THE RISE OF CONTINGENT FEE REPRESENTATION IN PATENT LITIGATION

ALABAMA LAW REVIEW (FORTHCOMING 2012)

David L. Schwartz[*]

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 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

---

[*] Assistant Professor of Law, Chicago-Kent College of Law. I wish to thank Derek Bambauer, Colleen Chien, Bill Gallagher, Steve Garber, Richard Gruner, Sarah Harding, Timothy Holbrook, David Hyman, Jay Kesan, Bert Kritzer, Ed Lee, Mark Lemley, Raizel Liebler, Lynn Mather, Mark McKenna, Michael Risch, Christopher Seaman, Jay Tidmarsh, and the participants at the Northwestern Law & Economics Colloquium, the 2011 Patent Conference at the University of Kansas Law School, the 2011 IP Scholars Conference at DePaul University College of Law, the Fueling Innovation Conference at the University of Missouri-Kansas City School of Law, the 2012 Patent Conference at Boston College Law School, the Marquette IP Colloquium, the Drake University IP Law Center's 5th Anniversary Gala, and workshops at the Notre Dame Law School and Chicago-Kent for their helpful comments and insights.

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.

ABSTRACT 1

I. INTRODUCTION 3

II. THE EVOLUTION OF PATENT CONTINGENT PRACTICE 9

A. CONTINGENT REPRESENTATION IN GENERAL 9

B. PATENT LITIGATION PRACTICE AND BARRIERS TO CONTINGENT PRACTICE 12

1. Basics of Patent Litigation *12*

2. Patent Litigation Compared to Other Areas with Contingent Practice *14*

C. EVOLUTION IN CONTINGENT REPRESENTATION IN PATENT LITIGATION 18

III. QUALITATIVE INTERVIEWS OF LAWYERS 23

A. STUDY DESIGN AND METHODOLOGY 23

B. PROFILES OF PATENT CONTINGENT FEE LAWYERS 25

1. The "Top" of the Market *30*

2. The Dabblers: General Practice Firms and Established IP Boutiques *32*

3. Middle Market Contingent Firms *35*

4. The "Bottom" of the Market: Cost of Defense Litigation *37*

C. WHO HIRES CONTINGENT FEE LAWYERS 40

1. Individual Inventors and Small Businesses *40*

2. Large Companies *43*

3. Large Patent Aggregators *43*

4. Universities *45*

5. Small Patent Holding Companies *46*

IV. THE MATURATION OF THE CONTINGENT FEE MARKETPLACE 47

CONCLUSION 53

METHODOLOGICAL APPENDIX *55*

"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, the manufacturer of the Blackberry line of devices. The lawsuit famously settled in 2006 for $612.5 million,[1] and the press reported Wiley Rein received over $200 million because it handled the lawsuit on a contingent fee basis.[2] 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. 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

[1] The NTP v. RIM case was covered extensively in the press, including the financial details of the settlement itself. *See, e.g.*, http://money.cnn.com/2006/03/03/technology/rimm_ntp/ (reporting payment by RIM of $612.5 to settle the lawsuit); Teresa Riordan, *Contest Over Blackberry Patent,* N.Y. TIMES, June 7, 2004, available at http://www.nytimes.com/2004/06/07/technology/07patent.html (last visited Jan. 30, 2012).

[2] 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 RIM [the Blackberry case]. It received approximately one-third of the $612.5 million settlement....").

injury, workers' compensation, and employment discrimination.[3] 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. In contrast, personal injury cases are relatively inexpensive to litigate, are adjudicated quicker, 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 several 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,[4] and the Blackberry case previously mentioned. These highly visible victories encouraged hourly billing lawyers to

---

[3] 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. Herbert W. Kritzer, RISKS, REPUTATIONS, AND REWARDS: CONTINGENCY FEE LEGAL PRACTICE IN THE UNITED STATES (Stanford Press 2004); *see also* Herbert W. 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*]; Jeff Van Hoy, *Markets and Contingency: How Client Markets Influence the Work of Plaintiffs' Personal Injury Lawyers*, 6(3) 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, and 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, *Plaintiff Lawyers: Dealing With the Possible but not Certain,* 60 DEPAUL L. REV. 337 (2011).

[4] Stewart Yerton, *The Sky's the Limit,* The American Lawyer, May 1993 ("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.").

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.[5] If patent owners are unable to or 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 had not been a significant amount of buying and selling of freestanding patents, there is substantial evidence that the market for patents has recently grown. 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.[6] 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.[7] The month before, in July 2011, Nortel sold its patent portfolio to a consortium of major IT companies for $4.5 billion.[8] 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.[9] Because

---

[5] 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 including 'not only the patentee to whom the patent was issued, but also the successors in title to the patentee.'"); see also Sebok, *supra* note 63.

[6] Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 17 (2012).

[7] Shira Ovide, *Google – Motorola: It's All About the Patents*, WALL STREET JOURNAL, Aug. 15, 2011.

[8] Elizabeth Woyke, *An Inside on the Nortel Patent Auction and its Consequence,* FORBES, July 7, 2011.

[9] 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

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.[10] 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 their 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.

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;

---

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

[10] Qualitative research using interviews is a well-established empirical methodology that is particularly useful at examining under-explored issues or situations. *See* Peter Kane & Herbert M. Kritzer, THE OXFORD HANDBOOK OF EMPIRICAL LEGAL RESEARCH 927-940 (Oxford 2010). For an excellent article which utilizes semi-structured interviews, see Nora F. Engstrom, *Sunlight and Settlement Mills,* 86 N.Y.U. L. REV. 805 (2011).

- 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 to 'risk pool' and reduce the risks of each individual case; and
- 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 small 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. 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 which have substantially weakened patent rights and remedies.[11] 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, 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.[12] The vast majority of the interviews 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

---

[11] 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 Int'l 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).

