It's OK To Pay Fact Witnesses for Their Time[1]

By Charles L. Gholz[2]
and
Usha M. Parker[3]

I. Introduction

Most fact witnesses have jobs at which they cannot be working while they serve as witnesses. Thus, if they serve as fact witnesses, they normally are reducing either their income or the amount of time which they would otherwise have available for leisure activities. Hence, the senior author has always thought it fair and proper to compensate fact witnesses for their time,[4] so long as the compensation is reasonable under the circumstances.[5] Additionally, he has paid fact witnesses an hourly rate for time spent preparing for the case. This additional activity puts those fact witnesses into the category of litigation consultants. If the fact witness works as a consultant (usually in some field of science, medicine, or engineering), the senior author has paid the witness his or her normal consultation rate. If the fact witness does not work as a consultant, he has used

---

[2] Partner in and head of the Interference Section of Oblon, Spivak, McClelland, Maier & Neustadt P.C. My direct dial telephone number is 703/412-6485, and my email address is CGHOLZ@OBLON.COM.

[3] Summer associate at Oblon, Spivak, McClelland, Maier & Neustadt P.C. My direct dial telephone number is 703/412-5939, and my email address is UPARKER@OBLON.COM.

[4] Of course, expert witnesses are almost always compensated for their time.

[5] If the amount of compensation is not reasonable, that clearly calls into question the credibility of the witness.

the witness's most recent hourly wage or a figure obtained by dividing the fact witness's most recent annual salary by 2,000 (50 weeks/year x 40 hours/week) as the consultation rate.

Recently, however, an opponent challenged the senior author's practice. While that challenge did not go anywhere, it caused him to look for authority explicitly authorizing a lawyer to pay a fact witness a reasonable compensation for his or her time.

II. General Principles

While reimbursement of fact witnesses for travel expenses and time spent in testimony in district court litigation is inferentially authorized by law,[6] payments to litigation consultants can lead attorneys into a gray area where a court's assessment of motivation and candor determines the propriety of the fee. There is no per se bar against retaining fact witnesses as litigation consultants.[7] However, if the court suspects that the

[6] The statutory ban on bribes to witnesses exempts "payment, by the party upon whose behalf a witness is called and receipt by a witness, of the reasonable cost of travel and subsistence incurred and the reasonable value of time lost in attendance at any such trial, hearing, or proceeding." 18 USC 201(j). While this statute is not clearly applicable to inter partes proceedings in the PTO, we'll bet that, at the very least, it would have substantial persuasive value.

[7] When a former employee and key fact witness was retained as a litigation consultant by a plaintiff, the court denied attorney-client privilege protection to the consultant's substantive conversations with counsel for the plaintiff because the witness was no longer

arrangement involves an ulterior motive or, especially, some form of deception in the discovery process, it is likely to find the fee inappropriate and impose sanctions. While no authority specifies which litigation consultation arrangements are inside the boundary of propriety, there are notable examples of arrangements that have been held to fall outside that boundary. There are also a range of possible consequences, both for attorneys and their clients, for improper litigation consultancy arrangements. By examining those examples, one can glean the pitfalls and the possible consequences of transgressions.

One type of consulting agreement that elicited a court's disapproval was described in The State of New York v. Solvent Chemical Company, Inc., 166 FRD 284 (W.D.N.Y. 1996). The court considered four factors in objecting to the consultation agreement of the defendants with Mr. Beu, a fact witness and former employee of one of the defendants. First, the court perceived an ulterior motive in the arrangements, which included one of the defendants' settling ongoing litigation with Mr. Beu and agreeing to indemnify him in the case sub judice, finding that the consultation agreement was designed to "overcome the hostility" between Mr. Beu and one of the defendants, his former employer.[8] Second, the court viewed the timing of the agreement with suspicion because, despite knowing that Mr. Beu had key information related to the case, the

---

an employee but noted his status and fee as a litigation consultant without objection. Barrett Indus. Trucks v. Old Republic Ins. Co., 129 FRD 515, 516 (N.D. Ill. 1990).

[8] 166 FRD at 289.

defendants only contacted him immediately after the other side subpoenaed him.[9] Third, neither Mr. Beu nor any of the attorneys for the defendants disclosed the consulting arrangement before or during Mr. Beu's deposition.[10] Finally, the defendant who retained Mr. Beu resisted production of the consulting agreement, and, in fact, filed for a protective order claiming that the agreement was part of its litigation strategy and was, thus, protected as work-product.[11]

The factors enumerated above, in addition to the court's discussion distinguishing permissible litigation consultation arrangements, yield significant insight into acceptable consultation agreements. Generally speaking, any litigation consultation agreement may be permitted as long as the arrangement is disclosed at the earliest reasonable opportunity.[12] Lack of disclosure would seem to be the key factor that exacerbates a court's negative view of a consultation agreement. When an agreement is not disclosed, the motives for establishing the arrangement are judged more harshly. In the New York v. Solvent Chem. case, the defendant's lack of disclosure led the court to deny its request for a protective order and to grant the other side's cross-motion to compel production.

