THE ETHICS OF RETAINING FACT WITNESSES AS LITIGATION CONSULTANTS

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- **Bedrock v. Google.** Represented Bedrock as trial counsel in a patent infringement action related to a software patent covering a method for improving the speed and efficiency of web servers. Following a six-day trial in Tyler, Texas, the McKool Smith team won a jury verdict in favor of Bedrock in which the jury found the patent infringed, valid, and awarded a royalty to Bedrock. The case then settled prior to the entry of judgment.

- **EDS.** Represented EDS in a patent infringement case in the Eastern District of Texas involving image-based check processing.

- **i2 Technologies v. Oracle.** Represented i2 Technologies as plaintiff in a patent infringement suit against Oracle.

- **i2 Technologies v. SAP.** Represented i2 Technologies as plaintiff against SAP asserting infringement of seven patents. SAP settled shortly after the Markman hearing.

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THE ETHICS OF RETAINING FACT WITNESSES AS LITIGATION CONSULTANTS

I. INTRODUCTION

The compensation of fact witnesses presents ethical issues that must be carefully addressed by parties seeking to retain these witnesses. However, most problems appear to arise when, for example, a witness serves only as a fact witness and is paid for his or her testimony. The situation is different when a witness wears more than one hat – e.g., when a witness serves both as a fact witness and as an expert witness. Federal law recognizes, especially in patent cases, that situations arise in which a witness can serve both roles and still be compensated as an expert witness. The manner in which a consulting agreement is drafted, however, should take into consideration the cases discussed herein so that parties avoid giving the impression that a fact witness is being paid to testify.

II. OVERVIEW

Questions have arisen regarding whether, and in what circumstances, fact witnesses can be compensated or reimbursed. Recent publicity surrounding the indictment of the Milberg Weiss firm suggests that there will be continued focus by prosecutors on the conduct of law firms and on the interplay between ethical rules and criminal statutes.

This paper first provides some insight into that question based upon the Model Code of Professional Responsibility, the Model Rules of Professional Conduct, relevant criminal federal statutory provisions, some exemplar case law, and an ABA opinion. Because the restrictions on compensation of fact witnesses will vary from jurisdiction to jurisdiction and may also involve the laws and ethical rules of multiple jurisdictions (e.g., the jurisdictions in which the action at issue is pending, the jurisdiction(s) in which the lawyer making the offer of compensation is admitted, and the jurisdiction(s) in which the offer of compensation is made and/or received), this paper cannot confirm whether fact witnesses can be compensated or reimbursed in any specific case. To answer that question, the law and ethical rules of the particular jurisdictions at issue in each specific case should be reviewed.

Based on the above sources, some initial guidance can be given, as follows:

1. Fact witnesses can be reimbursed for their reasonable expenses actually incurred in giving or preparing to give testimony;
2. Fact witnesses can be reimbursed a reasonable amount for their lost time in giving or preparing to give testimony;
3. Fact witnesses cannot be paid any monies or reimbursed or compensated in any way for anything except giving or preparing to give testimony (e.g., fact witnesses cannot be paid for time spent reviewing documents generally, or for general assistance to counsel);
4. If a “reasonable amount” is not easily determined from objective criteria such as the fact witness’s lost income, the reasonable amount should be determined based on all relevant circumstances, with an eye towards being as conservative as possible to avoid even the appearance of impropriety;
5. All aspects of any offer of compensation and the compensation itself should be well documented, including but not limited to the scope of the fact witness’s anticipated testimony, the material that the lawyer believes should be reviewed by the fact witness to prepare for giving such testimony, and an explanation of how the applicable “reasonable amount” will be determined;
6. Improper compensation from the client directly to a fact witness may not absolve the client’s counsel of possible ethical or criminal exposure, and may also expose the client to possible criminal and civil exposure; and
7. Even when compensation to fact witnesses would be allowed under the Model Rules, the Model Code, ABA opinions, and federal law, such compensation may still be prohibited by the laws or rules of other applicable jurisdictions, so the laws and ethical rules of all applicable jurisdictions should be reviewed before any offer of compensation is made.

However, as stated above, case law implies that the situation is different when a fact witness also serves as an expert witness. This is a typical occurrence in patent litigation because inventors are often retained as both fact witnesses and either consulting or testifying experts. Thus, the second portion of this paper addresses recent case law recognizing that a witness can serve a dual role and be compensated for his or her activities as an expert without crossing an ethical boundary.
III. ANALYSIS
A. Various disciplinary rules and a federal statute indicate that a fact witness may be compensated only for reasonable expenses incurred and for a reasonable amount for time lost in preparing to give or giving testimony.