[12] The *America Invents Act* prohibits joinder of multiple unrelated defendants in most circumstances. 35 U.S.C. § 299 (2012).

patent litigation, contingent relationships, and the traditional law firm fee model. First, by describing contingent fee practice, the Article analyzes 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 which 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.[13] The ability to directly link multiple lawsuits is not present in other areas of law.[14] 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 client's 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

---

[13] For a more complete discussion, see *infra* Part III.C.3.

[14] In mass torts like the Vioxx litigation, which may be the closest to patent litigation along this dimension, separate individual cases are indirectly linked because they have similar legal and/or factual questions. However, the result in one case does not legally control the outcome in another. For the reasons discussed in Part III.C.3, *infra,* patent cases are directly linked.

description of what patent practice can teach us 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 and other 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 formula:

$$Value = P(Recovery) * E(Damages) - E(Cost)$$

In this equation, *P(Recovery)* is the probability of winning on liability. *E(Damages)* is the expected damage award. *E(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. It would also account for the lawyer's share of the recovery (e.g., 33%, 40%).[15]

While that basic formula is uncontroversial, there has been a long

[15] A more complete formula for evaluating contingent fee possibilities can be found in Garber et al., *supra* note 3 at 652, 654, n.30. The contingent lawyers interviewed for this study, however, did not rely upon such a formal and complex model.

standing and heated debate about the propriety of contingent representation in civil litigation. This Article will only briefly explain the contours of that debate here. Critics of contingent representation argue that contingent fee attorneys are often overcompensated and advocate more for themselves than for their clients.[16] Lester Brickman, one of the most outspoken critics, argues that contingent fees over-compensate attorneys without any additional costs. 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.[17]

The first claim, that contingent fee attorneys are often overcompensated, is nuanced. Brickman draws his distinction between high recoveries for high-risk cases versus high recovery for low-risk cases.[18] Indeed, Brickman points to the rise of high-recovery cases, like products liability, toxic torts, class actions, medical malpractice, and the like, all which award much higher judgments than the personal injury cases of previous decades.[19] 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.[20] As for proof, Brickman points to a study that shows "the average medical malpractice verdict increased approximately 2200% over the last 40 years."[21]

Brickman also argues that the risk ratio has not changed in the past 40 years, while earnings have increased dramatically.[22] The effective hourly rates have increased, according to him, around 1000-1400% since 1960, but the risk of non-recovery is the same as it was then.[23] 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,

---

[16] Lester Brickman, LAWYER BARONS (Cambridge Press 2011).

[17] *Id.* at 33.

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

[19] *Id.* at 697. Brickman does not consider contingent representation in patent infringement cases.

[20] *Id.* at 694.

[21] *Id.* at 710.

[22] *Id.* at 655.

[23] *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 (2004) (asserting that a scientific study of 45 of the 75 largest counties found that the average jury verdict was only $400,000, not the $1.4 million as Brickman suggested.).

contends that attorneys who work on a contingent fee basis do not make significantly more than hourly fee attorneys.[24] The basis for Kritzer's statement is his empirical study of Wisconsin contingent fee attorneys.[25] 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.[26] His results are consistent with data that the RAND Corporation collected in the early 1990s.[27] The RAND study surveyed lawyers in cases filed in federal districts across the country.[28] 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.[29] Kritzer argues that his findings of Wisconsin contingent fee lawyers are very similar to those of the RAND Corporation study, which mainly are of hourly-billing attorneys.[30]

Kritzer also asserts that contingent fee attorneys face risks to which hourly fee attorneys are not exposed.[31] Most clear is the possibility that they will not recover, or will recover less than the value of the time they invested in to the case.[32] 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.[33] While they still do not recover in some number of cases, they are able to act as an insurance company, 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).[34] Therefore, those cases which 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 client.[35] He argues that contingent fee attorneys are dependent on referrals from their clients or repeat clients.[36] Repeat customers

---

[24] Kritzer, *Seven Dogged Myths Concerned Contingency Fees*, *supra* note 3.
[25] *Id.*
[26] *Id.* at 764-65.
[27] *Id.*
[28] *Id.* at 743-44.
[29] *Id.*
[30] *Id.* at 772.
[31] *Id.*
[32] *Id.* at 766.
[33] *Id.* at 754.
[34] *Id.*
[35] *Id.* at 774.
[36] *Id.* at 751.

and client referrals account for around 45% of the cases a contingent fee lawyer obtains in Wisconsin.[37] 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.[38]

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, 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 courts[39] and appeals decided by a single appellate court, the Federal Circuit Court of Appeals in Washington DC (hereinafter "Federal Circuit").[40] Furthermore, although the trial court litigation occurs in all federal judicial districts (before generalist district court judges),[41] it is concentrated in a few courts.[42] These courts reside in the larger metropolitan cities – Chicago, New York, San Francisco, and Los Angeles – and the District of Delaware.[43] In

---

[37] *Id.*

[38] *Id.* at 766.

[39] 35 U.S.C. § 1338 (2011).

[40] 28 U.S.C. § 1295(a)(1) (2011).

[41] Recently, Congress adopted the Patent Pilot Program, which will experiment with limited specialization of judges in patent cases in certain judicial districts. 28 U.S.C. § 137 (2012).

[42] Mark A. Lemley, *Where to File Your Patent Case*, 38 AM. INTELL. PROP. L. ASS'N Q.J. 1, 4-5 (2010) (Table 2).

[43] *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).

addition, certain other venues are popular for patentees because they are perceived as fast and plaintiff-friendly. These have varied over time;[44] most recently a key venue is the largely-rural Eastern District of Texas.[45]

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.[46] 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.[47]

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.[48] This could be because there is no patent insurance generally available,[49] 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.[50]

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

---

[44] 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.").

[45] Julie Creswell, *So Small a Town, So Many Patent Suits*, N.Y. TIMES, Sept. 24, 2006 (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.

[46] On the other hand, in other areas like medical malpractice, lawyers have entirely local practices. See Kritzer, RISKS, REPUTATIONS, AND REWARDS: CONTINGENCY FEE LEGAL PRACTICE IN THE UNITED STATES, *supra* note 3.

[47] Creswell, *supra* note 45 (stating that the lawyers are from major metropolitan areas).

