

THE RISE OF CONTINGENT FEE REPRESENTATION IN PATENT LITIGATION

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ABSTRACT

It is well known that plaintiff-side contingent representation is on the rise in patent litigation. But why? And what are the lawyers in the field like? Although scholars have studied contingent litigation in other contexts—such as medical malpractice, personal injury, and products liability litigation—patent litigation has received almost no attention. This gap in the literature is unsettling because patent litigation is different from these other fields of contingent litigation in important and interesting ways. These differences include: patent litigation is much more uncertain; the costs of litigating claims are usually significantly higher; and patents, including their underlying infringement claims, are freely assignable. Absent in most other contingent litigation contexts, these characteristics of patent litigation shed light on the broader topics of litigation and contingency relationships in general.

Drawing upon several sources of data, including in-depth interviews with over forty lawyers involved in contingent representation in patent litigation and examination of over forty contingent fee agreements, this Article provides the first comprehensive analysis of the rapid evolution of contingent representation in patent law. The development of contingent representation includes top-tier litigation firms recently transitioning to taking on high-value contingent cases, small entrants representing plaintiffs in lower value cases, and numerous general-practice firms experimenting with contingent patent litigation. These diverse players each select and litigate cases using varied methods, resulting in different levels of risk and reward. The Article uses the study of these players to discuss

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how and why attorney–client contingent relationships established in the nascent marketplace of patent contingent litigation differ from other types of contingent litigation and what patent law can teach about contingent representation in general. It also lays the foundation for future quantitative research comparing the results of contingent and hourly billing representation.

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“I want to hunt elephants, skin, and eat them.”

—Contingent fee patent litigator
explaining why he entered the practice

I. INTRODUCTION

In the last decade, a substantial market has begun to develop for contingent fee representation in patent litigation. Wiley Rein—a traditional general-practice law firm with hundreds of attorneys practicing all areas of law—represented a small company, NTP, Inc., in its patent infringement lawsuit against Research in Motion (“RIM”), the manufacturer of the Blackberry line of devices.¹ The lawsuit famously settled in 2006 for \$612.5 million,² and the press reported Wiley Rein received over \$200 million because it handled the lawsuit on a contingent fee basis.³ And Wiley Rein is not alone in doing so. Many patent litigators around the country are handling patent cases on a contingent fee basis.

To place the market for patent contingent fee representation in context, one needs to understand contingent fee representation in general. For decades, contingent fee representation has been widely used in United States civil litigation in many fields.⁴ In the typical case, an individual has been harmed—such as by medical malpractice—but lacks the financial resources to pay a lawyer on an hourly basis to litigate on his behalf. A lawyer agrees to represent the injured individual in exchange for a percentage of the eventual recovery, if any, from the wrongdoer. In this way, the lawyer shares in the litigation risk because she only receives compensation for her legal work if the client wins the case or receives a settlement. Academics have extensively studied contingent litigation in fields such as medical malpractice, personal injury, workers’ compensation,

1. NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282 (Fed. Cir. 2005).

2. NTP’s case against RIM was covered extensively in the press, including the financial details of the settlement itself. *See, e.g.*, Rob Kelley, *Blackberry Maker, NTP Ink \$612 Million Settlement*, CNN MONEY (Mar. 3, 2006, 7:29 PM), http://money.cnn.com/2006/03/03/technology/rimm_ntp/ (reporting payment by RIM of \$612.5 million to settle the lawsuit); Teresa Riordan, *A Canadian Company Appeals in Court for the Right to Keep Selling Blackberries in the U.S.*, N.Y. TIMES, June 7, 2004, at C2, available at <http://www.nytimes.com/2004/06/07/technology/07patent.html>.

3. Peter Lattman, *Hot off the Presses: The AmLaw 100*, WALL ST. J. L. BLOG (Apr. 30, 2007, 11:03 AM), <http://blogs.wsj.com/law/2007/04/30/hot-off-the-presses-the-amlaw-100/> (reporting that Wiley Rein broke the record for highest profits per partner ever recorded by *American Lawyer* because it “earned more than \$200 million in fees from [the Blackberry case]. It received approximately one-third of the \$612.5 million settlement . . .”).

4. *See generally* HERBERT M. KRITZER, RISKS, REPUTATIONS, AND REWARDS: CONTINGENCY FEE LEGAL PRACTICE IN THE UNITED STATES (2004).

and employment discrimination.⁵ There is relatively little literature on the nature of contingent representation in more complex areas of law such as antitrust.

In the past, patent litigation was almost entirely performed on an hourly fee basis rather than on a contingent fee basis. That made sense because patent litigation appeared a poor candidate for contingent representation. Among other reasons, patent cases were expensive to litigate, took years to resolve, and outcomes on liability and damages were considered uncertain and unpredictable.⁶ In contrast, personal injury cases are relatively inexpensive to litigate, are adjudicated more quickly, and often the liability of the defendant is not seriously disputed.

With these impediments, why has a substantial market for contingent fee patent litigation developed? This Article offers several reasons based upon extensive interviews of patent attorneys. First, there have been high-profile contingent lawyer successes in the last twenty years, especially in the last ten years. These successes include those highlighted in a 1993 *American Lawyer* cover story about patent contingency litigator Gerald Hosier, who made over \$150 million in a single year,⁷ and the Blackberry case previously mentioned. These highly visible victories encouraged hourly billing lawyers to consider transitioning into contingent practice. Separately, the press coverage encouraged small clients to attempt to monetize their patents, either by assertion in litigation or sale to others.

Second, a new market for the sale and purchase of patents emerged. Unlike causes of action in other contingent areas, patents and the right to recover past damages are freely assignable.⁸ If patent owners are unable or

5. Herbert Kritzer is widely viewed as the leading academic on contingent fee representation. He has written numerous articles and the seminal book in the field. *Id.*; see also Herbert M. Kritzer, *Seven Dogged Myths Concerning Contingency Fees*, 80 WASH. U. L.Q. 739 (2002). There are others writing in the field as well. See, e.g., Stephen Daniels & Joanne Martin, "It's Darwinism—Survival of the Fittest:" *How Markets and Reputations Shape the Ways in Which Plaintiffs' Lawyers Obtain Clients*, 21 LAW & POL'Y 377 (1999) [hereinafter Daniels & Martin, *Markets and Reputations*]; Jerry Van Hoy, *Markets and Contingency: How Client Markets Influence the Work of Plaintiffs' Personal Injury Lawyers*, 6 INT'L J. LEGAL PROF. 345 (1999); Stephen Daniels & Joanne Martin, *It Was the Best of Times, It Was the Worst of Times: The Precarious Nature of Plaintiffs' Practice in Texas*, 80 TEX. L. REV. 1781 (2002); Steven Garber, Michael D. Greenberg, Hillary Rhodes, Xiaohui Zhuo & John L. Adams, *Do Noneconomic Damages Caps and Attorney Fee Limits Reduce Access to Justice for Victims of Medical Negligence?*, 6 J. EMPIRICAL LEGAL STUD. 637 (2009); Stephen Daniels & Joanne Martin, *Plaintiffs' Lawyers: Dealing with the Possible but Not Certain*, 60 DEPAUL L. REV. 337 (2011).

6. James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 2 (2005).

7. Stewart Yerton, *The Sky's the Limit*, AM. LAW., May 1993, at 64 ("Hosier says that his contingency fee for that work, and his revenue from other clients, totaled about \$150 million last year—more than the draws of all the equity partners at New York's Cravath, Swaine & Moore and Chicago's Winston & Strawn combined.").

8. See *Mentor H/S, Inc. v. Med. Devices Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001) ("Only a 'patentee' can bring an action for patent infringement. . . . The term 'patentee' is defined as

uninterested in filing a lawsuit to recover money, they can instead sell and assign the patents and related causes of action to another entity. While historically there has been a small amount of buying and selling of freestanding patents, there is substantial evidence that the market for patents has recently grown.⁹ In the past few years, there has been an explosion of patent transactions in the news. In December 2009, Micron Technology sold approximately 3,400 patents to Round Rock Research, LLC, a non-practicing entity.¹⁰ In August 2011, Google announced that it intended to purchase a division of Motorola for \$12.5 billion, and the primary reason for the transaction was Motorola's patent portfolio.¹¹ The month before, in July 2011, Nortel sold its patent portfolio to a consortium of major IT companies for \$4.5 billion.¹² This publicity highlighted the value of patents, thereby encouraging even the largest multinational corporations to carefully consider how to monetize value from their patents, including evaluating selling a portion of their patent portfolios.

After explaining why the contingent market has developed, this Article describes the nascent marketplace of patent contingent fee litigators. For this study, I have omitted any analysis of partial hourly/partial contingent or "blended" arrangements. There is a continuum in alternative-fee arrangements. At one extreme, there are cases in which all, or substantially all, of the attorneys' compensation is tied to the recovery, if any, by the client. This extreme is the focus of the Article. I recognize that many cases are handled on a discounted-fee basis, with some reduction in the normal hourly rate provided to the client. In a subset of these cases, there is also some uptick—such as a small contingent percentage or a multiple of foregone fees—to the law firm in the event that the matter is resolved satisfactorily. These "blended" arrangements—part contingent and part hourly billing—are also worthy of study. However, blended arrangements are different from pure contingent practice. Because pure contingent practice is broad, important, and underexplored, I have focused on it exclusively in this Article. I have also focused exclusively on contingent fee representation of patentees (generally plaintiffs) in patent cases. I do

including 'not only the patentee to whom the patent was issued but also the successors in title to the patentee.'"); see also Anthony J. Sebok, *The Inauthentic Claim*, 64 VAND. L. REV. 61, 75 (2011).

9. See Colleen V. Chien, *From Arms Race to Marketplace: The New Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297, 311 (2010).

10. Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 17 (2012), <http://stlr.stanford.edu/pdf/feldman-giants-among-us.pdf>.

11. Shira Ovide, *Google-Motorola: It's All About the Patents*, WALL ST. J. DEAL J. (Aug. 15, 2011, 10:03 AM), <http://blogs.wsj.com/deals/2011/08/15/google-motorola-its-all-about-the-patents/>.

12. Elizabeth Woyke, *An Insider on the Nortel Patent Auction and Its Consequences*, FORBES (July 7, 2011, 11:40 AM), <http://www.forbes.com/sites/elizabethwoyke/2011/07/07/an-insider-on-the-nortel-patent-auction-and-its-consequences/>.

not address the much smaller market for contingent representation of accused infringers.

Because the market for contingent fee lawyers is still emerging, it is not transparent yet. The inner workings of the market are not well known to academics nor are they even fully understood by the lawyers who are litigating the patent cases. To illuminate the market, this Article ventures into previously untapped resources. Instead of relying on traditional sources like case law and theory, this Article draws upon mostly unexplored sources of data, including in-depth interviews with over forty lawyers involved in contingent representation in patent litigation and analysis of more than forty contingent fee agreements.¹³ By learning from the direct participants, this Article provides a rich and detailed description of the major players in the market including their incentives and business models. Surprisingly, the market relating to patent contingent fee representation is extremely diverse. The market includes experienced and highly reputable trial lawyers, small contingent firms, and dabblers who mainly work on hourly billing cases. Several types of entities that work with (and at times compete against) patent contingent fee lawyers also fill out the patent contingent fee landscape. These entities include patent aggregators, which purchase patents from other entities, and financing entities, which invest in both patents and patent litigation.¹⁴

For simplicity, based upon the empirical information collected and described below, the market of contingent lawyers can be broken down into the following segments:

- Elite trial lawyers, including (i) former big-firm patent trial lawyers and (ii) top trial lawyers from other contingent areas of practice such as tobacco litigation;
- Big-firm lawyers who work at national general-practice firms or IP boutiques that traditionally have used hourly billing, dabbling in patent contingent litigation;
- A large number of both new and established patent contingent law firms who rely on the portfolio manager theory of contingent fee litigation—overseeing a large number of cases in order to “risk pool” and reduce the risk of each individual case; and

13. Qualitative research using interviews is a well-established empirical methodology that is particularly useful at examining under-explored issues or situations. See Lisa Webley, *Qualitative Approaches to Empirical Legal Research*, in THE OXFORD HANDBOOK OF EMPIRICAL LEGAL RESEARCH 927, 927–940 (Peter Cane & Herbert M. Kritzer eds., 2010). For an excellent article which utilizes semi-structured interviews, see Nora Freeman Engstrom, *Sunlight and Settlement Mills*, 86 N.Y.U. L. REV. 805 (2011).

14. See Ewing & Feldman, *supra* note 10; Allen W. Wang, *Rise of the Patent Intermediaries*, 25 BERKELEY TECH. L. J. 159, 166 (2010).

- Small groups of lawyers who recently entered the market and litigate patent infringement suits on behalf of single non-practicing entity clients against a large number of defendants, seeking a relatively smaller payout from each defendant.

Predicting the future of contingent patent litigation is difficult. The market for contingent fee representation in patent law will become more mature in the next several years. As markets mature, they generally become more efficient and competitive. Currently, the patent contingent market supports a diversity of lawyers, litigation strategies, and patentees, but competition may change this. There will always be individual and small corporate inventors who are unable to pay legal bills on an hourly basis, and these are natural clients of a contingent fee lawyer. But higher quality patent lawyers with substantial litigation experience are being drawn into the market. They are entering the market because there are stronger patents, both in terms of infringement and validity, available for contingent litigation. These stronger patents are available for litigation because of the increased fluidity of the patent transaction market.¹⁵ The fluidity often results in patents being assigned to entities more likely to sue. On the other hand, there have been a series of court decisions in the last few years that have substantially weakened patent rights and remedies.¹⁶ Weaker patent rights lower the value of cases, which in turn decreases the number of patents that are desirable to lawyers to litigate on a contingent basis. The America Invents Act,¹⁷ adopted in September of 2011, also changes the law in a way that discourages contingent practice for lower value cases, by prohibiting joinder of multiple unrelated defendants in most circumstances.¹⁸ The vast majority of the interviews for this Article were conducted before the adoption of the America Invents Act. At present, it is difficult to foresee the resolution of these contradictory forces.

This Article makes four significant contributions to our understanding of patent litigation, contingent relationships, and the traditional law firm fee model. First, by describing contingent fee practice, the Article analyzes

15. See Ashby H. B. Monk, *The Emerging Market for Intellectual Property: Drivers, Restraints, and Implications*, 9 J. ECON. GEOGRAPHY 469, 469 (2009).

16. These cases include, among other cases, *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (making it more difficult for a successful patentee to obtain a permanent injunction); *KSR International Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007) (making it easier to invalidate a patent as obvious); and *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011) (making it more difficult for patentee to prove damages).

17. Leahy-Smith American Invents Act (AIA), Pub. L. No. 112-29, 125 Stat. 332 (codified in scattered sections of 35 U.S.C.).

18. The America Invents Act prohibits joinder of multiple unrelated defendants in most circumstances. 35 U.S.C. § 299(b) (2006 & Supp. V 2011).

a new mechanism of patent litigation that has not previously been dealt with in the scholarship. Second, the Article assesses how this shift will affect patent litigation and enforcement.

Third, the Article illustrates that we cannot simply transfer our assumptions and conclusions about contingent fee litigation from other areas of the law. Understanding the market for contingent services in patent litigation aids in understanding contingent representation more generally. Patents differ in many important aspects from other areas that are generally handled on a contingent basis. Some patent contingent fee lawyers initiate multiple lawsuits over time involving the same patents but against different defendants. Obtaining settlements from earlier defendants permits the patentee to accumulate money to fund later litigation and also bolsters the strength of the patent.¹⁹ The ability to directly link multiple lawsuits is not present in other areas of law.²⁰ It informs and refines the general theory underlying contingent representation.

Finally, the Article highlights a novel and generalizable conclusion about weaknesses in the traditional law firm fee model. Lawyers who bill primarily on an hourly fee basis have certain characteristics that are misaligned with their clients' interests. For instance, they are frequently inaccurate at budgeting litigation expenses. They also assign attorneys to matters for reasons other than expertise and efficiency. These characteristics become apparent when these firms experiment with contingent fee matters in patent litigation, but they are more general shortcomings.

This Article proceeds in three additional Parts. In Part II, this Article sets forth the forces that led to an increase in patent contingent litigation. It also briefly explains patent litigation practice and discusses the prior literature on contingent fee lawyers in other areas of law. In Part III, this Article describes the qualitative interviewing methodology used in the present study. Part III also provides vignettes of the types of lawyers involved in contingent fee practice. Using the semi-structured interviews with contingent fee lawyers, the Article paints a detailed picture of their motivations and strategies. The Article concludes in Part IV with a prediction of the future of the marketplace for contingent fee lawyers as it matures. It ends with a description of what patent practice can teach us

19. For a more complete discussion, see *infra* Part III.B.3.

20. In mass torts like *In re Vioxx Products Liability Litigation*, 501 F. Supp. 2d 776 (E.D. La. 2007), which may be the closest to patent litigation along this dimension, separate individual cases are indirectly linked because they have similar legal and factual questions, or both. However, the result in one case does not legally control the outcome in another. LINDA S. MULLENIX, *MASS TORT LITIGATION: CASES AND MATERIALS* (1996). For the reasons discussed in Part III.B.3, *infra*, patent cases are directly linked.

about contingent fee representation in general. Further details on the interviews are provided in the Appendix.

