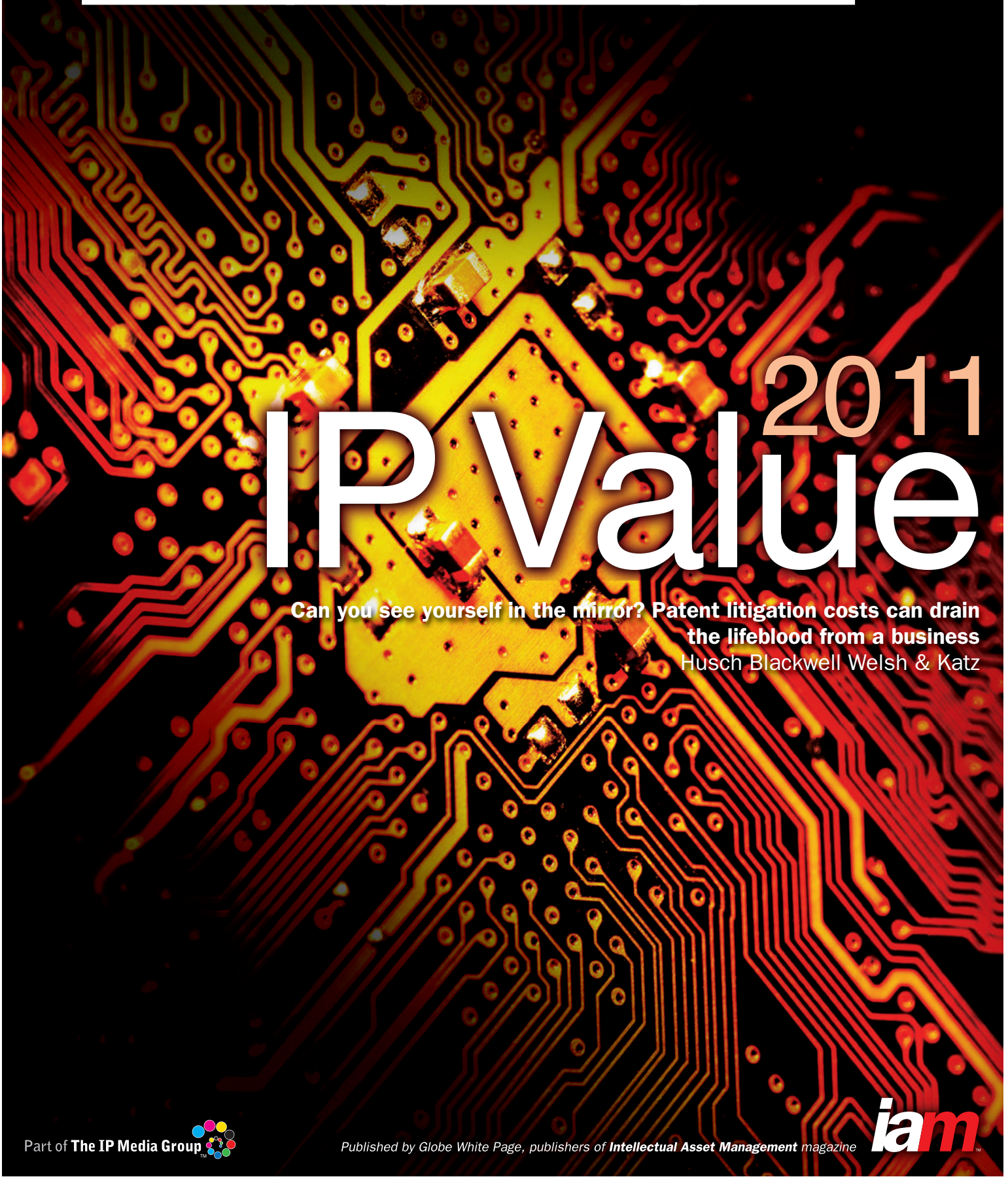

IP Value 2011

Can you see yourself in the mirror? Patent litigation costs can drain the lifeblood from a business

Husch Blackwell Welsh & Katz

Part of The IP Media Group

Published by Globe White Page, publishers of ***Intellectual Asset Management*** *magazine*

iam

Julie A Katz Husch Blackwell Welsh & Katz

United States

Can you see yourself in the mirror? Patent litigation costs can drain the lifeblood from a business

Patent litigation is often regarded as an excessively expensive process. The costs of discovery, experts and lengthy trial preparation accumulate very quickly. Nonetheless, a number of actions may be employed to try to prevent costs from skyrocketing. Importantly, controlling costs need not result in sacrificing any of the potential of the case in order to succeed in litigation. This chapter outlines some points that could help to develop a strategy for controlling costs in patent litigation that is in sync with the overall litigation strategy.

