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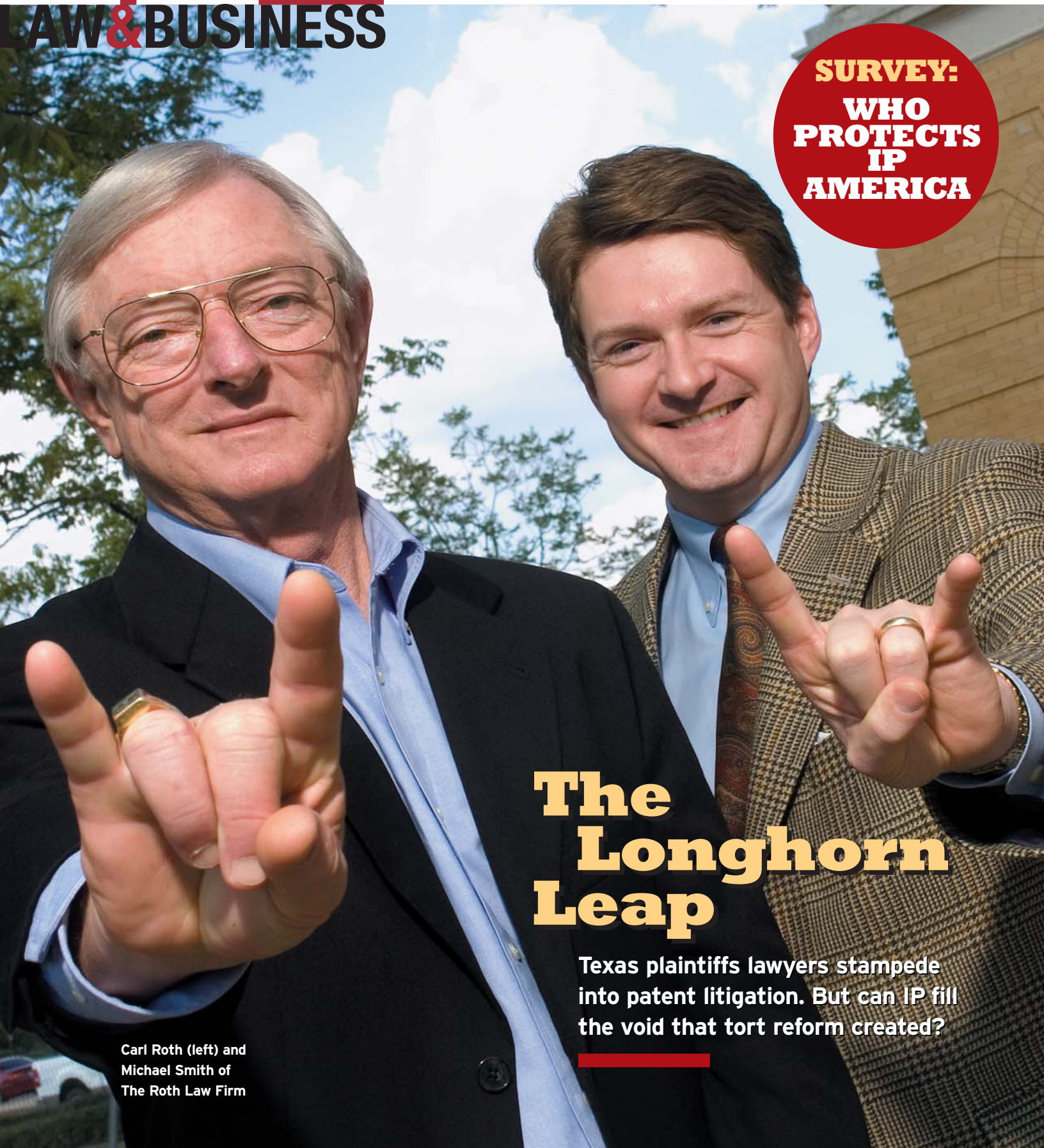

The Longhorn Leap

Texas plaintiffs lawyers stampede into patent litigation. But can IP fill the void that tort reform created?

Carl Roth (left) and Michael Smith of The Roth Law Firm

From PI To IP

Personal injury lawyers in Texas want to get into patent litigation, and The Roth Law Firm is leading the stampede.

By Alan Cohen

There is no sign to mark the offices of The Roth Law Firm in Marshall, Texas. There is a sign holder—hung last spring, ten years after the firm moved in—but no sign. It's a detail that the firm's two senior partners, Carl Roth and Michael Smith, just haven't gotten around to yet. Not that it matters. In a town where the population has hovered around 20,000 for the past half-century and where lawyers seem to outnumber residents, there is virtually zero street traffic outside the office. "We're sort of the Men in Black of the legal community around here," says Smith, 41.

