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ACPC 2022 Summer Meeting

JUNE 12–15

Hyatt Regency
Chesapeake Bay Resort



Panel Session: Outside Counsel & Fee Structures

Paul Fair – Chief Patent Counsel: Church & Dwight Co., Inc.

Malaika Tyson – Partner: McAndrews, Held & Malloy, Ltd

Baldo Vinti – Partner: Proskauer

Overview: Outside Counsel Engagement and Alternative Fee Arrangements (AFAs)

- I. Introductions
- II. First, some context: Macrotrends in the law firm industry (in general and IP/patent) (Paul Fair)
 - Significant rise in lawyer salaries, bonuses
 - Acute talent wars
 - Hybrid working environment
 - Increased risk of burnout and turnover
 - An uncertain environment on costs
 - Takeaways

- II. Alternative Fee Arrangements: 1) Patent Prep/Pros (Malaika Tyson), and 2) Patent Litigation (Baldo Vinti)
 - Successful outside counsel engagement: investing in partnership
 - “Standard” types of fee arrangements
 - Challenges and tips for a win-win relationship
 - What has worked well, what hasn’t and recent trends
 - Thought leadership



Poll Question Nos. 1-2

#1: Do you use any alternative fee arrangements for outside patent prep/pros work?

Yes/No

#2: Do you use any alternative fee arrangements for outside patent litigation and/or IPR work?

Yes/No



Macrotrends in the Legal & Patent Sectors

2022 Citi/Hildebrandt Client Advisory*

- 2021 Legal Industry as a Whole
 - 2021 was one of the “strongest years on record” for the legal industry as a whole
 - The industry is back to “both demand and rate growth levels the likes of which we have not seen since 2007”
 - On the flip side, firms also saw an increase in expense growth largely from an increase in compensation due to an “acute talent war”
 - Burnout risk is high
- 2022 Legal Industry as a Whole
 - Growth will remain strong but perhaps “more modest” than 2021
 - “The biggest challenge for firms in this extraordinary growth environment is how to win the war for talent” in a “fiercely competitive market” where “burnout is a real issue” and “Covid has shifted people’s mindsets around work/life balance and career aspirations”
- 2022 Outlook for “IP”
 - IP seen as a “challenged” area of growth for firms in ’22, but few details



*<https://www.privatebank.citibank.com/insights/citi-hildebrandt-client-advisory>

Macrotrends in the Legal & Patent Sectors

AIPLA 2021 Report of the Economic Survey

- Patent Prep/Pros
 - Numbers do not reflect a significant increase in outside counsel cost for many types of prep/pros activities over past several years
 - Fixed fees used more in some activity areas than others
- Patent Litigation
 - All patent litigation costs remained about the same for last 8 years



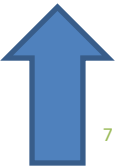
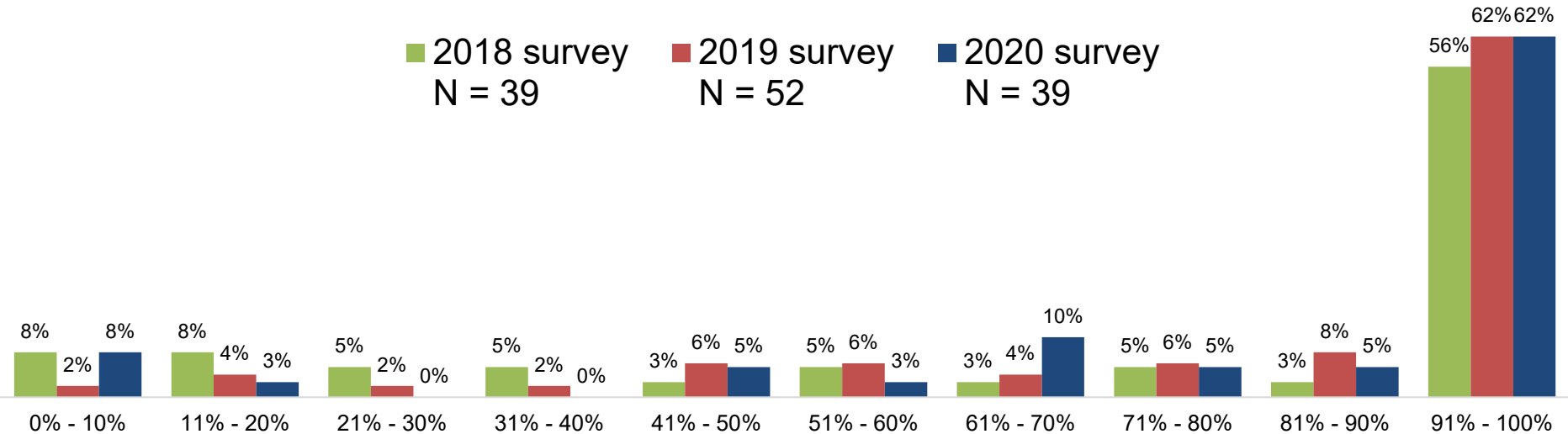
ACPC Benchmarking Study - 2020

Comparative Benchmarking Survey Findings



Percentage of Priority Patent Applications Drafted by Outside Counsel

■ 2018 survey N = 39 ■ 2019 survey N = 52 ■ 2020 survey N = 39



Cost of Preparing a Non-Provisional U.S. or Equivalent Priority Application

	Mean	Median	Range	Sample Size
Electrical/ Computer	\$8,800	\$8,500	\$5,500 - \$15,000	19
Mechanical/ Electromechanical	\$7,711	\$7,500	\$5,500 - \$10,000	19
Chemical non-pharma	\$9,143	\$8,250	\$5,500 - \$20,000	14
Pharma	-	-	-	1
Biotech	-	-	-	1
All utility patent fields	\$10,240	\$8,500	\$5,500 - \$40,000	