The light of the sun may burn

A company should make informed decisions when choosing counsel and remain involved in the litigation in order to prevent as many surprises as possible. Selecting attorneys with experience and resources is important. It is also vital to listen to what they tell you about their approach to containing costs and meeting your litigation goals. A litigation team that has experience in the field or industry at issue should also be accessible, share your cost awareness and welcome your comments and/or inquiries about the progress of the case.

In this regard, consider scheduling regular status updates with your law firm. This level of communication should keep your company involved in the litigation and serve as an opportunity for you and the firm to interface regularly to exchange ideas and information. Keeping informed of the case strategy as it evolves through the events that occur during the litigation by means of regular and open communication with your outside counsel should prevent being burned by an otherwise unexpected invoice.

Grow stronger with time

Establish a litigation strategy and allow the plan to change and evolve as litigation progresses. Begin litigation by working with counsel to establish a plan for moving forward. There may be an overall plan and, within that, a 'one step at a time' plan — both of which should evolve as evidence is produced in the case, rather than being locked in at the beginning and not responding to changes. This plan may include the development of the story of the case, as well as discussions of projected costs for each phase of the litigation, including pre-trial, trial, post-trial and appeal(s). Knowing from the beginning that patent litigation will be expensive helps to manage everyone's expectations. Even if you control costs, the costs of litigation add up very quickly. The point here is that steps can be taken to contain the costs as much as possible.

Continue to discuss the story of the case and the ultimate litigation objectives. Focus on the main objectives, but let them change, always communicating with outside counsel. What you may be willing to negotiate about at the onset (or not) will probably change over the course of the litigation. Ongoing conversations on this subject matter can reduce the cost of outside counsel spending time on aspects of the litigation that no longer meet the business case supporting the lawsuit. For example, consider whether seeking a permanent injunction is supported by the evidence and would meet your business objectives, or whether instead an award of monetary damages and/or royalty payments would serve your objectives. These determinations may change as your opponents make their own moves, discovery reveals new information and experts provide their opinions. Giving your attorneys a clear concept of what you are trying to achieve should help them to move litigation forward and to negotiate with opposing counsel to pursue the key aspects of the case, while saving costs by not spending time on inconsequential issues.

As part of the initial establishment of a litigation plan, a company should work with outside counsel to establish a preliminary budget for each of the various stages of litigation. However, it should be mindful that the costs can fluctuate based on events such as the level of fight from the opponent. The circumstances

surrounding the case may change and result in the need to revisit and revise budget estimates. In addition, make an effort to know the firm's staffing plan and understand billing methods to the extent that the outside counsel has not raised these issues. This should not require micro-managing every aspect of the billing, but instead should help you to understand the firm's litigation strategy and methods for moving the case forward in an efficient and cost-effective manner.

Draining the blood from your bank account

Target your discovery plan to avoid excessive motions practice and control the costs associated with expert witnesses. Without a good, balanced discovery plan, costs can escalate quickly and unnecessarily. A good plan involves an understanding of what types of information will be sought and how the information will be gathered and evaluated.

One reason that patent litigation can become excessively expensive is because of the overuse of overly broad, non-targeted discovery requests, which tends to lead to motion practice. One potential way to prevent this occurrence is in the initial assessment of discovery as discussed with outside counsel. To the extent possible, try to avoid working with attorneys who come into the case with their own personal agenda. Attorneys with litigation experience should realise and express the importance of choosing to fight the important, goal-oriented battles, keeping the business objectives in mind all the time. They should work with opposing counsel in a civil manner to deal with electronic discovery issues that can streamline the litigation process, rather than dragging it out longer, which costs more money. Usually, no benefit is gained from fighting over every piece of paper or TIFF file exchanged between parties in discovery, and this kind of approach will definitely drive the litigation costs up.

Part of developing a targeted discovery plan depends on the theory of the case and is entwined with the underlying business objectives. This plan permits the litigation team to focus on seeking and providing specific types of information, while excluding large amounts of extraneous and irrelevant information from discovery.

When initially determining how to budget and allocate costs over the course of litigation, a company should give consideration to investment in validity searches. Patents are presumed to be valid, but this is a rebuttable presumption. In anticipation of a fight on this issue, it may be advisable to invest in validity searches before a lawsuit is filed (if you are a patentee) and worth the investment in these searches early on in the case (if you are the accused infringer), particularly in order to focus the discovery efforts rather than conducting an expedition into the unknown. Depending on your perspective going into the case (ie, whether you are the patentee or the accused infringer), these efforts may prevent your spending significant resources in litigation over a patent which you would not otherwise have chosen to pursue had you budgeted for outside counsel to conduct the searches. There may be reissue or re-examination procedures which you can pursue before initiating litigation if the validity search uncovers issues. These types of preventive measures are likely to decrease the overall cost of the litigation; without them, the chances increase that there will be surprises that unnecessarily increase the litigation costs during the course.

