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Contingent Fee Litigation–A Low Risk Way to Enforce and Monetize Your Patents

In-house counsel who seek to enforce patents rights—but are concerned about large upfront out-of-pocket attorney fees—should consider exploring contingent fee arrangements, which have become increasingly popular in patent litigation.

BY LAWRENCE K. KOLODNEY

In-house counsel who seek to enforce patents rights—but are concerned about large upfront out-of-pocket attorney fees—should consider exploring contingent fee arrangements, which have become increasingly popular in patent litigation.

As corporate counsel know, patents are relatively easy and cheap to obtain, but can be quite expensive and challenging to enforce. While the typical cost to obtain a U.S. patent is less than $30,000, enforcing a patent against an infringer can exceed $5 million.

In a contingent fee case, the patent owner partners with a law firm that agrees to take on the enforcement of the owner's patents at no (or reduced) upfront cost. The law firm does get compensated, of course, but only if the firm is successful in obtaining value for the patent owner from the targeted infringer(s). Typically the law firm's compensation is calculated as a percentage of the total amount of revenue that the firm is able to generate on behalf of the patent owner, or in terms of stipulated "success fees" for achieving agreed-upon benchmarks.

While not every case is suitable for contingent fee representation, it can, in an appropriate case, offer some advantages over the conventional fee-for-service model. These include:

- Low or no upfront cost. Contingent fee litigation is often the best (or only) practical solution for an intellectual property owner that is patent rich but cash poor. Rather than committing to pay legal fees that may reach the mid to high seven figures, a contingent fee plaintiff may be able to realize value from its portfolio while paying only a small fraction of that amount (and in many case zero) in upfront fees.
- Leveraging the law firm's due diligence. Patent infringement litigation is among the most complex types of civil litigation, and one

that can be especially difficult to predict. Evaluating the strength of a patent case requires determining the scope of a patent's protection, analyzing whether the patent is likely infringed and whether the claims will withstand a validity challenge, and estimating the amount of damages a court is likely to award for infringement. In a contingent fee case, all of this work is typically done by the law firm, at no charge, when it evaluates

whether to take the case. Because the law firm is committing itself to a substantial investment should it take the case, the patent owner can have confidence that the law firm is "putting its money where its mouth is."

- Alignment of law firm and client interests. Over 90 percent of all patent infringement cases settle prior to going to trial, and the decision whether to settle the case, and on what terms, can be fraught with complexity. In a contingent fee case, the law firm's economic interests are aligned with those of the patent owner, and so the patent owner can have a high degree of confidence in the law firm's settlement advice. The law firm will be unlikely to throw good money after bad if the case prospects are bad or recommend a low settlement if the odds of getting much more down the road appear high.

What Makes a Good Contingent Fee Case?

Here are some of the hallmarks of a strong contingent fee patent case:

- **High value.** Law firms will only take those contingent fee cases that they believe have the potential to generate sufficient value to compensate the firm for its investment of time and the risk of losing (even the strongest cases can go south). Typically this means targeting a product or service with very substantial past sales which can serve as the basis for a reasonable royalty or lost profits damages case. But other scenarios are possible as well. For example, a product or service with relatively low past sales may still be a suitable enforcement target if there is still significant time before the patent expires and the targeted product is likely to have extensive future sales that may be the subject of a royalty-bearing license or (less frequently) an injunction that is valuable to the patent owner.

- **Public evidence of infringement.** Once a patent infringement suit gets filed, the plaintiff can force the accused infringer to disclose evidence showing that its product or service infringes the asserted patent. But before deciding whether to file suit, a law firm will generally have to rely on publicly available information to determine whether infringement is likely. In some cases, however, direct evidence of infringement may be impossible to develop, for example where the patent technology is an industrial process that is not offered for sale. This creates additional uncertainty that may make the case less attractive for contingent fee enforcement.

- **Essential claims.** The legal scope of a patent's protection is defined by its claims. Claims that are very narrow, because they require an infringing product or method to have a long list of features, are often bad candidates for contingent fee enforcement because they may recite many non-essential features of a product that could be removed to avoid infringement. Such claims provide the infringer with a potentially easy way to avoid infringement going forward, and also tend to justify relatively low damage awards, since they may require features that are not clearly linked to demand for the infringing product in the marketplace.

- **A great invention story.** Patent cases are tried before juries, and jury deliberations inevitably involve the jurors' emotional response to the parties and their courtroom presentations. One of the key ways that a patent owner can emotionally connect with a jury is by presenting a great invention story, typically through the inventor's own testimony. An appealing inventor who can testify, for example, about struggling for years to solve an important problem in the face of skepticism, about being motivated to make his invention by a concern for the welfare of others, or about an "aha! moment" achieved through out-of-the-box thinking, can go a long way toward convincing the jury to see the rest of the patent owner's evidence in the case in a favorable light.

Conventional patent litigation can be an expensive and risky undertaking. Contingent fee agreements offer patent owners the ability to reduce costs and hedge risk by partnering with a law firm to unlock the latent value in their patent portfolios. Corporate counsel should keep the possibility of contingent fee enforcement in mind when planning IP strategy.

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