Model Rule of Professional Conduct 3.4 states that a lawyer shall not “falsify evidence, counsel or assist a witness to testify falsely, or offer an inducement to a witness that is prohibited by law.”

Disciplinary Rule 7-109(C) of the Model Code of Professional Responsibility states that a lawyer shall not “pay, offer to pay, or acquiesce in the payment of compensation to a witness contingent upon the content of his testimony or the outcome of a case. But a lawyer may advance, guarantee, or acquiesce in the payment of . . . expenses reasonably incurred by a witness in attending or testifying . . . reasonable compensation to a witness for his loss of time in attending or testifying [and] a reasonable fee for the professional services of an expert witness.”

18 U.S.C. § 201 contains two provisions under which the compensation of fact witnesses is criminalized. First, 18 U.S.C. § 201(b)(3) provides that a person can be fined and imprisoned for up to fifteen years if he or she “directly or indirectly, corruptly gives, offers or promises anything of value to any person . . . or entity, with intent to influence the testimony under oath or affirmation of such first-mentioned person as a witness upon a trial, hearing, or other proceeding. . . .” Second, 18 U.S.C. § 201(c)(2) provides that a person can be fined and imprisoned for up to two years if he or she “directly or indirectly, gives, offers or promises anything of value to any person, for or because of the testimony under oath or affirmation given or to be given by such person as a witness upon a trial, hearing, or other proceeding. . . .” Thus, one who gives anything of value with a witness with a corrupt intent to influence testimony can be sentenced to fifteen years in jail, while one who does so without any corrupt intent can still be sentenced to two years in jail.

18 U.S.C. § 201(d), however, also states that nothing in that section shall prohibit “the 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 attending at any such trial, hearing or proceeding, or, in the case of an expert witness, a reasonable fee for the time spent in the preparation of such opinion, and in appearing and testifying.”

Thus, on their faces, the relevant federal statutes and ethical rules expressly state that a fact witness can only be compensated for the reasonable expenses and lost time incurred by a fact witness in preparing to testify or in actually giving testimony. The ABA has issued a formal opinion on the matter that is in accord. See ABA Comm. on Ethics and Professional Responsibility, Formal Op. 96-402 (1996) (Under Model Rule 3.4 and Disciplinary Rule 7-109(C), fact witnesses may be compensated a reasonable amount for the time spent in attending a deposition or trial, in meeting with the lawyer to prepare for such testimony, and in reviewing and researching records to prepare for such testimony, as long as the witness understands that the compensation is to reimburse the witness for lost time, is not for the substance of the testimony, and is not prohibited by any other laws or rules. If the reasonable amount is not easily ascertained from objective criteria such as lost income, “the lawyer must determine the reasonable value of the witness’s time based on all relevant circumstances.”).

1. The calculation of a “reasonable amount” of compensation should be based on objective criteria, and all the surrounding circumstances.

As quoted above, ABA Formal Opinion 96-402 states that if a “reasonable amount” of compensation cannot be determined by objective criteria such as lost income, such determination should be made based on all relevant circumstances. There appears to be very little federal case law on this point, but some federal courts have held that a fact witness can be compensated at his customary hourly rate as an independent consultant. See, e.g., Smith v. Pfizer, Inc., 714 F. Supp. 2d 845 (M.D. Tenn. 2010) (holding that “[i]t is not necessarily improper for a party to pay a fact witness if the money compensates the witness, at his or her professional rate, for lost time.”); Prasad v. MML Investors Services, Inc., 2004 U.S. Dist. LEXIS 9289 (S.D.N.Y. 2004) (holding that a “[fact] witness may be compensated for the time spent preparing to testify or otherwise consulting on a litigation matter in addition to the time spent providing testimony in a deposition or at trial,” and also that the fact witness could be compensated at a rate of $125 per hour because that is the rate he usually charges as a self-employed “compliance consultant.”). Note, however, that if a fact witness is regularly employed, and will be paid a normal salary despite taking time off for testimony or deposition, no compensation can normally be paid. Thus, there is a significant distinction between employees and consultants. The most difficult questions may arise in circumstances where the employee will be paid, but must take vacation time or personal time that would otherwise be available to the witness.

2. All aspects of the offer of compensation and the giving of compensation should be well documented.

While there does not appear to be federal statutory authority or case law requiring that offers of compensation and the giving of compensation be documented in writing, it seems prudent to do so. A contemporaneous written
explanation of what work a fact witness is asked to perform, the reasons why such work will assist him to prepare for giving testimony, and an explanation of how a “reasonable rate” is being determined should go a long way towards confirming the propriety of the payments if such payments are challenged.