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

[49] 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.").

[50] Ashby Jones, *When Lawyers Become 'Trolls,'* WALL STREET JOURNAL, B1, Jan. 23, 2012 (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. In part, this is due to unique issues in patent litigation[51] 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.[52] 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.[53] 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

---

[51] 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, Matthew D. Powers & Steven C. Carlson, *Patent Claim Construction: A Modern Synthesis and Structured Framework*, 25 BERKELEY TECH. L.J. 713 (2010).

[52] 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 from one million to twenty five million; and at $6,018,000 for a case worth more than twenty five million. AIPLA REPORT OF THE ECONOMY SURVEY I-153-54 (2011).

[53] 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 (2006).

> major issues in the case. In patents, there are 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.[54] 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.[55] 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.[56] Accordingly, it is difficult to predict the likelihood that a patent is valid before substantial litigation discovery.[57]

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.[58] Even after a district court has construed the claims, the appellate court reverses at a seemingly high rate of approximately 30-40%.[59] There is also unpredictability

---

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

[55] 35 U.S.C. § 102 deals with anticipation, while 35 U.S.C. § 103 sets forth the defense of obviousness.

[56] 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 (Fed. Cir. 1986).

[57] 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 AM. INTELL. PROP. L. ASS'N Q.J. 185 (1992) (finding 46% of sample of litigated patents were found invalid).

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

[59] *See* David L. Schwartz, *Practice Makes Perfect: An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223 (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*

and variability in the amount of damages if liability can be established, with plaintiff's and defendant's experts frequently disagreeing at trial by two orders of magnitude.[60] 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.[61]

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.[62] The purchaser of these rights may then assert the patent in litigation. 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.[63] Nor can the victim of medical

---

the International Trade Commission, 50 WM. & MARY L. REV. 1699 (2009) (reporting similar reversal rates over 2000-2008 time period); David L. Schwartz, *Pre-Markman Reversal Rates*, 43 LOYOLA-LA L. REV. 1043 (2010) (reporting similar reversal rates over period 1991-2008). 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 LOYOLA-LA L. REV. 1161, 1171-74 (2009) (showing that the reversal rate for non-claim construction issues in patent litigation is 18%).

[60] For example, in the pending patent dispute between Oracle and Google, Oracle's expert pegged damages at between $1.4 billion and $6.1 billion, while Google's expert assessed damages at $33 million. Jan Wolfe, *Google, Oracle Battle Over Damages,* THE AMERICAN LAWYER (Dec. 7, 2011); s*ee also* Schwartz, *Pre-Markman Reversal Rates*, *supra* note 59 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 Predictable? An Empirical Analysis of Patent Infringement Awards*, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1765891 (last visited Jan. 21, 2012) (finding high correlation between damage awards and identifiable factors).

[61] 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. Model Patent Jury Instructions 3.1, available at http://www.nationaljuryinstructions.org/documents/NationalPatentJuryInstructions.pdf (last visited Jan. 21, 2012) (providing instructions for jurors to determine if "one or more" claims were infringed.)

[62] See *supra* note 5.

[63] Anthony J. Sebok, *The Inauthentic Claim,* 64 VAND. L. REV. 61, 75 (2011) ("Almost all courts still refused to permit the assignment of personal injury claims,

malpractice, or someone victimized by fraud.[64] Thus, there also 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 in litigation, the patent can still be asserted if it is purchased.[65] Patent owners can sell their patent to another who is more interested in enforcing the patent rights against an alleged infringer.[66] 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.[67] Damages accrue from patent infringement whether or not the patent owner makes a product, 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.[68] And because patent infringement is a strict liability tort, no prior knowledge of the patent by the infringer is necessary.[69] These factors combine to make

---

but split on the reason for maintaining the prohibition."); Michael Abramowicz, *On the Alienability of Legal Claims*, 114 YALE L.J. 697 (2005) (considering the costs and benefits of allowing freer assignments of legal claims.)

[64] *Id.* 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, S262-63 (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 63 at 88.

[65] A patent can also be asserted by an exclusive licensee.

[66] 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.

[67] 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 the motive." Cont'l Paper Bag Co. v. E. Paper Bag. Co., 210 U.S. 405, 429 (1908).

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

[69] Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In Re* Seagate, 97 IOWA L. REV. 417 (2012) ("Patent infringement 'is a strict liability offense,' and thus an accused infringer can be held liable for unintentional or

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 1980s, the patent bar was largely isolated.[70] Patent law was practiced almost exclusively by specialty firms known as patent boutiques.[71] At these boutiques, almost all of the lawyers had technical backgrounds, such as in engineering or a hard science, and had passed a special bar examination known as the "patent bar."[72] The patent boutiques were successful, representing the major national and transnational corporations in the administrative process of obtaining patents for their inventions.[73]

In this time period, patent boutiques also handled nearly all of the patent litigation in the United States.[74] This work, like most other work at boutiques,

---

accidental infringement.").

[70] 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.").

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

[72] Roberta R. Kwall, *The Intellectual Property Curriculum: Findings of Professor and Practitioner Survey*, 49 J. LEGAL ED. 203, 221 (1999) (stating that patent boutiques required their lawyers to pass the patent bar.)

[73] Larry Smith, *IP Update: Outside, Inside Counsel in the Tug of War as Profitability Soars*, OF COUNSEL, Mar. 18, 1991 (stating that 15 in-house patent counsel from major corporations reported that their patent counsel from boutiques were so successful that they seemed arrogant.)

[74] John M. Conley & Lynn Mather, *Scientists at the Bar*, at 248 (published in LAWYERS IN PRACTICE: ETHICAL DECISION MAKING IN CONTEXT (Chicago

was handled on an hourly-billing basis. 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 engineering 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.[75] In the years immediately after its formation, the Federal Circuit was viewed as more pro-patentee than the regional circuits had been.[76] It was less inclined to affirm findings that patents were invalid.[77] This had the effect of increasing the value of patents.

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.[78] 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.[79] These cases were reported extensively in the press, bolstering the view that patents could be valuable if asserted in litigation.[80] As a result, more patents were asserted in

---

2012).

