INTELLECTUAL PROPERTY COST CONTROL COUNSEL—WAVE OF THE FUTURE

Maurice N. Ross, Partner, Barton, Barton & Plotkin, LLP[1]

Companies and their in-house counsel are under unprecedented pressure to stabilize or reduce litigation costs. Yet for companies whose business is driven by technology, intellectual property litigation (patent, trademark copyright) is a critical and unavoidable component of doing business. Stabilizing or reducing litigation costs has never been more difficult, but it also has become essential. Even when economic conditions improve significantly, companies will need to find new and effective approaches for controlling intellectual property litigation costs.

In recent years, companies have tried various techniques for cost control, such as alternative fee arrangements, monthly budgeting, and competitive bidding among law firms and vendors. In some circumstances, these techniques have achieved short term economic benefits for the companies who use them. However, as the novelty wears off, these techniques often are found to be more cosmetic than real. For example, elimination of the billable hour has not necessarily reduced compensation to outside counsel---whether the measurement is billable hours, monthly agreed amounts, or discounted fees with a contingent performance based upside, the cost of using traditional outside law firms has continued to increase. In fact, many companies that flirted with alternative billing arrangements have found it beneficial to return to the billable hour.

Companies and their in-house counsel have increasingly realized that the causes of sky-rocketing intellectual property litigation costs are structural, and the various alternative methods by which companies budget and formulate fee arrangements with outside counsel do nothing to address the structural causes of increasing litigation costs. The structural causes of increasing litigation costs can be addressed only by focusing on *how* the litigation is managed from start to finish.

The structural factors that drive litigation costs are (a) the scope of the litigation---what issues are being litigated, (b) the schedule for the litigation—is it on a fast track or slow track, (c) the scope of discovery—is it narrow and focused or a broad fishing expedition, (d) the conduct of the parties during the litigation—scorched earth warfare versus cooperation among counsel for the parties, (e) the scope of motion practice, (f) the scope of expert testimony, and (f) the scope, duration and complexity of pre-trial hearings (such as Markman hearings in patent cases) and trial. Achieving effective litigation cost control requires developing and implementing case management strategies that address these structural factors. This requires the exercise of sound, independent, judgment at all stages of the litigation by an experienced senior trial lawyer with a mandate to assist the company in controlling litigation costs.

[1]Maurice Ross leads the Intellectual property law practice at Barton, Barton & Plotkin

Recognizing the cosmetic and ineffective nature of many of the traditional approaches to controlling litigation costs, companies are now turning to intellectual property litigation cost control counsel ("IPLCC") to lead their efforts to effectively manage and control the structural components of litigation costs. In so doing, companies have recognized that in most circumstances, neither outside counsel nor in-house counsel is well-suited for developing and implementing such strategies. The institutional interests of both outside counsel and in-house counsel often prevent them from effectively controlling the structural components of litigation costs.

Traditional outside law firms are organized in a way that prevents them from effectively controlling the structural components of litigation costs. Associates are evaluated in part based on the number of billable hours, and partners are compensated based on the revenues which they generate. The highest paid partners in traditional law firms are the rainmakers. Effective control of litigation costs is often at odds with this system of economic incentives, because a reduction in legal fees will trickle down to a reduction in compensation for partners and associates. While firms may attempt to convince their clients that they are committed to reducing legal costs by offering to engage in budgeting and/or alternative fee arrangements, and while companies may achieve short term benefits from such alternative arrangements, in the long run law firms have little or no economic incentive to effectively address the structural components of litigation costs.

Moreover, in the traditional law firm culture, the job of the law firm is to do whatever is conceivably useful to achieve the client's objectives. It remains the predominant presumption of traditional law firms that that their corporate clients wants their outside lawyers to expend whatever resources are necessary to win or achieve satisfactory settlements, regardless of the cost. The traditional view—still dominant today, is that the legal fees charged by outside law firms are relatively minor when compared to the amount of money at risk for the company. And because the ability of the traditional law firm to retain and expand its book of clients remains dependent upon achieving success, even today the culture of most large law firms does not lend itself to helping clients achieve effective litigation cost control.

