

By Robert F. Copple

Behind the Magic Curtain

THE PROTRACTED, SEE-sawing dispute between Microsoft Corporation and Eolas Technologies Inc. over Internet browser patents, which resulted in the awarding and then recent reversal of a \$521 million judgment against Microsoft, illustrates the very expensive and risky nature of the patent litigation game.

For many general counsel, patent litigation is a voracious black hole that devours a disproportionate share of corporate litigation resources. It resists budgeting and has little regard for management's demands for cost-effective solutions. What begins for the plaintiff as an already large \$3 million litigation budget (\$1 million per patent) can quickly balloon to \$8 million as the defendant counterclaims with five patents of its own. As the stakes grow, so does the financial pain. Eventually the cost of litigation alone can be the decisive factor leading to settlement.

What, in this era of corporate austerity, is driving this expensive trend? In part it's the increased value of IP: The stakes justify the expenditure. But extraordinary litigation costs are not inevitable. Expenses can be controlled by building the right litigation team, analyzing the patents in-depth at the outset, and recognizing that despite its aura of technical difficulty, patent litigation is fundamentally no different from other forms of complex litigation.

Patent litigation wasn't always so important or costly. In the late 1980s cor-

porate law departments pushed back on the excesses and abuses of general commercial litigation, demanding greater efficiency and accountability from outside counsel. And patent litigation and litigators stayed below the corporate radar, growing in patent boutiques. There, licensed patent attorneys with strong technical backgrounds devoted "hands-on" attention to the patent preparation and prosecution process ("prep & pros").

The expense-justifying refrain "it's technical" entered patent litigation alongside the patent attorney's costly hands-on approach. When IP values skyrocketed in the 1990s, patent litigation became a blue-ribbon practice, demanding the highest dollars for representation. Because of the potential competitive advantages at stake, as well as the risks of losing, corporate America accepted the argument that patent litigation was profoundly different from the commercial litigation they had just squeezed into submission. Today the phrase "it's technical" justifies large teams of lawyers pursuing a scorched-earth litigation strategy.

As corporate legal budgets come under greater scrutiny, however, GCs at technology- and IP-based companies are asking why excellent representation can't be provided more efficiently. The answer is: It can. Patent litigation is no more complex than other litigation involving technical subject matter. Patent litigation does involve documents, witness interviews, depositions, and financial and technical experts. But so do many other types of litigation, such as construction and environmental.

Efficient management of patent litigation is possible. But it requires coop-



eration between in-house and outside counsel. Once this relationship has been established, the key to controlling costs is identifying key events and tasks and applying management and analytical tools to those milestones.

The first step to better management begins long before a lawsuit is filed. The deepest knowledge about the strengths and weaknesses of a particular patent is possessed by the patenting attorney when he is preparing and prosecuting it before the Patent and Trademark Office. In the course of prep & pros, the patenting attorney digs through existing patents and other prior art. At the end of this process, he knows more than anyone else about such fundamental issues as validity and infringement. Corporations must capture this knowledge when it is fresh. This can be done by having the lawyer write a narrative or through use of a more quantitative scale that rates areas of a potential challenge. If there is litigation later, this snapshot will prove invaluable.

The second step, whether suing or

Don't believe the hype. Even highly technical patent litigation does not require a blank check.

defending, is for the litigation team to conduct an in-depth analysis of the patents. Doing the analysis at the start will allow for more focused and efficient representation down the road. Some general counsel, particularly those who are defendants, may blanch at the cost of up-front analysis. But a hard look, early on, will determine whether it's best to fund a full-scale war or pursue a reasonable (and possibly much less costly) settlement.

In performing this early litigation analysis, the team should look at both liability and damage exposure. Too often, patent counsel get bogged down in the theoretical minutiae of the possible infringement. It's much easier to estimate potential exposure, using measures such as the price of a reasonable royalty times

the number of potentially infringing units produced. If damages are relatively small, it may not make sense to litigate—regardless of the strength or weakness of the infringement liability case.

The next place where an in-house patent litigation manager can have a significant impact is in the selection and direction of the outside trial team. Again, because of the prize at stake, there is a tendency to allow outside counsel to staff up a case. This large-team tendency can lead to monthly bills with long lists of unexpected timekeepers.

A much better tack is to insist on a small, intense, dedicated group. This "SWAT team" approach will yield better communication, synergy, and strategy development, and prevent the lack of

focus and duplication of effort that often come with large groups.

The litigation manager also needs to consider the team's skill sets. Many patent attorneys are uncomfortable del-

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egating substantive tasks to paralegals. But experienced paralegals are excellent learners. Properly managed, they can easily make the first or second cut on documents. Alternatively, patent litigators may want to hire engineers to serve in the paralegal role.

While it is essential for patent prep & pros lawyers to possess a high degree of specific technical training, it is not necessary for the lead litigator on your team to have this degree of technical expertise. Patent litigation is often won or lost on issues that have nothing to do with the technical subject matter. Moreover, the judge and jury will probably have little or no technical training.

The patent litigator should instead be adept at developing the overall trial strategy as well as translating complex information for the judge and jury. He should be able to prevent the team from getting mired in irrelevant technical details. Key technical issues should instead be woven into the whole fabric of the case. In building a patent litigation team, the best synergy will come from pairing the traditional patent attorney with the litigator.

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ALTERNATE ROUTE

ALTHOUGH ALTERNATIVE DISPUTE RESOLUTION HAS BECOME A STANDARD tool for resolving business disputes, it remains underutilized in the patent arena. If you understand how the potential future value of your company's patents fits into its business strategies, however, alternative dispute resolution (mediation and arbitration) can be an expedient and cost-effective substitute for litigation. Here's why:

- Patent disputes generally involve the speculative future use of an invention, which makes the calculation of damages and settlements more difficult than in a typical commercial dispute. But this can be overcome by involving senior management, early in the dispute process, to identify an acceptable settlement range.

- Patent litigation can present very substantial business risks to plaintiffs. If the defendant is successful in proving that the plaintiff's patent is invalid, the plaintiff will lose not only the case but also its future ability to leverage other parties into paying license fees for the use of the invention.

The private and confidential nature of ADR can mitigate some of these risks. For example, mediation can provide a plaintiff with a private means to settle a dispute without revealing the weakness of its case to the rest of the world. Likewise, if an arbitration is properly structured, an adverse ruling against the plaintiff will not prevent it from seeking payments from other potentially infringing parties.

- The protection of patent rights is particularly difficult in parts of the world where intellectual property rights are not respected and/or where the justice system does not allow for expedient and meaningful resolution. Where the public systems fail, the private ADR system can provide the type of protection and finality necessary to support business development.