[75] Rochelle C. Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1 (1989).

[76] 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 after, 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...").

[77] 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 AM. INTELL. PROP. L. ASS'N Q.J 227, 232 (2009) (noting that many believed that the Federal Circuit's 'teaching, suggestion, or motivation' test for obviousness favored the patent owner.)

[78] Polaroid Corp. v. Eastman-Kodak, Inc., 16 U.S.P.Q.2d 1481 (D. Mass. 1990), 17 U.S.P.Q.2d 1171 (D. Mass. 1990) (awarding $900 million in damages, although the amount was later reduced to $873 million.)

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

[80] 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,

litigation.[81]

By the mid-1990s, general practice firms became interested in developing patent practices.[82] 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.[83] 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.[84] They also poached experienced patent

---

306-07 (2010) (arguing that successful litigation and licensing campaigns had "demonstration effects" on others); *see also* Bronwyn H. Hall & Rosemarie H. 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 patent also likely increased the amount of litigation.

[81] Alan C. Marco & Ted M. Sichelman, *Do Downturns Dampen Patent Litigation, available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1641425, (last visited Dec. 22, 2011) (see Figure 1 showing rise from approximately 1,000 patent lawsuits per year in 1990 to 2,500 patent lawsuits per year by 2000).

[82] Rick McDermott, *Lessons Learned From Fifteen Years in the Trenches in 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."); James F. Davis, *Judicial Management of Patent Litigation in the United States: Observations from the Litigation Bar*, 9 FED. CIR. B.J. 549 (2000) ("Since late 1980s, general practice firms and litigation specialty firms have captured about half of the patent litigation market.").

[83] Randall R. Rader, *The State of Patent Litigation,* Speech to E.D. Texas Judicial Conference (Sept. 27, 2011) ("[T]he driving factor for that expense is discovery excess.") (available at http://www.patentlyo.com/files/raderstateofpatentlit.pdf) (last visited Dec. 19, 2011).

[84] 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 COUNSEL, July 2005 (noting that well known IP boutiques Lyon & Lyon, Pennie & Edmunds, and Fish & Neave "have become extinct.").

lawyers from the boutiques.[85]

By the turn of the millennium, most American Lawyer 200 general practice firms handled patent litigation matters – almost entirely on an hourly-billing basis.[86] In addition to the newly hired patent litigators, these firms often utilized trial lawyers who had been commercial litigators or antitrust litigators.[87] Patent cases began to appear more like other civil cases. They were litigated by lawyers with trial experience.[88] They were tried to juries instead of the bench.[89] 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 the calculus 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.[90] Alfred B. Engelberg also was reported to have made hundreds of

---

[85] Leigh Kamping-Carder, *Why Some IP Boutiques Fail,* Law360, March 15, 2010 (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.

[86] For several potential explanations why large firms prefer hourly fees, see Nuno Garoupa & Fernando Gomez-Pomar, *Cashing by the Hour: Why Large Firms Prefer Hourly Fee Over Contingent Fees*, 24 J.L. ECON. & ORG. 458 (2007).

[87] 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 also* 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.").

[88] Davis, *supra* note 82 at 551 (noting that "corporate general counsel tend to retain experienced trial lawyers (with or without patent law experience)").

[89] 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 (2002) (Figure 1); David L. Schwartz, *Explaining the Demise of the Doctrine of Equivalents*, 25 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.

[90] Very few lawyers handled patent cases on a contingent basis in the 1990s. In fact, Ray Niro worked with Gerry Hosier, then they separated and each embarked

millions of dollars representing generic drug manufacturers on a contingent basis in patent litigation. However, until the late 1990s, contingent representation in patent law was very confined. More particularly, it did not include any, or almost any, large general practice firms.[91]

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 dollars. But there are many others, including the *Eolas v. Microsoft* case ($521 million, 2003), and *i4i v. Microsoft* case ($280 million, 2009). These awards, noted in the newspapers, encouraged others to enter the contingent representation market.

Finally, the recent economic downturn may have affected patent practice.[92] 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.[93] Also, laid-off attorneys had difficult times finding new employment.[94] 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.[95] 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 who is more interested in enforcement. As noted in

---

on successful careers in contingent patent litigation.

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

[92] Others have studied whether economic downturns affect the quantity of patent lawsuits filed. Alan C. Marco & Ted M. Sichelman, *Do Economic Downturns Dampen Patent Litigation?*, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1641425 (last visited Jan. 14, 2012).

[93] Victor Li, Study: *For Law Firms, Cost-Cutting and Alternative Fees Here to Stay*, AMERICAN LAW DAILY, June 22, 2010, available at http://amlawdaily.typepad.com/amlawdaily/2010/06/firmscuttingcosts.html (last visited Jan. 14, 2012) (stating that the largest law firms offer alternative billing after the recession).

[94] Jordan Weissman, *What Do Lawyers and Bankers Have in Common? They Lost Jobs in 2011*, THE ATLANTIC, Jan. 12, 2012 (finding that thousands of law jobs were lost in 2011.)

[95] 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. http://www.techpolicy.com/Blog/February-2010/-Markets-for-Patents%E2%80%9D-Research-Conference---Summar.aspx (last visiting Feb. 19, 2012).

the Introduction, the market for patents has recently grown, with a huge uptick in patent transactions appearing in the financial and business press. These include Google's $12.5 billion acquisition of Motorola[96] and Nortel's $4.5 billion patent sale.[97] 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.[98] 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. These patent holding companies are free to litigate without fear of a counterclaim because the holding companies do not make any products themselves. 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 Section A, it sets forth the study design and methodology relating to the semi-structured interviews and content analysis of contingent agreements. It continues in Section B with vignettes of various types of contingent lawyers active in patent law. Finally, in Section 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

---

[96] Shira Ovide, *Google – Motorola: It's All About the Patents*, Wall Street Journal, Aug. 15, 2011.

[97] Elizabeth Woyke, *An Inside on the Nortel Patent Auction and its Consequence,* Forbes, July 7, 2011.