II. THE EVOLUTION OF PATENT CONTINGENT PRACTICE

This Part first briefly explains the general debate about contingent representation in civil litigation. Turning to patent law, it explains the basics of patent litigation practice and then sets forth the various ways patent litigation is different from other forms of civil litigation typically conducted on a contingent basis, including how those differences theoretically should affect whether lawyers choose to handle matters on a contingent fee basis. Finally, it describes the major events in the development of patent contingent practice.

A. Contingent Representation in General

The basic economics of contingent practice are simple. Lawyers evaluate cases by comparing the upsides and downsides of a case. The most important upside is the potential monetary recovery. The downsides include the “cost” to the lawyer to litigate the case (including attorneys’ fees, expenses, and opportunity costs) and the chances that the litigation will be unsuccessful. The basic formula to capture this is the same for all areas of contingent representation, although for reasons discussed herein, patent law may require further refinement to account for the linked nature of multiple cases involving the same patent. The general formula can be simplified and reduced to the following equation:

$$\text{Value} = P(\text{Recovery}) * E(\text{Damages}) - E(\text{Cost})$$

In this equation, $P(\text{Recovery})$ is the probability of winning on liability. $E(\text{Damages})$ is the expected damage award. $E(\text{Cost})$ is the expected cost to the law firm or lawyer of litigating until recovery; the costs include out-of-pocket expenses to the lawyer and the opportunity cost of the attorney’s time spent on the case. A slightly more complicated formula would account for the time value of money by including the duration a case will pend before recovery.²¹ It would also account for the lawyer’s share of the recovery (e.g., 33%, 40%).²²

Contingent fee litigation arguably permits improved access to the legal system. Because litigation is expensive, a contingent lawyer operates as a

21. A more complete formula for evaluating contingent fee possibilities can be found in Garber et al., *supra* note 5, at 651–55 n.30. The contingent lawyers interviewed for this study, however, did not rely upon such a formal and complex model.

22. *See id.* at 652, 654, n.30.

sort of venture capitalist.²³ The lawyers invest in the case by providing their legal services without an upfront payment. Without such a service, good legal claims would likely be under-asserted.²⁴ Contingent lawyers also operate, in theory, as case “screeners.”²⁵ Sophisticated lawyers are unwilling to invest their time on a contingent basis unless they believe that the claim is worth money. Thus, the cases selected by contingent lawyers should have merit, or at least be likely to generate settlements or verdicts that are financially attractive to the lawyers.

There has been a long-standing and heated debate about the propriety of contingent representation in civil litigation. This Article will only briefly explain the contours of that debate. Critics of contingent representation argue that contingent fee attorneys are often overcompensated and advocate more for themselves than for their clients.²⁶ Lester Brickman, one of the most outspoken critics, argues that contingent fees overcompensate attorneys without any additional costs.²⁷ He also argues that the risk of losing a lawsuit on contingent fee has not changed in the past decade, while the effective hourly rates paid to contingent fee lawyers have substantially increased.²⁸

The first claim, that contingent fee attorneys are often overcompensated, is nuanced. Brickman draws his distinction between high recoveries for high-risk cases and high recoveries for low-risk cases.²⁹ Indeed, Brickman points to the rise of high-recovery cases, such as products liability, toxic torts, class actions, medical malpractice, and the like, all of which award much higher judgments than the personal injury cases of previous decades.³⁰ This lack of risk with substantial reward forms the unjustifiable aspect of contingent fee litigation, according to Brickman, because it siphons off money from the aggrieved when there was little legal skill necessary.³¹ As for proof, Brickman points to a study that shows “the average medical malpractice verdict increased approximately 2200% over the last 40 years.”³²

23. ALEXANDER TABARROK & ERIC HELLAND, TWO CHEERS FOR CONTINGENT FEES 7 (2005).

24. *Id.* at 8.

25. *Id.* at 9–10; Stephen J. Cotten & Rudy Santore, *Contingent Fee Caps, Screening, and the Quality of Legal Services*, 32 INT’L REV. L. & ECON. 317 (2012); Issachar Rosen-Zvi, *Just Fee Shifting*, 37 FLA. ST. U. L. REV. 717, 729–30 (2010).

26. *See, e.g.*, LESTER BRICKMAN, LAWYER BARONS: WHAT THEIR CONTINGENCY FEES REALLY COST AMERICA (2011).

27. *Id.* at 36.

28. *Id.* at 37–38.

29. Lester Brickman, *Effective Hourly Rates of Contingency-Fee Lawyers: Competing Data and Non-Competitive Fees*, 81 WASH. U. L.Q. 653, 692 (2003).

30. *Id.* at 655. Brickman does not consider contingent representation in patent infringement cases.

31. *Id.* at 694.

32. *Id.* at 710.

Brickman also argues that the risk ratio has not changed in the past forty years, while earnings have increased dramatically.³³ The effective hourly rates have increased, according to him, around 1000%–1400% since 1960, but the risk of non-recovery has not changed.³⁴ Thus, contingent lawyers are merely taking money that should otherwise flow to the client, the aggrieved victim.

Defenders of contingent representation offer several responses. Herbert Kritzer, one of the leading scholars studying contingent representation, contends that attorneys who work on a contingent fee basis do not make significantly more than hourly fee attorneys.³⁵ The basis for Kritzer's statement is his empirical study of Wisconsin contingent fee attorneys.³⁶ Kritzer finds that although the top income bracket of contingent fee litigators make more than the top hourly fee litigators, for the most part, the lawyers all have a comparable income.³⁷ His results are consistent with data that the RAND Corporation collected in the early 1990s.³⁸ The RAND study surveyed lawyers in cases filed in federal districts across the country.³⁹ The RAND survey asked approximately how much time the lawyer spent on the case, what the legal fees amounted to for the case, the amount of money at stake, and how much money was eventually paid out.⁴⁰ Kritzer argues that his findings of Wisconsin contingent fee lawyers are very similar to those of the RAND Corporation study, which mainly surveyed hourly billing attorneys.⁴¹

Kritzer also asserts that contingent fee attorneys face risks to which hourly fee attorneys are not exposed.⁴² Most clear is the possibility that they will not recover or will recover less than the value of the time they invested in the case.⁴³ To try to counteract this risk, contingent fee attorneys act as gatekeepers, choosing carefully which cases they will accept, based upon the odds of recovery.⁴⁴ While they still do not recover in some number of cases, they are able to act as an insurance company,

33. *Id.* at 655.

34. *Id.* This claim has been challenged by Kritzer. See Herbert M. Kritzer, *Advocacy and Rhetoric vs. Scholarship and Evidence in the Debate over Contingency Fees: A Reply to Professor Brickman*, 82 WASH. U. L.Q. 477, 486, 489 (2004) (asserting that a scientific study of forty-five of the seventy-five largest counties found that the average jury verdict was only \$400,000, not \$1.4 million as Brickman suggested).

35. Kritzer, *supra* note 5, at 764–65.

36. *Id.* at 741.

37. *Id.* at 764–65.

38. *Id.*

39. *Id.* at 743–44.

40. *Id.*

41. *Id.* at 771–72.

42. *Id.* at 772.

43. *Id.* at 766.

44. *Id.* at 754.

spreading the risk of each case among all their clients in order to protect against any one expensive loss (in terms of lawyer time and out-of-pocket expenses).⁴⁵ Therefore, those cases that collect money help subsidize the ones that do not. The subsidy inherent in the system aids in making the contingent fee system accessible, since the attorneys must front the capital.

Furthermore, Kritzer contends that contingent fee attorneys act in the best interest of their clients.⁴⁶ He argues that contingent fee attorneys are dependent on referrals from their clients or repeat clients.⁴⁷ Repeat customers and client referrals account for around 45% of the cases a contingent fee lawyer obtains in Wisconsin.⁴⁸ Therefore, it is in the lawyer's best interest, Kritzer argues, not to shortchange the client because the attorney could easily gain a bad reputation.⁴⁹

This Article does not enter the contentious debate about whether contingent representation, on the whole, is good or bad. Instead, it analyzes how the contingent market was developed in patent law, why it was developed, and how it will look as it continues to mature.

B. Patent Litigation Practice and Barriers to Contingent Practice

There has been a recent rise in contingent representation in patent litigation. While interviewed lawyers provided diverse estimates for the amount of contingent litigation today (from 1% to 50% of the lawsuits involving non-Fortune 100 parties), there was widespread agreement that the amount had increased in the last ten years. That is somewhat puzzling because there are numerous reasons that patent litigation appears to be a poor vehicle for contingent representation. Before discussing these reasons, this Article first explains a few basics about patent-lawyer practice for those who are unfamiliar.

1. Basics of Patent Litigation

All patent litigation occurs in federal court, with trials occurring in the district courts⁵⁰ and appeals decided by a single appellate court, the Federal Circuit Court of Appeals in Washington DC (hereinafter "Federal Circuit").⁵¹ Furthermore, although the trial court litigation occurs in all

45. *Id.*

46. *Id.* at 774–76.

47. *Id.* at 750–51.

48. *Id.* at 751.

49. *Id.* at 776.

50. 28 U.S.C. § 1338 (2006 & Supp. V 2011).

51. *Id.* at § 1295(a)(1).

federal judicial districts (before generalist district court judges),⁵² it is concentrated in a few courts.⁵³ These courts reside in the larger metropolitan cities—Chicago, New York, San Francisco, and Los Angeles—and the District of Delaware.⁵⁴ In addition, certain other venues are popular for patentees because they are perceived as fast and plaintiff friendly. These have varied over time;⁵⁵ most recently a key venue is the largely rural Eastern District of Texas.⁵⁶

Patent-litigator practices are frequently national in scope. In other words, patent litigators do not limit their practice to the state in which they reside.⁵⁷ Even in cases filed in the rural Eastern District of Texas, the lawyers on both sides of the case are often from major metropolitan areas.⁵⁸

Another interesting aspect of patent litigation: the largest and most prestigious firms represent both plaintiffs and defendants in patent cases. In contrast, in other areas of law such as employment discrimination, large firms only represent defendants.⁵⁹ This could be because there is no patent insurance generally available,⁶⁰ and thus there is no obvious organized separation of plaintiffs and defendants. In patent cases, there is no stigma in representing patentees in general, although as discussed later, a stigma has developed in representing certain types of patentees.⁶¹

With respect to fees, historically, patent litigation was handled almost exclusively on an hourly fee basis. Most patent litigation plaintiffs and defendants were corporations that had the resources to pay lawyers their

52. Recently, Congress adopted the Patent Pilot Program, which will experiment with limited specialization of judges in patent cases in certain judicial districts. *Id.* at § 137.

53. Mark A. Lemley, *Where to File Your Patent Case*, 38 AIPLA Q.J. 401, 405–07 tbl.2 (2010).

54. *Id.* (reporting that the top five venues for patent cases 2000–2010 were C.D. Cal. (Los Angeles area); N.D. Cal. (San Francisco area); E.D. Texas (Marshall, Texas); N.D. Ill. (Chicago area); and S.D.N.Y. (New York)).

55. For instance, in the early 1990s, the Eastern District of Virginia was popular. Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographical Choice Affect Innovation?*, 79 N.C. L. REV. 889, 900 (2001) (referring to the Eastern District of Virginia as the “rocket docket”).

56. Julie Creswell, *So Small a Town, So Many Patent Suits*, N.Y. TIMES, Sept. 24, 2006, § 3, at 1 (describing the reasons that Marshall, Texas became a hot spot of patent litigation). In addition, the Western District of Wisconsin in Madison, Wisconsin is very popular, as well as the International Trade Commission. The International Trade Commission is less desirable for a contingent fee patent holder because it cannot award monetary damages. However, a settlement of an International Trade Commission investigation can include money.

57. On the other hand, in other areas like medical malpractice, lawyers have entirely local practices. See KRITZER, *supra* note 4.

58. Creswell, *supra* note 56 (stating that the lawyers are from major metropolitan areas).

59. The larger firms represent only defendants in personal injury, medical malpractice, and class action cases.

60. Colleen V. Chien, *Predicting Patent Litigation*, 90 TEX. L. REV. 283, 295 (2011) (noting that the market for patent insurance is “extremely small and highly inefficient”).

61. Ashby Jones, *When Lawyers Become ‘Trolls,’* WALL ST. J., Jan. 23, 2012, at B1 (quoting Mark Lemley as saying, “more and more, if you’re repping trolls, corporate defendants don’t want to have anything to do with you”).

regular hourly rates during the course of litigation. Patent litigators, like most big-firm lawyers, preferred this arrangement too because it resulted in low risk for the law firm.

2. *Patent Litigation Compared to Other Areas with Contingent Practice*

Patent cases are different along a number of dimensions from the stereotypical case brought on a contingent fee basis. Under the general formula for contingent representation, most of these differences make it appear that patent cases are more risky to the lawyer than other areas of law. First, the fees to litigate a patent dispute are many times higher than those for simpler causes of action.⁶² In part, this is due to unique issues in patent litigation⁶³ and the breadth of documentary and electronic discovery. It is not uncommon for the fees (including expert witness fees) to litigate a patent infringement dispute to reach several million dollars.⁶⁴ Patent cases also require a relatively long period of time to resolve. The average pendency in many high-volume patent venues is longer than two years.⁶⁵ This matters because of the time value of money and the fact that a contingent fee lawyer is not paid unless and until there is a recovery. Both of these reasons combine to make the “investment cost” of patent litigation high for a contingent fee lawyer.

Furthermore, patent cases are also seen as highly unpredictable in terms of outcomes, even more so than the most complicated antitrust cases. For instance, one lawyer interviewed for this project who handles contingent matters in a variety of complex fields, including patent and antitrust, summed it up as follows:

There are more ways to lose a patent case than any other area. . . . Patent cases are harder to predict. In antitrust, it is pretty easy to zero in on the major issues in the case. In patents, there are

62. Gene Quinn, *Patent Attorneys Fees Explained*, IPWATCHDOG (Sept. 3, 2008, 3:30 PM), <http://www.ipwatchdog.com/patent/patent-attorney-fees-explained/>.

63. One of these unique issues is called claim construction. In many cases, the court will have separate briefing and a hearing to determine how to interpret the patent claims. *See generally* Peter S. Menell et al., *Patent Claim Construction: A Modern Synthesis and Structured Framework*, 25 BERKELEY TECH. L.J. 711 (2010).

64. The largest IP trade association conducts a biannual survey of its membership on various cost issues. Their 2011 survey pegged the average cost of patent infringement litigation at \$2,769,000 for a case worth one million to twenty five million; and at \$6,018,000 for a case worth more than twenty five million. AIPLA REPORT OF THE ECONOMIC SURVEY I-153–54 (2011).

65. Jay P. Kesan & Gwendolyn G. Ball, *How are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 WASH. U. L. REV. 237, 299 (2006).

more potential issues and it is more difficult to know which will be significant in litigation.

Patent cases are unpredictable in terms of liability, with substantial uncertainty concerning key issues such as patent claim construction and obviousness of the claimed invention.⁶⁶ There are two causes of this high unpredictability: difficulty in knowing the relevant facts to the dispute and difficulty in knowing how a trier of fact will evaluate the facts, even if known. The first cause is tied to, among other things, the issue of patent validity. A patent infringement claim will fail if there is prior art—for example, an item sold by a third party before the patentee’s invention—that is the same as the patented invention or which renders the patent obvious.⁶⁷ Knowing the entire universe of prior art is impossible before litigation commences. In litigation, there is a strong incentive for a defendant to search broadly for prior art, and the law expansively defines prior art to include hard-to-locate items such as private sales transactions.⁶⁸ Accordingly, it is difficult to predict the likelihood that a patent is valid before substantial litigation discovery.⁶⁹

Separately, there is a high degree of uncertainty in how the patent claims will be interpreted. Claims define the scope of the patent’s reach.⁷⁰ Even after a district court has construed the claims, the appellate court reverses at a seemingly high rate of approximately 30%–40%.⁷¹ There is

66. Gregory Mandel, *The Non-Obvious Problem: How the Indeterminate Nonobviousness Standard Produces Excessive Patent Grants*, 42 U.C. DAVIS L. REV. 57, 57 (2008) (arguing that the standard used by courts to determine whether an invention is obvious is indeterminate).

67. 35 U.S.C. § 102 (2006 & Supp. V 2011) deals with anticipation, while 35 U.S.C. § 103 (2006 & Supp. V 2011) sets forth the defense of obviousness.

