

# **Effectively Managing Litigation for In-House Counsel**

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## I. INTRODUCTION

In-house counsel plays the most important role in managing patent infringement litigation. This statement, seemingly obvious, is not always true in application. Failure to be fully involved and knowledgeable about the litigation process generally leads to higher costs, unrealistic expectations, and possible sanctions resulting in dismissal or default judgment in the worst case scenario. This paper is intended to help in-house counsel make effective decisions that will manage patent infringement litigation without breaking the bank in the process.

The litigation statistics for patent infringement are fascinating, only 11.4 percent of patent cases disposed in 2009 were done so at trial or through summary judgment.<sup>3</sup> This means that in over 88 percent of cases, parties spend substantial sums of money on litigation when in the end a business decision settles the controversy. Clearly, the litigation process makes settlement a reasonable solution through proper selection of counsel, effective discovery, and capitalization of settlement opportunities. However, without effective management by the in-house counsel, resolution of the case is not likely to conclude as efficiently and inexpensively as possible. Managing litigation by in-house counsel is more burdensome than in years past due to the expanding presence of e-discovery and costly defense of inequitable conduct.

The paper is divided into three sections: pre-lawsuit considerations, pre-trial matters including discovery, and settlement. These categories, based on the backdrop of skyrocketing costs of patent infringement lawsuits, provide areas that in-house counsel must be mindful of if they are seeking to reduce cost and place the company in the best possible position for settlement or trial. Throughout this paper, an overarching key element is to have an effective relationship with the lead attorney in order to have timely, useful, and frank discussions about all aspects of the case.

## II. SKYROCKETING COSTS OF LITIGATION

The overall amount spent on litigation has increased substantially in the last two years as a higher percentage of companies are spending at least \$1 million annually in litigation expenditures. In 2009, Fulbright & Jaworski, L.L.P. released its sixth annual survey targeting trends in modern litigation<sup>4</sup> and found 13% of small companies in 2009 spent at least \$1 million annually in litigation costs; the number was 4% in 2007.<sup>5</sup> Approximately 38% of mid size companies spent at least \$1 million in litigation costs in 2009 compared to only 26% in 2007.<sup>6</sup> Comparatively speaking, the largest companies had a much smaller increase in those spending at least \$1 million annually as the percentage grew from 75% in 2007 to 78% in 2009.<sup>7</sup> To put these numbers in perspective, 13% of the small companies that responded spend at least a *minimum* of 1% of their gross revenues to litigation expenditures in 2009; there are not many chief executives that are likely happy with that amount of overhead loss.

Patent infringement cases are generally considered one of the more expensive lawsuits to litigate and are far more expensive than other intellectual property lawsuits such as a trademark or copyright. The American Intellectual Property Law Association's (AIPLA) Report of the Economic Survey 2009 provides analysis of median litigation costs based on three categories of risk: (1) less than \$1 million, (2) \$1 to \$25 million, and (3) more than \$25 million.<sup>8</sup> The report further categorizes the median cost by

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<sup>3</sup> University of Houston Law Center, *2009 Fiscal Year Disposition Modes for Patent Cases*, available at <http://www.patstats.org/Patstats2.html> (last visited June 13, 2010).

<sup>4</sup>Fulbright & Jaworski, L.L.P., Fulbright's 6th Annual Litigation Trends Survey Report (2009). Responding companies were categorized as small, mid-size, or large, corresponding to annual gross revenues of less than \$100 million, between \$100 million and \$1 billion, and over \$1 billion respectively. *Id.* at 8.

<sup>5</sup> *Id.* at 26.

<sup>6</sup>*Id.*

<sup>7</sup> *Id.*

<sup>8</sup> Am. Intellectual Prop. Law Ass'n, *AIPLA Report of the Economic Survey 2009* (2009).

distinguishing the cost at the conclusion of discovery from the total cost of the litigation. The 2009 survey found the median cost at the conclusion of discovery for a case with less than \$1 million at risk was \$350,000 for patent, \$175,000 for trademark, and \$150,000 for copyright.<sup>9</sup> The median total cost for a case with less than \$1 million at risk increases to \$650,000 for patent compared to \$300,000 for both trademark and copyright cases.<sup>10</sup> It is estimated that a plaintiff and defendant will spend a *total of \$1.3 million* to litigate through a trial a case with *less than \$1 million at risk*.

As the stakes increase, the median cost of patent cases substantially outpaces trademark and copyright: for \$1 to \$25 million at risk, the median patent infringement case, inclusive of all costs, is \$2.5 million compared to \$700,000 for trademark and \$600,000 for copyright.<sup>11</sup> Similarly, the median cost at the end of discovery follows the same pattern.<sup>12</sup> The need for increased discovery, increased document review, searches for inequitable conduct, multiple expert witnesses, increased trial preparation, and expense of Markman hearings all contribute to the increased costs of patent litigation compared to other forms of litigation.

The AIPLA began tracking the median costs of patent litigation in 2001 and to no surprise the median patent litigation cost continues to rise. In 2001, the median patent litigation cost for less than \$1 million at risk was \$499,000 inclusive of all costs and \$250,000 at the conclusion of discovery.<sup>13</sup> Eight years later, the median patent infringement case has increased to \$650,000 inclusive of all costs and \$350,000 at the end of the discovery for a case with less than \$1 million at risk.<sup>14</sup> The increase is similar at all levels of risk. One important observation in the historical pattern of median patent litigation is that the increase in discovery makes up a large percentage of the overall increase in patent litigation.

Despite the dramatic increase in litigation costs for patent infringement, the number of new filings has risen steadily from 2001 to 2009. Federal court statistics, ending September 30 of the year cited, show 2,520 patent infringement cases were filed in 2001<sup>15</sup> compared to 2,792 in 2009.<sup>16</sup> The 2009 numbers are down from the peaks of 3,075 in 2004<sup>17</sup> and 2,909 in 2008.<sup>18</sup> Whether the reduction of new filings is a result of the rising cost or an affect of the poor economy, in-house counsel cannot to turn a blind eye to the amount they are spending on litigation. The rising costs of trying an intellectual property case can have far-reaching effects and may even cause parties with meritorious claims to forego litigation -- which in a patent case, for instance, can lead to the preservation of invalid patents.<sup>19</sup>

### III. PRE-LAWSUIT CONSIDERATIONS

#### A. In-house Counsel Leadership

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* at 29.

<sup>11</sup> *Id.* The median patent infringement case in which more than \$25 million is at risk, costs \$5.5 million compared to \$1.4 million for trademark and \$1.1 million for copyright inclusive of all costs. *Id.*

<sup>12</sup> *Id.* (reporting that at the end of discovery for \$1 to 25 million at risk, median patent infringement is \$1.5 million compared to \$400,000 for trademark and \$350,000 for copyright).

<sup>13</sup> Am. Intellectual Prop. Law Ass'n, *AIPLA Report of the Economic Survey 2007* (2007).

<sup>14</sup> Am. Intellectual Prop. Law Ass'n, *AIPLA Report of the Economic Survey 2009* (2009).

<sup>15</sup> Judicial Business of the Federal Courts 2003, Table C-2A, <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2003/appendices/c4a.pdf>.

<sup>16</sup> Judicial Business of the Federal Courts 2009, Table C-2A, <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2009/appendices/c4a.pdf>.