[98] Chien, *From Arms Race to Marketplace: The New Complex Patent Ecosystem and its Implications for the Patent System, supra* note 80.

contingent fee agreements were obtained. Below I briefly describe both sources.

Turning first to the interviews, I interviewed forty-four lawyers and business people associated with contingent litigation in patent law during 2010 and 2011.[99] 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 business people (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.[100] 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. While some descriptive information about these agreements is provided in the Article, a caveat is appropriate: the contingent agreements studied for this Article are also not a random sample of the population of contingent fee agreements.[101]

---

[99] Qualitative interviewing has been previously used in the study of patent lawyer behavior. See, e.g., 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); Stefania Fusco, *The Patentability of Financial Methods: The Market Participants' Perspective,* LOYOLA LA L. REV. (forthcoming 2012) (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1800853) (reporting the results of structured interviews about financial method patents). 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 (Oxford Press 2001); Robert L. Nelson, PARTNERS WITH POWER (California Press 1988); Felice J. 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. IN L., POL., AND SOC'Y 169 (2010).

[100] See Michael Lewis-Beck, Alan Bryman & Tim F. Liao, THE SAGE ENCYCLOPEDIA OF SOCIAL SCIENCE RESEARCH METHODS 1043-44 (2003).

[101] Because most of the party names were redacted in the agreements, I cannot

B. Profiles of Patent Contingent Fee Lawyers

This Section presents general vignettes of patent contingent lawyers.[102] Before doing so, I discuss significant points of agreement among all or 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.[103] 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 & 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.[104] 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

---

ascertain whether the agreements are associated with either completed cases or plaintiff victories.

[102] The information in this Section derives primarily from the in-depth interviews. The descriptions should be viewed with appropriate caution given that there are limitations of individual recollections and potential self-interest by the interview subjects. The 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.

[103] [INSERT median and n]

[104] As a point of comparison, Kritzer reports that the aggregate acceptance rate for general contingency fee lawyers is forty-two percent. Kritzer, RISKS, REPUTATIONS, AND REWARDS: CONTINGENCY FEE LEGAL PRACTICE IN THE UNITED STATES, *supra* note 3 at 71.

cases, low damages,[105] and concerns about the client.[106] Concerns about the client included, for example, the reasonableness of the client's expectations with respect to settlement.[107] The most common reasons for declining the case were weak infringement allegations and insufficient damages.[108]

The contingent lawyers obtained clients from a variety of sources. The most common was referrals from other lawyers.[109] 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 client – 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 PR 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

---

[105] As discussed in the subsequent sections, there were various cutpoints on minimum damages. However, it was quite common for a one million, five million or ten million dollar floor.

[106] The percentage of cases which fell into each category varied by the lawyer, but most lawyers placed a significant percentage in each one.

[107] 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.

[108] For general contingency fee lawyers, by far the biggest reason for declining cases was lack of liability. Kritzer, RISKS, REPUTATIONS, AND REWARDS: CONTINGENCY FEE LEGAL PRACTICE IN THE UNITED STATES, *supra* note 3 at 85.

[109] 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).

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. 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.[110]

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.[111] There are two main ways of setting the fees for the contingent fee lawyer: a graduated rate and a flat rate. Of the agreements using a flat fee reviewed for this Article, the mean rate was 38.6% of the recovery.[112] 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 which used graduated rates, the average percentage upon filing was 28% and the average through appeal was 40.2%.[113]

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.[114] Of those interviewed, there appeared to be a split in whether law firms were willing to

---

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

[111] Kritzer, RISKS, REPUTATIONS, AND REWARDS: CONTINGENCY FEE LEGAL PRACTICE IN THE UNITED STATES, *supra* note 3, at 39 ("Of those with a fixed percentage, one-third was by far the most common, accounting for 93% of the fixed percentage fees....").

[112] Only ten agreements used a simple flat contingent fee calculation.

[113] Thirty two agreements used a graduated contingent rate.

[114] 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.

advance litigation costs.[115]

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.[116] They are also not new law school graduates. Instead, their background usually is having worked previously as an hourly-billing patent litigator.[117] They considered themselves as risk-takers.[118]

All of the contingent lawyers stated that they billed fewer hours than opposing counsel in patent litigation.[119] 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.[120] 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.[121]

---

[115] Advancing costs until resolution of the dispute is common in other fields of contingent practice. Herbert M. Kritzer, 47 DEPAUL L. REV. 267, 270 (1998) ("Very often, lawyers also defer the collection of expenses until the close of a case.").

[116] *Cf* Ronen Avraham & John M. Golden, *From PI to IP: Yet Another Unexpected Effect of Tort Reform*, available at papers.ssrn.com/sol3/papers.cfm?abstract_id=1878966, last visited Dec. 22, 2011).

[117] Accord Steven T. Taylor, *As Plaintiffs Firms Seek a Share of the IP Litigation Workload, They Hire Away Big-Firm Attorneys to Help Them,* OF COUNSEL, June, 2010.

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

[119] 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.

[120] Colleen V. Chien, *Turn the Tables on Patent Trolls*, FORBES (August 9, 2011) (arguing that trolls are more efficient at monetizing patents in part because of reliance upon contingent lawyers).

[121] 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.

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 different types of lawyers and firms are summarized in Figure A below, along with some associated traits of each type.[122]

[122] 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 used. According to this lawyer, the strategy is typically driven by how much money the plaintiff seeks.

Figure A:
Typology of Law Firms Handling Contingent Patent Litigation

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

Below I describe the type of lawyers in each category, their case selectivity, and their litigation strategy and philosophy.[123]

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.[124] There are several distinct types of 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

[123] 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.

[124] Previous researchers have identified a similar category of "heavy hitters" plaintiff attorneys in personal injury law. *See* Daniels & Martin, *Markets and Reputations, supra* note 3 at 382.

firms.[125] 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 which 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."[126] 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.[127] To litigate those cases, the lawyers split on how aggressive an approach was required toward litigation.