B. Improper compensation from the client to the fact witness may not absolve the client’s counsel of liability, and may also expose the client to liability.

18 U.S.C. § 201 prohibits either directly or indirectly giving anything of value to a witness. Similarly, Disciplinary Rule 7-109(C) states that a lawyer may not “acquiesce” in the improper payment of compensation to a witness. Thus, any attempt by a client to give something of value to a witness directly may not insulate the client’s counsel from liability. See, e.g., Golden Door Jewelry Creations, Inc. v. Lloyds Underwriters Non-Marine Ass’n, 865 F. Supp. 1516, 1524-26 (S.D. Fla. 1994), aff’d 117 F.3d 1328, n.2 (11th Cir. 1997) (finding that payments by client of nearly $500,000 and $150,000 to two fact witnesses violated counsel’s ethical proscriptions prohibiting such payments because counsel was involved in the decision to make such payments and “the payment of a sum of money to a witness to ‘tell the truth’ is as clearly subversive of the proper administration of justice as to pay him to testify to what is not true.”) (citations omitted). Moreover, while payment by a non-lawyer client directly would not expose the non-lawyer client to any ethical violations, the client’s payment would still have to comply with the parameters of 18 U.S.C. § 201.

C. Federal case law distinguishes instances in which an individual is paid to testify solely as a fact witness and instances in which an individual serves a dual role as both a fact witness and as an expert witness.

Federal case law recognizes the distinction between (1) a situation in which an individual is paid to testify as a fact witness, and (2) a situation in which an individual serves a dual role as both a fact witness and an expert witness. The latter scenario is common in patent litigation where one or more named inventors are retained by parties to serve as both fact witnesses and as either consulting or testifying experts. The split in case law is discussed below.

1. Cases in which fact witnesses are paid to testify generally hold that such compensation is inappropriate in view of disciplinary rules and federal statutory guidelines.

Most cases in which courts have denigrated the compensation of fact witnesses involve relatively egregious facts. For example, in In re PMD Enterprises, Inc., 215 F. Supp. 2d 519, 530 (D.N.J. 2002), a court disqualified a lawyer in a lawsuit in which the lawyer misled and paid a fact witness. In PMD, a wrongful death case, a plaintiff’s lawyer used a private investigator to approach a material fact witness in the defendant’s litigation control group. The private investigator, acting on behalf of the lawyer, offered to pay the fact witness $100 per hour to review documents and to aid the lawyer in the case. The private investigator also misled the fact witness by falsely stating that the court had approved the proposal.

The court held that, under Rule 3.4 of the Rules of Professional Conduct and 18 U.S.C. § 201, witnesses can only be paid for “reasonable” expenses and “reasonable” compensation for time lost in attending trial or testifying. The court revoked the lawyer’s pro hac vice admission and disqualified him from the case.

A second case, Rentclub, Inc. v. Transamerica Rental Finance Corp., 43 F.3d 1439, 1440 (11th Cir. 1995), relates to a situation in which a plaintiff’s attorney retained a former employee of the defendant as a “trial consultant.” However, a few days after the attorney retained the witness and paid him $5,000, the witness testified on behalf of the plaintiffs as a fact witness, disclosing information that the witness had learned while employed by the defendant. The Eleventh Circuit affirmed a trial court ruling that the payment to the fact witness violated ethical rules of the Florida bar prohibiting such compensation.

In Hamilton v. General Motors Corp., 490 F.2d 223 (7th Cir. 1973), the estate of a decedent sought compensation for the decedent’s services rendered in assisting General Motors in a lawsuit. Specifically, the decedent testified in a deposition regarding “matters of his own personal knowledge.” Id. at 229. The court noted that:

Although [the witness] may have been one of the foremost experts in regard to some of the matters as to which he had first-hand knowledge and although he devoted as much if not more time than an ordinary expert witness would have spent in the preparation of his anticipated testimony, the fact was that he was testifying to matters of his own personal knowledge. . . . [H]e could not have qualified as a disinterested, independent or impartial expert.

