

***Choosing and Working
with Outside Counsel for Litigation***

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Selecting Outside Patent Counsel

A 2005 surveyⁱ of over 600 senior corporate counsel found that nearly half (44%) outsource to minimize risk and gain expertise not available in-house. Other reasons included the need to hire counsel located in specific geographic location (25%) and the lack of in-house staff to handle the volume of work (25%).

When asked to rank the most important criterion for selecting outside counsel, nearly all respondents (88%) cited “lawyer expertise” as extremely important. This comes as no surprise, since counsel expertise is frequently related to a litigant’s success.ⁱⁱ

But how does inside counsel gauge this expertise? A 2006 surveyⁱⁱⁱ of 165 chief legal officers revealed that most rely on personal recommendations from staff (53%) or colleagues and peers (33%).

While more than one-third of the respondents revealed that they always get a personal referral, others were willing to use alternative methods of evaluating prospective counsel. These methods included: visiting law firm websites (44%), using a legal directory (43%), attending legal conferences (30%), checking lawyer rankings (24%), and using search engines (21%). Nearly three-quarters of respondents reported they could identify a new outside counsel within hours, but others (22%) found the process could take weeks.

While expertise is the overriding factor in the selection process, other issues also play a role. These include responsiveness, resources, location, accessibility, absence of ethical conflicts, and availability of alternative fee arrangements.

Building a Relationship

After hiring an outside firm, inside counsel will expect a high level of expertise, but will place greater emphasis on responsiveness.¹ Within law firms, the emphasis has shifted from “finding” clients to “minding” the client’s business and nurturing the relationship.^{iv}

To this end, outside counsel needs to play a proactive role; for example, providing insights on emerging issues, conducting briefing sessions on legal topics, and staying up-to-date on pending legislation.

Most outside firms are able to litigate the same cases aggressively (at higher cost), passively (at lower cost), or somewhere in between. Early on, outside counsel should understand the matter’s importance to the client, and where the case falls within the spectrum from passive to aggressive litigation.

During litigation, outside counsel needs to understand the client’s goals and see the big picture; that is, the consequences of the litigation and its potential outcomes for all parties. For example, if the client is losing sales due to infringement, and has a good case for a preliminary injunction or a temporary restraining order, outside counsel needs to coordinate a team of lawyers and paralegals, prepare the case quickly and efficiently, and aggressively take steps to avoid delays in the litigation. However, where the ultimate goal is to recover damages and/or royalties, outside counsel may need to negotiate and structure an amicable settlement. In this type of case, it is important to control legal costs – particularly where little money is at issue for the client.

As a defendant, the client may want to avoid an injunction, minimize damages, or negotiate a license. Outside counsel should defend the litigation, as well as consider whether the client should design around the patent(s) in the suit.

When representing a defendant, outside counsel should consider any potential counterclaims or other claims to assert against the plaintiff – information that can provide leverage in negotiating a settlement.

Before filing a case for a prospective plaintiff, outside counsel should ask whether the prospective defendant is likely to assert counterclaims or other claims against the plaintiff or its affiliates.

Coordinating Activities

Inside and outside counsel can relate in a variety of ways – depending on the number of inside attorneys, the strengths and expertise of the respective counsels, and the needs of the client. Inside counsel will either perform the work or retain outside counsel – depending on the nature of the matter, time commitments, and other considerations. But in virtually all cases, inside counsel directs the activities and serves as outside counsel’s liaison to the business.

It is advisable for inside counsel to provide guidelines that spell out its expectations for outside counsel. These guidelines explain, for example, how to communicate with company employees and include billing requirements and the company’s code of ethics.

When outside counsel serves as litigation counsel, the respective counsels should reach an understanding regarding the inside counsel’s level of involvement. What constitutes “managing the litigation” often varies among clients.

Before filing a complaint, outside counsel must conduct due diligence, required by the Federal Circuit under Rule 11, and a proper infringement analysis. Prior to filing, inside counsel may help identify validity or unenforceability concerns. In some cases, counsel should identify key witnesses, and, if possible, interview them before filing the complaint. This will allow counsel to determine, for example, if one of the inventors has a strong opinion

on a key issue. While some litigation costs are unpredictable, outside counsel should clearly specify the cost of preparing and filing the complaint.

Together, outside counsel and inside counsel should choose local counsel – and make the selection early on. This will give local counsel adequate time to conduct conflicts checks, as well as review the complaint and other papers for compliance with local rules and practices before filing.

Billing and Cost Management

Clients look for outside counsel that can offer blended rates, task-based billing, or other special billing arrangements. Outside counsel must appreciate cost concerns and work within a budget. A good formula for a fair cost is as much as necessary and as little as possible. Inside and outside counsel can meet this standard by writing a staff plan and budget for any matter that exceeds a specified amount.

The dollar budget reflects how the client expects outside counsel to handle the matter and reflects inside counsel's assumptions about strategy and management. Whenever there are material changes, inside and outside counsel should review and update the budget. The budget for litigation matters should include a breakdown by phase and task.

Communication

Clients increasingly expect responsiveness. Telephone calls from a client should be returned within 24 hours. Large clients expect outside counsel to provide status reports, spreadsheets summarizing billing, and other reports on short notice. Sophisticated clients expect outside counsel to use current technologies – such as high-speed scanners to send documents via email. Outside counsel needs software compatible with the client's – to view drawings in CAD files and to exchange documents. Attorneys must take into account the risk of inadvertent disclosure of confidential information – as well as the waiver of privilege – associated with Internet email. To manage such risks, counsel can implement password

protection or encryption for highly confidential documents attached to Internet email. Outside counsel should keep abreast of communications options and use these methods to their clients' advantage.

Closing Thoughts

Globalization, mergers, consolidations, and other factors are changing the ways that companies do business – including how they hire and retain outside law firms. During the coming years, inside legal departments will continue to expect highly specialized expertise, exemplary service, more attractive fee arrangements, and greater overall value in their dealings with outside law firms.^v

CITATIONS

ⁱ State of the Profession Report: How Corporations Identify, Evaluate and Select Outside Counsel. LexisNexis® Martindale-Hubbell®: 2005.

ⁱⁱ Brodie Haire S, Lindquist SA, Hartley R, “Attorney Expertise, Litigant Success, and Judicial Decision-making in the U.S. Courts of Appeals.” *Law & Society Review*, 33(3); 1999: 667-685.

ⁱⁱⁱ 2006 Chief Legal Officer Survey: The Opinions of Chief Legal Officers on Issues of Importance. Altman Weil, Inc. and LexisNexis® Martindale-Hubbell®: 2006.

^{iv} Rosen RE, “We’re All Consultants Now: How Change in Client Organizational Strategies Influences Change in the Organization of Corporate Legal Services.” *Arizona Law Review*, 44; 2002:637-683.

^v Smith, Larry. *Inside/Outside: How Businesses Buy Legal Services*. New York: ALM Publishing, 2001.