68. For instance, a single copy of a graduate thesis located in a single library in Germany was found to be prior art because it was indexed and catalogued. *In re Hall*, 781 F.2d 897, 899–900 (Fed. Cir. 1986).

69. Even after full discovery, one study found 46% of litigated patents invalid. John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998).

70. *Markman v. Westview Instruments*, 517 U.S. 370, 390 (1996) (deciding that judges must perform claim construction, which involves determining the proper scope and boundaries of the patent instrument).

71. See David L. Schwartz, *Practice Makes Perfect? An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223, 240 tbl.1 (2008) (reporting that between 30% and 40% of appealed patent cases had to be reversed, vacated, or remanded due to an error by the trial court judge in interpreting the patent claims); David L. Schwartz, *Courting Specialization: An Empirical Study of Claim Construction Comparing Patent Litigation Before Federal District Courts and the International Trade Commission*, 50 WM. & MARY L. REV. 1699, 1716 tbl.II (2009) (reporting similar reversal rates over 1996–2008 time period); David L. Schwartz, *Pre-Markman Reversal Rates*, 43 LOY. L.A. L. REV. 1073, 1093 fig.A (2010) (reporting similar reversal rates over 1991–2008 period). This reversal rate appears to be much higher than for other causes of action and even for other issues within patent litigation. See Ted Sichelman, *Myths of (Un)Certainty at the Federal Circuit*, 43 LOY. L.A. L. REV. 1161, 1171–73 (2009) (showing that the reversal rate for non-claim construction issues in patent litigation is 18%).

also unpredictability and variability in the amount of damages if liability can be established, with plaintiff and defense experts frequently disagreeing at trial by two orders of magnitude.⁷² Each of these factors—high investment costs and low predictability of outcomes—makes contingent representation in patent litigation highly risky for lawyers, at least according to the basic formula advanced by scholars.⁷³

However, there are also some differences between patent law and other areas that render patent cases better vehicles for contingent representation. One critical difference is the ability to assign claims. In patent law, the owner of a patent may sell and assign the patent and the right to obtain past damages.⁷⁴ The purchaser of these rights may then assert the patent in litigation.⁷⁵ The rule in most other tort contexts is the opposite. Victims of a general tort of negligence, such as one injured in a slip-and-fall accident, cannot assign their cause of action to another.⁷⁶ Nor can the victim of medical malpractice, or someone victimized by fraud.⁷⁷ Thus, there are alternative ways for the owner to obtain money from a valuable patent other than suing.

Because of the ability to assign causes of action, patents are more likely to be asserted. When the original owner of a patent is not interested

72. For example, in the pending patent dispute between Oracle and Google, Oracle's experts pegged damages between \$1.4 billion and \$6.1 billion, while Google's expert assessed damages at \$33 million. Jan Wolfe, *Google, Oracle Battle Over Damages*, AM. LAW. (Dec. 7, 2011); see also Schwartz, *Pre-Markman Reversal Rates*, *supra* note 71, at 1105 ("It is not uncommon for the parties' trial damages positions to vary by one and sometimes even two orders of magnitude."). On the other hand, empirical evidence suggests that actual damage awards in patent cases may be predictable. Michael J. Mazzeo, Jonathan Hillel & Samantha Zyontz, *Excessive or Unpredictable? An Empirical Analysis of Patent Infringement Awards* 25, (Kellogg Sch. Of Mgmt., Working Paper, 2011), http://www.kellogg.northwestern.edu/faculty/mazzeo/htm/patentdamages_mhz.pdf (finding high correlation between damage awards and identifiable factors).

73. See *supra* Part II.A. On the other hand, a typical patent has multiple claims. If the patentee prevails on infringement and all defenses on even a single claim, it is entitled to damages. NAT'L JURY INSTRUCTION PROJECT, MODEL PATENT JURY INSTRUCTIONS 58 (2009), <http://www.nationaljuryinstructions.org/documents/NationalPatentJuryInstructions.pdf> (providing instructions for jurors to determine if "one or more" claims were infringed).

74. *Mentor H/S, Inc. v. Med. Devices Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001) (noting that a "patentee" includes "successors in title to the patentee").

75. *Id.*

76. Sebok, *supra* note 8, at 75 ("Almost all courts still refused to permit the assignment of personal injury claims, but split on the reason for maintaining the prohibition."); see also Michael Abramowicz, *On the Alienability of Legal Claims*, 114 YALE L.J. 697, 735–36 (2005) (considering the costs and benefits of allowing freer assignments of legal claims).

77. Sebok, *supra* note 8, at 86. Medical malpractice claims can be assigned to the insurer, but the value is limited to the benefits paid to the insured and not the value of the claim. See Kenneth S. Reinker & David Rosenberg, *Unlimited Subrogation: Improving Medical Malpractice Liability by Allowing Insurers to Take Charge*, 36 J. LEGAL STUD. S261, S263 (2007). The law with respect to assigning fraud claims is not uniform, with some states prohibiting their assignment and others allowing it. Sebok, *supra* note 8, at 88.

in litigation, the patent can still be asserted if it is purchased.⁷⁸ Patent owners can sell their patent to another who is more interested in enforcing the patent rights against an alleged infringer.⁷⁹ In contrast, if the victim of another tort does not wish to sue, then the wrongdoer escapes liability. As the market for patents increases, more patents will end up in the hands of an entity interested in enforcement.

The injury in patent cases is also different. The injury is to the patent, not necessarily to the patent owner, who need not even compete in the same field as the infringer.⁸⁰ Damages accrue from patent infringement whether or not the patent owner makes a product⁸¹ and even if the owner resides outside the United States. There is substantial flexibility in how damages are calculated, which may permit patentees to seek extremely high verdicts before a jury.⁸² And because patent infringement is a strict liability tort, no prior knowledge of the patent by the infringer is necessary.⁸³ These factors combine to make patentees eligible to receive compensation for infringement under a wide variety of circumstances.

In sum, there are numerous reasons patent cases are different from other cases typically brought on a contingent fee basis. These differences point in different directions on whether patent cases would be likely to be litigated on a contingent basis. Turning now to actual practice instead of theory, patent litigators historically represented clients on strictly an hourly basis. But due to a variety of factors, lawyers began representing patent owners on a contingent basis.

C. Evolution in Contingent Representation in Patent Litigation

There are several noteworthy events in the path toward contingent representation in patent litigation. To understand these events, one must appreciate who litigated patent cases in the past. Up until at least the late

78. A patent may also be asserted by an exclusive licensee if “all substantial rights” in the patent have been transferred. *Int’l Gamco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273, 1276 (Fed. Cir. 2007).

79. This may be why there are more patent lawsuits. The weak-willed plaintiffs assign their patents to stronger willed parties. More likely, a party that is well-funded and knowledgeable about patents pays more for a patent than the owner believes that it is worth.

80. Over a hundred years ago, the Supreme Court held in a patent infringement appeal that there is “the privilege of any owner of property to use or not use it, without question of motive.” *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 429 (1908).

81. 35 U.S.C. § 271 (2006 & Supp. V 2011).

82. Christopher B. Seaman, *Reconsidering the Georgia-Pacific Standard for Reasonable Royalty Patent Damages*, 2010 BYU L. REV. 1661, 1665 (asserting that the current law on patent damages results in some high and “unpredictable damage awards”).

83. Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In Re Seagate*, 97 IOWA L. REV. 417, 421 (2012) (“Patent infringement ‘is a strict liability offense,’ and thus an accused infringer can be held liable for unintentional or accidental infringement.”).

1980s, the patent bar was largely isolated.⁸⁴ Patent law was practiced almost exclusively by specialty firms known as patent boutiques.⁸⁵ At these boutiques, almost all of the lawyers had technical backgrounds, such as engineering or a hard science, and had passed a special bar examination known as the “patent bar.”⁸⁶ The patent boutiques were successful, representing the major national and transnational corporations in the administrative process of obtaining patents for their inventions.⁸⁷

In this time period, patent boutiques also handled nearly all of the patent litigation in the United States.⁸⁸ This work, like most other work at boutiques, was handled on an hourly billing basis.⁸⁹ When their clients desired to sue another for patent infringement (or were sued themselves), they naturally turned to their patent counselors at the boutique law firms. Perhaps due to their training as engineers or their lack of exposure to general trial lawyers, most patent litigators at the boutiques lacked the trial skills of general litigators.

Patent law and practice changed after the creation of a national appellate court to handle patent cases in 1982.⁹⁰ In the years immediately after its formation, the Federal Circuit was viewed as more pro-patentee than the regional circuits had been.⁹¹ It was less inclined to affirm findings that patents were invalid.⁹² This had the effect of increasing the value of patents.

84. S. Jay Plager, *Challenges for Intellectual Property Law in the Twenty-First Century: Indeterminacy and Other Problems*, 2001 U. ILL. L. REV. 69, 76 (2001) (“For a long time patent law was the province of a small number of practitioners in boutique firms, working in an area of law that was foreign, if not largely unknown, to the bar and the economy generally.”).

85. John M. Golden, *The Supreme Court as “Prime Percolator”: A Prescription for Appellate Review of Questions in Patent Law*, 56 UCLA L. REV. 657, 684 (2009) (stating that patent boutiques dominated the practice in the past).

86. Roberta Rosenthal Kwall, *The Intellectual Property Curriculum: Findings of Professor and Practitioner Survey*, 49 J. LEGAL EDUC. 203, 221 (1999) (stating that patent boutiques preferred their lawyers to pass the patent bar).

87. Larry Smith, *IP Update: Outside, Inside Counsel in the Tug of War as Profitability Soars*, OF COUNS., Mar. 18, 1991, at 1, 7 (stating that fifteen in-house patent counsel from major corporations reported that their patent counsel from boutiques were so successful that they seemed arrogant).

88. John M. Conley & Lynn Mather, *Scientists at the Bar: The Professional World of Patent Lawyers*, in *LAWYERS IN PRACTICE* 245, 252–53 (Leslie C. Levin & Lynn Mather eds., 2012).

89. *Id.* at 253–54.

90. Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 3 (1989).

91. Robert L. Harmon, *Seven New Rules of Thumb: How the Federal Circuit Has Changed the Way Patent Lawyers Advise Clients*, 14 GEO. MASON L. REV. 573, 574 (1992) (“When this author broke into the business, and for many years thereafter, it was quite clear that there was no such thing as a valid patent in the Eighth Circuit, and the climate in the Ninth Circuit was not much more hospitable. In the Seventh Circuit, on the other hand, patent infringement could get a client into big trouble. Each of the other circuits occupied its own band in the enforcement spectrum . . .”).

92. Among other things, the Federal Circuit articulated stringent requirements to prove a patent invalid as obvious. See Emer Simic, *The TSM Test is Dead! Long Live the TSM Test! The Aftermath of KSR, What Was All The Fuss About?*, 37 AIPLA Q.J. 227, 232 (2009) (noting that many believed that

There were also several high value damage awards in the late 1980s and early 1990s. For instance, Polaroid was awarded nearly one billion dollars in damages against Eastman–Kodak in 1990.⁹³ Separately, in 1992, Honeywell settled a lawsuit it filed against Minolta for infringing patents covering auto-focus technology for cameras for over \$125 million dollars.⁹⁴ These cases were reported extensively in the press, bolstering the view that patents could be valuable if asserted in litigation.⁹⁵ As a result, more patents were asserted in litigation.⁹⁶

By the mid-1990s, general practice firms became interested in developing patent practices.⁹⁷ They realized that patent litigation was both “hot” and could be financially lucrative. Patent cases were very document-intensive cases, requiring discovery into research and development records, which may span many years.⁹⁸ Consequently, these cases called for the staffing of a significant number of lawyers and paralegals. General-practice firms had a desire for just these sorts of cases—cases for which numerous lawyers could bill premium rates. To develop a patent practice, general-practice firms acquired many patent boutiques.⁹⁹ They also poached experienced patent lawyers from the boutiques.¹⁰⁰

the Federal Circuit’s “teaching, suggestion, or motivation” test for obviousness favored the patent owner).

93. *Polaroid Corp. v. Eastman-Kodak, Inc.*, 16 U.S.P.Q.2d 1481, 1541 (D. Mass. 1990) (awarding \$900 million in damages, although the amount was later reduced to \$873 million).

94. *Minolta Settles Suit on Honeywell Patents*, N.Y. TIMES, March 5, 1992, at D4 (reporting a settlement of \$127.5 million for settlement of patent infringement suit).

95. Chien, *supra* note 9, at 306–07 (arguing that successful litigation and licensing campaigns had “demonstration effects” on others); see also Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979–1995*, 32 RAND J. ECON. 101 (2001). Some may argue that a known pro-patentee tilt would make patent law more predictable, which should result in fewer disputes and less litigation. It is true that settlement occurs in the shadow of the law. However, as the amount in dispute increases, the attorneys’ fees in litigation become less significant. As a result, the increased value in a patent also likely increases the amount of litigation.

96. Alan Marco & Ted Sichelman, *Do Downturns Dampen Patent Litigation?* 7 fig.1 (5th Annual Conference on Legal Studies Working Paper, July 16, 2010), http://www.law.northwestern.edu/searlecenter/papers/Sichelman_Patent_Lit.pdf (showing rise from approximately 1,000 patent lawsuits per year in 1990 to 2,500 patent lawsuits per year by 2000).

97. James F. Davis, *Judicial Management of Patent Litigation in the United States: Observations from the Litigation Bar*, 9 FED. CIR. B.J. 549, 551 (2000) (“Since late 1980s, general practice firms and litigation specialty firms have captured about half of the patent litigation market.”); Rick McDermott, *Lessons Learned from Fifteen Years in the Trenches of Patent Litigation*, 14 MARQ. INTELL. PROP. L. REV. 471, 478 (2010) (“Within several years [of 1994], however, general practice firms started to enter the IP legal market, either by establishing organically their own IP groups or by merging with or acquiring IP boutiques or groups of lawyers from said boutiques.”).

98. Randall R. Rader, Chief Judge, U.S. Court of Appeals for the Federal Circuit, *The State of Patent Litigation* 7 (Sept. 27, 2011), <http://www.patentlyo.com/files/raderstateofpatentlit.pdf> (“[T]he driving factor for that expense is discovery excesses.”).

99. Numerous old-line patent and IP boutique law firms dissolved or merged with general-practice firms in the late 1990s and early 2000s. Steven T. Taylor, *While the Carnivorous Legal Market Has Swallowed Several IP Firms, Some Find Ways to Survive and Even Thrive*, OF COUNS., July 2005,

By the turn of the millennium, most American Lawyer 200 general-practice firms handled patent litigation matters—almost entirely on an hourly billing basis.¹⁰¹ In addition to the newly hired patent litigators, these firms often utilized trial lawyers who had been commercial litigators or antitrust litigators.¹⁰² Patent cases began to appear more like other civil cases: They were litigated by lawyers with trial experience.¹⁰³ They were tried to juries instead of the bench.¹⁰⁴ Large damages were possible. All of these made contingent representation possible. And the increasing chance at success, brought in part by the creation of the Federal Circuit, made it easier to justify contingent representation.

While almost all patent infringement cases were handled on an hourly basis, there have been a small number of patent contingent cases and litigators, some of which have been extremely high profile. In addition to Gerald Hosier, who was mentioned in the Introduction, Raymond Niro and his firm developed a reputation as widely successful patent contingency fee litigators.¹⁰⁵ Alfred B. Engelberg also was reported to have made more than a hundred million dollars representing generic drug manufacturers on a contingent basis in patent litigation.¹⁰⁶ However, until the late 1990s, contingent representation in patent law was very confined. More

at 1, 2 (noting that well known IP boutiques Lyon & Lyon, Pennie & Edmunds, and Fish & Neave have become “extinct”).

100. Leigh Kamping-Carder, *Why Some IP Boutiques Fail*, LAW360 (March 15, 2010, 7:16 PM), <http://www.law360.com/articles/155525/why-some-ip-boutiques-fail> (explaining that general-practice firms have routinely raided senior patent litigators from boutique firms). Furthermore, I believe that more engineers began enrolling in the top law schools. Those graduates, like other graduates at top law schools in the 1990s and 2000s, frequently went to work at large, general-practice law firms.

101. For several potential explanations for why large firms prefer hourly fees, see Nuno Garoupa & Fernando Gomez-Pomar, *Cashing by the Hour: Why Large Firms Prefer Hourly Fees over Contingent Fees*, 24 J.L. ECON. & ORG. 458 (2008).

102. Antitrust litigation work had largely dried up by the mid-1990s, and many of these lawyers were searching for an area to transition into. See Sean M. McElDowney, *The “Essential Relationships” Spectrum: A Framework for Addressing Choice of Procedural Law in the Federal Circuit*, 153 U. PA. L. REV. 1639, 1658 n.68 (2005) (noting that at general-practice firms, “many experienced patent litigators . . . have come to patent litigation from general commercial litigation”).

103. Davis, *supra* note 97, at 551 (noting that “[c]orporate general counsel tend to retain experienced trial lawyers (with or without patent law experience”).