<sup>17</sup> Judicial Business of the Federal Courts 2006, Table C-2A, <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2006/appendices/c4a.pdf>.

<sup>18</sup> Judicial Business of the Federal Courts 2009, Table C-2A, <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2009/appendices/c4a.pdf>.

<sup>19</sup> Christopher A. Harkins, *Fending Off Paper Patents and Patent Trolls: A Novel "Cold Fusion" Defense Because Changing Times Demand It*, 17 ALB. L.J. SCI. & TECH. 407, 436 (2007).

One of the most important factors in keeping costs down for a patent plaintiff is strong leadership by the in-house counsel. In-house counsel has multiple decisions that affect the total costs of a lawsuit including the selection of outside counsel, selection of the lead attorney, decision of how much work can be done in-house, and the manner, length, and thoroughness of discovery. At all points through this paper, in-house counsel should be in communication with outside counsel and be apprised of major decisions, especially if they involve major expense. Active participation by the in-house counsel may reveal areas of settlement, avoid unnecessary discovery, or avoid billing disputes with outside counsel. In-house counsel must always understand that outside counsel is hired to do the best job, not necessarily the most cost-effective and efficient job. Without effective communication, outside counsel cannot do its job to the satisfaction of its client and therefore it is necessary to always be open and advise your attorneys how they should proceed.

Once the decision to file suit is made, in-house counsel's most important decisions are determining the appropriate venue, selection of outside counsel, and selection of the lead attorney. Generally the selection of the lead attorney and outside counsel coincide, but venue is now also playing an increased role in selection of counsel.

## B. Venue

Determining where to file a patent infringement case is decidedly tougher for plaintiffs than in years past. Venue is clearly important in cost considerations as the plaintiff must weigh the likelihood of success of certain districts with the cost of the location. That cost includes such expenses as the cost of attendance for depositions, hearings, analyzing documentary evidence, and eventual trial. For a plaintiff located on the west coast, trying a case in Texas or the east coast may add substantial costs compared to a lawsuit filed in the home district of the plaintiff. Additionally, venue selection traditionally played a significant role in the selection of outside counsel. Considering the events of the last year, plaintiffs must now make a renewed focus on determining where to file a patent infringement lawsuit.

The decision of where to file suit was relatively simple up until 1988. If a plaintiff filed a lawsuit during the 1980's, in a remote location which had no relation to the defendant nor the claim, the judge likely would have transferred the case "in the interest of justice" pursuant to 28 U.S.C. § 1404(a). Courts often transferred cases to the defendant's principal place of business, a seemingly favorable forum for the defendant. The decision of where to file a case was relatively easy and cost efficient; the expense of a motion to transfer venue was not ordinarily needed.

During the 1990's and especially beginning in 2000, plaintiff's began to forum shop, attempting to find district courts that were favorable to patent plaintiffs. Those permeating views resulted in a large number of cases shifting to those districts. For example, 20 patent cases were filed in the Eastern District of Texas in 2000 which subsequently rose to 161 in 2005 and 311 in 2008.<sup>20</sup> A similar increase of patent case filings was noticed in the Northern District of Georgia which climbed from 43 cases in 2001 to 77 in 2006.<sup>21</sup> The decision to file in the Eastern District of Texas was boosted by a perception that the court was not likely to grant a motion to transfer venue due in part to the substantial weight given to the plaintiff's choice in venue.<sup>22</sup> The substantial leeway granted to plaintiff's choice of forum in the Eastern District of Texas often meant the defendant was required to spend more money in defending a lawsuit,

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<sup>20</sup> Paul M. Janicke, *Venue Transfers from the Eastern District of Texas: Case by Case or an Endemic Problem?*, *Landslide*, March/April 2010.

<sup>21</sup> Ben Katzenellenbogen, *Trends in Patent Litigation*, 899 PLI/PAT 275, 284-85 (2007) (noting that the increase in filings for both the Eastern District of Texas and the Northern District of Georgia were due in part to the pro-patentee reputation).

<sup>22</sup> See *QR Spex, Inc.*, 507 F. Supp. 2d 650, 665 (E.D. Tex. 2007) (maintaining that "the plaintiff's choice of forum should not be lightly disturbed"); *Datamize, Inc. v. Fidelity Brokerage Servs., LLC*, No. 2:03-CV-321-DF, 2004 WL 1683171, at \*9 (E.D. Tex. 2004) (finding choice of forum factor weighed in favor denying venue transfer); *In re Triton Ltd. Secs. Litig.*, 70 F. Supp. 2d 678, 688 (E.D. Tex. 1999) (stating that the plaintiff's choice of forum is "paramount" and "highly esteemed").

typically far away from principal place of business. Moreover, juries in the Eastern District of Texas have awarded the patentee some of the largest patent infringement judgments in history.<sup>23</sup>

In 2008, a change in venue transfer enforcement resulted in a patent defendant obtaining transfer of the case out of the Eastern District of Texas through a mandamus proceeding in front of the Federal Circuit.<sup>24</sup> Through application of the Fifth Circuit's factors for venue transfer, the Federal Circuit expressly overruled the Eastern District's previous reliance on plaintiff's choice of venue and the improper application of witness and document location.<sup>25</sup> This mandamus decision provided the basis for three more mandamus decisions by the Federal Circuit<sup>26</sup> and voluntary transfers by the court.<sup>27</sup>

Whether the mandamus decisions reflect a new ability to remove cases from the Eastern District of Texas is debatable,<sup>28</sup> it is clear that motions to transfer are being granted more regularly and overall filings have decreased.<sup>29</sup> According to a presentation given by Efrén García, defendants were only successful in motions to transfer venue 25 percent in 2006, 47 percent in 2007, and 40 percent in 2008.<sup>30</sup> However in 2009, the success rate for a defendant's motion to transfer venue increased substantially to 72 percent. Additionally, the number of motion to transfer venue filings have increased, despite the overall number of patent infringement cases decreasing in the Eastern District of Texas.<sup>31</sup>

The decision of where to file a patent infringement case is no longer a simple decision. Special attention must be given to venue determination and make sure money is not wasted by filing a lawsuit in a patent friendly district court that is likely to transfer the case. Losing the ability to select venue appropriately may make the case more expensive to litigate due to fighting motions to transfer and the added expense of increased travel.

### C. Selection of Outside Counsel

There are a myriad of factors that go into the selection of outside counsel, local counsel, and the lead attorney. Expertise, experience, reputation and cost all play a significant role. For the purposes of this paper, cost is the only consideration analyzed. The decisions relating to outside counsel are interrelated and depend on the preference of the in-house counsel. Usually the decision of the lead attorney impacts the decisions on whether to utilize additional firms or not.

Generally there are four scenarios for the selection of outside counsel in patent infringement cases: 1) IP boutique with litigation experience; 2) large law firm with IP section; 3) combination of general litigation firms and patent firms; and 4) general litigation firm with in-house counsel providing patent support. All four scenarios require analysis to determine if local counsel should also be included.

<sup>23</sup> Erika Morphy, *Microsoft Ordered to Cough Up \$1.5B in Patent Case*, E-Commerce Times, Feb. 23, 2007 (Eastern District of Texas jury found Microsoft liable for \$1.5 billion for patent infringement); Bloomberg News, *Microsoft, Autodesk Lose \$133 Million Patent Verdict*, The Seattle Times, April 19, 2006 (Eastern District of Texas jury found Microsoft owed \$115 million and Autodesk \$18 million for patent infringement).