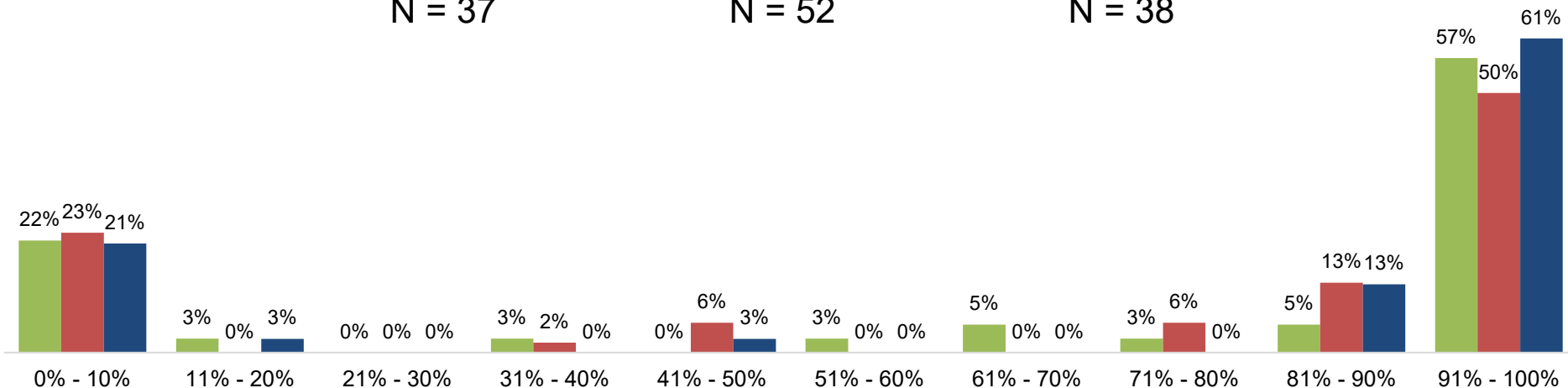


Percentage of Priority Patent Applications Drafted by Outside Counsel on a Fixed Fee Basis

■ 2018 survey
N = 37

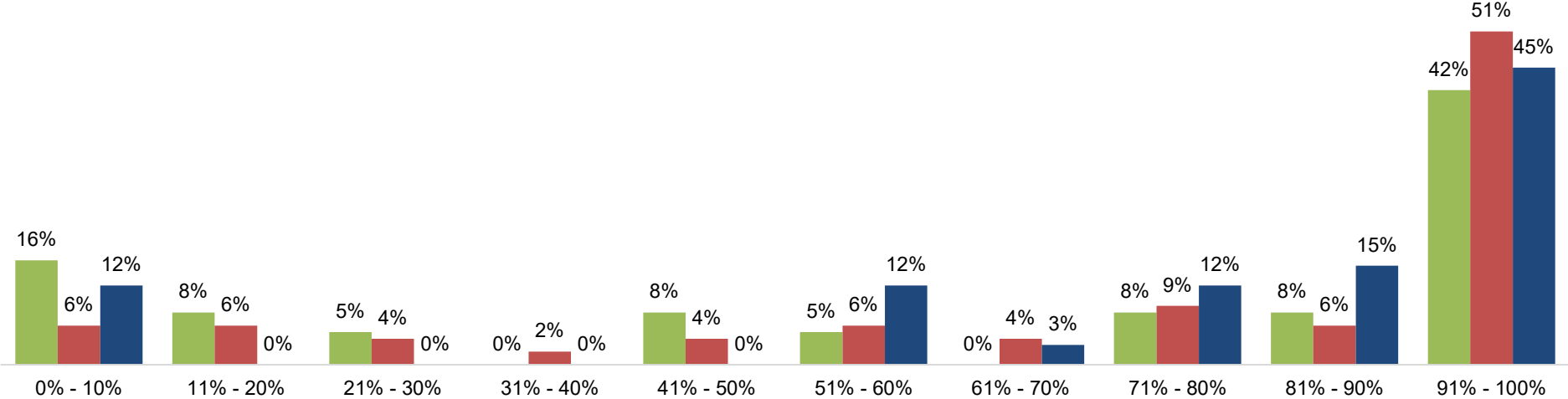
■ 2019 survey
N = 52

■ 2020 survey
N = 38



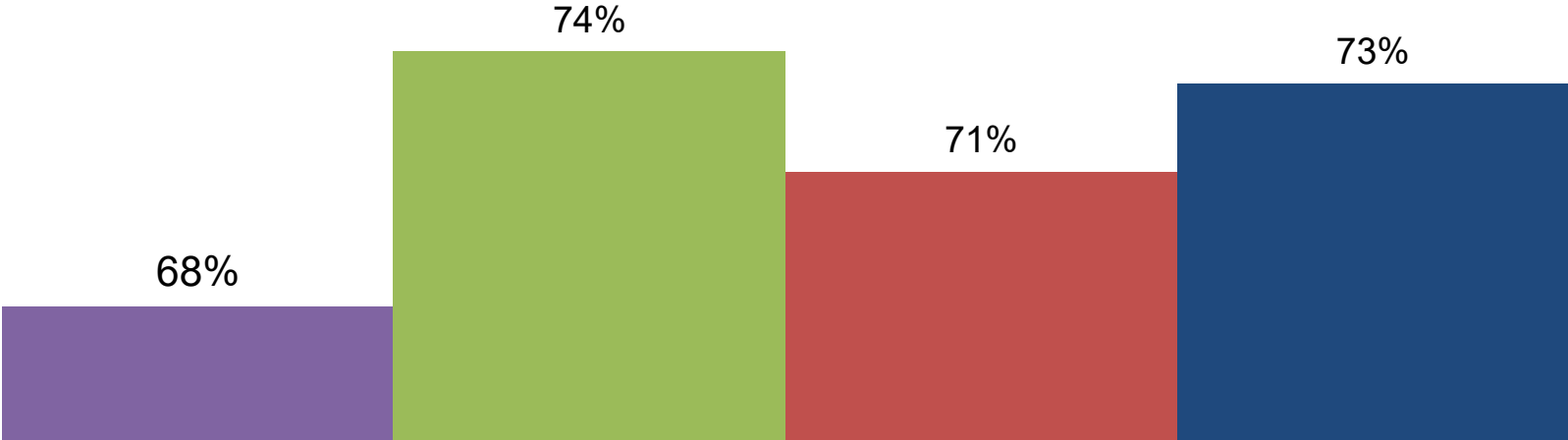
Use of Outside Counsel for U.S. Prosecution