104. Until the late 1980s, relatively few patent infringement complaints contained a jury demand. By the 2000s, nearly all of them did. See Kimberly A. Moore, *Jury Demands: Who’s Asking?*, 17 BERKELEY TECH. L.J. 847, 850–51 fig.1 (2002); David L. Schwartz, *Explaining the Demise of the Doctrine of Equivalents*, 26 BERKELEY TECH. L.J. 1157 (2011). The reason for this increase has never been fully explained, but in part it may be due to the rise of big firm lawyers working on patent cases or advances in technology available in the courtroom to educate jurors.

105. Very few lawyers handled patent cases on a contingent basis in the 1990s. See Appendix. In fact, Ray Niro worked with Gerry Hosier before they separated, and each embarked on successful careers in contingent patent litigation.

106. P.L. Skip Singleton, Jr., *Justice for All: Innovative Techniques for Intellectual Property Litigation*, 37 IDEA 605, 610 (1997) (citing a telephone interview with Alfred B. Engelberg).

particularly, it did not include any, or almost any, large general-practice firms.¹⁰⁷

More recently, numerous big verdicts and settlements have been reported as contingent wins. The Blackberry case was obviously one, with the patentee receiving over \$600 million.¹⁰⁸ But there are many others, including *Eolas Technologies Inc. v. Microsoft Corp.* (\$521 million)¹⁰⁹ and *i4i Ltd. Partnership v. Microsoft Corp.* (approximately \$280 million).¹¹⁰ These awards, noted in the newspapers, encouraged others to enter the contingent-representation market.

Finally, the recent economic downturn may have affected patent practice.¹¹¹ As large firms lost billable work, they were more willing to entertain alternative fee arrangements with clients, which include flat fees, discounts of hourly rates, and sometimes contingent fees.¹¹² Also, laid-off attorneys had difficult times finding new employment.¹¹³ Contingent practice may have gained from these features of the downturn.

Another substantial change that affects contingent practice is that a more sophisticated market for the purchase of patents has formed.¹¹⁴ Because patents and the right to recover past damages are freely assignable, a non-litigious patent owner can sell and assign the patent and the infringement claim to another entity more interested in enforcement.¹¹⁵ As noted in the Introduction, the market for patents has recently grown, with a huge uptick in patent transactions appearing in the financial and business

107. Andrea Gerlin, *Patent Lawyers Forgo Sure Fees on a Bet*, WALL ST. J., June 24, 1994, at B1 (mentioning five lawyers who handle cases on a contingent fee basis, all of whom are at very small firms).

108. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005); *see also* Kelley, *supra* note 2.

109. *See* Michael Kanellos, *Microsoft Ordered to Pay \$521 Million*, CNET (Aug. 11, 2003, 5:29 PM), <http://news.cnet.com/2100-1012-5062409.html>.

110. *See* *i4i Ltd. v. Microsoft Corp.*, 2009 WL 2210479 (E.D. Tex. 2009) (Verdict and Settlement Summary).

111. Others have studied whether economic downturns affect the quantity of patent lawsuits filed. Marco & Sichelman, *Do Economic Downturns Dampen Patent Litigation?*, *supra* note 96.

112. Victor Li, *Study: For Law Firms, Cost-Cutting and Alternative Fees Here to Stay*, THE AMLAW DAILY (June 22, 2010, 6:43 PM), <http://amlawdaily.typepad.com/amlawdaily/2010/06/firmscuttingcosts.html> (stating that the largest law firms offer alternative billing after the recession).

113. Jordan Weissman, *What Do Lawyers and Bankers Have in Common? They Lost Jobs in 2011*, THE ATLANTIC (Jan. 10, 2012, 1:30 PM), <http://www.theatlantic.com/business/archive/2012/01/what-do-lawyers-and-bankers-have-in-common-they-lost-jobs-in-2011/251130/> (finding that thousands of law jobs were lost in 2011).

114. According to one source, the sales of patent rights on the secondary market increased from \$200 million in 2000 to \$1.5 billion in 2008. TAP Staff, *"Markets for Patents" Research Conference*, TECH. ACAD. POL'Y (Feb. 11, 2010), <http://www.techpolicy.com/Blog/February-2010/-Markets-for-Patents%E2%80%9D-Research-Conference---Summar.aspx>.

115. *See* *Mentor H/S, Inc. v. Med. Devices Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001) (noting that patents are assignable).

press. These include Google's \$12.5 billion acquisition of Motorola¹¹⁶ and Nortel's \$4.5 billion patent sale.¹¹⁷ Almost every executive and business person is now contemplating how to exploit value from their company's patent portfolio.

Professor Colleen Chien previously described the changing ecosystem of the patent system.¹¹⁸ She wrote that companies that do not assert their patents against a rival for fear of inciting a retaliatory patent infringement counterclaim now can consider selling or licensing their patents to patent holding companies.¹¹⁹ These patent holding companies are free to litigate without fear of a counterclaim because the holding companies do not make any products themselves.¹²⁰ And often these patent holding companies rely upon contingent fee lawyers to enforce the patents.

These forces have combined to make patent litigation amenable to contingent practice. However, the overall contour of the contingent fee market in patent litigation is largely unexplored. To the author's knowledge, there have been no academic studies of contingent representation in patent law. This Article attempts to fill that void, explaining how contingent representation in patent litigation has expanded in the last decade and where it may be headed in the future. Understanding contingent practice in patent law will aid our understanding of contingent practice more generally.

III. QUALITATIVE INTERVIEWS OF LAWYERS

This Part describes the market for contingent fee litigation in patent law. In Subpart A, it sets forth the study design and methodology relating to the semi-structured interviews and content analysis of contingent agreements. It continues in Subpart B with vignettes of various types of contingent lawyers active in patent law. Finally, in Subpart C, it expounds on the clients who hire contingent lawyers in patent litigation.

A. Study Design and Methodology

For this study, original data was gathered from two main sources. First, a series of semi-structured interviews was conducted. Second, copies of contingent fee agreements were obtained. Below I briefly describe both sources.

116. Ovide, *supra* note 11.

117. Woyke, *supra* note 12.

118. Chien, *supra* note 9, at 300.

119. *Id.* at 320.

120. *Id.*

Turning first to the interviews, I interviewed forty-four lawyers and businesspeople associated with contingent litigation in patent law during 2010 and 2011.¹²¹ The interviews took on average one hour to complete. A majority of the subjects were lawyers whose practice was all or substantially all plaintiff-side patent contingent work. I also interviewed lawyers who handled some patent infringement matters on a contingent fee basis but also handled other matters on an hourly billing basis.

To obtain balanced information about litigation, lawyers whose practice consisted of defending against contingent fee patent litigation were also interviewed. I also spoke with lawyers at several large and mid-sized patent aggregators, as well as businesspeople (not lawyers) in the financing industry. The subjects were chosen by a non-random “snowball” sample technique, which starts with certain known subjects and relies upon referrals and other sources for additional subjects.¹²² Further information about the interviews and methodology can be found in the Appendix.

In addition to the qualitative interviews, I obtained copies of forty-two contingent fee agreements. Most of these agreements were obtained from the interview subjects or directly from others who have litigated on a contingent fee basis in the patent field. A small number of the agreements were located in court files via Pacer.¹²³ While some descriptive information about these agreements is provided in this Article, a caveat is appropriate: the contingent agreements studied in this Article are also not a random sample of the population of contingent fee agreements.¹²⁴

B. Profiles of Patent Contingent fee Lawyers

This Subpart presents general vignettes of patent contingent lawyers.¹²⁵ Before doing so, I discuss significant points of agreement among all or

121. Qualitative interviewing has been previously used in the study of patent lawyer behavior. See, e.g., Stefania Fusco, *The Patentability of Financial Methods: The Market Participants' Perspectives*, 45 LOY. L.A. L. REV. 1 (forthcoming 2012) (reporting the results of structured interviews about financial method patents); William T. Gallagher, *IP Legal Ethics in the Everyday Practice of Law: An Empirical Perspective on Patent Litigators*, 10 J. MARSHALL REV. INTELL. PROP. L. 309 (2011). It has also been used extensively in other studies of lawyer and law firm behavior. See, e.g., LYNN MATHER, CRAIG A. MCEWEN & RICHARD J. MAIMAN, *DIVORCE LAWYERS AT WORK* (2001); ROBERT L. NELSON, *PARTNERS WITH POWER* (1988); Felice Batlan, “*If You Become His Second Wife, You Are a Fool*”: *Shifting Paradigms of the Roles, Perceptions, and Working Conditions of Legal Secretaries in Large Law Firms*, 52 STUD. L. POL. & SOC'Y 169 (2010).

122. See 3 THE SAGE ENCYCLOPEDIA OF SOCIAL SCIENCE RESEARCH METHODS 1043–44 (Michael S. Lewis-Beck, Alan Bryman & Tim Futing Liao eds., 2004).

123. PACER: PUBLIC ACCESS TO COURT ELECTRONIC RECORDS, <http://www.pacer.gov> (last visited Sept. 15, 2012).

124. Because most of the party names were redacted in the agreements, I cannot ascertain whether the agreements are associated with either completed cases or plaintiff victories.

125. The information in this Subpart derives primarily from the in-depth interviews. The descriptions should be viewed with appropriate caution given that there are limitations of individual

substantially all of the interviewed contingent lawyers. After discussing the various places in which all lawyers agreed, I move to differentiate four different types of patent contingent lawyers.

The contingent lawyers agreed to a large degree on numerous points. First, the lawyers all agreed that they performed substantial due diligence before agreeing to represent a client on a contingent fee basis. Most lawyers stated that they spent over forty hours reviewing a potential claim, with some asserting as much as several hundred hours of due diligence. Attorneys spent time reviewing the patent and the related patent file (including the “prosecution history” or the interactions that the patent applicants had with the U.S. Patent and Trademark Office during pendency of the application). The due diligence time also includes an attempt to construe the patent claims and perform an evaluation of the infringement allegations, a validity analysis, and a damages assessment. Occasionally contingent firms hired outside experts (at the firms’ expense) or had prior art searches conducted to aid in assessing the case.

The contingent lawyers also agreed that they are, for the most part, selective at choosing which clients and cases to accept. As discussed below, there is some variance on the level of selectivity. However, on the whole, the lawyers were all selective—no one indicated that they accepted more than a third of potential opportunities.¹²⁶ At the most selective level, the lawyer turned down over ninety-nine percent of potential cases. Lawyers declined cases for various reasons, including weak infringement cases, weak validity cases, low damages,¹²⁷ and concerns about the client.¹²⁸ Concerns about the client included, for example, the reasonableness of the client’s expectations with respect to settlement.¹²⁹ The most common reasons for declining the case were weak infringement allegations and insufficient damages.¹³⁰

recollections and potential self-interest by the interview subjects. This Article attempts to identify contested claims, presenting multiple viewpoints. Furthermore, because the sample was not randomly generated, caution should be used before drawing inferences about the population of patent contingent litigation.

126. As a point of comparison, Kritzer reports that the aggregate acceptance rate for general contingency fee lawyers is forty-two percent. KRITZER, *supra* note 4, at 71.

127. As discussed in the subsequent subparts, there were various cut points on minimum damages. However, it was quite common for a one million, five million or ten million dollar floor.

128. The percentage of cases that fell into each category varied by the lawyer, but most lawyers placed a significant percentage in each one.

129. Another common scenario was a client who was moving a contingent case from one law firm to another. This was viewed as a red flag—a hard-to-satisfy client.

130. For general contingency fee lawyers, by far the biggest reason for declining cases was lack of liability. KRITZER, *supra* note 4, at 85 tbl.3.9.

The contingent lawyers obtained clients from a variety of sources. The most common was referrals from other lawyers.¹³¹ Some of these referring lawyers were other patent lawyers who did not work on a contingent fee basis. Other referring attorneys were lawyers in other fields such as general litigators or corporate lawyers at different law firms. Unlike other areas of law, the interviewed contingent lawyers indicated that referral fees are not commonly used in patent litigation. As discussed below, some contingent lawyers received referrals from other, more selective patent contingent fee lawyers.

Another source of clients was repeat business. Some clients own multiple patents or portfolios of patents and assert these patents against many accused infringers. When a law firm successfully represents one of these parties on a contingent fee basis, the firm is more likely to be engaged for future work. A minority of the contingent clients were previously hourly billing clients who decided to litigate a particular case on contingency. Sometimes the case was not as competitively important to the clients—they may only bring the suit if done on contingency. In other circumstances, an hourly billing client has cash flow issues and asks for the case to be converted to a contingent fee basis. In addition, some of the law firms who engage in contingent fee practice have quite sophisticated public relations operations. When they are successful in a case, they broadly announce the victory. This leads the public to hear of the firms and aids in development of future clients. Finally, clients hear about contingent fee law firms from other clients.

According to the interviewed attorneys, the desirable defendants were clustered in certain industries. At the most simplistic level, a good contingent fee case involves a potentially high damage award. High awards are related to infringing sales because a common measure of damages in patent cases is a reasonable royalty.¹³² Thus, companies who sell a huge amount of a single or small number of infringing products are ideal. Companies who sell large numbers of products, each with only a modest amount of sales, are less desirable. Consequently, consumer electronics, online businesses, and medical devices were mentioned as industries well-suited to patent contingent practice.¹³³

131. Kritzer and Kirshnan report that, for general contingency fee lawyers, client referrals are the largest source of clients. Lawyer referrals are the second most common source. Herbert M. Kritzer & Jayanth K. Krishnan, *Lawyers Seeking Clients, Clients Seeking Lawyers: Sources of Contingency Fee Cases and Their Implications for Case Handling*, 21 LAW & POL'Y 347, 351 (1999).

132. See Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 WM. & MARY L. REV. 655 (2009).

133. See Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. REV. 1571, 1600 (2009) (noting a higher percentage of NPE suits in "hi-tech" areas).

The agreements used by patent lawyers in contingent practice are similar to and yet different from general contingent agreements. On the whole, the contingent rates are similar to the “one-third” that a stereotypical contingent personal injury lawyer charges.¹³⁴ There are two main ways of setting the fees for the contingent fee lawyer: a graduated rate and a flat rate.¹³⁵ Of the agreements using a flat fee reviewed for this Article, the mean rate was 38.6% of the recovery.¹³⁶ The graduated rates typically set milestones such as “through close of fact discovery,” “through trial,” and “through appeal,” and tied rates to recovery dates. As the case continued, the lawyer’s percentage increased. Of the agreements reviewed for this Article that used graduated rates, the average percentage upon filing was 28% and the average through appeal was 40.2%.¹³⁷

The contingent fee agreements were substantially longer and more detailed than contingent fee agreements used in other areas of law. Notwithstanding their length and complexity, the lawyers reported that two specific provisions were frequently negotiated, and the remainder was accepted as is. The two negotiated clauses were the contingent percent and whether the law firm advanced the costs of the litigation.¹³⁸ Of those interviewed, there appeared to be a split in whether law firms were willing to advance litigation costs.¹³⁹

Of the lawyers interviewed, most lawyers whose practice consists of substantially all patent contingent litigation are primarily and historically patent litigators. They are not former medical malpractice, personal injury, or other tort lawyers.¹⁴⁰ They are also not new law school graduates. Instead, their background usually is having worked previously as an hourly billing patent litigator.¹⁴¹ They considered themselves as risk-takers.¹⁴²

134. KRITZER, *supra* note 4, at 39 (“Of those with a fixed percentage, one-third was by far most common, accounting for 93 percent of the fixed percentage fees . . .”).

135. *Id.*

136. Only ten agreements used a simple flat contingent fee calculation.

137. Thirty-two agreements used a graduated contingent rate.

138. The costs in patent cases can be very expensive, ranging from several hundred thousand dollars to several million dollars. These include expert fees, deposition costs, document copying fees, travel expenses, and other non-lawyer fees.

139. Advancing costs until resolution of the dispute is common in other fields of contingent practice. Herbert M. Kritzer, *The Wages of Risk: The Returns of Contingency Fee Legal Practice*, 47 DEPAUL L. REV. 267, 270 (1998) (“Very often, lawyers also defer the collection of expenses until the close of a case.”).

140. *Cf.* Ronen Avraham & John M. Golden, *From PI to IP: Yet Another Unexpected Effect of Tort Reform*, (Univ. of Tex. Sch. Of Law, Law & Economics Research Paper Series, Research Paper No. 211, 2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1878966.

141. See Steven T. Taylor, *As Plaintiffs Firms Seek a Share of the IP Litigation Workload, They Hire Away Big-Firm Attorneys to Help Them*, OF COUNS., June, 2010, at 1, 18.

142. Part of the risk-taking extended beyond their professional endeavors. One of the lawyers interviewed raced cars professionally.