Beware the predatory nature of others

Consider the viability of joint defences as a way to reallocate the burdens and costs of patent litigation. Developing joint defence strategies with other co-defendants can be an effective way to share the burden of the kinds of cost that will occur regardless, such as various aspects of fact and expert discovery (eg, e-discovery, computer forensics and document-hosting databases). If properly orchestrated, multiple defendants can pool resources so that each party takes only a proportionate amount of the work (fewer billable hours means lower costs and a smaller share of the disbursement from vendors and expert fees). For example, the joint defendants can work together to develop litigation strategies and share the costs of legal research and deposition taking and defence.

However, a company should be mindful that the litigation strategy of a co-defendant may be a 'scorched earth' method, in which case it will not necessarily be helpful in cost-sharing measures. Importantly, working in conjunction with joint defendants is economical only if the parties involved share similar goals — joint defences can otherwise become particularly expensive if the other defendants do not share the goal of cost conservatism. For example, imagine a scenario in which there are five co-defendants. The co-defendants each decide to work on a component of discovery, dividing up the documents so that each reviews one-fifth of the documents produced by the opponent. In theory, this should reduce attorney fees and vendor disbursements. You and your litigation team focus your discovery and control costs because you are splitting litigation costs with the other co-defendants. However, if one of the co-counsel takes the position that every document must be translated or wants to fight over whether the opponent has produced everything requested, the theory may not be the reality. You may end up splitting higher expenses,

making your individual share larger than if you were fighting the case alone. A frank discussion with your outside counsel regarding the pros and cons of proceeding in this manner is a good idea. More than likely, it will not be a one-off conversation, depending on how the case evolves and what actions your co-defendants want to take.

Additional concerns to be aware of when considering joint defences include the logistical details of coordinating trial preparation and the trial itself among a number of the parties and attorneys. Questions such as who will be the lead scribe for the pre-trial order and which attorneys will take the direct and cross-examination of which witnesses should be decided sooner rather than later, in order to avoid duplication of efforts. There may also be concerns about the effect of a decision by one joint defendant to settle or to sit out the case and abide by the final decision of the court on other defendants which hold different views as to the ultimate goal of the litigation.

Being invited to enter

A company should recognise the necessity and cost consequences of involving experts in the early stages of litigation. Experts play an important role in almost all patent litigation. Because of the necessity of employing experts and other technical advisers or consultants (ie, persons of ordinary skill in the art), it is important to find those experts with the most credible credentials and breadth of experience with litigation and in the particular science or technology. Experts may charge only on an hourly basis, so outside counsel should be well prepared in advance of meetings and mindful of the range with which the expert serves the case. As is a recurring theme in this chapter, a company should ensure that it communicates with its attorneys. Trying to avoid certain costs can hurt the chances of success by denying your attorneys the latitude necessary to sort through the evidence and prepare the case for trial. Operating on the assumption that the opponent will fold is a dangerous gamble to take and can lead to a spike in costs rather than a conservative, even level of spending. Experts often have extensive patent knowledge and may be useful in a number of ways, including helping outside counsel to understand the prior art, developing strategies and identifying settlement or licensing terms. Retaining experts (whether testifying or non-testifying) early on in the case can ultimately reduce the overall cost of the litigation, because gaining the knowledge of one skilled in the art can place the outside attorneys in a better position to target discovery, focusing on the business objectives and the relevant evidence, while weeding out the irrelevant material that otherwise tends to drain a company's resources.

Conclusion

This chapter has discussed the control of costs in patent litigation, primarily during fact and expert discovery phases. Other phases of patent litigation to consider when trying to control costs include preparation for Marksman hearings, mandatory mediation, trial, post-trial and appeal. The bottom line is that patent litigation is expensive, but it is entirely possible to manage costs and still achieve your litigation and business goals. Choosing your litigation team carefully, communicating your goals and objectives throughout the case as they change and staying involved in the case are important components of cost management in patent litigation.

The author would like to thank Leslie Prill, law student, Indiana University Mauer School of Law, for her work on the chapter.

Julie A Katz
Partner
julie.katz@huschblackwell.com
Husch Blackwell Welsh & Katz
United States

Julie Katz is a partner in the IP and IP litigation departments. She graduated from the University of Illinois College of Law in 1990. Ms Katz's practice consists of all aspects of IP litigation, and she also practises in matters of non-contentious trademark, copyright and design protection. She is an active member of the International Trademark Association and the Pharmaceutical Trademark Group, and a corporate partner of the National Association of Women Business Owners' Chicago Chapter.

Husch Blackwell Welsh & Katz
120 South Riverside Plaza
Suite 2200
Chicago IL 60606
United States
Tel +1 312 655 1500
Fax +1 312 655 1501
Web www.huschblackwell.com

HUSCH BLACKWELL
WELSH KATZ