<sup>24</sup> *In re TS Tech USA Corp.*, 551 F.3d 1315, 1318 (Fed. Cir. 2008).

<sup>25</sup> *Id.*

<sup>26</sup> *In re Nintendo Co. Ltd.*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Hoffmann-La Roche, Inc.*, (Fed. Cir. 2009); *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir., 2009).

<sup>27</sup> *See, e.g. Odom v. Microsoft Corp.*, 596 F.Supp.2d 995 (E.D. Tex. 2009).

<sup>28</sup> Paul M. Janicke, *Venue Transfers from the Eastern District of Texas: Case by Case or an Endemic Problem?*, *Landslide*, March/April 2010 (finding that the Eastern District of Texas actually transferred above or at the same rate patent cases prior to the mandamus rulings); *but see* Efrén García, *Effects of In re TS Tech USA Corp. on Patent Cases in the Eastern District of Texas*, (February 19, 2010) <http://www.utexas.edu/law/journals/tiplj/documents/symposia/2010/Slides/Efren%20Garcia%20-%20Effects%20of%20In%20re%20TS%20Tech.pdf> (last visited June 14, 2010) (providing statistics that make the basis for easier and more frequent transfers after *in re TS Tech*).

<sup>29</sup> Efrén García, *Effects of In re TS Tech USA Corp. on Patent Cases in the E.D. Texas*, at 26, 28 (February 19, 2010) <http://www.utexas.edu/law/journals/tiplj/documents/symposia/2010/Slides/Efren%20Garcia%20-%20Effects%20of%20In%20re%20TS%20Tech.pdf> (last visited June 14, 2010)

<sup>30</sup> *Id.* at 28.

<sup>31</sup> *Id.* at 26, 28.

Scenario 4 is the least expensive option because it allows the in-house counsel to handle the intricacies of patent law without having to hire an additional firm. Additionally, general litigation firms are generally cheaper than specialized IP litigators. However, this option is generally not plausible due to the existing responsibilities of in-house counsel plus the potential inexperience with Markman hearings or other nuances of patent litigation.

The most expensive option is scenario 3 because it requires a minimum of two separate law firms. While general litigators may be cheaper in general than IP litigators, the corporation still must pay two firms to educate themselves on the substantive issues of the case. In comparison, options 1 and 2 are satisfied by retaining a single firm to handle both the patent issues and litigation.

The following sections discuss some of the major decisions such as choosing between an IP boutique and IP section of a large firm, whether local counsel is necessary, and the identification of the lead attorney.

### 1. IP Boutique or IP Section of a Large Firm

Unless the in-house counsel is particularly skilled, comfortable, and willing to handle the patent law aspect of litigation, the corporation must hire outside patent counsel. The current landscape of the legal industry provides two options for competent patent counsel, an IP boutique firm and the IP section of a large firm.

The legal landscape has changed significantly over the last fifteen years. General law firms began acquiring IP boutiques in the 1990s and converting them into the intellectual property section of the general law firm, a trend that continues today.<sup>32</sup> Many of the IP sections in large law firms employ at least 50 IP attorneys. In comparison, although there are a few exceptions, it is rare for IP boutiques to have more than 10 to 20 attorneys in the entire firm. The larger the number of IP attorneys in each section, the stronger the pressure to generate billing to justify their existence. In the personal opinion of the author, this billing pressure at least partially contributes to the tremendous increase in the cost of patent litigation. In addition to the increased amount of billing, the larger the number of IP attorneys in the firm the higher the average billing rate for partners<sup>33</sup> and associates.<sup>34</sup>

Based upon the author's personal experience of litigating intellectual property cases for more than thirty-five (35) years, large firms tend to file every conceivable motion, fight every discovery battle, and brief every point *ad infinitum*, no matter how remote the possibility of emerging victorious. There is a trend that as the number of IP attorneys in a firm increases, that no motion goes unfiled and no discovery battle goes unfought. Smaller firms, on the other hand, tend to conserve resources and argue only the points where the client stands a greater probability of winning.

AIPLA's 2009 Report of the Economic Survey supports this contention. According to the survey, the average cost of patent litigation increased with the number of attorneys in the firm.<sup>35</sup> For example, with less than \$1 million dollars at risk, the cost of patent litigation for a firm with 1-5 attorneys averaged \$625,000, for 6-75 attorneys the average cost was \$823,000, and for 76 or more attorneys the average cost was \$1,234,000, which is \$234,000 more than the maximum amount recoverable!<sup>36</sup> Generally, the more attorneys in the law firm handling a case, the more the IP litigation will cost.

This particular adversarial tendency can be analogized to instances in military history. For example, in the Texas War for Independence, Santa Ana greatly outnumbered the Texans by

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<sup>32</sup> Leigh Kamping-Carder, *Why Some IP Boutiques Fail*, LAW360, March 15, 2010; Tamara Loomis, *Adapt or Die*, IP LAW & BUSINESS, March 2005, at 30.

<sup>33</sup> Am. Intellectual Prop. Law Ass'n, *AIPLA Report of the Economic Survey 2009*, at I-34 (2009) (reporting the average billing rate for a partner in a firm with 6-10 fulltime IP attorneys is \$358; 26-50 fulltime IP attorneys is \$454, and more than 150 fulltime IP attorneys is \$599).

<sup>34</sup> *Id.* at I-52 (reporting the average billing rate for an associate in a firm with 6-10 fulltime IP attorneys is \$258; 26-50 fulltime IP attorneys is \$303, and more than 150 fulltime IP attorneys is \$387).

<sup>35</sup> *Id.* at I-130 to I-131.

<sup>36</sup> *Id.*

approximately four to one.<sup>37</sup> In the decisive battle of San Jacinto, Mexican troops outnumbered the Texans not only by troops in the general area, but also by troops present during the battle.<sup>38</sup> Notwithstanding the disadvantage, the Texans won by making a critical strike at a critical moment.<sup>39</sup> The Texas War for Independence was fought and won with the loss of a few thousand lives and determined the destiny for a major section of our country as a result of crucial decisions made at the right time.

The opposite analogy can be drawn from the Civil War, where the North was vastly superior to the South in number of troops and resources.<sup>40</sup> On the whole, the Southern Officers were better tacticians and military strategists than the Northern Officers.<sup>41</sup> In the end, the North won the war of attrition, costing millions of dead or maimed soldiers.<sup>42</sup> Based upon the author's personal experience, many of the larger firms have a tendency to wage siege warfare, where winning could come at a substantial price.

General law firms have talented IP litigators and the resources available to try the most complex IP cases, however a number of quality IP boutiques remain that can handle even the most complex patent infringement suits.<sup>43</sup> It is imperative that in-house counsel properly estimate the cost effectiveness of an IP boutique with the IP section of a large firm. If "siege warfare" is the desired strategy of in-house counsel, then a large law firm is the reasonable choice; however that decision will come at a substantial price potentially exceeding the total value of the claim.

## 2. Selection of Local Counsel

The saying "don't play ball on someone else's court unless you know the rules of the game" applies as much today as it did in the 1980s.<sup>44</sup> In other words, locate an experienced local counsel who knows the ins and outs of the judge and jury system in that particular area. While some clients attempt to hire local counsel rumored to have "influence with the judge," federal judges cannot be bought and sold. Nevertheless, a local counsel still provides a considerable advantage in knowing the preferences, tendencies and idiosyncrasies of the particular judges, juries, and procedures. With this insider knowledge, lead trial attorneys can better prepare a case in the most expeditious and cost efficient matter.