All of the contingent lawyers interviewed stated that they billed fewer hours than opposing counsel in patent litigation.¹⁴³ Sometimes the contingent lawyers believed their expenses to be less than half or even a quarter of the legal expenses of the defendant. This cost imbalance could be due to a variety of factors, including that non-practicing entities or individual inventors have far fewer documents than alleged infringers. The fewer documents translate into lower e-discovery and other document production issues. It could also be that contingent lawyers litigate more cost effectively or efficiently.¹⁴⁴ Efficiency could be due to a closer alignment of lawyer and client incentives. The contingent lawyer may be more careful on how many hours are spent on a project because they are essentially “paying” the bill.¹⁴⁵

One final point that everyone agreed upon: there are no “slam dunk” patent cases. All patent cases have substantial risk of a complete loss on the merits. It is just not possible *ex ante* to precisely evaluate a patent and its corresponding infringement and validity contentions to confirm that the case will succeed.

I also interviewed contingent lawyers in other “complex” areas of law such as antitrust and securities fraud litigation. In these areas, the cases were deemed much more predictable. Often there were public events (such as criminal convictions) that showed that the liability phase of the case would be extremely strong. Damages in many cases were uncertain. In patent cases, both the liability and damages components had extreme uncertainty. There is also frequent risk-sharing among contingent firms in these other areas of law. The lawyers co-counsel cases, allowing them to split the work (and the risk) and share the rewards. The large players in the patent contingent market rarely, if ever, co-counseled cases with other large players. The risk was borne solely by the one firm selected by the patent holder.

Without distracting from these large points of agreement, it is fair to say that the market for contingent fee patent litigators is diverse. The four

143. In other fields of law, researchers have empirically estimated attorney effort in contingent fee and hourly billing relationships. Herbert M. Kritzer et al., *The Impact of Fee Arrangement on Lawyer Effort*, 19 LAW & SOC'Y REV. 251 (1985). They found that “contingent fee lawyers put in less effort for small cases than do hourly fee lawyers, but they put in *more* time for ‘big’ cases.” *Id.* at 267.

144. See Colleen V. Chien, *Turn the Tables on Patent Trolls*, FORBES (August 9, 2011, 11:37 PM), <http://www.forbes.com/sites/ciocentral/2011/08/09/turn-the-tables-on-patent-trolls/> (arguing that trolls are more efficient at monetizing patents in part because of reliance upon contingent lawyers).

145. Some interviewed lawyers expressed the opposite concern. More particularly, some stated that because no outside client was monitoring the reasonableness of the contingent bills, some lawyers—especially those without enough work—pad their bills on contingent matters. This concern was limited to firms whose practice consisted of a mixture of hourly billing and contingent matters.

different types of lawyers and firms are summarized in Figure A below, along with some associated traits of each type.¹⁴⁶

Figure A: Typology of Law Firms Handling Contingent Patent Litigation

Firm Type	Firm Size	Client Selection	Case Selection	Litigation Strategy
Top Tier	Small or medium	Most selective	Single or small number of defendants	Litigates aggressively, at least on key issues
GP/Boutique	Big (or patent boutique)	Most selective	Single or small number of defendants	Varies— attempts to litigate economically
Middle Market	Small	Moderately to highly selective	Varies	Litigates economically or “war chest”
Bottom Tier	Small	Moderately selective	Single portfolio against large number of defendants	Litigates economically

Below I describe the type of lawyers in each category, their case selectivity, and their litigation strategy and philosophy.¹⁴⁷

1. The “Top” of the Market

The highest rung on the patent contingent ladder is occupied by a small and elite group of lawyers and firms.¹⁴⁸ There are several distinct types of

146. Another simpler division of contingent fee lawyers is those whose goal is to reach a trial, and those whose goal is to provoke a settlement. Because the goal is different, these cases are litigated quite differently by their lawyers. One defense lawyer speculated as to how a contingent law firm selects which of the two different approaches to use. According to this lawyer, the strategy is typically driven by how much money the plaintiff seeks.

147. These are composition sketches and are not meant to represent any particular lawyer or law firm. Because of that, some lawyers and firms do not neatly fit into the breakdown I have provided. Furthermore, there are numerous dimensions to divide the attorneys. Figure A provides one useful division, and numerous others are possible.

148. Previous researchers have identified a similar category of “heavy hitters” plaintiff attorneys in personal injury law. See Daniels & Martin, *Markets and Reputations*, *supra* note 5, at 382.

lawyers that fit in this category. In addition to a few very established patent contingent boutique firms, there are two distinct types of newcomers to the top of the market. First are the most elite patent trial lawyers in the country, who usually worked as senior partners at the largest and most prestigious law firms.¹⁴⁹ The second subgroup in the top of the market includes elite plaintiff trial lawyers from other complex areas of contingent litigation. These lawyers, who have litigated tobacco, antitrust, and other high-end contingent cases, have recently transitioned into patent litigation. Both subgroups of lawyers perform all or substantially all of their work on a contingent fee basis.

These elite lawyers are highly selective in choosing which cases to accept. Generally, they turn down ninety percent or more of the contingent opportunities presented to them. They select cases that they perceive to be strong on the merits, and importantly, to have extremely high potential damages. For example, one lawyer in this category explained: “\$25 million expected value against one infringer. That’s the general rule.”¹⁵⁰ Others had similar high cut points, saying things like “we’d like to be at \$100 million on our cases. Those are good cases. The very least, I don’t take a case unless we think we could pull in well into 8 figures.”

The lawyers generally elect to litigate against a single or small number of accused infringers, each with a large exposure.¹⁵¹ To litigate those cases, the lawyers split on how aggressive an approach was required toward litigation. Some of these lawyers stated that an aggressive litigation approach is frequently needed. When confronted with a large claim for damages, defendants will litigate before considering settlement. As one lawyer noted: “[When] you are asking people to write [checks that] are

149. Two high profile examples are John Desmarais and Matthew Powers. In 2010, John Desmarais, one of the top patent litigators in the country, resigned from his position as a senior partner at Kirkland & Ellis and formed a plaintiff-side firm. D.M. Levine & Claire Zillman, *The Lateral All-Stars: The Most Significant Partner Moves of 2010*, AM. LAW., Feb. 1, 2011, at 50, 50 (“In a move that shocked the IP world, Kirkland & Ellis’s John Desmarais jumped from one side of the patent fence to the other.”). Similarly, Matthew Powers, another of the top patent litigators in the country, left Weil, Gotshal & Manges in the summer of 2011 to form a plaintiff-side patent firm. Ed Shanahan, *Switching Sides*, AM. LAW., July 26, 2011 (“Matthew Powers, cochair of litigation at Weil, Gotshal & Manges, is leaving the firm after 18 years to start his own plaintiffs shop . . .”). Desmarais also apparently controls a patent holding company, Round Rock Research LLC. Chien, *supra* note 9, at 328–29. This makes Desmarais a hybrid of contingent fee attorney and patent owner. Some may argue that Desmarais is not truly a contingent fee lawyer because he is asserting patents he has an ownership interest in. He also does not need to evaluate hundreds of bad cases to locate the diamond in the rough like most contingent lawyers.

150. In context, it is clear that the \$25 million is in total damages, not in contingent share to the lawyer.

151. This is not a hard and fast rule. Sometimes additional defendants are included in the case for reasons relating to venue. Specifically, it is more difficult for a district court to transfer a case to another venue if there are multiple defendants, each from different regions of the country. For this reason, additional defendants, even if economically insignificant, may be strategically important to maintaining the plaintiff’s choice of venue.

sufficiently large. . . they can't write them without the Sword of Damocles of a jury verdict or [an] ITC injunction hanging over their heads." Many of these lawyers litigate very similar to the big firm "no stone unturned" methodology. One lawyer noted:

You do everything you can to win the case and you plan for trial. Most [contingent] firms take the other approach. It's all cost benefit, and they are looking for really minimizing their cost. We don't operate like that. It serves our purposes because the result of what we do, if done right, is a victory. There is no way to establish a reputation without victories.

Some of these lawyers use a version of the cost/benefit model of litigation. As former trial lawyers, they are very knowledgeable about what information they need during discovery. They seek that information and attempt to minimize other irrelevant discovery.

The role of reputation is important, especially among this top tier of litigators. They want to win big verdicts or settlements, which are useful in generating positive press reports.¹⁵² While money and success are important, the role of reputation is also very important.

As previously discussed, a stigma has developed in representing certain types of patentees. More particularly, patent holding companies, which buy patents merely for the purposes of asserting them in litigation, have become less desirable as plaintiffs. Lawyers in the elite category are most likely to turn down this class of plaintiff in their entirety.

One final note about this top tier category is appropriate. These lawyers are different from some "old-time" patent contingent lawyers, such as Gerald Hosier mentioned in the Introduction. Mr. Hosier and others evaluated large numbers of cases to identify the few "winners."¹⁵³ They needed to be able to locate the proverbial needle in the haystack. These old-time contingent litigators also frequently built up a patent portfolio, after engagement with a client, by prosecuting broad continuation applications.¹⁵⁴ In contrast, the new top tier has the benefit of being initially approached with strong patents, often from well-known and reputable sources.

152. Yerton, *supra* note 7.

153. *Id.*

154. *Id.*

2. *The Dabblers: General Practice Firms and Established IP Boutiques*

From the lawyers interviewed (formally and informally), it appears that many large general practice and established intellectual property boutique firms consider and often do handle patent cases on a contingent fee basis. These firms generate a substantial percentage of their revenues from the typical hourly fee billing model. However, to supplement their income, they “dabble” in contingent patent litigation.

As for selectivity, these firms are highly selective. They often spend hundreds of hours conducting due diligence before deciding whether to accept a case. They also have several layers of internal review before a case can be accepted by the firm. For example, there is frequently a committee assigned to hear propositions for contingent fee. It is also common to have a second, higher ranking committee—such as a management committee—required to provide final approval. These additional layers of bureaucracy make the process slower, and thus harder to quickly vote to accept a case.

General practice and established boutique firms litigate against a single defendant or a small number of defendants. They rarely take more than a few patent contingent cases at any given time and commonly have only one or two. Part of the reason for this is legal conflicts. The more accused infringers included in the litigation, the more clients which the firm may have a legal conflict now or in the future. Plus, the more likely that one of the firm’s clients perceives the litigation as a business conflict. It can be a business conflict because some clients dislike non-practicing entities and their business model. Consequently, these large firms only take cases with very high damage potentials, which are quite difficult to locate. As one big firm lawyer explained:

The multiples required to take contingent cases are too high. We will spend a couple of million dollars on [foregone] attorneys’ fees. Even with a 40% contingent share, we need at least \$5 million in damages to break even. If we use the venture capitalist model that we fund ten cases to win one, then we need \$50 million in damages in each case [which is], ten times \$5 million. \$50 million in damages requires a billion dollars in sales at a 5% reasonable royalty, half a billion at a 10% royalty, and a quarter billion at 20% royalty. Cases of these high sales and/or high royalties are very rare. And we may spend \$5 million not \$2 million, because a defendant being put at risk of a \$50 million judgment will fight at a higher level, which makes the multiples even worse.

Big firms and established boutiques typically litigate patent contingency cases on a cost/benefit basis. They often attempt to litigate

sparingly, attempting to perform the minimal work to take the case toward trial. Unfortunately, there are numerous problems with the non-contingent firm's execution of this strategy. This is not to say that big firms are always unsuccessful at contingent fee litigation. As previously noted, Wiley Rein was amazingly successful in its execution of contingent patent litigation.¹⁵⁵ Other big firms and boutiques have been successful and are nearly indistinguishable from the "elite" category mentioned above. However, below the Article outlines several of the problems that appear to affect firms which only experiment with contingent fee patent litigation.

First, firms that focus on hourly billing matters have less skill at accurately predicting the attorneys' fees required in a case. In the present legal environment, it is not uncommon for hourly billing lawyers to provide their clients with budgets at the commencement of a case. However, if the legal fees exceed the budget, the lawyer experiences less of a direct repercussion. To be sure, the client may be upset. But the client also must pay the bill.¹⁵⁶ As one big firm lawyer said, "Big firms aren't good at evaluating the costs of litigation. They don't have any idea how much they spend on various tasks." Contingent lawyers, because their business depends upon it, are much more realistic in assessing the potential attorneys' fees required in a case.

Furthermore, big firms are frequently not as good at evaluating the likelihood of resolution of a case on the merits. This is not because big firm lawyers are not good lawyers—along many measures they are better lawyers than contingent lawyers. However, big firm lawyers typically handle large cases. These large cases frequently settle. Consequently, they have less experience with how the trier of fact would ultimately resolve the issues, and may have less experience with how patent cases in particular settle.

Third, it is extremely difficult for big firms to litigate on a cost/benefit basis. It is antithetical to the way that these lawyers practice. On hourly billing matters, there is an incentive to rely upon the aggressive "no stone unturned" strategy for litigation.¹⁵⁷ These lawyers spend substantial time preparing letters, let alone briefs, with several lawyers reviewing each paper in the case. This careful approach makes for excellent work product. However, these lawyers frequently find it difficult to change gears and

155. Lattman, *supra* note 3.

156. In fact, there is some business pressure for a lawyer to under quote the case to the client when the client is selecting counsel. If the case is over-budget several years later, the law firm will be so knowledgeable about the facts that a change in counsel will be unfeasible. While such a strategy has long-term downsides, there are some financial pressures at law firms to engage in this activity.

157. DEBORAH L. RHODE, ETHICS IN PRACTICE: LAWYERS' ROLES, RESPONSIBILITIES, AND REGULATION 6 (2000) ("Under an hourly billing system, the temptation is to leave no stone unturned as long as lawyers can charge by the stone.").

litigate in a hyper-efficient manner. For example, one former big firm lawyer noted:

You are put under more pressure at a larger firm to make sure you are crossing all your *t*'s and dotting your *i*'s. . . . I think when I was at a big firm, there was more of a tendency to be willing to go off on boondoggles in the thought of seeing if maybe something was there. I can't really recall a specific situation where anything major came up, but it cost money to the other side so it caused problems. Now [at a contingent firm] it is more focused on 'these are the elements I need to prove for infringement,' 'these are the elements I need to prove for willful infringement,' so let's focus on that.

Fourth, big firms do not staff contingent cases in the same manner as an experienced contingent lawyer would. As another big firm lawyer articulated: "Big firms often staff the least busy and cheapest lawyer on the case, even though this isn't optimal." By assigning lawyers who lack billable work and who may not be the right fit for the case (either because of their technical or legal skills), the big firm lawyer reduces the likelihood that the case will be successful.

Finally, there are various compensation issues that affect big firm practice when contingent matters are accepted.¹⁵⁸ Most partnership agreements at large law firms do not specifically address how to distribute contingent awards or how to credit partners (and associates) for work done on contingent fee matters. These matters are debated within the firms, often in closed door meetings.¹⁵⁹

As is evident from some of the quotations in this Subpart, there is considerable sniping among the various segments of contingent lawyers. Big firm lawyers often view small firm lawyers as extortionists or as lawyers who do not practice law at a "high level." Small firm lawyers, in turn, think big firm lawyers are wasteful and inefficient. These stereotypical views mirror those of big firm and small firm lawyers outside of patent law.

158. One lawyer explained how contingent cases distract other lawyers at the firm. Other partners want to follow the progress of the case because their compensation is tied to the contingent case. When those other partners have little or no experience with patent litigation, they fail to appreciate the risks and costs in the case.

159. These issues are sufficiently important and complicated that I plan to address them in a future article.

3. Middle Market Contingent Firms

There are numerous small law firms that focus predominately on patent contingent litigation. Within this category, there is great diversity along many aspects. Some of these firms are highly selective in taking cases, almost as selective as the most elite lawyers. Others are moderately selective.

These lawyers generally litigate on a cost/benefit model. They do not litigate on a “no stone unturned” method. As for overall case strategy, there are two main ones. First, some firms utilize the “portfolio” theory, which involves accepting more cases to smooth out the risk. Basically, firms take ten or more contingent cases understanding that some of these cases will lose. By having a range of cases at all times, the firm reduces the market risk on its portfolio of cases.¹⁶⁰ Each case also has the chance at winning substantial damages, and some believe that patents operate like lottery tickets.¹⁶¹

Second, some firms rely upon the “war chest” model of litigation.¹⁶² Under the war chest model, the patent or portfolio is infringed by at least a few defendants. Rather than suing them all at once, the patentee asserts its patent in waves. Typically, weaker defendants are approached or sued initially. Alternatively, a lawsuit includes only a subset of all infringers and includes a mix of weaker and stronger defendants. Weaker defendants can include companies with weaker non-infringement positions, companies with smaller exposure (perhaps due to a smaller volume of infringing sales), companies known to settle early, and smaller companies with more limited litigation resources.

