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# Intellectual Property Management

## Controlling costs in patent litigation

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### Catherine Rajwani

is an intellectual property lawyer and a registered patent attorney. She handles a full range of intellectual property issues in her practice including patent, trademark and copyright infringement actions, intellectual property portfolio evaluation and protection, and drafting and evaluating patent license agreements. Ms Rajwani has participated in all phases of litigation, from pre-litigation counseling through trial and appeal, in federal courts across the country. She graduated in the top 5 per cent of her class at Baylor Law School and served as a law clerk to the Honorable David C. Godbey, United States District Court for the Northern District of Texas (2002–2003).

**ABSTRACT** This article provides the top 10 ways that clients can reduce their litigation costs. The article explains the types of costs that are incurred in patent litigation and discusses the various stages and timelines for a typical patent litigation dispute. The author stresses the importance of clients' proactively planning for litigation (before a lawsuit is commenced) and education and involvement in the litigation process.

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### THE COSTS OF PATENT LITIGATION

Patent litigation is expensive. The American Intellectual Property Law Association's (AIPLA's) 2009 Economic Survey reports that the median litigation costs *per side* for a patent infringement lawsuit are US\$350 000 through the end of discovery and \$650 000 through final disposition when less than \$1 million dollars is at risk. When \$1 – \$25 million is at risk, litigation costs are \$1.5 million through the end of discovery and \$2.5 million through final disposition. When more than \$25 million is at risk, costs are \$3 million through the end of discovery and \$5.5 million through disposition. The overwhelming majority of

patent cases do not reach a full jury or bench trial. In 2005 and 2006, courts adjudicated approximately 14 per cent of disputed patent cases. Of these, courts disposed of approximately 7 per cent on summary judgment and a little more than 3 per cent by jury or bench trial.

The largest component of patent litigation costs is attorney's fees, but these numbers also include expert witness fees, travel costs, and document management and production costs. Importantly, these costs do not include time spent in-house by corporate counsel and employees supporting the litigation.

The patentee (usually the plaintiff) has the luxury of controlling the largest component of its costs (attorney's fees) up front by hiring counsel on a contingency or mixed-fee basis. So while many of the cost-savings measures described in this article will apply equally to

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**Correspondence:** Catherine Rajwani  
The Harbor Law Group, 300 West Main Street, Building A, Unit 1,  
Northborough, MA 01545, USA  
E-mail: [crajwani@harborlaw.com](mailto:crajwani@harborlaw.com)

the patentee or accused infringer, the patentee can mitigate a large portion of its expenses by entering into alternative fee arrangements with its counsel.

Patent litigation costs can be reduced substantially if clients (1) institute effective document retention/management policies and practices; and (2) efficiently manage the litigation process. While both of these concepts appear straightforward in theory, they prove much more difficult in practice.

## THE PATENT LITIGATION PROCESS

The patentee is able to gather relevant information and plan its litigation strategy before filing its lawsuit. So while the alleged infringer (usually the defendant) must follow a time line prescribed largely by the court, the patentee is free to marshal its facts and hire its experts before the alleged infringer is even on

notice of the infringement claim. This additional time also helps the patentee control costs. The litigation process and time line thus is described largely from the perspective of the alleged infringer in patent litigation.

The process/time line shown in Table 1 is typical in jurisdictions that handle a large number of patent cases in an efficient manner (that is ‘rocket docket’).<sup>1</sup> Many of these jurisdictions have adopted local patent rules – special rules of procedure for patent cases. These rules help to streamline the discovery and claim construction process.

## CASE STRATEGY AND BUDGET

An important way to rein in your costs during patent litigation is to develop your case strategy as early as possible. Start off by making a realistic assessment of damages and use this figure to help set a litigation budget.

