade Commission, administrative tribunal, and in various alternative dispute resolution forums.