---

[125] 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*, American Lawyer (Feb. 1, 2011) ("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,* American Lawyer (July 25, 2011) (Matthew Powers, cochair of litigation at Weil, Gotshal & Manges, was leaving the firm after 18 years to start his own plaintiff-side shop."). Desmarais also apparently controls a patent holding company, Round Rock Research LLC. Chien, *supra* note 80 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.

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

[127] 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.

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 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. 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." 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. In contrast, the new top tier has the benefit of being initially approached with strong patents, often from well-known and reputable sources.

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 10 cases to win 1, then we need $50 million in damages in each case [which is], 10 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. 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.[128] 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 as 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.[129] 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 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

---

[128] 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.

[129] Deborah L. Rhode, ETHICS IN PRACTICE: LAWYERS' ROLES, RESPONSIBILITIES, AND REGULATION, at 6 (Oxford 2003) ("Under an hourly billing system, the temptation is to leave no stone unturned as long as lawyers can charge by the stone.").

> 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.[130] 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.[131]

As is evident from some of the quotations in this Section, 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.

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

---

[130] 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.

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

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.[132] Each case also has the chance at winning substantial damages, and some believe that patents operate like lottery tickets.[133]

Second, some firms rely upon the "war chest" model of litigation.[134] 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 evidence in subsequent cases that the patent is not-obvious.[135] It also can be

---

[132] For a general discussion of the portfolio theory of contingent litigation, see Kritzer, RISKS, REPUTATIONS, AND REWARDS: CONTINGENCY FEE LEGAL PRACTICE IN THE UNITED STATES, *supra* note 3.

[133] 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. PERSPECTIVES 75 (2005).

[134] Raymond P. Niro, *Are Alternative Fee Structures Becoming a Necessary Alternative to Hourly-Rate Calculated Fees?*, AIPLA Mid-Winter Meeting (Jan. 27-30, 2010) ("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?")

[135] 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.)

used as evidence of a reasonable royalty rate.[136] For each of these reasons, early settlements strengthen the patent.[137] Furthermore, the settlements can be 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.[138] 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.[139] These firms are typically small groups of patent litigators

---

[136] 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) ("[b]ecause 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 (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.").

[137] On the flip side, if the patent is found invalid in any lawsuit, it is invalid against the world. Blonder-Tongue v. University of Illinois Found., 402 U.S. 313 (1971) (finding that a holding of invalidity is binding under the doctrine of collateral estoppel against the patentee in subsequent litigations).

[138] 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, J.H. Walker & Mark A. Lemley, *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.

[139] 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

(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 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.[140]

The most controversial aspect of their practice relates to settlement. Often these lawyers will propose settlement amounts which are lower, often far lower, than the amount which it will cost an accused infringer to defend itself.[141] 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.[142] Sometimes

---

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.

[140] In other contingent areas, there is evidence that fee arrangements influence the amount of work done by lawyers on smaller cases. Herbert M. Kritzer, William L.F. Felstiner, Austin Sarat & David M. Trubek, *The Impact of Fee Arrangement on Lawyer Effect*, 19 LAW & SOC'Y REV. 251 (1985) ("For modest cases (with stakes of $6,000 or less), contingent fee lawyers spend less time on a case than hourly fee lawyers").

[141] 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 M. 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. 1, 21 (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").

[142] Phillip B. Philbin, et. al., *The EDTX and Local District Courts: Advancing or Stifling Innovation?*, 14 SMU SCI. & TECH. L. REV. 269, 282-83 (2011) (reporting comments from two patent litigators indicating that patentees in large, multi-

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 their patents are weak. Defense lawyers unanimously argued that these patents were, in fact, weak.[143] One defense lawyer said that the patent lawsuits which 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 on the prestige ladder complained about this practice.[144] 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.[145] 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

---

defendant cases sometimes are willing to accept settlements around $200,000.)

[143] 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.

[144] Sannu K. Shrestra, *Trolls or Market-Makers? An Empirical Analysis of Nonpracticing Entities*, 110 COLUM. L. REV. 114 (2010) (setting forth the competing arguments about "trolls").

[145] 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.").

an unfair benefit from infringing without liability.[146] The empirical evidence on these claims is mixed, with some scholars arguing that the patents are weaker and some arguing that they are not.[147]

C. Who Hires Contingent Fee Lawyers

This Section describes the clients who select contingent fee lawyers to represent them. These include individual inventors, small companies, large 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.[148] Their story — of the "garage" inventor — has long been important in patent law and the public's perception of patent law.[149] This class

---

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

[147] Michael Risch, *Patent Troll Myths,* 42 SETON HALL L. REV. (forthcoming 2012) (asserting that the quality of patents asserted by NPEs is not drastically lower than that of other litigated patents); Allison, Lemley & Walker, *Patent Quality and Settlement among Repeat Patent Litigants*, *supra* note 138 (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).

[148] The U.S. Patent & Trademark Office reports on the number of patents issued to individual inventors each year. In 2000, for instance, for instance, the Office reported that 14% of patents were issued to U.S. or foreign individuals. Patenting by Organizations Report, 2000, at A1-2. In 2005 and 2010, the Office reported that 10% and 7%, respectively, of patents were issued to individuals. Patenting by Organizations Report, 2005, at A1-2; Patenting by Organizations Report, 2010, at A1-2.

[149] Christopher A. Cotropia, *The Individual Inventor Motif in the Age of the Patent Troll*, 12 YALE J. L. & TECH. 52 (2009) ("The drive and ingenuity of these

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 which individual patent owners can litigate is on contingency.[150] 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.[151] The jury sympathy to the individual inventor is frequently amplified because the defendant is a large corporation.[152] 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,[153] 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

---

small inventors is the life-blood of American innovation.").

[150] 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.

[151] Philip K. Anthony, George E. Badenoch, & Eric J. Lobenfeld, *How Jurors' Attitudes and Perceptions Influence Decisions in Patent Cases*, 949 PLI/Pat 305 (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.").

[152] Joseph J. Ortega & Peter S. Massaro, *Defending Goliath: How to Represent a Corporate Defendant Before a Jury in a Weaken Economy*, (ABA 2010) (available at 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.").