Id. at 228-29. Thus, the court focused on the fact that the decedent was not an expert witness and held that 18 U.S.C. § 201 bars a claim by a fact witness’s estate for reimbursement based on time spent assisting with litigation, in part
because § 201 only allows fact witnesses to be reimbursed for expenses and time spent in attendance at a trial, hearing, or proceeding.\footnote{Other federal cases related to the compensation of fact witnesses indicate that compensation of such witnesses is not improper. \textit{See}, e.g., \textit{Centennial Mgmt. Services, Inc. v. Axa Re Vie}, 193 F.R.D. 671, 679-82 (D. Kan. 2000)(holding that counsel’s payment of over $43,000 to a fact witness who spent 380 hours assisting counsel does not violate Rule 3.4 of the Model Rules or 18 U.S.C. § 201, even though much of the assistance was not rendered in preparation for witness’ testimony); \textit{Prasad v. MML Investors Services, Inc.}, No. 04 Civ. 380 (RWS), 2004 U.S. Dist. LEXIS 9289 (S.D.N.Y. 2004) (opining that a “[f]act witness may be compensated for the time spent preparing to testify or otherwise consulting on a litigation matter in addition to the time spent providing testimony in a deposition or at trial. . . .”).}

2. Federal patent cases imply that a witness may serve as both a fact witness and an expert witness and be compensated for litigation-related activities other than simply testifying or preparing to testify. Cases from the Eastern District of Texas and the Western District of New York recognize that witnesses can serve as both fact witnesses and expert witnesses and may be compensated accordingly. In \textit{Sensormatic Elecs. Corp. v. WG Security Prods., Inc.}, No. 2:04-CV-167, 2006 U.S. Dist. LEXIS 30591 (E.D. Tex. May 11, 2006)(Ward, J.), the court denied defendant’s motion to compel certain testimony from the sole inventor of the patent-in-suit. The inventor, Thomas Frederick, was retained by plaintiff’s counsel as a non-testifying expert to assist in preparing the case for trial. While plaintiff’s counsel “permitted the Defendants’ counsel to question Frederick broadly on any factual matter occurring prior to Frederick’s retention as a non-testifying expert consultant,” they refused to let Frederick answer any questions related to the case or to Frederick’s activities undertaken while a consulting expert. \textit{Id.} at *3.

The court noted that “one may simultaneously be a litigation expert with Rule 26(b)(4) protection as to some matters and simply an unprotected actor or witness as to others . . . .” \textit{Id.} at *5 (citing \textit{Marine Petroleum Co. v. Champlin Petroleum Co.}, 641 F.2d 984, 992 (D.C. Cir. 1979)). The court then implicitly admitted the propriety of compensating Frederick for his activities as a consulting expert in holding that defendant was “free to hire their own experts to review their source code and may call such fact witnesses deemed necessary to support their defenses. What they may not do is compel the opinions of the Plaintiff’s consultant.” \textit{Id.} at *6.

Similarly, in \textit{Eastman Kodak Co. v. Agfa-Gevaert N.V.}, No. 02-CV-6564 T-F, 2006 U.S. Dist LEXIS 36796 (W.D.N.Y. Apr. 21, 2006), a court denied Kodak’s interrogatory seeking communications with all former Kodak employees to the extent the interrogatory related to communications between Agfa and Harry Roberts. Roberts was “serving in a dual capacity as a fact witness and a non-testifying expert for Agfa,” and Agfa contended that “a person can act as a fact witness and a non-testifying expert and that payment for their services does not taint their factual testimony.” \textit{Id.} at *11. The court noted that Kodak had previously “moved to disqualify Roberts from providing expert services to Agfa.” \textit{Id.} at *12 n.3.

The \textit{Agfa} court did not specifically address the compensation of Roberts in its opinion, but implicitly approved of Roberts’s role as a “dual capacity witness” by determining when Roberts’s role changed from that of a fact witness to that of an expert witness. The court held that communications with Roberts both prior to and during his fact deposition were discoverable, but that communications should be protected to the extent Roberts was serving as a non-testifying expert from that point forward.

The Middle District of Georgia addressed the compensation of fact witnesses in a decision related to a defendant’s effort to recover expert fees paid to witnesses that were designated as experts by the plaintiff. \textit{Morgan v. U.S. Xpress, Inc.}, No. 4:03-CV-88-1 (CAR), 2006 U.S. Dist LEXIS 7225 (M.D. Ga. Feb. 3, 2006). Defendants argued that the disputed witnesses were merely fact witnesses and that the fees paid were well above the amount typically paid to a fact witness in accordance with 28 U.S.C. § 1821.\footnote{28 U.S.C. § 1821 relates to per diem fees and expense reimbursements that may be paid to a fact witness to compensate the witness for their attendance at, for example, trial. § 1821(b) provides that the standard per diem is $40 per each day of attendance.} \textit{Id.} at *3-4. The court held that “[w]hile 28 U.S.C. § 1821 sets forth the minimum amount a fact witness is entitled to receive, there is nothing in the statute prohibiting the parties from agreeing to pay a higher amount.” \textit{Id.} at *13. Accordingly, the court denied defendant’s request to retroactively reduce the fees paid to these fact witnesses in spite of the fact that defendants paid these witnesses $300 per day. More importantly, other witnesses who were deemed to have both factual and expert knowledge of the dispute were compensated at the $300 per hour rate, and the court never implied that such compensation was improper.