For example, if a case is located in the Eastern District of Texas, it is imperative to rigorously follow the special Patent Rules.<sup>45</sup> Moreover, various judges have created additional rules or guidelines specifically for their courtrooms.<sup>46</sup> Still further, as human beings, judges have their own internal "rules" which do not tend to be transcribed in an easily readable format. Guidance from a seasoned local counsel on these nuances of each courtroom can greatly benefit the lead attorney and/or litigant throughout a case. The involvement of local counsel may vary depending on the preference of in-house counsel; they can provide an instrumental role during trial and substantive development of pleadings, or they can simply act as consultants and a conduit for knowledge of the local judicial district. Cost considerations are important in determining how much involvement the local counsel should have; while it is necessary to spend the money educating all attorneys involved in the case, the amount of education should be decreased if the local counsel is utilized as a consultant to the local court.

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<sup>37</sup> Gregg J. Dimmick, *Sea of Mud: The Retreat of the Mexican Army after San Jacinto, An Archeological Investigation* (2004).

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> Leon F. Litwack, *Civil War, American*, Funk & Wagnalls New Encyclopedia (2006), available at <http://www.history.com/encyclopedia.do?articleId=205794> (last visited June, 10, 2010).

<sup>41</sup> *Id.*

<sup>42</sup> Craig Lambert, *The Deadliest War*, Harvard Magazine, May-June 2001, available at <http://harvardmagazine.com/2001/05/the-deadliest-war.html> (last visited June, 10, 2010).

<sup>43</sup> Jesse Greenspan, *Some Boutiques keep Thriving Despite Tough Climate*, IP LAW 360, May 9, 2008.

<sup>44</sup> Lee, *supra* note 4, at § 7.04.

<sup>45</sup> E. D. Tex. R. App. M. R. 1, *et seq.*

<sup>46</sup> *E.g.*, Hon. Jeanne E. Scott, District Judge for the Central District of Illinois, *Rules of the Courtroom*, available at [http://www.ilcd.uscourts.gov/rules/Judge\\_Scott\\_COURTROOM%20RULES.pdf](http://www.ilcd.uscourts.gov/rules/Judge_Scott_COURTROOM%20RULES.pdf) (last visited June, 10, 2010).

### 3. **One-Stop Shop: Hiring Counsel that can Fulfill Dual Roles**

A strong cost saving option available to in-house counsel is the employment of outside counsel that is capable of handling multiple roles such as the primary litigation duties and serve as local counsel. This scenario makes the selection of the outside counsel dependent on the location of the lawsuit. The reduction in savings is fairly high with the need to only educate one firm's attorneys for the case. Additionally, travel expenses relating to hearings and trial would be greatly reduced due to the proximity of the attorneys to the court.

As a result of the pro-patent courts such as the Eastern District of Texas, some big law firms have opened offices in that district staffed with their own attorneys. The larger law firms can advertise themselves as (a) having a presence in the Eastern District of Texas, (b) serving as their own local counsel, and (c) having an abundance of resources. In this manner, one attorney can act as the lead counsel, the trial counsel, and the local counsel.

In the same regards, a carefully chosen IP boutique firm may also serve as the chief litigator, local counsel, and patent expert. Considering the amount of cases filed in the Eastern District of Texas is declining and the possibility of transfer is more plausible, hiring an IP boutique in the district of the litigation to handle all aspects of the case is a viable option.

### 4. **Selection of Lead Attorney**

Perhaps the most important decision made by the in-house counsel is the selection of the lead attorney. Like a Commander during war, one lead attorney should be in charge of any case. The lead attorney usually presents itself in three forms: a registered patent attorney, trial attorney with patent experience, or a trial attorney with the assistance of a patent attorney sitting second chair. The selection of the lead attorney is usually made in conjunction with the selection of outside counsel and the determination of what scenario makes the most sense for the corporation. If two or more firms are hired, it is even more crucial to have one attorney in charge in order to prevent duplicative works and major conflicts in strategy.

Once selected, it is imperative the lead attorney and in-house counsel have immediate in-depth discussions regarding trial strategy. Such trial strategy must include where to file the lawsuit, whether to seek a preliminary injunction, how to handle discovery, discussion of maintaining in-house computers and documents, and identification of technology experts within the company.

Cost considerations should also be discussed from the onset with the following points emphatically clear:

1. A junior level attorney with a lower billing rate will be assigned to the case.
2. Work that can be done by the junior attorney will be done by the junior attorney.
3. The only battles that will be fought are those with a good probability of winning.
5. Discovery disputes will be avoided in every way possible.
6. What must be done will be done, while minimizing attorneys, fees, and resources.

Attorneys with lower billing rates should perform the majority of the leg work in any action but have experienced senior attorneys providing supervision and guidance. Senior attorneys should reserve most of his or her time for critical decisions, thus avoiding high billing expenses on briefing simple motions such as a venue transfer.

It is important for the in-house counsel to have trust in the lead attorney and grant them leeway in making decisions, especially those that are not complex and don't involve important strategic decision making. Like any good relationship, ground rules should be established by the parties in order to make litigation cost-effective. However, in-house counsel should continually be involved in the strategic decision-making process and be apprised of new developments in the case, particularly to determine which costs or expenditures are necessary. It is also important for the in-house counsel not to "hover"

over the lead attorney, as most conversations are likely to be billable.<sup>47</sup> Selecting the right lead attorney may lead to substantial cost savings over the life of the case, but choosing a lead attorney that you do not have a trusting relationship with or have not established ground rules is likely to lead to an expensive relationship.

#### IV. PRE-TRIAL MATTERS

##### A. Filing of the Lawsuit

###### 1. Use of Form Pleadings and Briefs

In-house counsel should recommend the use of form pleadings to its outside counsel as an effort to save cost. Pleading books contain a form for almost every conceivable patent claim, including complaints, answers, affirmative defenses and counterclaims. However it is still important to know the restrictions of the specific district court the suit will be filed in; some district courts require more particularized pleading requiring identification of the infringing products and specification of the individual claims infringed.<sup>48</sup> It is also important to keep in mind that facts are necessary to support each claim, affirmative defense, or counterclaim. Pleading inequitable conduct now has heightened pleading requirements and any assertion must include specific facts such as the identification of the individual that knowingly (actual or inferred) made a misrepresentation to the USPTO.<sup>49</sup> Without supporting facts, the corporation may be vulnerable to sanctions after proper discovery reveals the lack of evidence to support the claims.<sup>50</sup>

Form pleadings are also useful in other avenues of the case such as discovery disputes and sanctions. Utilizing generic forms, with appropriate modification to include case specific facts often saves time. Outside counsel should also utilize pleadings from their previous lawsuits they handled. For example, the law in virtually every Markman brief is the same, making it unnecessary for a firm to completely rewrite the law portion of the brief. Instead, the lead attorney can simply modify the boilerplate legal language and argue the desirable claim construction consistent with the modified boilerplate law. Thus, the lead attorney can greatly reduce the time necessary to prepare the motion. The same can be said for summary judgment motions. Utilizing boilerplate legal language is one cost-effective procedure that does not negatively impact the substantive issues in the case.