■ 2018 survey N = 38 ■ 2019 survey N = 47 ■ 2020 survey N = 33



Percentage That Pay U.S. Patent Prosecution on a Fixed Fee Basis

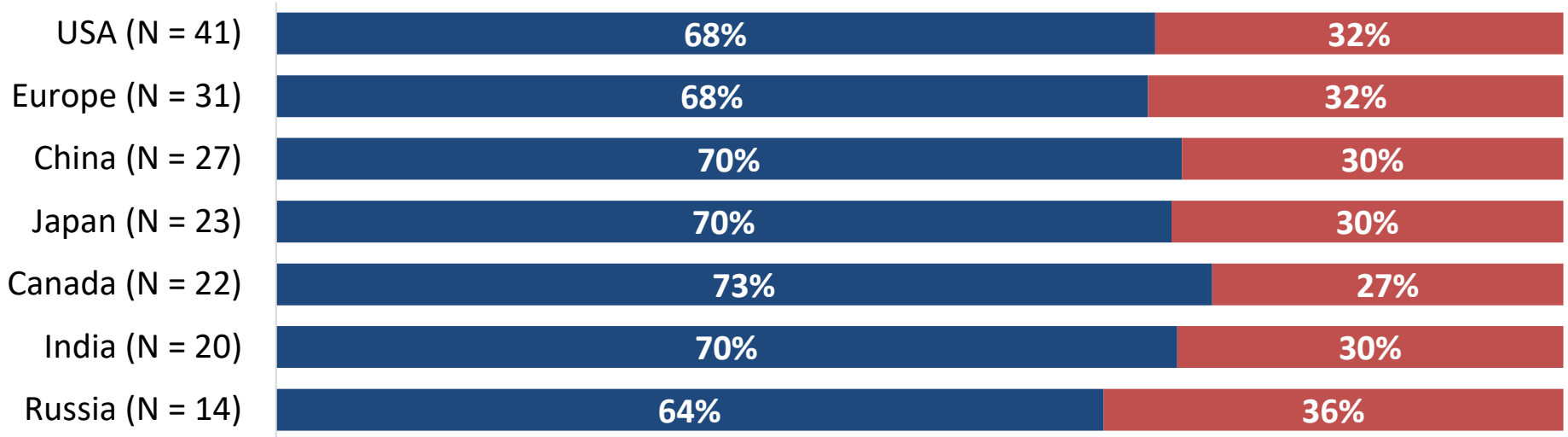
■ 2017 survey N = 37 ■ 2018 survey N = 38 ■ 2019 survey N = 51 ■ 2020 survey N = 37



Fixed vs Capped Fees

In which of the following locations do you have
Fixed/Capped Fees for outside counsel?

■ Fixed ■ Capped



Takeaways for Hiring Counsel in this Environment

- AFAs continue to be commonly used at least in prep/pros (and likely lit also)
- Patent prep/pros/litigation costs have been relatively stable prior to Covid
- Challenge for all of us is an uncertain environment due to:
 - rising salaries
 - increases in bonuses
 - severe talent wars
 - increased potential for burnout and turnover, and
 - changing expectations about working in an office.
- Talent war means we have to fight to get top talent on our work
- Easier to navigate for companies with volume
- When will increases in productivity hit a wall and firms start passing added cost to clients?
- AFAs remain important as ever to creating a win-win relationship (cost certainty for the client and a deeper client/firm relationship)
 - AFA discussions to find the mutual sweet spot could be more robust than in past years.



ALTERNATIVE FEE ARRANGEMENT (AFA) FOR USPTO PATENT MATTERS

Malaika Tyson, Ph.D.

Shareholder

McAndrews, Held & Malloy



Setting the Stage

Successful inside-outside counsel partnership is key to any AFA

*Only 24% of outside counsel think better relationships help control legal costs**

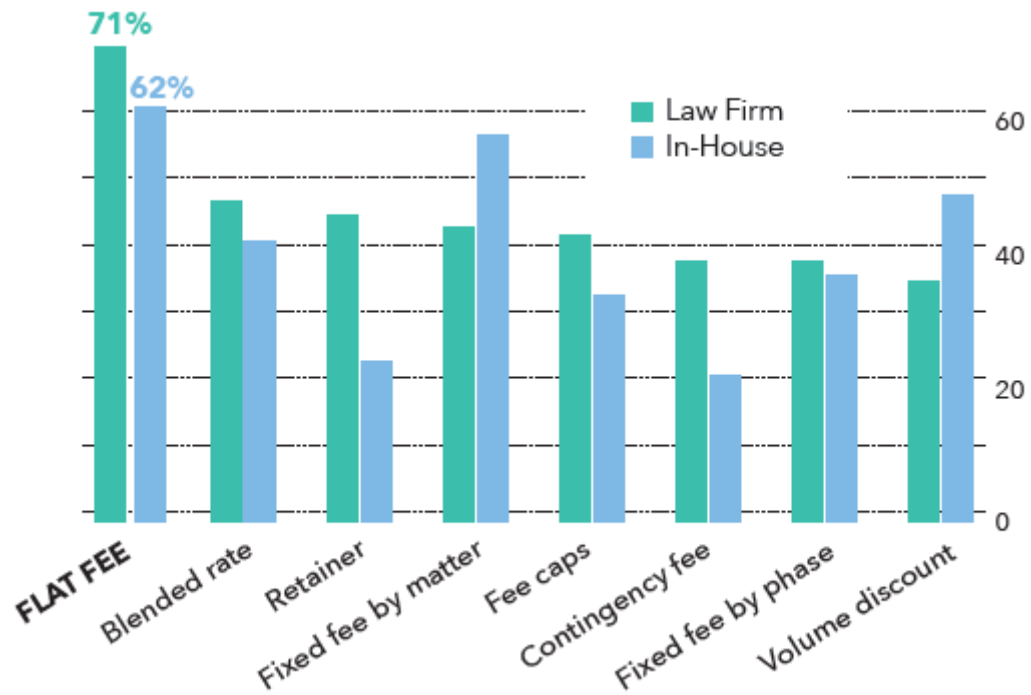
Outside counsel should:

- Build a strategic relationship by understanding the Business' goals and Legal Departments constraints
- Be willing to collaborate and raise concerns early
- Take initiative to become industry educated