**Table 1:** Typical patent litigation phases and time line

Stage	Timing	Description
Complaint/answer	20 days after service of the complaint (usually extended 1–2 months)	The patentee files its complaint (document asserting claims) with the court to commence its lawsuit. The plaintiff serves the defendant with a copy of the complaint. The defendant has 20 days from service to answer. The answer deadline is usually extended by 1–2 months by agreement of the parties.
Case management conference (CMC)	Dependent upon the court’s schedule	After the defendant answers, the court will schedule a CMC. Before the conference, the parties must collaborate and propose a joint scheduling order. This proposed order presents the parties’ agreements on discovery limitations, electronic discovery and mediators, as well as discovery, motion and litigation deadlines. Often times a particular jurisdiction’s local patent rules will set forth specific types of discovery and deadlines that can be incorporated into the joint scheduling order.
Fact discovery	Approximately 9 months from the answer deadline and 11 months from the filing of the lawsuit	The parties exchange initial disclosures of information and documents. Depositions of fact witnesses occur. Sometimes discovery is bifurcated with invalidity/infringement discovery occurring first and damages discovery occurring later (after expert discovery). The patent rules, adopted in some jurisdictions, have deadlines during fact discovery for infringement and invalidity contentions. These contentions take the place of well-drafted infringement/invalidity interrogatories. Infringement contentions are usually due at the outset of discovery. These contentions (usually presented in the form of a chart) set out the asserted claims and compare the defendant’s products to each claim element. Invalidity contentions are the defendant’s positions on the validity of the patent (that is charts comparing the elements of the asserted claims to anticipatory prior art or collective prior art rendering the patent obvious).

**Table 1** *continued*

Stage	Timing	Description
Claim construction	Approximately 2 months, usually during the latter months of fact discovery (can be later); approximately 10 months after the filing of the lawsuit	<p>(a) Parties select and exchange patent claim terms for construction.</p> <p>(b) Parties propose definitions for all exchanged terms.</p> <p>(c) Parties work to compromise and agree upon definitions.</p> <p>(d) Parties submit joint claim construction charts to the court setting out agreed upon claim definitions and terms that need construction (with each side's proposed definitions and supporting citations/evidence).</p> <p>(e) Court construes claim terms for which the parties could not reach agreement on a definition</p>
Expert discovery	Approximately 2 months after receipt of the court's claim construction or 14 months after the filing of the lawsuit	<p>Expert witnesses give opinion testimony on complicated technical or accounting/economic issues. Expert discovery typically begins with each side producing expert reports (reports detailing expert's background, opinions and bases for opinions) on issues that it bears the burden of proof (infringement and damages for patentee and invalidity for accused infringer). In response, the parties exchange expert reports rebutting one another's initial expert reports. The experts are then deposed on their opinions/reports.</p> <p>At the close of expert discovery, either party may challenge the other party's experts' qualifications or opinion methodology.</p>
Summary judgment	Approximately 3–4 months after receipt of the court's claim construction or 16 months after the filing of the lawsuit	<p>The defendant files summary judgment motions on patent invalidity (usually anticipation) and non-infringement. The plaintiff, if its case is particularly strong, files a summary judgment motion on infringement.</p> <p>In certain circumstances, the defendant might file summary judgment motions on especially strong defenses such as a plaintiff's unreasonable delay in filing suit (referred to as <i>laches</i>) or license.</p>
Pretrial	Approximately 3–4 months after the close of expert discovery or 18 months after the filing of the lawsuit	<p>The parties exchange witness and exhibit lists and file motions concerning the types of evidence that can be presented at trial (referred to as <i>in limine</i> motions). Each party submits proposed jury instructions. The attorneys draft opening/closing statements, direct and cross examination outlines, and prepare witnesses for testimony.</p>
Trial	At the end of pretrial filings or approximately 19 months after the filing of the lawsuit	<p>Jury selection. Opening statements. Fact and expert witness testimony. Closing statements.</p>
Appeal	Approximately 2 years after the filing of the lawsuit to submit briefs to the Federal Circuit	<p>Notice of appeal is filed 30 days after final judgment is rendered. Federal Circuit sets briefing schedule.</p>

Next develop your story – a sympathetic narrative that explains and ties together all of the evidence that supports your claims or defenses. With your 'story' in mind, work to narrow the areas in dispute and focus the trial team on developing the key aspects of your case.