Part of selecting the lead attorney is the determination of how experienced he or she is in patent infringement suits. If experienced, it is highly likely the lead attorney can borrow from their previously filed motions and briefs. It is not necessary for in-house counsel to pay a lead attorney to reinvent the wheel when their prior cases and experience can serve as the template for your lawsuit. This is one cost consideration that should be discussed prior to retaining outside counsel.

###### 2. TRO and/or Preliminary Injunctions

Upon filing a lawsuit, a plaintiff must decide whether to request a temporary restraining order and/or a preliminary injunction. Requesting a temporary restraining order and/or preliminary injunction generally results in a significant amount of expenditures very early in the lawsuit. Facts must be gathered, affidavits prepared, and motions and briefs drafted and filed. In the instance that the court grants injunctive relief, bonds will have to be posted. Typically, after a court grants a temporary restraining order, expedited discovery is also granted. A hearing on the preliminary injunction then

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<sup>47</sup> As a word of caution, the author represented a client where more time was spent explaining each action to the corporate counsel than was required to perform the action, itself. Such hovering over a lead counsel will only drive up the cost of litigation.

<sup>48</sup> Moore, Jonathon L., *Particularizing Patent Pleading: Pleading Patent Infringement in a Post-Twombly World*, 18 TEX. INTELL. PROP. L.J. 451, 479-82 (2010).

<sup>49</sup> *Exergen Corp. v. Wal-Mart Stores Inc.*, 575 F.3d 1312, 1329 (Fed. Cir. 2009).

<sup>50</sup> Fed. R. Civ. P. 11.

usually follows the expedited discovery. The aforementioned procedure occurs in a very short span of time, meaning hefty attorney's fees and expenses.

In the author's experience with patent infringement lawsuits, a request for a temporary restraining order and/or preliminary injunction wastes time and money as courts view the remedy as "drastic and extraordinary" due to the exacting standard of proving "substantial likelihood of success on the merits."<sup>51</sup> However, a successful preliminary injunction is often outcome determinative and forces a defendant to settle. Therefore, although requesting temporary relief may substantially increase upfront costs, knowledge by both parties that the court's order likely forecasts the overall outcome may result in money saved in the long run.

## **B. Defending the Lawsuit**

### **1. Sizing up your Competition**

The first analysis a defendant in-house counsel should make is to determine the merits of the lawsuit filed against them including a determination of the initial relevance of the patent, type of plaintiff, and how important the alleged infringing products are to the defendant. Knowing your opponent goes a long way in determining how much money you should spend defending your company.

A quick review of the patent asserted against you can reveal if it is overly broad, if the alleged infringing products are arguably within the scope of the patent, or if the patent appears invalid. If the alleged infringing product appears to fall within the scope of the patent then it makes the defense more costly due to a need to cite obviousness based on prior art or patent invalidity due to inequitable conduct. Both defenses require extensive discovery and document analysis which increase costs dramatically.

The type of plaintiff also reveals information concerning the potential cost of the case and litigation strategy. A plaintiff that is active in business and competing directly with the defendant is likely to behave substantially different in litigation versus a "patent troll" that has no vested interest in the outcome other than monetary damages. This generally leads to differences in settlement strategies because patent trolls do not fear ruining business relationships, suffering an invalidity ruling, or damages due to lost sales.<sup>52</sup> Because of this, patent trolls often rely on a bullying strategy to obtain a quick settlement.<sup>53</sup>

Finally it is important for a defendant to look in the mirror in any patent infringement lawsuit and determine the worth of its allegedly infringing product versus the price of litigation. The AIPLA report, as discussed above, the median cost of a patent infringement lawsuit is \$650,000 for a claim less than \$1 million. As a defendant, the fight may not be worth the price.

### **2. Challenging Venue**

There are two ways to control or shift venue as a defendant. The first is to act preemptively, at the first hint of an allegation of patent infringement, and file a declaratory judgment action in perceived defendant-friendly locations or in your home district.<sup>54</sup> This method allows a potential defendant to act first and choose venue. The second option is file a motion to transfer venue after the plaintiff files a lawsuit. As discussed above, cases filed in the Eastern District of Texas are more likely to be transferred due to the increased scrutiny of "convenience of the parties." Much like the discussion for the plaintiff's counsel, controlling venue is one way of reducing overall costs of the litigation.

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<sup>51</sup> *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993), cert. denied, 510 U.S. 1092 (1994).

<sup>52</sup> See Harkins, Christopher A., *Fending off Paper Patents and Patent Trolls: A Novel "Cold Fusion" Defense Because Changing Times Demand It*, 17 ALB. L.J. SCI. & TECH. 407, 445-47 (2007).

<sup>53</sup> *Id.* at 448 (noting that patent trolls but substantial pressure on defendant's stock prices and other business relationships).

<sup>54</sup> See Roderick R. McKelvie, *Forum Selection in Patent Litigation: A Traffic Report for 2006* (2006) available at <http://www.cov.com/files/Publication/eb4ec296-744c-469f-bd1b-21fff9c4435f/Presentation/PublicationAttachment/566ff812-6a3f-4888-b1cd-4bebebadf16e/801.pdf> (suggesting that recent Supreme Court decision in *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007), doing away with the reasonable apprehension of suit test may increase declaratory judgment actions filed by defendant infringers to avoid the Eastern District of Texas).

### 3. Selection of Counsel

The factors listed for selecting outside counsel for plaintiffs apply equally to a defendant. An additional factor to consider in selecting outside counsel is to factor in familiarity. Utilizing an outside counsel that you have previously utilized may allow for cost-effective discovery. Previous counsel is probably already familiar with the computer systems, standard operating procedures, and types of documents the defendant utilizes and produces which should reduce the learning curve of outside counsel and reduce cost.

#### C. Discovery

##### 1. In-house Counsel's Role in e-Discovery

One of the most important changes in litigation, let alone patent litigation, were the December 1, 2006 amendments to the Federal Rules of Civil Procedure requiring litigating parties to discuss “any issues of disclosure or discovery of electronically stored information, including the form or forms in which it shall be produced.”<sup>55</sup> In an effort to reign in discovery disputes concerning electronically stored information (“ESI”), the Federal Rules now include the requirement of conferring and require the producing party to produce ESI “in a form or forms in which it is ordinarily maintained or in a reasonably useable form or forms” unless otherwise requested.<sup>56</sup>

The Rule 26(f) conference is crucial in determining the overall cost of discovery for the parties. Cooperative relationship with your outside counsel and opposing counsel is critical to agree upon the form of ESI production and the cost/burden of its production. Numerous articles have been written emphasizing the importance of realistically conferring to resolve ESI issues in the initial conference.<sup>57</sup> Cooperation can greatly reduce the cost of litigation by avoiding countless attorney hours spent drafting motions to compel and arguing over which party should bear the price of production. If a party does not behave sensibly during discovery, far worse can occur than simply an unfavorable production of documents.<sup>58</sup>

During the 26(f) conference it is important to determine if metadata is relevant and necessary for production. Producing data in this form adds substantial cost but this information is not always relevant. In-house counsel should push outside counsel to obtain an agreement to not produce metadata with the opposing counsel. This is based on the assumption that you do not need the opposing side's metadata for your case.

##### a. E-Discovery Action Plan

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<sup>55</sup> Fed. R. Civ. P. 26(f)(3)(C).