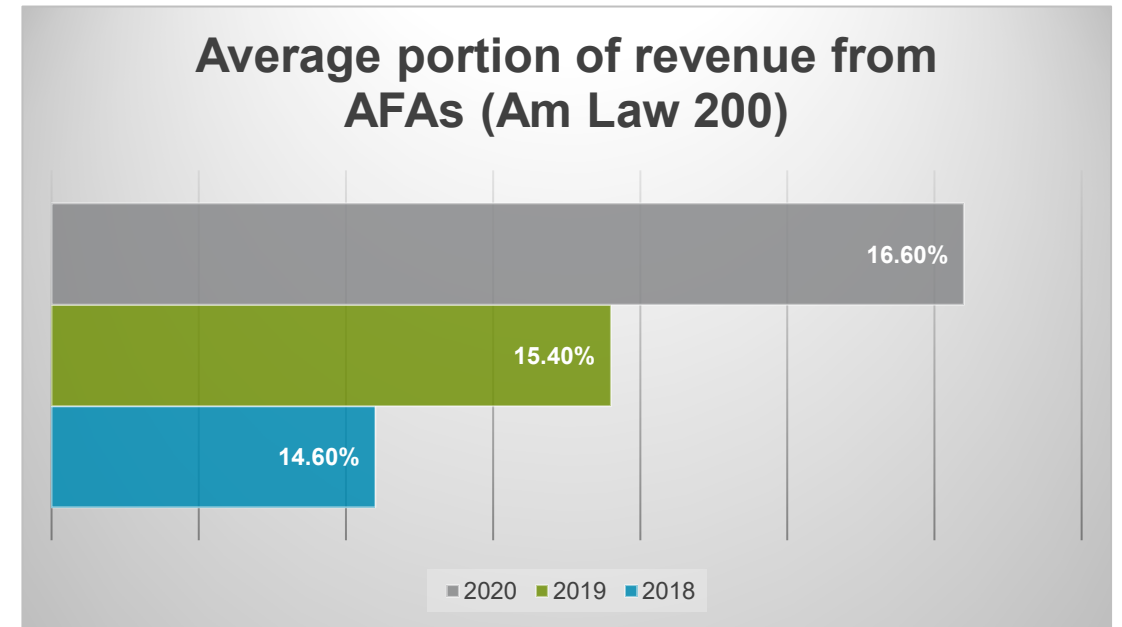
Inside counsel should:

- Set clear expectations
- Communicate the Business' objective
- Provide feedback





Source: Bloomberg Law 2021 Legal Operations Survey



Source: The American Lawyer (Online) May 18, 2021



FLAT/FIXED FEES

Single Matter Fixed Fee

- Set fee for specific task

Fixed Fee “Menu”

- Varying fixed fees for related services

Portfolio Fixed Fees

- Single price for a large number of matters
- Seen more frequently with trademarks

Fixed⁺

- Once set fee reached, regular or discounted hourly rate applies
- Discounted rate usually 35-50% normal rate

Flat⁺

- Flat fees for drafting and hourly fees for prosecution



HOURLY AFAs

Capped Fees

- Hourly rate billed to a maximum amount; If cap is exceeded, outside counsel ceases to bill
- Capped⁺ - Once capped fee reached, regular or discounted hourly rate applies

Blended Rates

- Fixed rate for category of attorney
- Considerations:
 - Simplifies billing
 - Encourages work distribution, but seniority isn't considered (1st year associate rate = 4th year)
 - No spend predictability



OTHER AFAs

Volume Discount

- Discounts on work over a fixed amount
- No spend predictability
- Only delivers value if a high number of hours are billed

Blended Drafting/Prosecution

- In house counsel: draft/Outside counsel prosecute or vice versa
- Some spend predictability, less reliance on outside counsel
- Bandwidth may be an issue
- Outside counsel may require more time to get up to speed and understand strategy

Success Fee

- Bonus paid if favorable result achieved
- Incentivizes quality of work
- Outside counsel may provide lower fixed fees
- No spend predictability



QUESTION

What types of AFAs do you use for USPTO patent matters?

- Fixed Fees
- Capped Fees
- Blended Rates
- Volume Discount
- Blended Prosecution
- Success Fees



INCREASED ROLE OF CORPORATE LEGAL OPERATIONS

Chief legal officer (CLOs) hiring rates increased by 53% since September 2020

CLOs are providing strategic advice to the Business including value creation and budget

Corporate legal functions are also being modernized and AFAs are increasingly being used to control costs

- 81% of respondents to Bloomberg Law 2021 Legal Operations Survey &
- 72% of respondents to the Apperio's Legal Spend Landscape for 2022 ranked the use of AFAs as most effective way to reduce costs

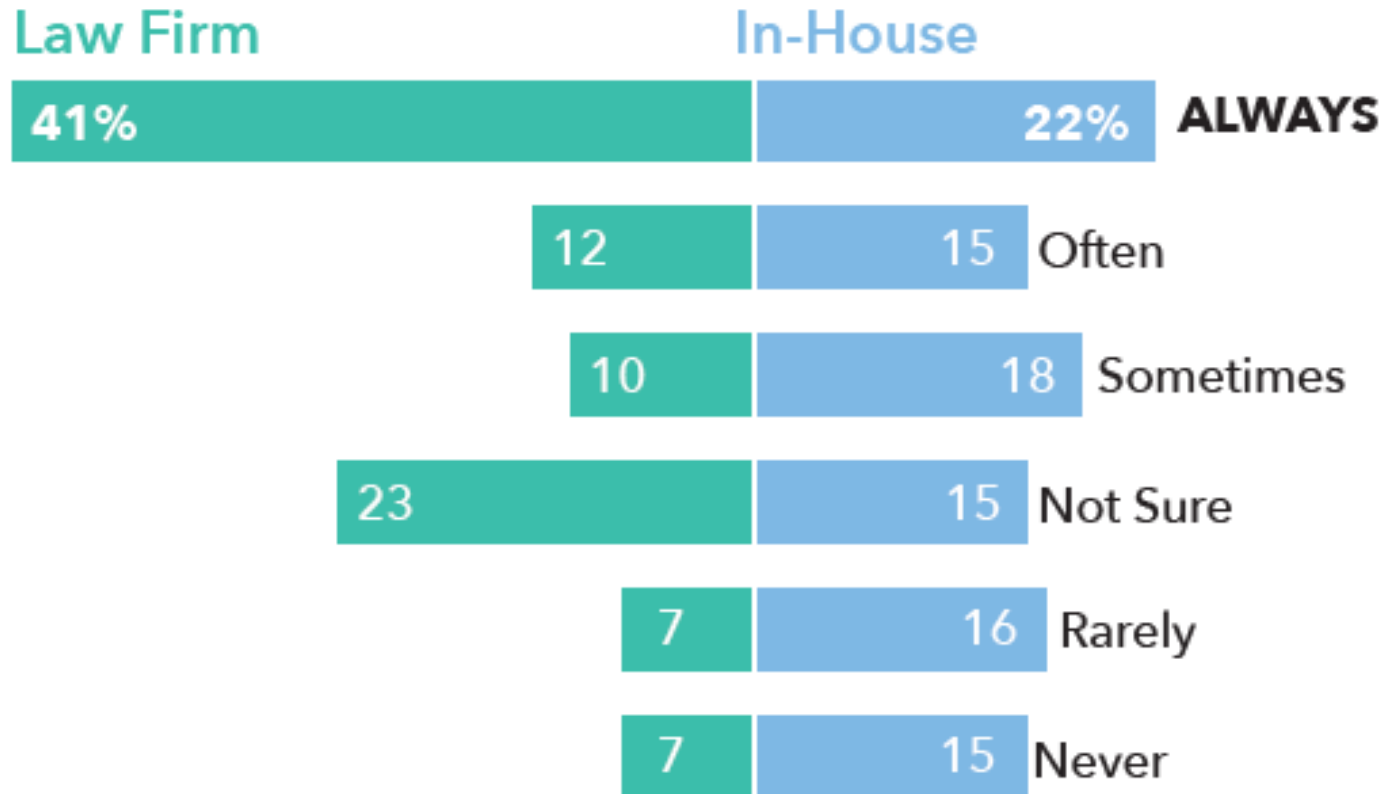
A mix of AFAs are being used to centralize legal spend and measure financial performance and value