[153] In other words, the patents were not purchased from an unrelated business.

and is a substitute to contingent representation.[154] In alternative litigation financing, a financing entities lends money to patent holders to finance litigation. The financing entities take a percentage of the recovery in exchange for money used to engage hourly billing lawyers.[155] These entities indirectly compete with contingent fee lawyers.

Alternative litigation financing is used in other areas of law.[156] Outside funding is possible for expenses, including legal fees as well as expert fees and other costs.[157] This area is rather underdeveloped at present in the United States.[158] 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 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.

---

[154] 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, Knowns, and Unknowns* (RAND 2010) at 37 ("ALF can be a fairly close substitute for selling the patent to an NPE.").

[155] Larry E. Ribstein, The Death of Big Law, available at http://works.bepress.com/ribstein/22 at 45 (last visited Jan. 21, 2012) (noting that investors in litigation financing receive a share of the proceeds from a lawsuit).

[156] Marco de Morpungo, *A Comparative Legal and Economic Approach to Third-Party Litigation Funding*, 19 CARDOZO J. INT'L & COMP. L. 343 (2011) (noting that U.S. alternative litigation financing is typically "small scale and consumer oriented.").

[157] In the lending for consumers to pursue legal claims, the maximum amount advanced is relatively low. George S. Swan, *Economics and the Litigation Funding Industry: How Much Justice Can You Afford?*, 35 NEW ENG L. REV. 805 (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 are unavailable. Garber, *supra* note 154 at 13-15.

[158] For an economic model of patent troll litigation financing, see Keith N. Hylton, The Economics of Third-Party Financed Litigation, BU Working Paper, available at http://www.bu.edu/law/faculty/scholarship/workingpapers/2011.html, last visited Dec. 22, 2011).

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.[159] 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 which acquire multiple patents with an eye toward monetizing them.[160] Some of the largest and most well-known of these entities include Intellectual Ventures (IV); RPX, Inc.; Acacia; and Rembrandt.[161] 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 outright the patents. Thus, the original patent owner is paid money upfront by the aggregator. The aggregator thereafter attempts to monetize the

---

[159] These cases are sometimes handled on a blended contingency-hourly basis.

[160] Anne Kelley, *Practicing in the New Patent Marketplace*, 78 U. CHI. L. REV. 115, 118, 120 (2010); Tom Ewing, *Indirect Exploitation of Intellectual Property Rights by Corporations and Investors: IP Privateering & Modern:* Letters of Marque & Reprisal, 4 HASTINGS SCI. & TECH. L.J. 1 (2012).

[161] Allen W. Wang, *Rise of Patent Intermediaries,* 25 BERKELEY TECH. L.J. 159 (2010); Chien, *supra* note 98, at 328-330.

patent and retain the recovery.[162] 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 models permits the aggregator to lock in downstream money without any upfront investment. In short, these aggregators provide a way – short of suing – which 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.[163]

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. 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

---

[162] RPX, on its website, claims that it "will never assert or litigate the patents in our portfolio." 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.

[163] RPX, a "defensive" patent aggregator, reported in early 2012 that its average spend per patent was around $200,000. See, e.g., *Renewed Interest in Patent Investment Affects RPX Valuation*, GAMETIME IP (available at 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.

litigate by hiring lawyers on a full hourly-fee basis.[164] 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.[165] 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 made 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.[166] Some universities manage their patent portfolio through an office of technology transfer.[167] These offices within the university also often lack the financial resources to pay hourly billing patent litigators. Contingent representation solves that problem.[168] Universities are good clients because juries generally find them sympathetic. A few contingent lawyers reported representing universities, but most did not.[169]

---

[164] Some aggregators never or almost never hire contingent lawyers.

[165] 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 generated" by the patent. National Public Radio, *When Patents Attack*, July 22, 2011, transcript available at http://www.npr.org/blogs/money/2011/07/26/138576167/when-patents-attack (last visited Jan. 21, 2012).

[166] Accord Jacob H. Rooksby, *When Tigers Bare Teeth: A Qualitative Study of University Patent Enforcement,* at pp. 13-14 (draft on file with author).

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

[168] 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.

[169] 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

5. Small Patent Holding Companies

Patent holding companies are the final category of potential contingent clients.[170] These companies are formed for the primary purpose of owning a patent and conducting patent enforcement activities.[171] 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.[172] 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.[173]

This Article does not wish to enter the debate about the propriety of patent holding companies.[174] 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

---

lawyers.

[170] 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.

[171] To be sure, patent holding companies are non-practicing entities. However, terms non -practicing entities and the more pejorative term "troll" are not clearly defined. *See, e.g.,* Mark A. Lemley, *Are Universities 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.

[172] Chien, *supra* note 110, at 1604.

[173] Risch, *supra* note 147, at 37 (finding that the non-practicing entity patents come from a variety of sources, the two largest of which are product companies and individuals).

[174] There have been many academic articles written about patent "trolls." *See, e.g.*, James E. Bessen, Michael J. Meurer & Jennifer L. Ford, *The Private and Social Costs of Patent Trolls*, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1930272 (last visited January 13, 2012); Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 NOTRE DAME L. REV. 1809, 1810 (2007).

compete in the marketplace. Furthermore, some of the law firms – typically the more selective ones – had an aversion to representing non-practicing entities.[175]

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.[176] 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.[177] In other contingent areas, this approach is not generally used.

---

[175] 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 the There are two things why. These patent speculators have become a hot button and they are fueling a lot of the anti-patent sentiment in the country which have resulted in legislative things and a very hostile Supreme Court. The Federal Circuit that 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."

[176] 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.

[177] 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

For instance, in the medical malpractice field most plaintiffs sue the 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,[178] 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.[179] As the market matures, its growth slows and there is more competition.[180] The purchasers – in this context, patent holders – become more sophisticated.[181] The focus of competition moves to either lower cost – lower contingent rates – or better service (lawyering skills).[182] Competition increases, including from other fields.[183] Profits may fall during the period in which the market transitions to maturity, and sometimes the profit decline is permanent.[184] 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 which 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 which 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

---

the patent laws bar damages more than six years before the date of a lawsuit. 35 U.S.C. § 286 (2012). 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.