<sup>56</sup> Fed. R. Civ. P. 34(b)(2)(E)(ii).

<sup>57</sup> Julie Grantham, Mark L. Greenwald, Xavier Rodriguez, *E-Discovery: New Rules and Challenges* (2007) (presented at the Intellectual Property Law Section State Bar of Texas annual meeting focusing on Intellectual Property in the Digital Age); Mia Mazza, Emmalena K. Quesada, Ashley L. Sternberg, *In Pursuit of FRCP1: Creative Approaches to Cutting and Shifting the Costs of Discovery of Electronically Stored Information*, 13 Rich. J.L. & Tech. 11,\*82 (2007) (“producing party should consider engaging the requesting party in discussions regarding specific search and sampling methodologies to be used in the discovery of ESI” because “[r]aising and resolving these issues at the front-end of discovery not only reduces the costs of managing relevant data, but it also may serve to diffuse potential discovery disputes”); Tracey L. Boyd, 7 Vand. J. Ent. L. & Prac. 323, 334 (2005) (“[l]itigants who meet in the early stages of litigation will be better equipped to get their files in order, to determine what procedures they may need to comply with . . . and to estimate the likely costs associated with producing the requested data”).

<sup>58</sup> *Coleman (Parent) Holdings, Inc. v. Morgan Stanley & Co., Inc.*, No. CA 03-5045 AI, 2005 WL 674885 (Fla. Cir. Ct. 2005) (entering default judgment against producing party for host of discovery abuse, including repeated unjustifiable refusals to agree to discovery search protocols); *Bullard v. Roadway Express*, 3 F.App'x 418, 422 (6th Cir. 2001) (affirming district court's dismissal of complaint after plaintiff's failure to comply with discovery rules).

Since electronic discovery is probably the single most expensive item in complex civil lawsuits, in-house counsel and outside counsel should place considerable thought and effort in creating an e-discovery action plan.<sup>59</sup> ESI presents tremendous burdens to small companies, much less Fortune 500 companies. In 2005, Exxon Mobil testified that the corporation generates 5.2 million emails daily sent from about 65,000 desktop computers and 30,000 laptop computers.<sup>60</sup> Exxon Mobil estimated the company's total information storage at 800 terabytes, approximately 400 billion typewritten pages!<sup>61</sup> The vast amount of information may be critical to any lawsuit you are in and may have significant ramifications if it is lost or destroyed.

Effective collaboration between in-house counsel, in-house IT, and important in-house employees is paramount in ensuring proper e-discovery compliance. It is beneficial to create a data management policy in which the in-house IT department can effectively find, preserve, and provide the data to outside counsel. Some cost-effective ways to provide data to the outside counsel is through mobile hard drive devices. Generally they are relatively inexpensive and can become a backup system for in-house hard drives and email servers. This allows your outside counsel to have a true copy of your corporation's records and be able to determine the relevance. As in-house counsel, it is likely your inclination to under produce documents as to not produce company trade secrets but protective orders are available to protect this proprietary information. Additionally, in-house counsel must have trust in their outside counsel that they are acting in the best interest of the client and within the spirit of honest discovery.

Once data backup systems are created and transferred to outside counsel, it is important to assist outside counsel as much as possible through providing accurate and timely information. As the in-house counsel, you (or your IT staff) should have the most knowledge of the company's file system and be able to identify relevant file extensions and file names. For example, specific financial records or product design drawings may have specific file names that can be easily searched and identified. Expediting the location of relevant documents reduces the attorney time needed to find those documents. Most corporations create millions of emails in short periods of time and going through them one by one would take substantial time at an exorbitant cost. Utilizing knockout word searches or keyword searches may reduce the amount emails to go through substantially and in-house counsel may be able to provide key words that would expedite the process.

#### **b. Avoiding Spoliation of Evidence**

Rule 37(f) provides the basis of spoliation of evidence in regards to ESI. According to the rule, the party may not be sanctioned for failing to produce ESI "as a result of the routine, good-faith operation of an electronic information system."<sup>62</sup> Good faith is an important term in this rule because if the company is on notice of a lawsuit, involved in a lawsuit, or a discovery request seeks the specific information, it is difficult to argue good-faith when destroying ESI or failing to back it up. One example is the destruction of a hard drive or reformatting a hard drive.<sup>63</sup>

It is important to determine if metadata is necessary for the case. If an agreement cannot be reached regarding the metadata at the 26(f) conference, then it is imperative that in-house counsel preserve this information because if it is not, then a spoliation order may be given.

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<sup>59</sup>See Julie Grantham, Mark L. Greenwald, Xavier Rodriguez, *E-Discovery: New Rules and Challenges*, Attachment A (2007) (presented at the Intellectual Property Law Section State Bar of Texas annual meeting focusing on Intellectual Property in the Digital Age) (discussing the importance of creating an e-discovery action plan).

<sup>60</sup> Chuck Beach, Exxon Mobil Corp. Coordinator of Corporate Litig., *Public Hearing on Proposed Amendments to the Federal Rules of Civil Procedures*, Dallas, at 37 (January 28, 2005), available at <http://www.uscourts.gov/rules/e-discovery/DallasHearing12805.pdf> (last visited July 15, 2008).

<sup>61</sup> *Id.*

<sup>62</sup> Fed. R. Civ. P. 37(f).

<sup>63</sup> PML North America, LLC v. Hartford Underwriters Ins. Co., 2006 WL 3759914 (E.D. Mich. 2006) (granting a default judgment due to spoliation of evidence due to the corporate party reformatting a relevant hard drive and failing to produce a hard drive from an employee as was requested in discovery).

**c. Cost Burden/Shifting of ESI**

Generally, a court will order the production of ESI if the requesting party shows that its need for the discovery outweighs the burden or cost of locating, retrieving, and producing the information.<sup>64</sup> The court will weigh the willingness of the requesting party to share the cost related to retrieving the ESI in determining whether good cause has been shown.<sup>65</sup> By specifically stating that the requests are unduly broad or that the documents are not reasonably accessible because of undue burden or cost, a court, through its power to specify the conditions for discovery,<sup>66</sup> may elect to shift the cost to the requesting party, a practice now commonly followed as a result of electronic discovery.<sup>67</sup> A successful challenge to an overbroad request can save significantly in production costs and hassle for the company either in cost sharing or denying the discovery request. Cooperation during the 26(f) conference may avoid unnecessary arguments over ESI, especially if your company is reasonable in its discovery requests.

A second way to shift cost to the requesting party is by requiring them to determine what subset of ESI they really need. The rules provide two ways that documents can be produced, namely (1) as they are kept in the ordinary course of business or (2) organized and labeled to correspond to the categories of the requests.<sup>68</sup> A party may effectively shift the cost to the requesting party by inviting the requesting party to the document storage location, and having someone knowledgeable standby to identify the documents' precise location. Additionally, an IT employee should be present to gather ESI information. In this manner, the cost spent on reviewing documents rests on the opposing party.

The aforementioned tactic could also lead to the production of less information than had the opposing counsel requested production with greater specificity. As a practical example, the author recently represented an electronic data processing company from which ex-employees misappropriated computer information. The opposing party requested the production of essentially all ESI within the company. Instead of producing the requested ESI, the opposing counsel was invited to the place of business and asked about the desired information. Not surprisingly, the opposing counsel quickly selected only a small subset of the overall ESI requested. In-house counsel may be hesitant to allow opposing counsel access to their place of business which is reasonable, but this is an effective option to reduce costs in discovery.