When AFAs are not used, it's most commonly due to the inability to determine appropriate or accurate pricing.

- This is likely to be resolved through legal operations tracking



How often does your organization create or request **SHADOW BILLS** when using an AFA?



Source: Bloomberg Law' 2021 Legal Operations Survey



Advantages

Usually mutually beneficial

Reflects value and quality,
not just effort

Provides consistency in
costs and budgeting

Rewards efficiency

Drawbacks

Overpayment may occur;
determining the appropriate
fees may take time

Maximizing the benefit of the
AFA at the expense of quality

Work product may not be as
polished; Work may be pushed
down to more junior attorneys



ETHICAL RESPONSIBILITIES

A lawyer shall provide competent representation to a client. (ABA Model Rules 1.1)



Ethical Considerations

- Pushing work to a junior attorney to maximize profitability
- Minimizing time spent and not acting in the client's best interest
- Speed at the expense of quality



THOUGHT LEADERSHIPS TIPS



- ✓ Spend time to adequately scope and access the work to ensure fair pricing – leverage **recent** and **relevant** historical data
- ✓ Implement tracking and determine if course corrections are needed
- ✓ Keep an eye on quality – more time spent doesn't always equal higher quality
- ✓ Provide feedback and if outside counsel is score-carded, consider sharing the criteria



ACPC SUMMER MEETING

**OUTSIDE COUNSEL ENGAGEMENT AND FEE STRUCTURES
IN CONTENTIOUS PATENT MATTERS**

Baldassare Vinti
Partner
PROSKAUER

June 14, 2022

Proskauer»

Outside Counsel Engagement in Contentious Patent Matters

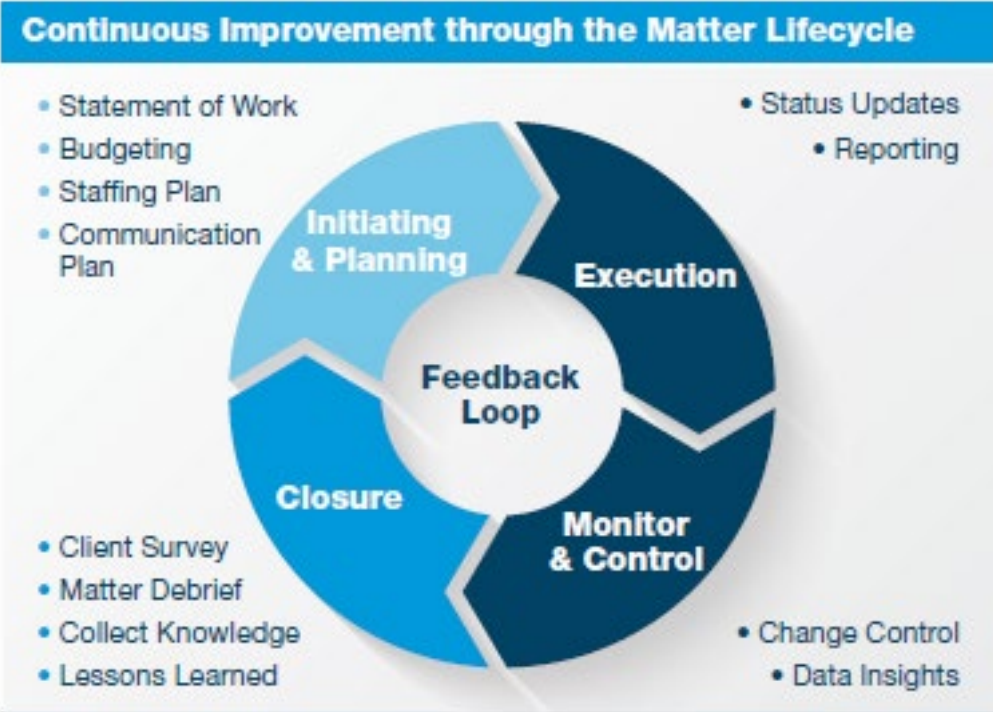
Pillars of Successful Client Engagement

1. Trust
2. Collaboration
3. Open communication

Successful Engagement in Contentious Patent Matters

- Invest in knowing the client's business.
- In-depth strategy and scenario planning up front.
- Clear communication on fee estimates upfront and systematic updates.