Still, Smith's firm gets noticed, for in Texas, particularly in East Texas towns like Marshall and Tyler and Longview, a lot of firms want to do what The Roth Law Firm has done: transition from personal injury work—in steady decline since the Texas legislature got serious about tort reform—to intellectual property work, where business is booming. And one place it is booming in particular is Marshall, home of the U.S. District Court for the Eastern District of Texas. The Marshall court has a reputation for speedy litigation; a judge—T. John Ward—with a fondness for patent cases; and what a lot of lawyers on both sides of the aisle say are plaintiff-friendly juries. Not surprisingly, plaintiffs are flocking to Marshall: The number of patent cases filed there jumped from 58 in 2003 to 110 in 2004, with another 115 filed this year through September. Personal injury firms want to get in on the work.

"It's a very logical transition," says Frank Branson, who heads a nine-lawyer personal injury firm in Dallas. "IP and product liability and medical malpractice all involve complex theories that you have to break down into layman's language." While Branson has yet to land a patent suit, he has been positioning his firm to make it more patent-litigation friendly. This summer, Branson hired two commercial litigators with IP experience—Eric Stahl from Vinson & Elkins and Philip Green from Warren & Green. "I need someone in-house who can evaluate cases, act as a liaison between us and big firms, and go try the cases," says Branson, who recently placed an ad in *IP Law & Business*'s sibling publication *Texas Lawyer*, announcing his new commercial litigation practice.

While the transition from PI to IP may seem natural, it's also risky, and perhaps not quite as lucrative as budding patent litigators—no doubt with visions of multimillion-dollar contingency wins—may think. IP contingency work can be hard to come by. The Roth Firm, for example, represents plaintiffs in just 20–30 percent of its IP docket, which currently stands at 32 cases; the firm mainly defends patent infringement suits at an hourly rate. At $500 an hour, it's safe and steady work, but it's not a gold mine. It certainly hasn't been lucrative enough for the firm to scrap its personal injury practice. Currently the firm has 18 product liability cases on its docket, in addition to another ten to 15 miscellaneous personal injury cases. And not every contingency case is a winner. Roth and Smith have had some big hits—one case resulting in a $4 million fee, and a couple others in the million-dollar range. The firm was also local counsel for Soverain Software, a Chicago-based e-commerce software company that scored a $40 million patent settlement from Amazon.com in August. But the firm had an expensive flop, too, a contingency case it sank $2.5 million into before losing at trial in late summer 2002.

What the patent work has done, however, is keep The Roth Firm's revenue steady in the wake of tort reform. While it now has just one or two medical malpractice cases pending at any given time, its patent docket has tripled since 2001.

For a lot of plaintiffs lawyers, the transition to IP

PHOTO BY LISA MEANS

work can't come soon enough. Legislation passed in 2003 in Texas capped pain and suffering awards in medical malpractice cases at $250,000. "Many of the people who have done medical malpractice in the past are now unwilling to do it," says Eduardo Rodriguez, president of the State Bar of Texas. "It's not unusual for a med mal case to cost $300,000 and up. People are not willing to spend that if there is no potential to have a fairly big recovery." Smith says that med mal filings are down 90 percent in Texas since the legislation went into effect.

Making the transition even more tempting are recent changes to product liability practice—a process started by the U.S. Supreme Court in its 1993 decision in *Daubert* v. *Merrell Dow Pharmaceuticals* and expanded on by the Texas Supreme Court—which have made it harder to get in expert testimony. "It's forced us all to look for other areas," says Blake Erskine of Erskine & McMahon, a four-attorney personal injury firm with offices in Marshall and Longview. After three-plus decades of practice, Erskine is working on his first patent infringement case, as local counsel to Wilson Sonsini Goodrich & Rosati in a case involving DVD drives. He's representing defendant BenQ Corporation, and getting paid by the hour. Still, it's a foot in what Erskine hopes to be an ever-widening door. In July, Erskine started running ads in the *American Intellectual Property Association Quarterly Journal*.

While Roth, 65, is one of the elder statesman of the PI-to-IP transition, his own move was more serendipitous than plotted. For over two decades, Roth practiced personal injury law exclusively, at Jones, Jones, Baldwin, Curry & Roth. Now called Jones & Jones, the firm's roots date back to the 1890s, when Marshall was a railroad town and headquarters for the Texas & Pacific. With railroads came injured railroad workers, and for decades their suits were the mainstay of the firm's practice. When Texas adopted product liability as a legal theory in 1968, the firm built up a practice there, too. In the mid-1970s, Roth worked on one of the first asbestos cases in the country—resulting in a $20 million settlement. By the 1980s, however, the first stirrings of tort reform were being heard. "Everyone was worried," says Roth. "My boss would tell me, you may have to find a new cow to milk here."