**2. Best Ways to Assist Outside Counsel****a. Identification of Key Players**

In-house counsel provides a valuable resource in identifying key players in the lawsuit such as those within the company, key people at the opposing party, and potential experts. Depositions, interrogatories, and requests for production can all be finely tuned if in-house counsel provides timely advice. Individuals within the corporation can play an integral part in the initial technology investigation, whether pre- or post lawsuit filing. As with most of the discussed issues in this paper, quality and effective communication with the lead attorney can provide useable information early in the lawsuit.

**b. Determine Scope of Discovery**

The strategy and scope of discovery should be discussed with the lead attorney from the very beginning. Considering discovery accounts for a substantial portion of the total cost of litigation, the decision must be made if you want to try and outspend the other side or try to make cost-effective

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<sup>64</sup> Fed. R. Civ. P. 26, Advisory Committees Notes, 2006 Amendments.

<sup>65</sup> *Id.*

<sup>66</sup> Fed. R. Civ. P. 26(b)(2)(B).

<sup>67</sup> *Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309 (S.D.N.Y. 2003) (*Zubulake I*); Ross Chafin, *The Growth of Cost Shifting in Response to Rising Cost and Importance of Computerized Data in Litigation*, 59 Okla. L. Rev. 115 (2006); *Managing Discovery of Electronic Information: A Pocket Guide for Judges*, Federal Judicial Center, at 10 (2007); Carolyn Southerland, *Electronic Discovery*, E-Discovery Workshop, Texas Bar CLE, at 13 (2007).

<sup>68</sup> Fed. R. Civ. P. 34(b)(2)(E)(i).

decisions. If money is no option, then request every document, have an attorney review every single document, and depose anyone remotely related to the litigation. Considering there are no blank checks, especially in this economy, cost-effective discovery must be implemented. There are a few strategies that in-house counsel may employ to reduce the cost of discovery.

In the realm of ESI, it is possible to be completely flooded by opposing documents, emails and other electronic data. A vast majority of this data is useless and not relevant to the litigation. Therefore it is essential you instruct your lead attorney to narrowly tailor discovery to avoid a document dump. The movie “A Civil Action” starring John Travolta as the attorney for the injured plaintiff, and Robert Duval, the opposing counsel, exemplifies this point precisely. Travolta requested all documents that may possibly show pollution. After stalling for as long as possible, Duval produced the documents, truckload upon truckload of documents, making document review by plaintiff’s counsel physically impossible.

Financial decisions must also be made on how to review the potentially substantial documents that may have been produced. It is likely much of the document review will be computer aided through techniques such as optical character recognition (OCR). In this situation, key word searches and other techniques are used for the purposes of allowing a program to sort through the production and “decide” whether the document is relevant.<sup>69</sup>

Taking an early, accurate, and to the point depositions of key witnesses is critical for cost-effective litigation. During the first round of depositions, a party should depose the corporate designee so that the corporation commits itself to a particular position. Even if the corporate designee attempts to prevent the corporation from committing to a position, *someone* must testify on behalf of the corporation on matters that should be within the corporate knowledge.<sup>70</sup> Utilizing this strategy, in conjunction with narrowly tailored requests for production, may provide an excellent opportunity for settlement negotiations because the weaknesses of the opposing party’s case are likely exposed. In-house counsel should recommend this strategy to the lead attorney and then make a joint analysis to determine if settlement is prudent.

### c. The Increasingly Elusive Smoking Gun

There is a substantial caveat with reliance on computer software for discovery analysis. The author litigated a patent infringement suit in which General Electric purchased a Friedrich Air Conditioner, traced the electrical circuit, and scribbled in long hand the word “Friedrich” in the upper right hand corner of the paper.<sup>71</sup> This was undeniable proof that General Electric copied the Friedrich Air Conditioner, the “smoking gun” that sealed General Electric’s fate. Modern ESI search software may have confidently deposited the electric circuit tracing in the “irrelevant pile,” possibly making the case much harder to resolve. Would the jury have reached the same decision without the smoking gun? Maybe, maybe not.

This problem forces in-house counsel to determine how much time, effort and expense should be spent looking for the proverbial “smoking gun.” At some point, a balance must be struck. The *best* evidence that provides a party with the *greatest* probability of winning may come at such a high cost that it begins to severely diminish the recovery. A cost-benefit analysis in some situations may suggest that an attorney try a case even though the evidence in hand is only average, simply because of the physical and financial impossibility of locating the smoking gun. On the other hand, trying a case with only average evidence decreases the likelihood of winning. As a result of the electronic age, this trade-off is becoming ever more present in each action and is a predicament that must be thoroughly addressed by counsel and in-house counsel alike.

Because of the tremendous cost of patent litigation, attorneys must learn when to stop discovery and stop searching for the smoking gun. If the lead attorney does a good job of extracting relevant information in

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<sup>69</sup> Seth Grimes, *Understanding Legal Information and E-Discovery*, Business Intelligence Network, Mar. 18, 2008, available at <http://www.b-eye-network.com/view/7099> (last visited June 14, 2010).

<sup>70</sup> *Id.*; see also *Brazos River Auth. v. GE Ionics, Inc.*, 469 F.3d 416, 433 (5th Cir. 2006).

<sup>71</sup> *Gen. Elec. v. Friedrich Air Conditioning & Refrigeration*, 790 F.2d 94 (Fed. Cir. 1986) (TABLE, NO. 85-2387) (affirming Western District of Texas in unpublished opinion).

the initial round of depositions, other than the testimony of experts, discovery may essentially be over. Send interrogatories, requests for production, and depose the key players . . . then STOP! While the opposing party or attorney may engage in gamesmanship, do not follow suit or permit them to perpetuate the process. Do not investigate every rabbit trail imaginable.

### **3. Expert Witnesses**

Expert witnesses should be identified and retained as early as possible, mainly for the purpose of securing them before the other side. Simply because they are retained does not mean they have to be utilized right away. Many companies involved in patent litigation have talented engineers, scientists, and other professionals capable of providing informal analysis to assist the attorneys; essentially acting as consulting experts. As a consulting expert they are likely to provide excellent information regarding evidence that may be available. These professionals are obviously much cheaper for the corporation than utilizing an expensive hired gun to advise the attorneys. It is still important to retain an outside expert for testifying purposes because its important to have an “independent” expert testify on your behalf. Secondly, it is important to protect privilege with consulting experts because communications between them and counsel are privileged whereas communications with testifying experts are discoverable, even if they were previously considered consulting experts.

Many cases cannot resolve or settle until there is some indication as to the experts’ opinions, especially damage experts. In particular, defendants have a tendency to be illogical about settlement until faced with an adverse impression by an expert. The sooner the damage experts calculate a figure estimating the amount of damages, the sooner the opposing party will realize the magnitude of their possible exposure. Many times this will prompt parties to seriously consider settlement.

## **D. Markman Briefing/Hearing**

### **1. Knowledge of the Local Rules and Judge’s Preference**

When determining the best approach for a Markman briefing or hearing, it is important to know the rules of the local court and the judge’s preference. While Markman briefings or hearings are almost always a part of patent infringement cases, some judges may allow the claim construction to occur in summary judgment proceedings. If that is the case, two costly motions could be rolled into one motion that addresses the merits of the case. Some judges may only want briefings and no oral arguments. Other judges may like visuals and expert statements surrounding the general state of the technology. Markman procedures vary depending on the court so its important to understand what the court wants so as to avoid wasting resources and time on something that will not be considered.