Successful Engagement: Continuous Improvement



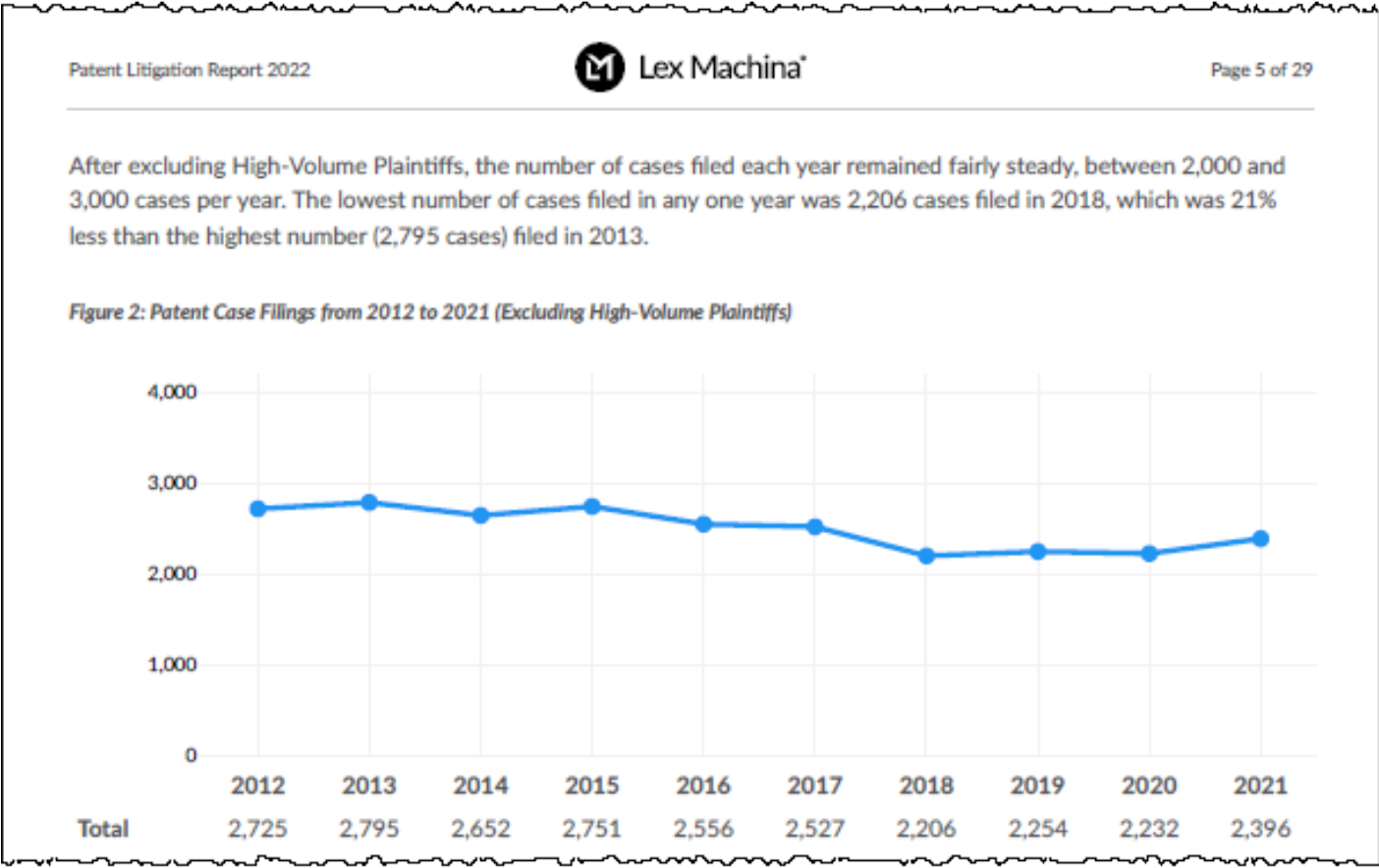
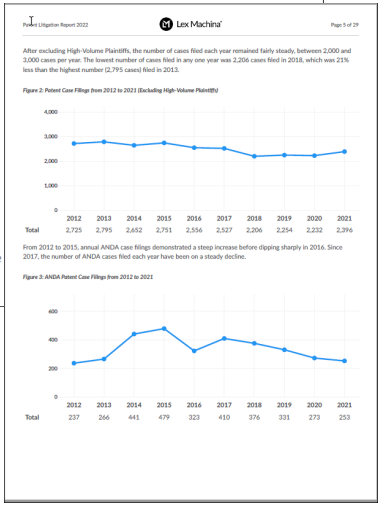
Importance of Involving Legal Practice Management Team

- Enhance value for clients through proactive matter management and innovative tools.
- Help frame statement of work, budget development, reporting and monitoring, task management, process improvement and workflow design.
- Support the design and implementation of new legal technology that enhances client service delivery, including legal process design and automation, predictive analytics using matter data, custom data visualization dashboards, bespoke task management and collaboration tools, and client-facing products.

Contentious Patent Matter Trends

Patent Case Filings Remained Steady in 2021

Lex Machina
Patent Litigation Report
2022



IP Spend Projected to Grow in 2022

Practice Outlook: Intellectual Property

Practice Trends

Clients are spending more on R&D and increasing spending on IP as a result. The same is true for branding as clients create new brands and trademarks to go along with their digital transformations. Clients are increasing their IP and trademark applications. IP is getting a big boost from the Technology sector, Life Sciences, Agritech/Food, and SaaS organizations.

Clients are looking for creative pricing in filings. Larger firms are packaging prosecution work with counseling. A smaller number are including an IP litigator in the initial filing for both risk management and preparedness in case things should ever turn into IP litigation. Large clients see this as forward-thinking and strategic.

Volume will grow in 2022 and exceed budget increases, suggesting new pricing models around fixed fees and portfolio pricing for large swaths of filings are likely to gain traction.

Winning the Work

Clients are looking for firms who understand where the patent fits in their product pipeline. They want their high-value patents getting more strategic attention; especially those in technology, telecom, pharma, healthcare, and biotech, who are making bigger bets than ever on their patents. Winning law firms will:

- ▶ Bring industry knowledge
- ▶ Talk through the filing strategy
- ▶ Offer to handle larger chunks of business
- ▶ Work with more speed than pre-pandemic — as the pandemic adds the impact of creating a race to innovation

* For an in-depth discussion on IP litigation, see [page 27](#)

INTELLECTUAL PROPERTY MARKET SIZE (\$B)



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INTELLECTUAL PROPERTY INDUSTRY OPPORTUNITY ZONE

- Top Growth Prospects
- Moderate Growth Prospects
- Low Growth Prospects



IP Litigation Spend Projected to Grow in 2022

Practice Outlook: IP Litigation

Practice Trends

Fewer companies are facing IP litigation claims, but the claims are larger and more complex. In addition, more legal decision makers report an increase in the number of claims filed in connection with a single matter. This translates into plaintiffs making multiple claims for the same event. This makes the claims bigger, more expensive to defend, and increases financial as well as potential operational risks.

Clients want to see more strategy and scenario planning up front. Budgets will be more important than ever as clients manage the larger fees against a rising caseload on other fronts.

BTI research reveals more clients want to win instead of settle. The cases are more focused on important technologies than in the recent past. Clients see settling as a loss. They want to protect their IP and beat down claims. They want aggressive and unrelenting law firms.

Winning the Work

The winning law firms will bring an aggressive approach and be able to speak to secondary claims a plaintiff might bring. Clients show more interest in strategy than they have in the last 5 years. Winning firms will lay out their best strategy — and engage clients around the early strategy. The ability to act with less information than others is a distinguishing factor, as is the ability to establish ongoing, easy communications around current and potential matters.