Keep in close contact with your litigation counsel and monitor the work your experts are performing. Have the trial team participate in weekly or bi-weekly status calls and include a discussion of upcoming tasks and projected costs. Comment on the projected budget BEFORE the money is spent. Find

out what is mandatory and what is discretionary and determine what is most important to your claims or defenses. The more clients stay involved in the litigation, the better equipped they are to control costs and keep management apprised of the current and projected budget.

## TOP 10 WAYS TO REDUCE PATENT LITIGATION COSTS

1. *Prosecute patents thoroughly and diligently*
  - The main defenses available to an accused infringer are invalidity and

- non-infringement. It is very difficult for an infringer to invalidate a patent with prior art that was before the patent office. Therefore, identify and submit as much prior art to the patent office as possible during prosecution, such as through the U.S. Patent and Trademark Office (PTO's) accelerated patent prosecution process.
2. *Competitor patent portfolio review during product development/design*
    - The best way to reduce (if not eliminate) the costs of patent disputes is to avoid them altogether. During the development/design phase for a new product, have the patent counsel review competitors' patents to make sure your new product does not infringe. It is always easier to implement design-arounds before the product is manufactured and on the market.
  3. *Patent litigation insurance for defendants and plaintiffs*
    - Patent infringement liability insurance covers defense costs and if included in the plan, judgments and settlements up to predefined policy limits. Enhanced damages for willful infringement typically are not covered.
    - Patent enforcement litigation insurance (also known as abatement coverage) typically covers the patentee's litigation costs enforcing the patent and costs of defending against invalidity (but not antitrust) counterclaims, usually less a percentage co-payment by the insured.
  4. *Accused infringers should assess risk early and often*
    - As soon as you are on notice of infringement, assess the actual risk that a lawsuit possesses. Compare the patent claims (giving terms their ordinary meaning) to the accused products and assess the strength of the patentee's claims.
    - Gather financial data (historical and projected) on product sales early and determine the remaining term of the patent. If infringement is found, a plaintiff can be entitled to a reasonable royalty (or lost profits) on product sales 6 years before the filing of the lawsuit.
  - Assess whether your customers have been sued or may be sued (indemnities) and whether a patent lawsuit will affect your future sales (that is does your competitor own the patent or have a license?).
  - Determine what is a standard royalty rate for licenses in your field. Determine what is your maximum exposure (damages, attorney fees, lost sales and so on). Also try, if possible, to ballpark reasonable settlement figures.
  - Exposure and settlement figures will help you determine your litigation budget. Revisit these calculations at various stages of the litigation (after fact discovery, claim construction, summary judgment and so on).
  5. *Participate in weekly or bi-weekly status calls with the trial team*
    - The client needs to keep close tabs on the progress of the litigation in order to control costs. The client can work with its in-house technical and accounting personnel during discovery to make sure outside counsel receives necessary documents/information. The client can dictate case strategy and keep the trial team focused on developing the litigation 'story'.
    - Always discuss actual and projected costs for the various phases of the litigation during status calls. This will prevent any 'surprise' legal costs and help the client allocate funds for projected legal costs.
  6. *Document retention policies*
    - Instituting effective document retention policies before litigation (before you know or have reason to know you will be involved in patent litigation) is the number one way a company can reduce its costs in patent litigation.
    - Having good policies in place that are followed by all of your employees and implemented by IT as drafted can reduce your litigation budget substantially and affect the outcome of your case.