### **2. Visual Aids**

If a court or judge allows visual representations, it is necessary to determine how much expense is required based on the complexity of the claims. In a simple claim construction analysis, an in-depth expensive visual is likely unnecessary. If the technology can be adequately described through posters and power point slides, it is an unnecessary to develop a Hollywood quality motion picture.

One option available to in-house counsel is their own company’s talented employees. If it is necessary to create high-end graphical presentations or videos, often a company’s own graphical design team in conjunction with their engineers are capable of producing the video. Generally, its more cost efficient for a company to create these visual aids in-house than it is to hire a production company.

### **3. Settlement Opportunity**

The earlier the Markman briefing/hearing occurs the more likely litigation expenses may be saved. In the author’s experience, a court’s claim construction can provide a settlement opportunity for both parties because it helps identify the strength of the case. After claim construction a competent patent litigator can provide a reasonable chance of success or loss and provide a recommendation to in-house counsel the best way to proceed.

### E. Pretrial Philosophy

With guidance from the lead attorney, it is the in-house counsel's decision on whether to conduct mock jury selections, the scope of witness preparation, and utilization of sophisticated graphics. It is your money, your case, and your potential liability or damages. At this point in the litigation, many companies "spare no expense" to ensure a likelihood of success. There are few cost-cutting actions available to in-house counsel if "spare no expense" is the mantra, but there are a few. Utilization of in-house graphic design individuals can save substantially compared to hiring third-party vendors. Additionally, it may be more cost-effective to forego a third-party courtroom technologist because many law firms have capable people that can be trained to do that work.

## V. INEQUITABLE CONDUCT

The intent of the inequitable conduct rule is to ensure candor and truthfulness between the applicant and patent practitioner with the USPTO. If they are not truthful, then the patent is subject to unenforceability, a particular dramatic finding. However, this rule has been inconsistently applied by district courts and the Federal Circuit. The reality is that inequitable conduct is levied by defendants in virtually all lawsuits, noticeably affecting the cost of litigation.

"The allegation of inequitable conduct opens new avenues of discovery; impugns the integrity of patentee, its counsel, and the patent itself; excludes the prosecuting attorney from trial participation (other than as a witness); and even offers the trial court a way to dispose of a case without the rigors of claim construction and other complex patent doctrines."<sup>72</sup> If the defendant wishes to try and invalidate the patent, then it will be costly. As stated earlier in the discovery section, lead attorneys should be instructed to not chase rabbit trails but unfortunately inequitable conduct has turned into not only chasing a few rabbit trails, but chasing all rabbit trails. The end result is a highly unpredictable ruling from the court. This uncertainty at the district court and Federal Circuit level has forced many litigants into uncomfortable settlements.

A recent case from the Federal Circuit may help alleviate some of the inequitable conduct problems by requiring a heightened and particularized pleading of inequitable conduct.<sup>73</sup> No longer can a party simply aver generic facts of inequitable conduct but now must identify the "specific who, what, when, where, and how of the material misrepresentation or omission committed before the PTO."<sup>74</sup> While this does help stem the tide of generic inequitable conduct pleadings, it is likely to not substantially affect parties because pleadings are generally amendable late into discovery. This means attorneys are now going to not even give the other side warning of inequitable conduct issues when they request documents or attempt to trip up witnesses during depositions.

The Federal Circuit's decision to review the standards governing inequitable conduct *en banc*, may eliminate or reduce the uncertainty and unpredictability of inequitable conduct.<sup>75</sup> If a standard is adequately determined by the Federal Circuit, lead attorneys can hopefully prevent the excessive and costly rabbit trail hunts.

## VI. SETTLEMENT OR TRIAL

The undisputed trend is that fewer and fewer cases are being tried.<sup>76</sup> In research compiled by the University of Houston Law Center, 182 cases out of 2,868 total patent infringement cases disposed were

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<sup>72</sup> *Aventis Phama S.A. v. Amphastar Pharms., Inc.* 525 F.3d 1334, 1349 (Fed. Cir. 2008) (Radar, J., dissenting).

<sup>73</sup> *Exergen Corp. v. Wal-Mart Stores Inc.*, 575 F.3d 1312, 1329 (Fed. Cir. 2009).

<sup>74</sup> *Id.*

<sup>75</sup> *Therasense, Inc. v. Becton Dickinson & Co.*, No. 08-1511 (Fed. Cir. April 26, 2010) (order granting *en banc* rehearing).

<sup>76</sup> John Barkai et al., *A Profile of Settlement*, 42 J. Am. Judges Ass'n 34, 36 (2006), available at <http://digitalcommons.unl.edu/ajacourtreview/22/> (last visited June 13, 2010).

adjudicated through trial or summary judgment for the 2009 fiscal year; that's only 11.4 percent of patent infringement dispositions.<sup>77</sup> Out of the 182 cases adjudicated, only 82 came through trial; that's only 3.5 percent of dispositions.<sup>78</sup> For fiscal year 2008, 11.7 percent were adjudicated with only 3.04 percent adjudicated through trial.<sup>79</sup> The takeaway message is that patent infringement cases settle.

Considering 88.6 percent of patent infringement dispositions for the fiscal year 2009 settled, it is key for the in-house counsel to position the company in a manner to settle for the least amount of litigation cost. Therefore, it must be the goal of the lead attorney and the in-house counsel to resolve the case at the earliest possible stage.

According to the author's experience, the three most common times a patent infringement controversy settles is (1) after the lawsuit has been filed and each side has conducted an initial investigation prior to the commencement of discovery; (2) after the first round of discovery; and (3) after claim construction. Smaller cases have a tendency to settle immediately prior to discovery while larger cases normally require an initial round of discovery before the parties seriously sit down and talk. This assumes both parties have a dog in the fight (no patent trolls). Knowing that cases settle, the in-house counsel should be mindful of the particular opportunities for settlement and require the lead attorney to cost-effectively prepare for this opportunity.

## VII. CONCLUSION

The amount of money spent on litigation for a claim worth less than \$1 million at risk is staggering; each party is likely to spend over \$650,000 a piece.<sup>80</sup> Litigating a claim for a minimum of \$300,000 more than the claim is worth is shocking and inexcusable. In-house counsel must share in some of the blame for the escalating costs of litigation. Paying close attention to the outside counsel retained, creating a positive and effective communication with the lead attorney, implementing an effective e-discovery management plan, refusing to play games during discovery, and seizing on the opportunities to settle, will go a long way in reducing your company's litigation expenses.

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<sup>77</sup> University of Houston Law Center, *2009 Fiscal Year Disposition Modes for Patent Cases*, available at <http://www.patstats.org/Patstats2.html> (last visited June 13, 2010).

<sup>78</sup> *Id.*

<sup>79</sup> University of Houston Law Center, *2008 Fiscal Year Disposition Modes for Patent Cases*, available at <http://www.patstats.org/Patstats2.html> (last visited June 13, 2010).

<sup>80</sup> Am. Intellectual Prop. Law Ass'n, *AIPLA Report of the Economic Survey 2009*, at 29 (2009).