Another case that gives insight into litigation consultation agreements is In re

---

[9] 166 FRD at 290.

[10] Id.

[11] Id.

[12] In the interference context, normally the earliest reasonable opportunity would be the witness's first declaration. See, Scripps Research Institute v. Genentech Inc., 77 USPQ2d 1809 (PTOBPAI 2005) (non-precedential). See generally Ferring B.V. v. Barr Laboratories Inc., 437 F.3d 1181, 78 USPQ2d 1161 (Fed. Cir. 2006).

PMD Enterprises, 215 F. Supp.2d 519 (D.N.J. 2002). The plaintiff's attorney retained a private investigator and directed him to offer a consultation agreement to a fact witness who was also a member of the defense's litigation control group.[13] The court exercised its inherent power to sanction abuses of the judicial process by revoking the plaintiff attorney's *pro hac vice* admission to the court.[14] In addition to revealing another form of sanction that might befall an attorney who attempts to establish an improper consultation agreement, In re PMD also warns that an attorney cannot shield himself from sanction by employing a third party to initiate the improper arrangement.

A recent Special Master's Report discussed improper conduct with respect to litigation consultants in the case of St. Clair Intellectual Property Consultants v. Canon, Special Master's Report and Recommendations on Motion of St. Clair Intellectual Property Consultants, Inc. for Sanctions Against the Canon Defendants, Civil Action No. 03-241 JJF (2005). The Special Master became involved in the patent infringement case after the plaintiff moved for sanctions against Canon based on its consultation agreement with Mirage Systems, Inc. ("Mirage"). Canon retained Mirage as a litigation consultant assisting in establishing Mirage as the owner of the patents at issue and used the agreement as the basis for an ownership defense. By assisting Canon with its affirmative defense, Mirage could establish rights superior to those of St. Clair in the patents at issue without bearing the cost of litigation itself.[15]

As in the New York v. Solvent Chem. case, the most significant impropriety in

---

[13] 215 F. Supp. 2d at 536.

[14] Id.

[15] Special Master's Report at 5.

the situation was the failure of Canon to disclose this relationship, which was established after the close of discovery. Specifically, Canon failed to supplement its discovery responses per FRCP 26(e).[16] The Special Master held the omission to have been "egregious" discovery abuse and recommended that Canon's affirmative ownership defense should be dismissed.[17] The Special Master determined that Canon was a sophisticated enough client to understand its obligations and, thus, bore partial responsibility for the impropriety and should suffer the consequences of that impropriety.[18] For their part, Canon's counsel lost their *pro hac vice* admissions, and their law firm was precluded from further representing Canon in the case.[19]

Because of the focus on the discovery abuse in the Canon case, the Special Master did not analyze the consultation agreement itself very closely. He only noted that, even if it were divulged properly, the agreement was "clearly questionable" because, among other things, Canon had paid Mirage $75,000 immediately after the agreement was made

---

[16] Id.

[17] The Special Master noted that dismissal of a defense for discovery abuse is an extreme sanction and used the Poulis factors (such as willfulness or bad faith and the party's personal responsibility in the discovery abuse--as opposed to solely its counsel's) to find that this case warranted such an extreme measure. Poulis v. State Farm Fire and Casualty Co., 747 F.2d 863 (3d Cir. 1984).

[18] Id. at *31*.

[19] Id. at 66.

for no specific reimbursement or expense, but, rather, for its cooperation.[20]

III. Recent Precedent from the Trial Section

The opinion in Stampa v. Jackson, 78 USPQ2d 1567 (PTOBPAI 2005) (non-precedential) (per curiam, by an expanded panel consisting of CAPJ Fleming, VCAPJ Harkcom, SAPJ McKelvey, and APJs Schafer and Lorin), goes a long way towards explaining the Trial Section's views on this subject.

Stampa was seeking to explain the absence of a key witness. That witness resided in Spain and allegedly had been "unwilling to participate in…[the interference] unless legally compelled to do so."[21] Although Stampa asserted that the witness could not be compelled to cooperate under Spanish law, the panel asserted that Stampa had provided "no factual or legal basis…for the proposition that his testimony could not have been compelled in Spain."[22] More importantly for this discussion, however, the panel continued as follows:

> *Second*, no explanation is proffered as to what effort, if any, was made by Stampa to secure her testimony voluntarily, e.g., by asking her if she would come to the United States to testify if Stampa was willing to pay

[20] Id. at *25*. Query whether a non-refundable deposit against the fact witness's subsequent billings would raise judicial eyebrows. In the senior author's experience, lay witnesses, ever suspicious of lawyers, sometimes demand such "up front" money.

[21] 78 USPQ2d at 1574.

[22] Id.

necessary travel expenses, per diem expenses, and perhaps a sum to compensate her for her time.[23]

Comment

Stampa is authority for the proposition that paying a fact witness for his or her time is not per se improper--or, as the saying goes, "You can pay them for their time, but you can't pay them for their testimony."

I:\ATTY\CLG\ARTICLES-W\2006\ITS OK TO PAY FACT WITNESSES.DOC

[23] 78 USPQ2d at 1574-75; emphasis supplied.