When a classmate from law school offered him a chance to represent the Monsanto Company in an insurance bad-faith claim in 1992, Roth jumped. A wise move: The case resulted in a $71 million win for Monsanto—and notice for Roth. A year later, Jerry Mills, the chair of the intellectual property practice at Baker Botts [see "A Piece of the Action," page 44], brought in Roth to serve as local counsel for a company called Digital Switch Communications in its trade secret suit against Motorola, Inc. "They wanted to get a quick trial," says Roth. And Marshall was quick, with court dates typically coming eight or nine months after filing (and relatively few criminal cases that, under the Speedy Trial Act, would get precedence in the court and potentially stall the civil docket). The case settled after four months, just prior to a preliminary injunction hearing. In 1992, when Texas Instruments, a Jones Day client, needed a quick trial in its dispute with Micron Technology, Inc., Marshall and Roth were again given the nod. Since then, Roth—who struck out on his own in 1993—has filed nearly two dozen suits for TI in the Eastern District of Texas, mainly patent cases, but also an insurance coverage suit. In each case, he has been co-counsel with Jones Day.

Speed, however, was only part of Marshall's reputation. It was also becoming known as a favored port of call for plaintiffs. Little wonder: Since 1994, patent owners have prevailed in 88 percent of all jury trials and 75 percent of bench trials in Marshall, according to a survey by LegalMetric, a St. Louis company that analyzed the patent cases tried in the courtrooms of the current judges. That compares to a nationwide figure of 68 percent (47 percent for bench trials).

Patent work has kept The Roth Firm's revenue steady in the wake of **tort** reform. While it now has just one or two medical malpractice cases **pending** at any given time, its patent docket has tripled **since** 2001.

"Juries here view patents as property, which means you have the right to use your property the way you want," says Otis Carroll, a partner at Ireland, Carroll & Kelley, a five-lawyer firm in Tyler that handles both

product liability and intellectual property cases. Carroll, who has been litigating insurance defense cases for a quarter-century, landed his first patent case in 2001. He's made up for lost time, watching his IP business grow to 75 percent of his practice. Carroll now has close to 50 infringement cases on his docket, all as local counsel.

For PI firms looking to strike it big in patent litigation, those two words—local counsel—might be enough to send them looking for yet another new practice area. Local counsel don't tend to get rich on patent cases—even on contingency, where they can expect just 2–6 percent of the total recovery, according to Smith. Most of the work in Marshall is of the local counsel variety: Of the 32 patent cases The Roth Firm is currently handling, just five are as lead counsel. Plaintiffs don't exactly come cold-calling in East Texas. "Generally, the company has already dealt with a lawyer to get the patent, who then refers them to a big firm, who then brings us in," says Smith.

But "local counsel" is a phrase that takes on new meaning—and a new pay schedule—in Marshall, where local firms often wind up taking the lead role at trial, becoming de facto trial counsel. This, Smith says, can boost their cut to 10 percent of the total recovery, though that varies. Carroll, for example, estimates that at any given time, he's the lead trial counsel for 25–75 percent of the IP cases on his docket.

Call it Marshall's Law: When you're litigating in this town, you'll need a local litigator. Even out-of-town lawyers who remain in charge tend to defer more responsibilities to their local counsel than they might in other jurisdictions. "I'm admitted in the Eastern District of Texas, so technically I don't need local counsel," says Kenneth Adamo, a partner at Jones Day in Dallas who has worked with Roth for 20 years. "But you want a courthouse rat—I mean that in a positive way—someone who is in that courtroom two or three times a week." The Marshall judges—particularly Judge Ward, who handles the bulk of the patent cases before the court—run a tight ship, and Marshall lawyers must know how to get along. "It's important that you know the judges' views on the procedures and how to adhere to them religiously," says Adamo. Craig Tyler, the partner at Wilson Sonsini in Austin who is working with Erskine & McMahon emphasizes the importance of knowing a Marshall insider: "Blake Erskine is able to track down information that is not really available to 'outsiders' because of his relationship with the court's bailiffs, clerks, [and] judges."

Whatever the firm calls itself—lead, trial, or local counsel—its fees are going to vary and will often be a lot more limited than in personal injury cases. In those cases "the fees are standard," says Roth. "One-third if the case is settled before it is filed, 40 percent if there is a settlement or judgment after filing. In a commercial case, the fee is always negotiated." Often, the fee is also capped. Texas Instruments, for example, has recovered approximately $2 billion in its Marshall patent cases over the past decade, according to Roth. While the firm works on a contingency-fee basis for TI, there are limits to those fees. "When TI knows they're coming over here and may get $1 billion, they're not going to give me a contingency that's not capped," says Roth.