[178] Federal Rule of Civil Procedure 19 does not generally require joinder in these cases if money damages are sought.

[179] Michael E. Porter, COMPETITIVE STRATEGY (1980).

[180] *Id.* at 238.

[181] *Id.* at 238-39.

[182] *Id.* at 239.

[183] *Id.* at 240.

[184] *Id.*

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.[185]

The recent rise of patent purchases has changed this dynamic.[186] 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 resided. 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.[187]

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 who are not encumbered by the counterclaim problem, such as patent holding companies.[188] 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,

---

[185] Stuart J. 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.'").

[186] See Ewing, *supra* note 160 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).

[187] 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*, Financial Times, Jan. 19, 2012, http://www.ft.com/intl/cms/s/2/0ac1dcc0-42d0-11e1-b756-00144feab49a.html (last visiting Feb. 1, 2012).

[188] Chien, *supra* note 80 at 341.

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 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 arguably has 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.[189] Next, in *MedImmune v. Genentech*,[190] the Supreme Court disadvantaged patent holders by lowering the threshold before courts have jurisdiction to hear patent challenges, thereby making more difficult for a patent owner to secure their choice of venue.[191] Shortly thereafter, the

---

[189] 547 U.S. 388 (2006) (noting that "An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." J. Kennedy, concurrence). 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).

[190] MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007).

[191] 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 (2008) (arguing that MedImmune has substantially "changed the legal landscape" and made patent owners "increasingly vulnerable to patent challenges on the patent challenger's terms."). The Federal Circuit's subsequent decision in *SanDisc 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,

Supreme Court in *KSR v. Teleflex* in 2007 lowered the previous standard to more easily allow accused infringers to prove patents invalid as obvious.[192] The Federal Circuit has also issued several decisions on patent damages, which have made damages more difficult to prove and defend on appeal.[193] 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 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.[194] 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.

---

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 1385.

[192] 550 U.S. 398 (2007) (rejecting the Federal Circuit's "rigid" test for determining whether an invention is obvious, and instead adopting a "flexible" and "expansive" test.).

[193] Lucent v. Gateway, 580 F.3d 1301 (Fed. Cir. 2010) (reversing jury verdict on damages because of erroneous expert testimony); Uniloc v. Microsoft, 632 F.3d 1292 (Fed. Cir. 2011) (rejecting the 25% rule for reasonable royalty calculations).

[194] A counter-example involves the defense of inequitable conduct, which the Federal Circuit curtailed in 2010. Therasense v. Becton, Dickinson and Co., 593 F.3d 1289 (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. 29 U.S.C. § 257 (2011). A second counter-example is *i4i v. Microsoft*, where the Supreme Court rejected an attempt to lower the burden of proof required to invalidate a patent. 131 S.Ct. 2238 (2011).

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. The new law recites that "[A]ccused infringers may not be joined in one action as defendants or counterclaim defendants,[195] or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents-in-suit."[196] This means that the practice of suing multiple unrelated defendants in one cause of action is prohibited going forward.[197]

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.[198] The unfiled cases, which will disappear from the system, are those which are less valuable.[199]

---

[195] The term "counterclaim defendants" appears to be a typographical error, and probably should be read as "counterclaim plaintiffs."

[196] America Invents Act, 29 U.S.C. § 299 (2011).

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

[198] 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.

[199] 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." Case Management Order, Uniloc USA, Inc. v. Sony, et. al., 6:10-cv-73, May 20, 2011; see also Case Management Order, Raylon, LLC v. Complus Data Innovations Co., 6:09-cv-355. 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 83 (noting that "trolls litter the patent system with marginally meritorious lawsuits" and recommended that attorneys' fees being assessed as "a tool to discourage cases that are brought only to obtain revenue from litigation avoidance instincts") (available at http://www.patentlyo.com/files/raderstateofpatentlit.pdf) (last visited Dec. 19, 2011).

The AIA also targets cases filed in the Eastern District of Texas in particular, a venue known for large, multi-defendant cases. Previously, that district had denied motions to transfer lawsuits to other venues in some cases in which there were numerous geographically dispersed defendants. 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 disperse parties.[200] 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 would have to try their case at once. Having multiple defendants at trial brings the risk of inconsistent defenses, which favor the patent owner.

The AIA has other provisions which may affect contingent practice. For example, the various forms of post grant review permit patent validity challenges at a substantially reduce cost to defendants relative to litigation. 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.

CONCLUSION

This Article explains why there has been a rise in the use contingent fee representation in patent litigation.[201] It also paints detailed, qualitative pictures

---

[200] In re Volkswagen of America, 566 F.3d 1349 (Fed. Cir. 2009).

[201] 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.

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 purposes 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 to people to patent and innovate. On the other hand, if a substantial portion of the contingent fee litigation involves "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 there 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.

DRAFT – WORK IN PROGRESS

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, including 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 Washington DC.

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 which 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.[202]

I also interviewed several in-house lawyers with experience with contingent lawyers in patent cases. These in-house lawyers either (i) managed

---

[202] Sarah-Jane Adams, Breaking Through the Glass Ceiling, Intellectual Asset Magazine, 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.").

the defense of patent litigation for which they knew or suspected 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 both I practiced law for over ten years in Chicago and I remain active in the local intellectual property bar.[203] 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 undersampled 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 was performed over the telephone. The average interview lasted approximately one hour.[204] The shortest interview lasted forty minutes and the longest for 150 minutes.

---

[203] Over ninety percent of Chicago lawyers I approached agreed to be interviewed (22 of 23).

[204] A great majority of the in-person interviews were recorded (11 out of 14). Many of the phone interviews were recorded as well.

The interviews were in-depth and semi-structured.[205] 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.

[205] 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 (Sage 2001) and Steiner Kvale, DOING INTERVIEWS (Sage 2007).