CONTINGENCY FEE INFRINGEMENT CASES

Robert Weber[1]

Many inventors and small companies may not be fully aware that certain law firms in the US regularly take patent infringement cases on a contingency fee basis. This article reviews key factors that patent owners should keep in mind while evaluating the possibility of approaching a contingency fee litigation firm for representation.

More specifically, this article provides a brief and necessarily incomplete discussion of the following issues: (1) what makes for a great infringement case; (2) how are law firms and patent owners likely to work with each other; and, (3) what are some major risk factors in bringing an infringement case?

Infringement Case Ingredients

When evaluating the possibility of bringing an infringement case, patent owners should consider these factors:

- Do you have the potential to be a great client? Witness? From the very first contact with a law firm, litigators are asking themselves whether the prospect would make a great client. If the prospective client is also the inventor, would the inventor make a great witness? Some inventors don't get it. In one case, despite my attempts over several months to educate an inventor, on the day the infringement suit was to be filed in court he insulted the litigators and they understandably dropped the case. Notwithstanding the client's obligation to always tell their attorneys the truth, one can't be too careful or too circumspect when talking with litigators.

- Patent quality and the number of patents being infringed. As I've noted elsewhere (**here** and **here**), most patents are essentially worthless and will not stand up in litigation. The primary reasons are a limited prior art search and/or poorly crafted claims. In addition to strong patents, litigators would usually prefer a case based on a few related patents rather than a case based on a single patent, thus reducing their risk.

- Proof of infringement. I'm often approached by patent owners who say that a so-and-so is infringing their patent. When asked how they know this, answers often include "they have to be" or "it's obvious." Patent owners will advance their cause by collecting as much information as possible that documents the infringement (without violating confidentiality agreements or other contracts with non-use provisions). The more documentation, the more likely a firm will take the case on contingency.

- Number and size of infringers. To be interested in working on full contingency, law firms assess the risks. In general, the more infringers, the bigger the infringer(s), and the higher the sales of infringing products or services, the more law firms are willing to put their time and money at risk in a contingency fee case.

- Damages. Whether and how patent owners should be financially compensated for past and future infringement entails a very complicated set of issues that continue to evolve. Congress and the courts have made it increasingly difficult—but not impossible—for patent owners to get a reasonable return from litigation. That said, it is the cases with strong patents, large markets, great litigators, and wise and practical patent owners that tend to yield the best results.

[1] Robert Weber is Managing Director, Patent Kinetics, LLC, a patent portfolio strategy, development, evaluation, and enforcement firm. Although not an attorney, he is an inventor with 26 issued US patents. All the issues mentioned in this article are more complex than presented here. Inventors and patent owners are strongly advised to consult a registered patent attorney for guidance. Nothing in this article shall be construed as giving legal advice or the practice of law.

Different Kinds of Law Firms, Relationships

Law firms come in many flavors, sizes, and shapes. Some litigators will work on "modified contingency," which usually means that the client is expected to pay expenses. In return, the law firm will take a lower percentage of any proceeds.

For the right case with the right client against the right target(s), some litigators will work of "full contingency," which usually means that they will advance their out-of-pocket expenses. If and when funds are received, typically the first money in will be used to repay the firm's expenses. The remaining funds will be shared between the firm and the client in accordance with the representation agreement.

- "The Deal." Patent owners often focus on the deal first: what percent of any funds recovered will the law firm take and what percent goes to the patent owner? The split is important, but not necessarily the most important factor. Some agreements are "laddered," meaning that the percentage that goes to law firm increases as the case reaches certain milestones. Milestones might include responding to substantive motions, discovery, a hearing before the judge regarding the interpretation of claims, trial, and sometimes appeals. The usual law firm view is that the more expenses they incur and, therefore, the higher the risk, the higher the percentage to the firm of any recovery.

- "Flippers" vs. Long Term Committed. Some contingency fee firms prefer the certainty of relatively quick settlements for lower amounts prior to trial. To use an analogy, these firms tend to be high volume, lower margin operations that make their money through "inventory turns," so to speak (think Wal-Mart). Especially in strong cases with high potential damages against infringing products with large markets, other contingency fee law firms have a clear expectation that the case will go to trial and that a larger settlement is the goal. Naturally, different cases lend themselves to different strategies. Information developed during the course of the case may affect the strategy in either direction.

- Subject Matter Expertise. Some firms have relatively narrow expertise, for example, Consumer Electronics and High Tech, Biotech, Pharma, or Medical Devices. It's important to find litigators who have a solid understanding of the underlying technologies and inventions and of markets and key players.

- Previous Experience Litigating Against Targets. It's often very helpful to have litigators who have already been successful with infringement cases against the same infringers. The litigators may already have detailed knowledge of the target company or its major business units. The lawyers may have taken testimony from individuals who are likely to be part of the new case.

- "Personal Chemistry." Patent owners need to feel that the individual attorneys who will be working on the case are people with whom they can work without friction. Disagreements naturally arise, of course, but patent owners need to feel that they can collaborate with the legal team to their mutual advantage. The project is, after all, a joint effort.

Substantial Risk Factors

Initiating an infringement lawsuit carries with it many important risks. Patent owners should be aware that litigating their patents may have significant negative consequences, especially against well-funded opponents that may hire law firms to aggressively defend them.

- Re-Examination Proceedings. To delay the court proceedings and to try to invalidate the patents being asserted, some defendants challenge the patents-in-suit through a reexamination proceeding at the Patent and Trademark Office. The nature of reexamination proceedings has changed recently with the America Invents Act and related rules at the PTO. Nonetheless, these proceedings can be expensive and do put at

risk the patents and the ability of their owners to enforce them. The Patent Office may narrow or invalidate claims, results that constrain or defeat the infringement litigation.

- Additional Counsel To Handle Reexaminations. Most firms that are willing to handle infringement litigation on contingency may not be willing to handle reexaminations on contingency even if they have the in-house expertise to do so. More often, patent owners will have to retain additional counsel to handle the reexamination. These firms, however, are unlikely to work on contingency, which will necessitate cash payments.

- Claims May Be Narrowed Or Invalidated. Even if the patents-in-suit are not thrown into reexam, the judge may construe the claims so narrowly that the accused products no longer infringe. Some or all of claims may also be invalidated during these proceedings.

- Little Or No Damages Awarded. There are occasions when the damages awarded (or an agreed upon settlement) do not approach the sums that patent owners had in mind. In some ways, litigation is a crap shoot: the wrong judge on the wrong day with the wrong jury yields the wrong outcome for patent owners.

- The Distraction Factor. Even if the case is being done on full contingency the proceedings will frequently entail substantial disruption of business as usual especially for operating companies. Inventors will be interviewed, asked to give depositions, and if there is a trial, are likely to have to testify. Some C-level executives will have to invest their time as well to manage the project and the litigators. Some CEOs and Boards of Directors sometimes shy away from infringement proceedings for these reasons.

Risk vs. Rewards

Successful patent assertion is a team effort requiring substantial patience, persistence, and risk tolerance. It is not for the faint of heart. Nonetheless, owners of US patents succeed often enough to make the effort worth the risks, especially with strong patents, reasonably clear infringement, and the right contingency fee litigation firm.