* For information on IP work outside of IP litigation, see [page 39](#)

IP LITIGATION MARKET SIZE (\$B)



IP LITIGATION INDUSTRY OPPORTUNITY ZONE

- Top Growth Prospects
- Moderate Growth Prospects
- Low Growth Prospects

Banking	Low Growth Prospects
Chemicals	Low Growth Prospects
Consumer Goods	Low Growth Prospects
Energy	Low Growth Prospects
Financial Services	Low Growth Prospects
Food	Low Growth Prospects
Healthcare	Low Growth Prospects
High Tech	Top Growth Prospects
Insurance	Low Growth Prospects
Manufacturing	Low Growth Prospects
Pharmaceuticals	Top Growth Prospects
Professional Services	Low Growth Prospects
Real Estate	Low Growth Prospects
Retail Trade	Low Growth Prospects
Telecom	Top Growth Prospects
Transportation	Low Growth Prospects
Utilities	Low Growth Prospects
Wholesale Trade	Low Growth Prospects



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Patent Litigation Receiving C-Suite Attention

Chambers Global Practice Guides

Definitive global law guides offering comparative analysis from top-ranked lawyers

Patent Litigation 2022

Introduce Andreas v Hogan Lo

INTRODUCTION

Contributed by: ANDRIG vOR F300, Hogan Lovells International LLP

A Busy Year for Patent Litigation around the World
When the 2021 introduction predicted that "the year 2021 promises to be another exciting one in patent litigation" it was not quite clear how true it was going to be. Rather than slowing down in light of the pandemic, patent courts around the world have remained busy and, if anything, got busier. It appears that this trend will continue also in 2022. Patent litigation has long moved from the sidelines of company strategy to receiving C-suite attention and many patentees, large or small, gain large portions of their revenue streams from licensing so it is easy to predict a continuing stream of patent litigation from those companies, starting with telecoms firms that are expanding their activities from handheld devices and automotive to an increasing number of other areas, such as household goods, and other connected devices.

In contrast, for as long as the pandemic is ongoing and the discussion about a possible global IP waiver based on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and access to medicine is still active, it is unlikely that individual patentees will start patent litigation against competitors in the field of COVID-19 treatments.

Most importantly from a European perspective, it is now very likely that 2022 will finally see the advent of the Unitary Patent Court. The consequence of that is that, unless the proprietor has "opted out", European patents will be subject to the jurisdiction of the Unitary Patent Court and can be enforced (and revoked) in a single proceeding.

As in previous years, the present overview seeks to identify the themes that will be keep-

ing litigants particularly busy during the next 12 months and casts an eye on upcoming important decisions as well as political developments.

Europe
The UK
The patent courts continue to be busy with FRAND licensing disputes, and the interplay with FRAND terms being set in other forums concurrently. The judgment in *Optis v. Apple* [2021] EWHC 2564 (Pat) made clear that the implementer can only avoid an injunction if it provides an unfeared undertaking to take a licence decided by a court. The interplay between rival proceedings placing FRAND issues (the mandatory offering of licences for standard-essential patents (SEPs) on fair, reasonable and non-discriminatory terms) before the courts will continue to be examined this year, with the Court of Appeal due to hear *Nokia v. OPPO* on the impact of concurrent Chinese FRAND proceedings. This year may also see further FRAND determinations with hearings set for both *Apple/Optis* and *Lenovo/InterDigital*.

The Court of Appeal provided some help to patentees in relation to the plausibility requirements for medical use claims, particularly those with multiple functional requirements in the claim, in *Altecia v. FibroGen* [2021] EWCA Civ 1279. In doing so, the UK aligned itself with the German courts on this issue. Whether this represents a turning of the tide on plausibility more generally, particularly given the Enlarged Board of Appeal referral in the European Patent Office (EPO) on plausibility, remains to be seen.

The Court of Appeal provided guidance during 2021 on two less widely discussed topics: it added its judgment to the growing body of case law dealing with DABUS/AI inventorship in

2

busier. It appears that this trend will continue also in 2022. Patent litigation has long moved from the sidelines of company strategy to receiving C-suite attention and many patentees, large or small, gain large portions of their revenue streams from licensing so it is easy to predict a continuing stream of patent litigation from those companies, starting with telecoms firms that are expanding their activities from handheld devices and automotive to an increasing number of other areas, such as household goods, and other connected devices.

Alternative Fee Arrangements

Alternative Fee Arrangements

- Any type of legal fee arrangement where a client pays an attorney something other than a traditional hourly rate for the legal work performed. Referred to in shorthand as “AFAs,” or the newer term, “value-based billing.”

Types of AFAs for Contentious Patent Matters

- Contingent or success fees
- Flat or fixed fees
- Capped or collared fees
- Performance-based holdbacks
- Phased, budget-based billing
- Portfolios
- Sliding-rate fee arrangements

Polling Question

- For those that have used alternative fee arrangements for IPR or patent litigation, have you used:
 - a) Contingent or success fees
 - b) Flat or fixed fees
 - c) Capped or collared fees
 - d) Performance-based holdbacks

Alternative Fee Arrangement: Client-Firm Relationship

- Legacy relationships generate the trust, business understanding and historical information/data that can lead to truly creative pricing arrangements.
- For new relationships, bring lawyers and legal operations professionals from client and firm together to align on scope, timing, objectives, value, etc.
 - Time spent upfront will result in a quality arrangement where everyone is aligned on the what, who and why.

Risk Sharing Arrangement: Importance of Defining Success

- Align incentives to create a win/win scenario for client and firm.
 - What is “success” for the particular matter?
 - What is the Client’s risk/reward tolerance?
 - Does the Client have certain business constraints that can be addressed?
 - E.g., using a portfolio arrangement can help consolidate budgets and decision-making across business units, or flexibility with payment timing to address FY budget concerns.
 - Utilizing multiple types of arrangements that are bespoke for the work type (e.g., discounted rate with a holdback success fee for patent litigation, and tiered fixed fee for IPR prosecuted/defended at the PTAB).

Making AFAs Work

- Document the arrangement in clear and specific terms.
- Consistent communication and feedback.
- Allow for adjustment for unanticipated changes and events.