Then there are the so-called blended fees: part contingency, part hourly rate. Sometimes hourly rates are mixed with incentive bonuses, or "kickers" as Smith calls them. "We might get a bonus if we defeat a motion to transfer out of Marshall, or a bonus for obtaining an injunction against continuing the infringement. There are a million ways to do it."

Marshall has become a favored port of call for plaintiffs. Little wonder: Since 1994 patent owners have **prevailed** in 88 percent of jury trials and 75 percent of bench trials, **according** to one study.

Not all plaintiffs firms are crazy about straying from the pure contingency model, however. Some have flatly refused. "We don't do hybrids," says Ed Hohn, a partner with Nix, Patterson & Roach in Daingerfield, another East Texas town. "We're straight contingency only." While that can make for a lucrative payday after a big settlement or damages award, it also limits the number of cases a firm can take, while increasing its exposure. Nix, Patterson—best known for its role in obtaining a $17 billion recovery in *State of Texas* v. *American Tobacco Company* (in which Nix will share in $3.3 billion to be split among several firms over 30 years)—has already sunk $15 million of its own money

into a patent infringement case brought by its client, DataTreasury Corporation. A Melville, New York, company, DataTreasury has sued 15 financial services companies over two patents relating to a process for digitally imaging, securely transmitting, and storing check and document information (in July the company settled with J.P. Morgan Chase & Co. for an undisclosed amount).

Nix Patterson landed the DataTreasury case through a beauty contest—one of those rare but highly sought-after infringement suits where a plaintiff does come calling. But sometimes the client that appears out of thin air is better off disappearing back into it. Indeed, it was in just such a pure contingency case that The Roth Law Firm lost its $2.5 million. In 1999 a professor at a Chinese university that held a patent related to power mosfets—semiconductor chips that control voltage in a variety of applications—learned that an American company appeared to be infringing the school's patent. Through a convoluted series of referrals, Roth and Smith landed the case. They also got their "asses kicked at trial," says Smith. After a three-week bench trial, Judge David Folsom, who handles a small percentage of the Marshall docket in his courtroom in Texarkana, found the patent valid, but not infringed.

No doubt, personal injury cases involve risk as well. But patent cases often require a bigger initial investment. Simply evaluating a case means bringing in a patent lawyer, a cost that "is certainly in the low five figures and can get into the low six figures," says Smith, who often works with Scott Hemingway of Hemingway LLP, a Dallas IP boutique. Once the case is filed, the patent lawyer typically stays on board to get the litigators ready for a Markman hearing; then there are expert witnesses needed to talk about the patent at trial. As trial closes in, says Smith, costs in a major patent case can reach the high six figures and even low seven figures per month. "Marshall works fast, so that's a big advantage," says Smith.

But that begs the question: With all the new cases, and all the new IP litigators filing in East Texas, can Marshall keep up? "It has been slowing a bit," says Paul Morico, a partner with Baker Botts in Houston. "The pace was about one year to trial from the first scheduling conference, which usually happened within two to three months of the complaint being filed." Now, he says, it can take six months—and in one case he had, 11 months—before there is a scheduling conference. Yet this by no means is a crisis. "The time to trial is still quite fast, relatively speaking," says Morico. Marshall judges don't seem to be worried about a backlog. "Very few transfer requests are granted in the Eastern District," says Wilson Sonsini's Tyler. At least one patent defendant, Rewards Network Inc., has cited the growing number of patent cases, and the congestion they could create, as a reason to request a transfer out of Marshall. In September, Judge Ward denied the company's motion, writing that "the court is aware of its own docket and ability to manage cases promptly and efficiently."

In Marshall **local** firms often take on the lead role at trial. **Call** it Marshall's Law: When you're litigating in this town, you need a local **lawyer**.

Even if the outside lawyers stay put, referrals may get harder to come by if more tort reform sends more tort lawyers looking for patent work. New legislation passed this year is expected to limit the number of asbestos suits brought in Texas, says Rodriguez of the Texas State Bar. Rodriguez's organization is holding three seminars over the next six months that will focus on helping trial lawyers transition their practices.

Filling up those seats, it appears, isn't going to be a problem. "I'll run into med mal opponents at a cocktail party," says Smith, "and they're all getting into commercial litigation." Introducing Andy Tindel, a fellow personal injury lawyer turned commercial litigator at a seminar recently, Smith put it this way: "Andy is like the rest of us in East Texas—he specializes in what's left." ■