For most companies, in-house lawyers also face institutional pressures that limit their ability to effectively manage the structural components of litigation costs. Effective management of litigation requires exercising proactive, hands-on, intensive litigation oversight. Most in-house counsel simply do not have the time, resources, or litigation experience to effectively engage in such oversight. Further, from an internal budgeting perspective, most in-house counsel do not want to give senior management the impression that legal budgets can be easily cut and, therefore, in many situations achieving litigation cost reduction is not necessarily consistent with the institutional interests of in-house counsel. In addition, effective litigation case management often requires deploying resources of the company (human and tangible) in support of litigation activities—deployment that is often resisted by mid-level executives, scientists and managers. The political and bureaucratic constraints under which in-house counsel operate often inhibit them from requesting that senior management make the sometimes decisions necessary for effective litigation cost management.

In addition, in many companies, senior in-house counsel develop deep personal ties with senior partners in traditional law firms that have long provided legal services for the company. Senior in-house counsel and the company's long-term outside counsel often have navigated the company through difficult legal and political situations, and outside counsel "knows where the bodies are buried." In such circumstances, it becomes very difficult for in-house counsel to provide effective oversight.

Since neither traditional law firms nor in-house counsel are in a position to effectively manage and control litigation costs, companies are increasingly recognizing the need to retain IPLCC reporting directly to senior management and/or the company's board of directors. An ideal candidate to serve as IPLCC is a senior trial attorney with extensive experience in managing complex litigation of the type engaged in by the company (i.e., patent, trademark, copyright, product liability, securities litigation, etc.), and who makes a commitment to provide proactive, hands-on oversight of the litigation, focusing on the above-described structural components of litigation costs. IPLCC generally is expected to regularly identify options available for limiting litigation costs and, in so doing, provide in-house counsel and/or senior management the information and tools necessary to overcome structural and institutional barriers to effective cost control. In most circumstances, IPLCC will be more effective it he/she reports directly to the CEO, Board or another member of the company's senior management team.

In view of the need of many companies for qualified IPLCC, a small number of senior attorneys and small "boutique" firms have begun to specialize in this area. Recognizing that clients may be somewhat skeptical about the value of retaining IPLCC, IPLCC often invite clients to test the value of using IPLCC on a trial basis by retaining IPLCC at discounted rates to conduct an initial litigation cost and management audit, during which time IPLCC typically review and analyze one or more ongoing litigations and make concrete recommendations for achieving cost savings. The focus of such a review is on the structural components of litigation costs described above. In most circumstances, this initial review will achieve reductions in litigation costs that far exceed the amounts paid to IPLCC. After this initial "audit", many clients elect to retain IPLCC to serve on a continuing basis in connection with the matters that were the subject of the "audit" and/or other ongoing litigations. The proactive, hands-on oversight provided by IPLCC will invariably result in cost savings that are substantially greater than fees paid to such IPLCC.

Some have worried that the retention of IPLCC may unreasonably disrupt the relationships among the company, outside counsel and in-house counsel. It is certainly true that IPLCC may make recommendations that are opposed by outside counsel or in-house counsel. Because IPLCC may at times be critical of either outside counsel or in-house counsel, the oversight responsibilities assigned to IPLCC often are neither easy nor pleasant. Effective

IPLCC should, wherever possible, attempt to achieve consensus among members of the litigation team on strategy issues relating to cost control. To achieve success in litigation cost control, senior management must mandate that outside and in-house counsel fully cooperate IPLCC. Further, senior management must insist that IPLCC have a “seat at the table” whenever major strategic decisions are made that impact litigation costs. With the support of senior management, IPLCC usually should be able to effectively assist the company in controlling litigation costs by achieving consensus with outside and in-house counsel on most cost control issues.

Sometimes, however, consensus cannot be reached among outside counsel, in-house counsel and IPLCC. While these situations will be relatively rare, it is precisely where such consensus cannot be reached that IPLCC oversight will provide the most value to the company. This is because to achieve effective cost control, senior management must on occasion be brought in to make the difficult decisions that are necessary to achieve effective litigation cost control. The job of IPLCC in such circumstances is to concisely and accurately present the relevant facts and strategic disagreements to senior management so that senior management has the information necessary to make the sometimes difficult decisions that permit effective control of litigation costs. In the final analysis, by serving as the eyes and ears of senior management, IPLCC empowers senior management to seize control over structural components of litigation costs and thereby achieve effective litigation cost control.