Settlements generated from the weaker defendants are used for two separate purposes. One purpose is to bolster the case against later defendants. The case improves because the early settlements can be used as

160. For a general discussion of the portfolio theory of contingent litigation, see KRITZER, *supra* note 4, at 10–11.

161. The lottery ticket analogy is that a random few patents are worth a huge amount of money. See Dennis D. Crouch, *The Patent Lottery: Exploiting Behavioral Economics for the Common Good*, 16 GEO. MASON L. REV. 141 (2008); Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. ECON. PERSP. 75 (2005).

162. RAYMOND P. NIRO, ARE ALTERNATIVE FEE STRUCTURES BECOMING A NECESSARY ALTERNATIVE TO HOURLY-RATE CALCULATED FEES? 11 (2010), http://www2.aipla.org/html/mw/2010/papers/Niro_Paper.pdf (“In a second case, a trial was also necessary, but only after our client had collected substantial amounts in settlement. That trial also proved successful, with an award of damages many times the settlement amount that was initially proposed. From a strategic standpoint, this enforcement effort (like most that involve multiple infringers) can be successful only if the client is willing to take reasonable settlement amounts early. Once a war chest has been developed (and chips taken from the table), then the risk of a finding of non-infringement or invalidity is diminished and the likelihood of a ‘roll-the-dice’ mentality increases. When you already have millions in the bank, why not take the risk of a trial for significant damages?”).

evidence in subsequent cases that the patent is not obvious.¹⁶³ It also can be used as evidence of a reasonable royalty rate.¹⁶⁴ For each of these reasons, early settlements strengthen the patent.¹⁶⁵ Furthermore, the settlements can be used to build a war chest. This means that the money is used to pay experts, lawyers, and other people in the subsequent case. It also means that the later cases can be litigated more aggressively—at least in terms of experts—and some money can be provided to the client and contingent lawyers.¹⁶⁶ Eventually, the patentee engages in a drawn-out battle against a large defendant, with the hope of obtaining a huge settlement or verdict.

4. The “Bottom” of the Market: Cost of Defense Litigation

At the “bottom” of the patent contingent market are very small patent contingent firms.¹⁶⁷ These firms are typically small groups of patent litigators (with between one and ten lawyers) that have recently cropped up and handle mainly patent contingent matters. They are moderately selective at choosing cases to litigate. Sometimes they receive referrals from other

163. See, e.g., *WMS Gaming, Inc. v. Int'l Game Tech.*, 184 F.3d 1339, 1359 (Fed. Cir. 1999) (citing licensing as evidence of “industry respect”); James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 *YALE L.J.* 882, 929 (2007) (explaining that “whether the patent owner has successfully licensed the invention to others in the industry” is relevant to the issue of obviousness).

164. Other licenses of the patent-in-suit are one of the reasonable royalty factors enumerated in the famous *Georgia-Pacific* case. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (setting forth the first factor of a reasonable royalty damages analysis as: “The royalties received by the patentee for the licensing of the patent in suit . . .”). There is some disagreement among courts as to whether litigation settlements are admissible. See, e.g., *Douglas Dynamics, LLC v. Buyers Prods. Co.*, No. 09-CV-261-WMC, 2010 WL 4118098, at *1 (W.D. Wis. Oct. 8, 2010) (“Because determining a reasonable royalty is a fact-specific inquiry dependent on the consideration of many factors . . . even licenses arising from resolution of unrelated patent litigation can ordinarily be considered . . .”); but see *Vardon Golf Co. v. BBMG Golf Ltd.*, 156 F.R.D. 641, 651 (N.D. Ill. 1994) (stating that, because of Federal Rule of Evidence 408, “amounts paid in as settlements may not be used to compute a reasonable royalty”).

165. On the flip side, if the patent is found invalid in any lawsuit, it is invalid against the world. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (finding that a holding of invalidity is binding under the doctrine of collateral estoppel against the patentee in subsequent litigations).

166. Mark Lemley, Josh Walker, and John Allison report that the most litigated patents are adjudicated invalid at higher rates than once-litigated patents. See John R. Allison, Mark A. Lemley & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 *GEO. L.J.* 677 (2010). The war chest theory may offer a relatively innocuous explanation for their findings. If the most litigated patents were litigated using a war chest theory, then the largest defendants were sued last. At that point, the smaller defendants have all settled. There is little incentive to settle against the final, larger alleged infringers; instead the final lawsuits are litigated aggressively to or near trial.

167. There is one group that was universally considered below this group of lawyers: patent brokers. Patent brokers are not lawyers; they are business people who attempt to pair a patent owner with someone to help him or her monetize the patent. The general consensus was that patent brokers were the lowest on the proverbial food chain. A typical comment was that “they prepare very basic claim charts and market analysis. Their work product is unhelpful.” The only value they appear to provide is occasionally identifying patents to contingent fee lawyers.

lawyers “higher” on the contingent food chain. They perform a fair amount of due diligence, at least more than twenty hours, before accepting cases.

One distinguishing characteristic of these law firms is that they often litigate on behalf of a single client or enforce a single patent or related portfolio of patents. Their clients are commonly non-practicing entities. The patents are enforced against an entire industry, or alternatively against a slew of defendants in a single lawsuit. They litigate these cases very sparingly, attempting to avoid motion practice and substantial discovery.¹⁶⁸

The most controversial aspect of their practice relates to settlement. Often these lawyers will propose settlement amounts that are lower, often far lower, than the amount that it will cost an accused infringer to defend itself.¹⁶⁹ It is not uncommon for settlement demands to be in the range of \$100,000 or \$250,000, even though the cost of litigating the case for an accused infringer would be close to one million dollars per year.¹⁷⁰ Sometimes the demands are as low as \$5,000 or \$10,000. It should be noted that just because someone offers to settle for less than the cost of defense, it does not necessarily follow that his or her patents are weak. Defense lawyers unanimously argued that these patents were, in fact, weak.¹⁷¹ One defense lawyer said that the patent lawsuits that sought cost-of-defense settlements were “very, very weak. Almost ridiculous.” Another said: “I’ll send you the patent my client was just sued on. I bet your engineers [at the Illinois Institute of Technology] can’t read the patent and guess even which industry my client is in, let alone the product. The patent is being stretched beyond belief.” Other plaintiff contingent lawyers higher

168. In other contingent areas, there is evidence that fee arrangements influence the amount of work done by lawyers on smaller cases. Kritzer et al., *supra* note 143, at 251 (“For modest cases (with stakes of \$6,000 or less), contingent fee lawyers spend less time on a case than hourly fee lawyers.”).

169. In class actions, judges and others have complained that certifying a class puts unfair pressure on defendants to settle. In some ways, this is similar to the original high cost of litigation in patent disputes. For an excellent discussion of this issue in class actions, see Charles Silver, “*We’re Scared to Death*”: *Class Certification and Blackmail*, 78 N.Y.U. L. REV. 1357 (2003). Others have referred to this in the patent context as “holdup licensing.” Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1517 (2001) (“Patent owners might try to game the system by seeking to license even clearly bad patents for royalty payments small enough that licensees decide it is not worth going to court.”). Some have called these “nuisance” settlements. 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, 410 (2007) (stating that some patents are asserted for the “purpose of extorting nuisance settlements”).

170. *Symposium on Emerging Intellectual Property Issues: The EDTX and Local District Courts: Advancing or Stifling Innovation?*, 14 SMU SCI. & TECH. L. REV. 191, 269, 282–83 (2011) (reporting comments from two patent litigators indicating that patentees in large, multi-defendant cases sometimes are willing to accept settlements around \$200,000).

171. One defense lawyer was emphatic that all patent cases were extremely weak, and the weak cases were not limited to the cost-of-defense cases.

on the prestige ladder complained about this practice.¹⁷² One said, “It is a form of extortion to demand a number so small that the defendant can’t afford to fight.”

The plaintiff lawyers involved in this practice strongly dispute any such implication. One explained the cost-of-defense settlement demands as follows:

The more a patent is litigated, it tends to decrease in value as people come up with better prior art or over-analyze the thing. An NPE [non-practicing entity] intuitively understands that we could go for triples or home runs, but we can also go for singles and get a good return and work on other things. . . . The licensor is of the view that we don’t want to fight so price at a level to where it is attractive not to fight. That doesn’t equate to lack of merit of the cases. . . . It is just leaving money on the table.

According to this lawyer, the clients are merely sophisticated parties willing to take less than they are entitled to in order to maintain the viability of the patent.¹⁷³ A different explanation offered by another attorney is that some patents have lots of infringers with small damages. While it is conceded that the damages owed are less than the cost of defense, that result is not unfair. If the patentee did not collect these damages, then the infringer would receive an unfair benefit from infringing without liability.¹⁷⁴ The empirical evidence on these claims is mixed, with some scholars arguing that the patents are weaker and some arguing that they are not.¹⁷⁵

C. Who Hires Contingent Fee Lawyers

This Subpart describes the clients who select contingent fee lawyers to represent them. These include individual inventors, small companies, large

172. See Sannu K. Shrestha, *Trolls or Market-Makers? An Empirical Analysis of Nonpracticing Entities*, 110 COLUM. L. REV. 114, 119–31 (2010) (setting forth the competing arguments about “trolls”).

173. Michael Risch has discussed the litigation strategy of settling cases to increase the value of the patent to future licensees. Michael Risch, *Patent Challenges and Royalty Inflation*, 85 IND. L.J. 1003, 1025 (2010) (asserting that settling cases “may also make the patent appear stronger, thus increasing the possibility of higher royalties on future licenses”).

174. Both of these rationales should be empirically evaluated to determine how frequently, if at all, they occur.

175. Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. 457, 460–61 (2012) (asserting that the quality of patents asserted by NPEs “is not drastically lower than [that of] other litigated patents[.]”); Allison, Lemley & Walker, *supra* note 166, at 687 (asserting that the most litigated patents, which are disproportionately owned by NPEs, are “weak patents” which are found invalid at higher rates than other litigated patents).

patent aggregators, one-off patent acquirers, universities, and large companies. As the market for contingent services has matured, most clients shop their cases around to multiple law firms. If multiple firms are interested in a client's case, then it is more likely that one firm will offer to advance the costs (i.e., out-of-pocket expenses such as expert fees).

The client mix varies by lawyer, but individual inventors, small businesses, and patent holding companies were the main types of clients. Universities and large practicing entities were mentioned much less frequently as clients. In fact, only one lawyer had an active practice representing universities on a contingent basis.

1. Individual Inventors and Small Businesses

Individual inventors are key users of contingent representation in patent litigation. These inventors are awarded approximately ten to fifteen percent of all patents.¹⁷⁶ Their story—of the “garage” inventor—has long been important in patent law and the public's perception of patent law.¹⁷⁷ This class of patent holder almost always relies upon contingent representation for patent lawsuits. The reason is simple: patent litigation is too expensive for almost any individual to afford. Consequently, the only way that individual patent owners can litigate is on contingency.¹⁷⁸ From the contingent lawyers' perspective, an individual inventor with a strong patent often is an ideal client. This stems from the conventional wisdom that the public (which includes potential jurors) views individual inventors as very important.¹⁷⁹ The jury sympathy to the individual inventor is

176. The U.S. Patent and Trademark Office reports on the number of patents issued to individual inventors each year. In 2000, for instance, the Office reported that 14% of patents were issued to U.S. or foreign individuals. U.S. PATENT & TRADEMARK OFFICE, PATENTING BY ORGANIZATIONS: 2000, at A1-2 (2001). In 2005 and 2010, the Office reported that 10% and 7%, respectively, of patents were issued to individuals. U.S. PATENT & TRADEMARK OFFICE, PATENTING BY ORGANIZATIONS: 2005, at A1-2 (2006); U.S. PATENT & TRADEMARK OFFICE, PATENTING BY ORGANIZATIONS: 2010, at A1-2 (2011).

177. Christopher A. Cotropia, *The Individual Inventor Motif in the Age of the Patent Troll*, 12 YALE J.L. & TECH. 52, 55 (2009) (“The drive and ingenuity of these small inventors is the life-blood of American innovation.”).

178. Interestingly, the possibility of contingent representation in litigation may affect individual inventors' behaviors much earlier in the process. When individuals or small companies are considering whether to seek patent protection in the first instance, they frequently know that it is very expensive to “defend” their patent in litigation. In these instances, they are frequently unsure whether to apply for a patent, even if they can afford the cost of drafting a patent application. The possibility of contingent representation in any subsequent litigation encourages small inventors to file the application, as it defuses the concern.

179. See Philip K. Anthony, George E. Badenoch & Eric J. Lobenfeld, *How Jurors' Values and Perceptions Influence Decisions in Patent Cases*, 949 PLI/Pat 305, 309 (2008) (“[I]nventors are seen as underdogs in any contest with a corporate entity. David always has the advantage over Goliath, at least in any contest for the sympathy of jurors.”).

frequently amplified because the defendant is a large corporation.¹⁸⁰ The downside of individual inventors as clients is that they have unreasonable expectations about the outcome of the case.

Small businesses also are often clients of contingent lawyers. Because of the high cost of patent litigation, many small businesses cannot afford hourly billing lawyers. When these small businesses are the original owners of the patents,¹⁸¹ contingent lawyers believe that they make desirable plaintiffs. And if the small business tried to compete in the marketplace, even if it failed, it is an extremely desirable plaintiff from a jury perspective. Like individual inventors, small business patent holders who own only a single patent or patent portfolio sometimes have unreasonable expectations about the case.

Alternative litigation financing is theoretically an option for these entities and is a substitute to contingent representation.¹⁸² In alternative litigation financing, a financing entity lends money to patent holders to finance litigation.¹⁸³ The financing entities take a percentage of the recovery in exchange for money used to engage hourly billing lawyers.¹⁸⁴ These entities indirectly compete with contingent fee lawyers.

Alternative litigation financing is used in other areas of law.¹⁸⁵ Outside funding is possible for expenses, including legal fees as well as expert fees and other costs.¹⁸⁶ This area is rather underdeveloped at present in the United States.¹⁸⁷ At present, there are numerous financing entities willing to *consider* investing in patent cases. However, as discussed below, there are few financing deals consummated. The patents that investors are

180. See JOSEPH J. ORTEGO & PETER S. MASSARO, DEFENDING GOLIATH: HOW TO REPRESENT A CORPORATION BEFORE A JURY IN A WEAKENED ECONOMY 1 (2010), <http://apps.americanbar.org/litigation/committees/corporate/docs/2010-cle-materials/02-corporate-america-jury-verdict/02a-defending-goliath.pdf> (“For decades, trial attorneys have generally assumed that corporate defendants are always at a disadvantage in a jury trial.”).

181. In other words, the patents were not purchased from an unrelated business.

182. It is also a substitute to selling one’s patent to a non-practicing entity. STEVEN GARBER, ALTERNATIVE LITIGATION FINANCING IN THE UNITED STATES: ISSUES, KNOWN, AND UNKNOWN 37 (2010) (“ALF can be a fairly close substitute for selling the patent to an NPE.”).

183. *Id.*

184. See Larry E. Ribstein, *The Death of Big Law*, 2010 WIS. L. REV. 749, 801–02 (2010) (noting that investors in litigation financing receive a share of the proceeds from a lawsuit).

185. See Marco de Morpurgo, *A Comparative Legal and Economic Approach to Third-Party Litigation Funding*, 19 CARDOZO J. INT’L & COMP. L. 343, 357 (2011) (noting that U.S. alternative litigation financing is typically “small scale and consumer oriented”).

186. In the lending for consumers to pursue legal claims, the maximum amount advanced is relatively low. See George Steven Swan, *Economics and the Litigation Funding Industry: How Much Justice Can You Afford?*, 35 NEW ENG. L. REV. 805, 824 (2001) (reporting a maximum of \$20,000 advance to individual plaintiffs). General, systemic information about ALF, such as investments in commercial claims and loans to plaintiff’s firms, is unavailable. GARBER, *supra* note 182, at 13–16.

187. For an economic model of patent troll litigation financing, see Keith N. Hylton, *The Economics of Third-Party Financed Litigation* (Bost. Univ. Sch. of Law, Working Paper No. 11-57, 2011), <http://www.bu.edu/law/faculty/scholarship/workingpapers/documents/HyltonK121211.pdf>.

interested in are typically held by individuals, small businesses, and sometimes holding companies. This investment can take a variety of forms—debt, equity, etc.—depending upon the desires of the players and the features of the deal.

There is also tremendous demand from investors looking for investment opportunities. Patents as assets are seen as uncorrelated with the stock market, which permits them to be held to reduce risk. However, while many investors will consider investing in patent cases, the due diligence process limits the number of investors who actually pull the trigger and invest. After a thorough review, the cases are viewed as very risky. Most investors decline after analyzing the merits and potential payoffs.

2. *Large Companies*

Occasionally, large practicing entities rely upon contingent representation in patent litigation. This is the smallest slice of contingent clients. These companies frequently have the resources to pay their counsel on an hourly basis. However, for business reasons, they sometimes elect to engage contingent lawyers. These include budgetary reasons—the legal department may not have sufficient money to enforce a patent; and strategic reasons—the patent does not cover a core technology and it would not be otherwise asserted. Law firms, even those unaccustomed to handling matters on a contingent basis, are often willing to forge a special arrangement for their long-standing, existing clients. There are also times when a large company has financial problems, and pending cases are converted from hourly billing to contingent at the client's request.