Litigation Funding in Patent Litigation

Litigation Funding

Free Newsletter Sign Up

Business & Practice

Big Law Warms Up to Litigation Finance as Deals Pot Hits \$2.8B

By Roy Strom
March 23, 2022, 5:59 AM

- U.S. litigation funders committed \$2.8 billion to new deals in 2021
- Share of commitments to Big Law firms rose 46% from prior year

Litigation funding companies in the U.S. committed \$2.8 billion toward new deals in 2021, an 11% increase from the prior year, thanks to rising interest from the world's biggest law firms.

The country's 200 largest law firms received 41% of the commitments from litigation funders in 2021, according to an annual survey released Wednesday by Westfleet Advisors, a litigation finance advisory firm. That's a 46% increase from the prior year.

Taken together, the results showed there was not the dramatic surge in funding some expected to result from the pandemic even as Big Law firms seem more comfortable with third-party litigation financiers who earn slices of settlements or court awards in major cases.

Some expected litigation finance to boom during the pandemic under the simple theory that litigation occurs during a recession. Others anticipated pandemic-related lawsuits would be the most business interruption insurance claims have been unsuccessful.

"There were lots of people predicting Covid was going to open the floodgates for litigation. It would be a huge boom for the industry," said Charles Agee, founder of Westfleet Advisors. "It didn't happen. It seems like instead Covid didn't affect the deployment pace in the industry nearly as much as we thought it would."

The survey asked 47 U.S.-based funders to self-report data about how much money they had allocated last year. Respondents include those with funds raised specifically to invest in litigation, as well as hedge funds that allocate some money toward funding lawsuits and other asset management investments in litigation.

<https://news.bloomberglaw.com/business-and-practice/big-law-warms-up-to-litigation-finance-as-deals-pot-hits-2-8b>

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Litigation Funding for Patent Litigation

Results from Bloomberg Law's 2021 Litigation Finance Survey confirm a steady growth in litigation funding for patent cases. The number of lawyers that have obtained funding in patent law has increased from 19% in 2020 to 24% in 2021, making this the second most active practice area in litigation financing after commercial litigation.

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Bloomberg Law Analysis

ANALYSIS: Why Patent Litigation Is a Natural Fit for Financing

By Rose Acoraci Zeck
Jan. 14, 2022, 5:00 AM

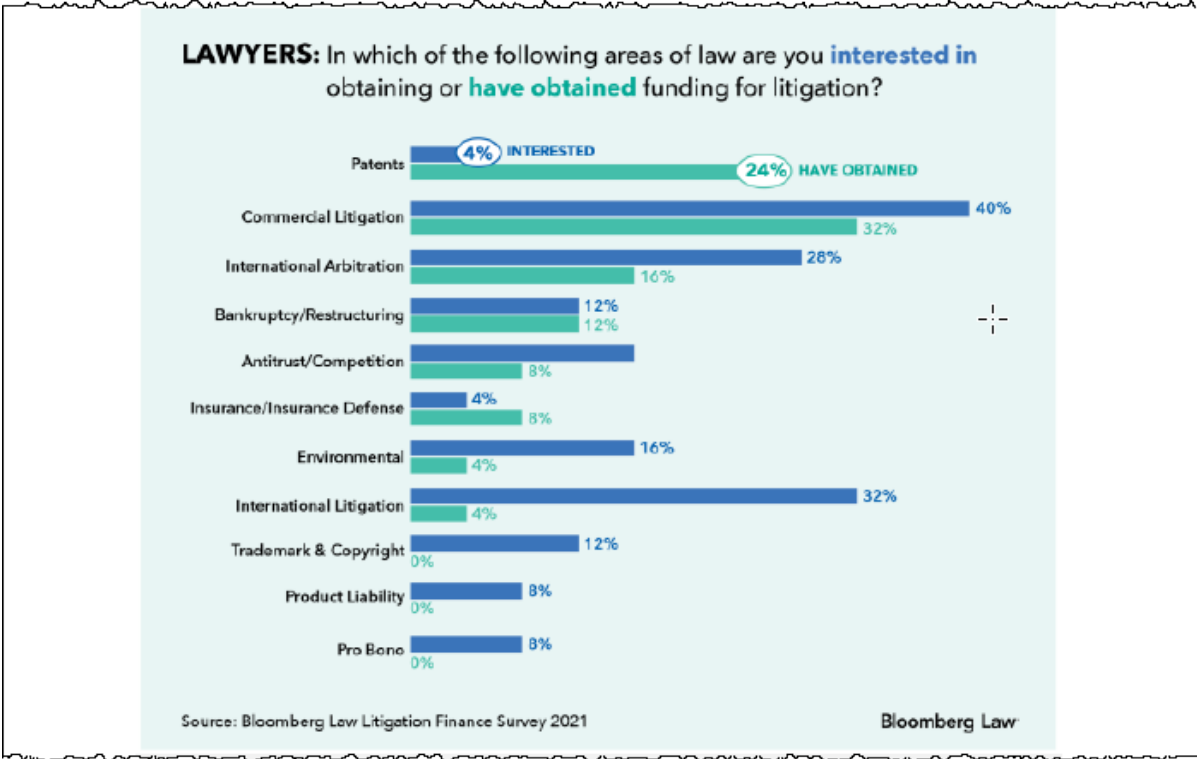
Litigation finance is poised for another year of growth and innovation, particularly in the area of patent litigation. The unique risk-reward characteristics of patent cases have propelled an interest in patent litigation investment.

Results from Bloomberg Law's 2021 Litigation Finance Survey confirm a steady growth in litigation funding for patent cases. The number of lawyers that have obtained funding in patent law has increased from 19% in 2020 to 24% in 2021, making this the second most active practice area in litigation financing after commercial litigation.

Almost alone among all practice areas, patent law is the only one where more lawyers have obtained funding than are currently interested in it.

Source: Bloomberg Law Litigation Finance Survey 2021

<https://www.bloomberglaw.com/news/2022/01/14/analysis-why-patent-litigation-is-a-natural-fit-for-financing>



Polling Question

- Have you or your adversary used litigation funding for patent litigation?

Baldassare Vinti

Partner



Baldassare Vinti
Partner

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- Baldassare (“Baldo”) Vinti heads Proskauer’s Intellectual Property Litigation Group and co-heads Proskauer’s Patent Litigation Group.
- Baldo’s practice focuses on intellectual property litigation, with specialization in patent disputes. Baldo has tried patent, false advertising, trade secret, competition, and other complex commercial cases in federal and state courts, the International Trade Commission and before international arbitration tribunals. He is a seasoned trial attorney who has represented both plaintiffs and defendants in many notable competitor patent litigations throughout the nation.

Proskauer's Global Presence





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