

A NEW PARADIGM – 4 STEPS TO DEFENDING PATENT INFRINGEMENT SUITS ON A CONTINGENCY BASIS

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Yes, that's correct – defending your patent infringement suit, not prosecuting your suit, on a contingency basis.

Enforcing one's patent in litigation can be a costly endeavor. For a relatively simple infringement case, the American Intellectual Property Law Association has reported that across the US the cost may on average run in excess of \$1M. With that expenditure, many potential plaintiffs turn to a contingency lawyer to bring suit.

But what about the defendant's cost in a patent infringement suit? Is not the defendant's cost frequently more than the plaintiff's cost. So much time is spent by the defendant turning over rocks looking for potential defenses – apart from the large expenditure of just searching for invalidating prior art. And defense lawyers are motivated to bill more hours and let the case drag on in the name of providing a substantial defense, thus increasing the costs of defense.

Traditionally, lawsuits on a contingency basis have only been done by plaintiffs as there is a recovery of money to divide. And since there is usually no recovery of money by a defendant (for example, in a personal injury lawsuit), it has been assumed there is nothing to divide with the defendant's attorney. But that is just an assumption.

The fallacy of that assumption resides in the fact that a monetary savings that can be measured by a "successful" defendant. A successful defendant could be saving money in terms of lower attorney fees or a lower judgment than expected. And that cost savings could represent the something which can be divided with the successful defendant's attorney.

If there is a potential amount of money to be divided with the successful defense attorney, the next question is why has the legal profession not embraced the concept of a defense contingency. Is it because of tradition? Is it because of unknown risks?

Historically, there has been a rationale that the need for a contingency fee arrangement for the plaintiff is because, without it, an injured person would not otherwise be able to pursue a meritorious claim. This logic, however, seems equally applicable to the defendant. If the cost of defending against a suit is prohibitively high, then a meritorious defense may not be presented. And there

seems to be no reasonable rationale for favoring the merit of one party over the other.

Another historical rationale for contingency fee arrangements for plaintiffs has been that it “weeds out” the marginal cases. This is because a plaintiff’s attorney would be less inclined to accept a marginal or non-meritorious case on a contingency basis when compared to a meritorious one. In other words, the less likely a case will end with a recovery of money, the less likely a plaintiff’s attorney will take the case on a contingency basis, and vice versa.

A similar rationale seems to exist for the defendant. If a defendant does not have a meritorious defense, a contingency lawyer would be less inclined to represent the defendant. If the defendant is thus unable to find a contingency lawyer because of the lack of merit in a defense, that case would get “weeded out” due to a lack of representation.

Are the risks for the attorney handling a matter on a contingency basis greater as plaintiff’s counsel or defense counsel? As plaintiff’s counsel, the risk is in not properly assessing the strength of liability and amount of damages. The flip side for defense counsel is that the risk is in not properly assessing the weakness of those same areas.

In assessing liability from either side, one is seeking to discover as much of the relevant facts at the front end of the case before formal discovery is available. In the patent context, insofar as liability, although the plaintiff can rest on the presumption of validity, each side is seeking to determine at the outset the strength of validity.

Similarly, each side must determine the strength of infringement. Possibly, the defendant may have an advantage in this area since it would presumably be more familiar with the allegedly infringing product or process. In contrast, guess work on the part of the plaintiff may sometimes be needed if the plaintiff does not have unfettered access to the infringing product or process.

Determining damages in the patent infringement context may often present the biggest challenge to the plaintiff, particularly for the plaintiff that is an individual and not familiar with the market for the infringing product. Typically, the plaintiff will need to make various assumptions about market size, reasonable royalty, and lost profit. Likewise, the defendant will need to do so, but may not have to make assumptions about lost profit since this information would already be maintained by the defendant in its normal course of business. Thus the defendant may have an advantage in assessing potential damages.

In view of the above factors, it may actually be that the defendant has the advantage in assessing the strength of a patent infringement case at the outset – both in terms of liability and damages.

If, indeed, the defendant and its counsel have an advantage over the plaintiff in assessing the strength of a patent infringement case, and consequently are in a better position to avoid risk, does it not make sense that the defendant's counsel would actually be in a better position than plaintiff's counsel to represent a party on a contingency basis.

If the defendant in a patent infringement suit may be in a better position than the plaintiff to evaluate the risks of litigating the suit, how can the defendant obtain representation on a contingency basis? Here are four basic steps.

One, evaluate liability critically. If this is possible before suit, the evaluation should include defenses of anticipation, obviousness, enablement, and inequitable conduct. Other potential defenses may be relatively difficult to evaluate in the absence of formal discovery, such as inventorship and best mode.

The liability evaluation must, of course, include infringement. This should include interviews of the inventors as they will likely be deposed on infringement, as well as obviousness, enablement, best mode, and inventorship.

Allegations of inequitable conduct are always a common tactic, particularly if infringement and validity are strong. Accordingly, picking apart the file history for misstatements, half-statements, and omissions is essential.

Two, evaluate potential damages conservatively. Interview financial and accounting personnel to determine profitability of the infringing product. Interview marketing and sales personnel to determine sales projections, market share, and reasonable royalties. Based on the foregoing, a worst case scenario for past and future damages may be calculated.

Third, assign probabilities of success by the plaintiff in proving liability and damages. Based on those probabilities and the above damage calculation, a damage exposure amount can be calculated.

Fourth, assign a success or contingency percentage for settling the suit or obtaining a judgment at an amount that is less than the damage exposure. As an example, if the savings between the damage exposure and the settlement/judgment is "X", then the contingency fee to the defendant's attorney may be "Y" percent of "X".

Many contingency fee arrangements for defense counsel are possible. The contingency fee can be based solely on the savings between the settlement/judgment and damage exposure – which may be particularly workable where the damage exposure is quite high. In another situation, the defendant

counsel's fee may be a mix of hourly fee and contingency fee based on the savings.

Is the defense of a patent infringement suit on a contingency basis a new paradigm? It does not appear so, and can be implemented with four primary steps.