But for their most valuable patents in their central areas of competition, these large companies generally hire hourly billing lawyers. Many believe that the fees paid to a contingency lawyer may be too large to justify in these high value cases.¹⁸⁸ They also frequently rely on large firm or established boutique lawyers for these matters, and these lawyers prefer hourly billing rather than contingency.

3. *Large Patent Aggregators*

There are numerous entities that acquire multiple patents with an eye toward monetizing them.¹⁸⁹ Some of the largest and most well-known of these entities include Intellectual Ventures (IV); RPX, Inc.; Acacia; and

188. These cases are sometimes handled on a blended contingency-hourly basis.

189. See Tom Ewing, *Indirect Exploitation of Intellectual Property Rights by Corporations and Investors: IP Privateering and Modern Letters of Marque and Reprisal*, 4 HASTINGS SCI. & TECH. L.J. 1 (2012); Anne Kelley, *Practicing in the Patent Marketplace*, 78 U. CHI. L. REV. 115, 118–20 (2010).

Rembrandt.¹⁹⁰ These entities, each with slightly different business models, compete on at least some level with contingent fee lawyers. They offer patent holders an alternative or fallback avenue to obtain money for their patents. Basically, these entities will compensate an inventor or owner of a patent in some manner, but the form of compensation varies greatly. Some aggregators purchase the patents outright. Thus, the original patent owner is paid money upfront by the aggregator. The aggregator thereafter attempts to monetize the patent and retain the recovery.¹⁹¹ A different aggregator strategy is to obtain an exclusive license for the patent rights, and typically agree to some split in the recovery, if any, from future enforcement activity related to the patent. The exclusive license model permits the aggregator to lock in downstream money without any upfront investment. In short, these aggregators provide a way—short of suing—that permits inventors or owners to obtain something of value for their patent rights.

The aggregators compete on this level with contingent lawyers. Some inventors would prefer an upfront payment to the risks of contingent litigation. Most of the interviewed subjects do not find the aggregators to be significant competition on the high-value cases. One lawyer characterized the aggregators as “lower on the food chain.” Continuing, he said:

A lot of people shop cases to us and we can't take the case. We want to be helpful. We say why don't you contact so-and-so, and we give them names of companies who might finance or might want to buy the patent. It is something we mention to people we have decided not to represent.

Another contingent fee lawyer was more aggressive: “The aggregators are trolls. They only buy cheap patents that are worth money solely because of the litigation cost extortion.”¹⁹² But a negative view of aggregators was not universal. Some contingent fee lawyers indicated that the aggregators bought a mixture of strong and weak patents. For instance, one lawyer said: “They [the aggregators] buy some good patents and some bad patents.

190. Wang, *supra* note 14, at 176, 180–81; Chien, *supra* note 9, at 328–30.

191. RPX, on its website, claims that it “will never assert or litigate the patents in our portfolio.” RPX CORP., <http://www.rpxcorp.com> (last visited Oct. 4, 2012). Instead, it offers annual memberships to its patent portfolio. It does, however, “catch and release” patents when it sells patents to a non-practicing entity to enforce against RPX’s non-subscribers.

192. RPX, a “defensive” patent aggregator, reported in early 2012 that its average spending per patent was around \$200,000. *See, e.g., Renewed Interest in Patent Investment Affects RPX Valuation*, GAMETIME IP (Jan. 11, 2012) <http://gametimeip.com/2012/01/11/renewed-interest-in-patent-investment-affects-rpx-valuation/>. A patent worth a total of \$200,000 means that the total expected revenue from that patent is less than the cost of defense of a single patent infringement lawsuit.

They throw twenty to thirty patents at a defendant. Numerosity makes it hard for the defendant to know the magnitude of the threat.”

Once the aggregators acquire patents or sufficient rights to enforce, their relationship with contingent lawyers changes. The interview subjects found that the aggregators were potential customers. To be fair, not all aggregators directly enforce their patents through litigation. And aggregators sometimes litigate by hiring lawyers on a full hourly fee basis.¹⁹³ However, more commonly, the aggregators engage and rely upon contingent fee litigators to enforce their patents. In some instances, the aggregators spin-off patents from their stockpile into a separate patent holding company for litigation, partially to mask their involvement in the litigation.¹⁹⁴ To litigate, the holding companies frequently employ contingent lawyers. Because monetization of patents is the aggregators’ business, they are viewed as being very rational in terms of expectations on a given contingent case. They are repeat players in patent litigation and are interested in obtaining the maximum recovery in a given case without taking unnecessary risks, which makes them good potential clients. Consequently, the contingent firms view the aggregators as both potential customers and potential competitors.

4. Universities

Universities also sometimes rely upon contingent lawyers.¹⁹⁵ Some universities manage their patent portfolio through an office of technology transfer.¹⁹⁶ These offices within the university also often lack the financial resources to pay hourly billing patent litigators. Contingent representation solves that problem.¹⁹⁷ Universities are good clients because juries

193. Some aggregators never or almost never hire contingent lawyers.

194. Intellectual Ventures, in at least one instance, has sold a patent to a holding company which then enforced it. Intellectual Ventures retained a “back-end arrangement” that entitled it to a “percentage of the royalty stream down the road that is generated” by the patent. *When Patents Attack*, NAT’L PUB. RADIO (July 22, 2011, 8:04 PM), <http://www.npr.org/blogs/money/2011/07/26/138576167/when-patents-attack>.

195. See Jacob H. Rooksby, *When Tigers Bare Teeth: A Qualitative Study of University Patent Enforcement*, 46 AKRON L. REV. (forthcoming 2013) (manuscript at 13–14), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2065443.

196. See Kristen Osenga, *Rembrandts in the Research Lab: Why Universities Should Take a Lesson from Big Business to Increase Innovation*, 59 ME. L. REV. 407, 419 (2007) (noting that it is rare for a university not to have a technology transfer office to handle patent matters).

197. Universities may have more business conflicts in asserting patents, as many would-be infringers are either large donors to the school or potential employers to students.

generally find them sympathetic.¹⁹⁸ A few contingent lawyers reported representing universities, but most did not.¹⁹⁹

5. *Small Patent Holding Companies*

Patent holding companies are the final category of potential contingent clients.²⁰⁰ These companies are formed for the primary purpose of owning a patent and conducting patent enforcement activities.²⁰¹ It is unclear how much patent infringement litigation is brought by holding companies, but one study has found that in recent years, non-practicing entities had filed 20% of patent infringement complaints.²⁰² In some instances, investors or hedge funds purchase patents and then assign the patents into a specially formed holding company. The small patent holding company owns a patent or family of related patents, but not scores of unrelated patents. Admittedly, the line between this category, small patent holding companies, and the “large patent aggregator” category is not always clear. Banks or other financing entities can be involved in the purchase of patents. Others have noted that the litigated patents spring from a variety of sources.²⁰³

This Article does not wish to enter the debate about the propriety of patent holding companies.²⁰⁴ To that debate, this Article makes the modest and expected observation that these entities typically litigate by hiring contingent fee lawyers. Contingent lawyers will represent them; however, they are considered less desirable as clients than individual inventors or small companies who currently compete or who unsuccessfully attempted to compete in the marketplace. Furthermore, some of the law firms—

198. See Rooksby, *supra* note 195.

199. I did not specifically seek out universities or their counsel for this study. The qualitative interviewing methodology, which does not involve random sampling, limits my ability to explain whether universities routinely rely upon contingent fee lawyers.

200. Patent holding companies, as that term is used herein, do not include entities created by manufacturing companies to hold their own patents. The definition herein differs from the patent aggregators because the holding companies are not part of a larger pool of unrelated patents.

201. To be sure, patent holding companies are non-practicing entities. However, the term “non-practicing entities” and the more pejorative term “troll” are not clearly defined. See, e.g., Mark A. Lemley, *Are Universities Patent Trolls?*, 18 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 611, 612 (2008); Joseph N. Hosteny, *Litigators Corner: Is IBM a Patent Troll?*, *INTELL. PROP. TODAY*, May 2006, at 26, 26–27.

202. Chien, *supra* note 133, at 1604.

203. Risch, *supra* note 175, at 495–96 tbl.6 (finding that the non-practicing entity patents come from a variety of sources, the two largest of which are product companies and individuals).

204. There have been many academic articles written about patent “trolls.” See, e.g., James Bessen, Jennifer Ford & Michael J. Meurer, *The Private and Social Costs of Patent Trolls*, 34 *REGULATION*, Winter 2011–2012, at 26; Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 *NOTRE DAME L. REV.* 1809, 1810 (2007).

typically the more selective ones—had an aversion to representing non-practicing entities.²⁰⁵

IV. THE MATURATION OF THE CONTINGENT FEE MARKETPLACE

As the market for contingent services in patent litigation matures, two contrary forces are present. There will be more “high quality” patents available for litigation on a contingent basis. On the other hand, changes in doctrine have made all patents worth less. Below, I explore these two forces in more detail.

The demand from patent owners to extract value from their patents likely will continue to increase over time. That increasing demand will in turn drive the need for contingent fee lawyers in patent litigation. This Article has provided a detailed snapshot of contingent representation in patent law as it exists today. As defense lawyers adapt to contingent practice, including by finding ways to lower the fees they charge to their clients, the landscape for contingent litigation in patent law will continue to evolve.

On the other side of the ledger, there is no mandatory joinder of infringers under patent law. If there are five separate infringers of a patent, the patentee need not sue them at once.²⁰⁶ Instead, the patentee can sue them in serial, one after another. He can amass a war chest by settling with some infringers and using that settlement money to finance litigation with future infringers.²⁰⁷ In other contingent areas, this approach is not generally used. For instance, in the medical malpractice field most plaintiffs sue the

205. As one lawyer put it:

If it is assigned to someone who had enough money to buy it, no we don't do it. If it is the company who originally funded the research . . . that's fine. They are the innovator. They are the person who created the invention. But if it is just someone who bought it, we typically don't deal with [them]. There are two [reasons] why. These patent speculators have become a hot button and they are fueling a lot of the anti-patent sentiment in the country which [has] resulted in legislative things and a very hostile Supreme Court. The Federal Circuit . . . has become reactive to anti-patent public sentiment, and I think it is largely because of this patent speculation so that's one thing . . . The second reason is that they are not sympathetic plaintiffs—it is hard to win for them. Juries don't have sympathy for them, don't want to give them money. Some judges too. . . . Some judges have great antipathy toward patent speculators.

206. In fact, the recently adopted America Invents Act (AIA) prohibits joining multiple unrelated defendants in a single cause of action. Courts are allowed to consolidate multiple lawsuits for discovery, and the exact repercussions of the AIA change are presently unclear.

207. Of course, there are risks with this approach. Each lawsuit involves the possibility that the patent is held invalid, which bars subsequent lawsuits. Also, there the patent laws bar damages more than six years before the date of a lawsuit. 35 U.S.C. § 286 (2006 & Supp. V 2011). The invalidity risk makes a reverse war chest strategy less desirable. A reverse war chest strategy is when the largest infringer is sued first. The largest infringer typically vigorously defends the lawsuit, in part, because of their exposure on damages. If the largest infringer is defeated, then other smaller infringers can be subsequently sued and likely will be more amenable to settlement.

doctors, nurses, and hospital that are allegedly negligent in the provision of care all together at once. While this is not required by the rules of civil procedure,²⁰⁸ it is the general practice, presumably for efficiency reasons (to avoid duplicative discovery) or strategic reasons (to entice the defendants to point fingers at each other).

Business literature sets forth various characteristics of maturing markets.²⁰⁹ As the market matures, its growth slows and there is more competition.²¹⁰ The purchasers—in this context, patent holders—become more sophisticated.²¹¹ The focus of competition moves to either lower cost (lower contingent rates) or better service (lawyering skills).²¹² Competition increases, including from other fields.²¹³ Profits may fall during the period in which the market transitions to maturity, and sometimes the profit decline is permanent.²¹⁴ It is unknown how these general business trends will translate in the market for contingent representation in patent litigation.

Beyond the general business literature on maturing markets, there are also two trends, specifically relating to contingent fee patent litigation, which point in opposite directions. On the one hand, there are more and more high quality patents that are becoming available for litigation. As used herein, “high quality patents” is used as contingent lawyers use it: to refer to patents that are broad in scope and likely to withstand a validity challenge. On the other hand, the value of all patents has decreased in recent years as a result of a series of judicial decisions. Below this Article discusses both trends.

High quality patents are becoming more frequently ready for litigation. In the past, operating companies held large portfolios of patents that were infrequently litigated. These operating companies maintained their patent portfolios for defensive purposes. If they were ever accused of infringement by a competitor, then the operating company could assert the patents as counterclaims. Patents were also useful as chips in cross-license arrangements. However, for the very reason that competitors were afraid to sue them (for fear of counterclaims), the operating companies were wary of suing competitors. Patents for these operating companies were useful to setup a situation of mutually-assured destruction.²¹⁵

208. FED. R. CIV. P. 19 does not generally require joinder in these cases if money damages are sought.

209. *See generally* MICHAEL E. PORTER, *COMPETITIVE STRATEGY* (1980).

210. *Id.* at 238.

211. *Id.* at 238–39.

212. *Id.* at 239.

213. *Id.* at 240.

214. *Id.*

215. Stuart J.H. Graham & Ted Sichelman, *Why Do Start-Ups Patent?*, 23 *BERKELEY TECH. L.J.* 1063, 1065 (2008) (noting that many companies patent defensively to create a “game of ‘mutually assured destruction.’”).

The recent rise of patent purchases has changed this dynamic.²¹⁶ As mentioned in the Introduction, there have been several multibillion-dollar transactions revolving around patents. This has placed emphasis on obtaining money for a company's patents. This emphasis is not on the legal department, where decisions about patents typically reside. Instead, the pressure is arising in the corporate boardroom where executives are searching for new ways to generate money. Many companies are considering selling a portion of their patent portfolio.²¹⁷

The operating companies are not selling all of the patents in their portfolios. They recognize that a core group of patents is still necessary for defensive purposes, as has always been the case. However, the full arsenal of patents is not required for this threat. Consequently, the large operating companies are selling many but not all of the patents, many of which are of high quality. The patents are sold to entities that are not encumbered by the counterclaim problem, such as patent holding companies.²¹⁸ As one contingent lawyer explained: "So large companies will go to NPEs [non-practicing entities], saying, 'will you take this, give me a back end, and go enforce this against our competitors?' We've seen this a bunch and these NPEs come to us with these portfolios from big companies."

This trend puts more high quality patents in the hands of non-practicing entities. The non-practicing entities in turn hire contingent patent litigators, including high-end litigators if the expected damages are sufficiently large. Additional quality patents available for litigation should encourage more competition at the highest end of the contingent practice. But the second trend pushes down on the demand for patent contingent litigation.

Along the same lines are companies with a new interest in monetizing their patents. The executives read press reports about large patent verdicts or sales of portfolios of patents. Lawyers in in-house legal departments, normally viewed as a cost center, look to enforce patents and generate money for the company. One lawyer summed it up as follows:

But there weren't many people [in 1990] that patented things and then went out to monetize the patent. That is a new thing. And it is still increasing. I think that the publicity that has resulted from big

216. See Ewing, *supra* note 189, at 20 (noting a "growth of markets for patents"); see also HENRY CHESBROUGH, EMERGING SECONDARY MARKETS FOR INTELLECTUAL PROPERTY: US AND JAPAN COMPARISONS, RESEARCH REPORT TO NATIONAL CENTER FOR INDUSTRIAL PROPERTY INFORMATION AND TRAINING (NCIPI) (2006), <http://www.inpit.go.jp/blob/katsuyo/pdf/download/H17esm-e.pdf>.

217. For instance, Kodak attempted to sell all or part of its patent portfolio to generate money to avoid bankruptcy. Richard Waters & Chris Nuttall, *Battle Set for Kodak's Patent Portfolio*, FIN. TIMES (Jan. 19, 2012, 7:38 PM), <http://www.ft.com/intl/cms/s/2/0ac1dcc0-42d0-11e1-b756-00144feab49a.html>.

218. Chien, *supra* note 9, at 341.

verdicts in cases that people know are contingent fee based like *i4i* [\$280 million verdict against Microsoft in 2009] or the recent *SAP* case [\$345 million verdict against SAP in 2011] causes a lot of patentees to think, “wow, maybe I can make some money off of my patent after all.”