- Review and revisit your policies often. Do spot checks to make sure that the policies are implemented as intended.
  - R&D materials and researcher's notebooks should be retained for a considerable amount of time.
  - Most non-essential documents (including emails) should be retained for a short period of time (60–90 days).
  - Keep key documents (final versions of historical design, marketing and sales data) in a central location preferably on a product specific intranet site. Mandate that the central location is the only repository for documents (no local copies on employee's computers or paper documents).
  - As part of implementing a document retention policy, counsel should advise executives, R&D personnel, and sales and marketing staff about what to say, or not say, in writing.
7. *Designate key technical and financial/accounting personnel to support litigation efforts*
- Often times, the amount of time it takes lawyers to find key personnel and analyze documents can be drastically reduced if they have in-house assistance. Assigning key technical and financial employees to support the litigation efforts helps outside counsel understand who is/was involved in product design and sales and where the key documents are located.
  - Sometimes companies are reluctant to get their employees involved because the employees are already very busy with their normal work activities. If you can off-load some of these activities onto other personnel for a few months and free up key personnel to help out with the litigation, it can save you tens of thousands of dollars in lawyer and expert time.
  - Also, employees are reluctant to help out attorneys because litigation is often viewed very negatively by the company and as a drain on the company's resources. If you encourage your employees to help out the attorneys/experts and even incentivize them, you may not only save money on your legal bills, but also have a much more positive outcome in the litigation.
8. *Vet your counsel wisely*
- Just because patent litigation is expensive, doesn't mean it has to be prohibitively so. Interview a few different firms; find out the range of hourly rates at each firm (including paralegal time).
  - Find out who will be doing the work. Often times the experienced partner you meet during the interview process will not be the one who does the lion's share of the work – he or she may not work on your case at all. Find out hourly rates for all levels of work.
  - Get a proposed detailed budget from the firms. Ask for a breakdown of costs for the various portions of the case so as to plan for future expenditures properly. Ask who will be spending the majority of the hours at each phase of the case. Obtain resumes and evaluate experience. Ask about estimated or projected expert fees.
9. *Just because it is litigation does not mean it has to be ugly*
- Try to keep an open and cordial relationship with the other side and its counsel. Contentious litigation is always more expensive than litigation between parties that are trying in earnest to have the court resolve their dispute. Once things get 'personal' between the parties or their counsel, the litigation bills increase substantially.
  - In cases where the parties and/or their lawyers get along, you can cut your litigation costs drastically in comparison to cases that are very nasty/contentious.
10. *Settlement: Talk often and think outside the box*
- Litigation is a dynamic process – the parties' positions change at various stages of the litigation due to
    - party documents produced during litigation;

- prior art uncovered during discovery;
- relevant proceedings at the PTO;
- reexamination of patents;
- prosecution of related patent applications;
- court's claim construction; and
- court's dispositive motion rulings.
- Corporate priorities shift and a product's market changes. Begin the mediation process early in the case and revisit it frequently at various stages in the litigation process.

## CONCLUSION

Although patent litigation is expensive, there are many ways in which costs can be reduced substantially. The two overarching principles of cost reduction are: (1) be proactive and not reactive in planning for future involvement in litigation and (2) educate yourself on the patent litigation process and stay involved in litigation strategy and decisions. Oftentimes clients don't consider litigation until they are

served with a complaint. It is much more difficult and costly to react to litigation rather than to plan for it. Also, clients tend to outsource litigation to outside counsel. Clients let the lawyers handle the litigation so that they can focus on their business. Patent litigation, however, is intimately tied into a client's business. Clients need to understand the patent litigation process in order to reduce costs and help litigation counsel plan and follow the best strategy for their business.

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## NOTE

1. In 2006, the Central District of California was the busiest patent district with approximately 10 per cent of the total national cases filed, the Eastern District of Texas was second with 8 per cent and the Northern District of California was third with 7 per cent. See Janicke, P Patent litigation remedies: Some statistical observations. University of Houston Law Center, at 7 (link to presentation at <http://www.patentmatter.com/issue/resources.php>).