The Federal Circuit does not appear to have addressed a case on point. However, in \textit{Ethicon, Inc. v. United States Surgical Corp.}, 135 F.3d 1456 (Fed. Cir. 1998), the court addressed a situation in which a co-inventor of a
patent-in-suit agreed (in a license agreement) to “render all reasonable assistance requested by [U.S. Surgical] to defend or settle” a lawsuit. *Id.* at 1465. The Federal Circuit affirmed a district court ruling finding that the “license agreement terms do not constitute payment for testimony as a fact witness.” *Id.* The court further noted that “a witness’s pecuniary interest in the outcome of a case goes to the probative weight of testimony, not its admissibility.” *Id.* (citing *Den Norske Bank AS v. First Nat’l Bank of Boston*, 75 F.3d 49, 58 (1st Cir. 1996)(holding that interests of expert witnesses who were employees of a plaintiff affected the weight of their testimony, not its admissibility)). Accordingly, the court did not criticize the compensation of an inventor in a patent suit.

In *TypeRight Keyboard Corp. v. Microsoft Corp.*, 374 F.3d 1151 (Fed. Cir. 2004), the Federal Circuit reversed a district court’s grant of summary judgment of invalidity because TypeRight produced evidence challenging the credibility of Microsoft’s witnesses. In an effort to authenticate several documents asserted to be § 102(b) prior art, Microsoft offered the testimony of “several consultants who were paid for the time they spent testifying.” *TypeRight*, 374 F.3d at 1155. In addition to other evidence, TypeRight noted that two of Microsoft’s witnesses “testified as fact witnesses (not as experts), both received compensation from Microsoft for their time spent testifying, and [one of them] had previously served as a paid consultant to Microsoft.” *Id.* at 1158.

The Federal Circuit did not criticize Microsoft’s compensation of the witnesses in question. The court instead found that the credibility of the witnesses was a question of fact that should go to the jury. Accordingly, *TypeRight* appears to be in agreement with *Ethicon* to the extent that the *Ethicon* court held that the pecuniary interest of a witness goes to the probative value of the witness’s testimony.

3. In summary, relevant federal case law does not prohibit the retention and compensation of expert witnesses that also have factual knowledge relevant to the litigation.

In summary, federal patent law implicitly recognizes the status of witnesses, especially inventors, as “dual capacity” witnesses. Accordingly, while the cases discussed in Section C.1 appear to define a general prohibition against compensating fact witnesses for activities unrelated to testifying or preparing to testify, the cases discussed in Section C.2 provide more useful guidance in patent litigation. Specifically, these cases recognize that a fact witness may be retained as an expert witness and compensated as an expert witness as long as other parties are allowed access to the factual knowledge in the witness’s possession. In other words, when such a witness is retained, the mere fact that the witness has knowledge of facts relevant to the dispute does not preclude use of the witness as an expert or the compensation of the witness above and beyond the base line identified in, for example, 28 U.S.C. § 1821.

IV. CONCLUSION

In view of the foregoing discussion, potential fact witnesses should be approached with care, and a formal policy for discussing cooperation and compensation should be developed prior to contacting these individuals. Specifically, if questions are raised concerning compensation, those questioned should be answered within the boundaries previously identified.

Moreover, federal law does not prohibit the retention of fact witnesses as experts, especially in patent litigation. However, the facts in the possession of the expert are discoverable. The agreement used to retain the expert should, to the extent possible, carefully identify the services for which the expert is being compensated. For example, the expert consulting agreement may be drafted in a manner that clearly states that the expert is being retained and compensated to assist counsel in preparing the case for trial. The agreement may also be tailored to explicitly state that: (1) the expert is not being paid to testify regarding his or her knowledge of facts relevant to the litigation; (2) the expert’s compensation is not dependent on the outcome of the litigation; and (3) the expert is being compensated regardless of whether his or her factual or expert knowledge turns out to be harmful or helpful to the party’s case.