Pointing in the opposite direction, recent patent case law has arguably made patents lose value. There are several important judicial decisions in the last five years, almost all of which devalued patents. First, the Supreme Court in *eBay v. MercExchange* substantially diminished the chances for non-practicing entities to obtain permanent injunctions, even if they prevail on liability.²¹⁹ Next, in *MedImmune v. Genentech*,²²⁰ the Supreme Court disadvantaged patent holders by lowering the threshold before courts have jurisdiction to hear patent challenges, thereby making it more difficult for a patent owner to secure their choice of venue.²²¹ Shortly thereafter, the Supreme Court in *KSR v. Teleflex* in 2007 lowered the previous standard to more easily allow accused infringers to prove patents invalid as obvious.²²² The Federal Circuit has also issued several decisions on patent damages, which have made damages more difficult to prove and defend on appeal.²²³ Each of these decisions has lowered the value of patents across-the-board. As one lawyer explained:

But I think the difficulty has been increasing. Whether it will continue to increase depends upon what the courts and Congress

219. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (noting that “[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.”) (Kennedy, J., concurring). It appears that non-practicing entities were disproportionately more likely to have permanent injunction requests denied after *eBay*. Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): *A Review of Subsequent Judicial Decisions*, 89 J. PAT. & TRADEMARK OFF. SOC’Y 631, 657 (2007).

220. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

221. The Supreme Court in *MedImmune* rejected the Federal Circuit’s rather strict test for declaratory judgment jurisdiction in patent cases. Katherine A. Helm & Gene W. Lee, *Call It a Comeback: A Sweeping Change in the Law on Declaratory Judgment Actions Against Patent Owners*, 64 N.Y.U. ANN. SURV. AM. L. 231, 246 (2008) (arguing that *MedImmune* has substantially “carved a new legal landscape” and made patent owners “increasingly vulnerable to patent challenges . . . on the patent challenger’s terms”). The Federal Circuit’s subsequent decision in *SanDisk Corp. v. STMicroelectronics, Inc.* highlights the risks to a patentee of pre-filing communication with an accused infringer. 480 F.3d 1372 (Fed. Cir. 2007). There, the Federal Circuit affirmed a finding of declaratory judgment jurisdiction for a suit filed in the defendant’s home court, even when the patentee had expressly informed the accused infringer that it had no intention of suing for infringement. *Id.* at 1382–83.

222. *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 415 (2007) (rejecting the Federal Circuit’s “rigid” test for determining whether an invention is obvious, and instead adopting a “flexible” and “expansive” test).

223. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011) (rejecting the 25% rule for reasonable royalty calculations); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009) (reversing jury verdict on damages because of erroneous expert testimony).

do. The series of Federal Circuit decisions on damages is just really incredible. They want more rigor and what it means is that the fees to damages experts are almost the same as the lawyers' fees. . . . Then you have the *KSR* scrutiny, [which makes it easier to prove a patent invalid as obvious,] *eBay*, which makes it harder to get injunctions. The trend has been to make it harder to use the courts to monetize patents.

In general, this trend by the Supreme Court reduces the expected value of all patent cases.²²⁴ In turn, all cases, on balance, thereby have become less desirable to litigate on a contingent fee basis. Another lawyer explained it as follows:

You don't put your thumb on the scale on one side, which is now being put on the side of defendants in these cases, and leave a very vigorous business. I mean the courts and Congress have had the exact effect they wanted to have, which is to cut down on the amount of patent litigation, to protect defendants, to disadvantage the inventors. That has worked. As a result, there will be less and less contingent fee litigation in the patent area because lawyers aren't stupid. They're going to wake up and realize that Jesus, this isn't like the good old days. We ought to do something else.

It is difficult to predict now how these contradictory forces will play out. Because there appear to be more and more contingent lawsuits and non-practicing entity activity, the first trend may be outperforming the second.

However, one thing we know—the law has also recently changed in a manner to discourage cost-of-defense suits. The new America Invents Act, signed by President Obama in September 2011, prohibits joining multiple defendants in many circumstances.²²⁵ The new law recites that “accused infringers may not be joined in one action as defendants or counterclaim defendants,²²⁶ or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.”²²⁷

224. A counter-example involves the defense of inequitable conduct, which the Federal Circuit curtailed in 2010. *Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1289 (Fed. Cir. 2010). The AIA also permits Supplemental Examination, which permits patentees to more easily remedy certain defects that previously could form the basis of an inequitable conduct charge. 35 U.S.C. § 257 (2006 & Supp. V 2011). A second counter-example is *Microsoft v. i4i*, where the Supreme Court rejected an attempt to lower the burden of proof required to invalidate a patent. *Microsoft Corp. v. i4i Ltd.*, 131 S. Ct. 2238 (2011).

225. See 35 U.S.C. § 299(b) (2006 & Supp. V 2011).

226. The term “counterclaim defendants” appears to be a typographical error, and probably should be read as “counterclaim plaintiffs.”

227. 35 U.S.C. § 299(b) (2006 & Supp. V 2011).

This means that the practice of suing multiple unrelated defendants in one cause of action is prohibited going forward.²²⁸

The AIA change disproportionately affects the “bottom” litigators, especially those attempting to settle at or below the cost of defense. This is because if the case is valuable against a variety of defendants, the patentee would still bring the case against each of the alleged infringers separately.²²⁹ The unfiled cases, which will disappear from the system, are those that are less valuable.²³⁰

The AIA also targets cases filed in the Eastern District of Texas in particular, a venue known for large, multi-defendant cases.²³¹ Previously, that district had denied motions to transfer lawsuits to other venues in some cases in which there were numerous geographically dispersed defendants.²³² The rationale for declining transfer, which had been accepted in some cases by the Federal Circuit, was that there was no single other venue which was clearly more convenient for all the geographically dispersed parties.²³³ By requiring that multi-defendant cases be filed as separate lawsuits under the AIA, the transfer analysis is changed. Each case may need to be transferred elsewhere because it may be clearly more convenient in another venue. Splitting patent cases among several different venues makes the case more expensive for the patent holder to prosecute, in terms of time, money, convenience, and risk. Requiring separate lawsuits under the AIA also substantially reduced the risk that multiple defendants

228. The AIA provision on joinder is not retroactive. That means that the cases presently pending with multiple defendants will continue.

229. Filing separate cases against each defendant adds costs because a separate filing fee is due for each lawsuit. If the lawyers are not admitted to the court where the suit is filed, then a *pro hac vice* application and fee must be paid for each case. The increased costs on the patent holder may permit smaller infringers to avoid a lawsuit. In addition, cases with a single defendant may be more likely to be transferred away from the plaintiff's choice of forum.

230. Even before the adoption of the AIA, the courts were already attempting to adjust their procedures to handle cost-of-defense lawsuits. Judge Leonard Davis in the Eastern District of Texas altered his case management orders in lawsuits “where a plaintiff asserts questionable patent claims against a large number of Defendants to extract cost of defense settlements” with the costs of defense being driven by the quick discovery deadlines of the local patent rules. *Uniloc USA, Inc. v. Sony Corp. of Am.*, No. 6:10-CV-591, 2011 WL 1980214, at *23 (E.D. Tex. May 20, 2011); *see also* Case Management Order, *Raylon, LLC v. Complis Data Innovations Co.*, 6:09-CV-355, 2011 WL 1104175 (E.D. Tex. Mar. 23, 2011). In those cases, he moved the claim construction forward to permit the Court to evaluate the merits of the dispute early and at a lower cost to the defendant. *See also* Rader, *supra* note 98 (noting that “trolls litter the patent system with marginally meritorious lawsuits” and recommending that attorneys' fees being assessed as “a tool to discourage cases that are brought only to obtain revenue from litigation avoidance instincts”).

231. *See* MAYA M. ECKSTEIN, ELIZABETH L. BROOKS & GEORGE B. DAVIS, THE (UNINTENDED) CONSEQUENCES OF THE AIA JOINDER PROVISION 4 (2012); David O. Taylor, *Patent Misjoinder*, 88 N.Y.U. L. REV. (forthcoming 2013), available at http://papers.ssrn.com/abstract_id=1957803.

232. *Id.* at 3.

233. *In re Volkswagen of Am., Inc.*, 566 F.3d 1349 (Fed. Cir. 2009).

would have to try their case at once.²³⁴ Having multiple defendants at trial brings the risk of inconsistent defenses, which favors the patent owner.

The AIA has other provisions that may affect contingent practice. For example, the various forms of post-grant review permit patent validity challenges at a substantially reduced cost to defendants relative to litigation.²³⁵ Furthermore, because the validity challenge likely will be addressed more quickly by the Patent Office, it may front load expert witnesses and other costs earlier in the litigation for the patent holder. It will also decrease the incentive for defendants to settle merely to avoid the costs of litigation. In sum, various provisions of the AIA may reduce the incentives to represent clients on a contingent fee basis.

V. CONCLUSION

This Article explains why there has been a rise in the use of contingent fee representation in patent litigation.²³⁶ It also paints detailed, qualitative pictures of the lawyers involved in this practice. Contingent fee practices in patent law can help refine our model of contingency fee litigation in general. For instance, patents do not fit the general model of contingency because they are frequently asserted against multiple defendants. Settlements from early lawsuits can be used to both fund later lawsuits and bolster the strength of the underlying patent. Additionally, a final judgment that the patent is invalid in any lawsuit ends all subsequent lawsuits. Because of the direct link between multiple lawsuits, contingent lawyers in the patent field frequently evaluate additional factors other than the simple cost/benefit of the lawsuit at issue.

Patent contingency litigation is also related to the constitutional purpose of patent law: to create an incentive to innovate. Contingent fee litigation provides access to the courts to those patent holders without sufficient resources to litigate on an hourly fee basis. If these cases are meritorious, then money flows to more patent holders. In turn, more money should enhance the incentives for people to patent and innovate. On the other hand, if a substantial portion of the contingent fee litigation involves

234. See ECKSTEIN, BROOKS & DAVIS, *supra* note 231, at 4–5.

235. See, e.g., ARTI RAI ET AL., U.S. DEP'T OF COMMERCE, PATENT REFORM: UNLEASHING INNOVATION, PROMOTING ECONOMIC GROWTH & PRODUCING HIGH-PAYING JOBS (2010), http://www.commerce.gov/sites/default/files/documents/migrated/Patent_Reform-paper.pdf.

236. It is unclear what proportion of patent lawsuits is handled on a pure contingent fee basis. Subjects from the interviews provided answers between 1% and 50%. The 2011 AIPLA Economic Survey Benchmark Tool indicates that respondents noted that 2.5% of their services were billed on a contingent basis. (Question 35(c)). However, the 2011 AIPLA survey reports survey results from several years earlier. More importantly, the 2.5% includes patent prosecution, as well as other intellectual property prosecution and litigation. Patent litigation is much more likely to be done on a contingent basis than the remainder of intellectual property work.

“weak” patents, then the cost of the patent litigation system may outweigh the benefits.

Furthermore, now that the outlines of the patent contingent industry have been provided, further quantitative empirical work can be undertaken. There is nothing in the filed court records within a case file or docket to indicate whether a patent lawsuit was brought on a contingent basis. However, through careful analysis of the parties, law firms, and litigation activity, it is possible to make estimates of which cases are so litigated.

While qualitative interviews like those described in this Article may provide a richer and fuller account, some of the further quantitative analysis will be useful to those studying the patent system. For instance, analysis should be conducted upon the patents asserted in the cost-of-defense lawsuits. Whether these patents are weak, as claimed by many, is of vital importance in assessing the patent litigation system. If a substantial amount of litigation is of “weak” patents, then patent litigation may not further the goal of encouraging innovation. On the other hand, if these patent holders are merely providing discounted licenses—“leaving money on the table” as one lawyer put it—then infringers are benefitting by not paying the full value to the patentee. Separately, analysis of the “high quality” patents asserted by the most selective firms can aid in understanding patent value.

Future research can also inform us about litigation and attorney–client relationships more generally. By empirically analyzing and comparing contingent cases and hourly billing cases, we can understand more about the effectiveness of contingent practice in patent law. These findings will aid in the larger debate about whether contingent representation in general should be encouraged or discouraged.

METHODOLOGICAL APPENDIX

In 2010 and 2011, I conducted in-depth interviews with forty-four people involved in contingent fee representation in patent litigation. All of the subjects were promised confidentiality, both for themselves and their law firms or companies. Below I provide some basic demographic information about the subjects, describe how I located them, and set forth the basic areas of questioning.

Most were lawyers who had handled at least one patent infringement case on a contingency fee basis. While nearly a majority of lawyers were from Chicago (19), lawyers from nine different states were interviewed. These included lawyers from California, Indiana, Kansas, Massachusetts, Missouri, New York, Ohio, Texas, and the District of Columbia.

These lawyers worked in a variety of settings. Twenty-two of the lawyers practiced at small firms whose practice was all or primarily contingent fee litigation. Thirteen of the lawyers worked at large general practice firms such as American Lawyer 100 firms or at well-established intellectual property boutique law firms. These second type of lawyers frequently handled some matters on an hourly billing basis. However, each of the interviewed lawyers handled at least one case on a contingent fee basis. I interviewed at least five lawyers in each of the four categories I identified in the Article. To broaden my perspectives to cover all sides of contingent practice, I interviewed lawyers who represented defendants in cases that were known or suspected to be contingent cases.

The attorneys interviewed were all experienced litigators. They had practiced law for an average of twenty-five years, although not all of that time as contingent fee lawyers. Only one attorney interviewed had less than twelve years of experience as an attorney. The maximum experience was forty-four years, although most of that time was performing hourly billing work, not contingent work. The majority of the subjects had been in practice for twenty years or more. The subjects were mainly men, with only three women in the sample. At least part of the gender imbalance can be explained by the gender imbalance in patent law more broadly. Many patent litigators have technical undergraduate backgrounds, and there are fewer women with such backgrounds than men.²³⁷

I also interviewed several in-house lawyers with experience with contingent lawyers in patent cases. These in-house lawyers either (i) managed the defense of patent litigation for which they knew or suspected

237. Sarah-Jayne Adams, *Breaking Through the Glass Ceiling*, INTELL. ASSET MGMT., Oct./Nov. 2008, at 49 (“To reach the top of the patent world it is highly likely that you will need a deep understanding of both technology and the law—two areas that have traditionally attracted far fewer women than men.”).

that the lawyers were being compensated on a contingent basis; or (ii) hired a law firm to represent their employer as a plaintiff in a case on contingent fee basis lawyers.

There are several large patent aggregation companies in the market place. I interviewed people inside some of these companies. I also interviewed some non-lawyers who work at hedge funds or banks. These entities have some involvement or interest in patent litigation, such as loaning or investing capital in exchange for a percentage of the recovery from a lawsuit. Finally, I interviewed several lawyers who handled other types of “complex” litigation on a contingent fee basis. These included one lawyer who handled exclusively class action securities fraud cases and another lawyer who handled exclusively antitrust matters.

To locate the lawyers, I began with lawyers whom I knew handled contingent matters in Chicago. I have substantial access to these people because I both practiced law for over ten years in Chicago and I remain active in the local intellectual property bar.²³⁸ To decrease the possibility of bias, I pursued multiple chains of lawyers. In other words, I started from a diverse selection of Chicago lawyers—long-time contingent lawyers, new contingent lawyers, big firm defense lawyers, etc. Each of these lawyers provided recommendations for additional subjects. The use of multiple chains reduces the possibility that all of the lawyers located shared similar traits and attributes. To broaden the diversity of my subjects, I located additional interview subjects by web searches of firm directories, news stories, and identification of counsel from the dockets of cases likely brought on a contingent fee basis. These included some of the lawyers who litigated against numerous defendants at once because I may have under-sampled them using the snowball technique.

Nearly all of the lawyers I approached agreed to be interviewed. The one exception was people at hedge funds. This may have been because I lacked a strong personal connection with most of people I approached, and as a lawyer and academic, I am far removed from that field. In any event, fewer of these people responded to my overtures, let alone agreed to be interviewed.

I conducted the interviews in person whenever possible. This included all of the Chicago lawyers. The remainder of the interviews were performed over the telephone. The average interview lasted approximately one hour.²³⁹ The shortest interview lasted 40 minutes and the longest for 150 minutes.

238. Over ninety percent of the Chicago lawyers I approached agreed to be interviewed (twenty-two of twenty-three).

239. A great majority of the in-person interviews were recorded (eleven out of fourteen). Many of the phone interviews were recorded as well.

The interviews were in-depth and semi-structured.²⁴⁰ Semi-structured means that I had a general list of topics to cover with each person, although I deviated from the general list based upon the responses provided by the lawyer. The general topics were how potential clients were located, how cases were analyzed and considered for selection, how contingent fee agreements were negotiated, how cases were litigated, how cases were settled, and how aggregators and hedge funds were situated in the contingent marketplace. Based upon the responses provided by the subjects, detailed follow up questions were asked and other topics also were discussed.

240. There are many strong references on qualitative interviewing methodology. For those new to the subject, two references to begin with are: TOM WENGRAF, *QUALITATIVE RESEARCH INTERVIEWING* (2001) and STEINAR KVALE, *DOING INTERVIEWS* (2007).