

Why So Much? – Typical Patent Litigation Costs

By:
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Nobody likes to receive unexpectedly big invoices, especially from lawyers. This is particularly true in patent infringement litigation. Plaintiffs and defendants uniformly dislike the cost, complexity and disruptive nature of the process. This frustration is often exacerbated by requests for quotes and estimates that are so heavily qualified with such broad ranges that executives are hard-pressed to identify accurate monthly costs or worst-case maximum expenses.

Patent litigation tends to follow a general pattern from start to finish. The tasks generally entail a similar set of activities and time to completion that can provide a range of reasonable reliability for a typical case. This pattern should lend itself to business arrangements between client and lawyer and apart from the traditional hourly billing system that should help reduce the seeming unpredictability of patent litigation costs. The trick is to find one that meets the needs of both client and lawyer.

An Outline of the Process

The following table is an outline of the activities and estimated costs for a plaintiff in a patent case with no counterclaims for affirmative relief that are unrelated to the plaintiff's patents through post-trial briefing. Defendants in a patent case will have a corresponding, opposing set of activities albeit with somewhat shifted schedules and tasks that culminate in a total bill that looks like the one paid by the plaintiff, adjusted for counsel's billing rate and savings from savvy case management.

I have broken out estimated costs for the limited involvement of local counsel in substantive discovery or formulation of the patent strategies. Every case is unique, though. In some cases, local counsel may be more involved in substantive strategies and really should be seen as co-counsel.

The "no counterclaim" caveat is significant to the attached estimates. The overall costs to a plaintiff can increase substantially if the defendant has its own patents and a corresponding set of claims to present apart from the typical declaratory judgment counterclaims as to invalidity and noninfringement. While counterclaims for patent infringement of same type of product line can increase the plaintiff's costs 10-40%, counterclaims based on an entirely different statutory framework – e.g., trademark, trade

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secret, copyright, or breach of contract – can increase the plaintiff’s overall costs by 40-100%. Like throwing sticks in glass houses, be sure to check your counterclaim exposure before proceeding with your complaint.

With these lawyerly caveats and qualifications, the following table is a breakdown of the typical costs in an average patent litigation:

**Patent Litigation Outline for Plaintiffs
With No Counterclaims By Defendants**

Month of Event	Activity on Behalf of Plaintiff	Estimated Fees and Costs
-3 to 0	<ul style="list-style-type: none"> ✓ <u>Perform pre-filing investigation of factual basis for potential claim</u>: identify lead contact inside plaintiff’s company for assistance with events inside company during case; interview potential in-house witnesses; identify custodians of key documents and arrange for duplication thereof ✓ <u>Investigate existence of clauses for insurance against patent infringement or potential indemnification</u> ✓ <u>Get to know the defendant</u>: perform D&B on company, review company history for involvement in patent lawsuits; identify annual sales and history of defendant with product; identify other potential infringers or market entrants in patented product to gauge consequences of action, inaction and settlement with a continuing license; identify plaintiff’s past history with defendant and evaluate likelihood of potential counterclaims of patent infringement, unenforceability or invalidity ✓ <u>Identify goals for suit and expectations of sequence of events</u>; identify proposed venue and local counsel; review local rules for procedures; decide whether to serve suit initially or to try to arrive at settlement by sending a courtesy copy to begin discussions; develop litigation strategy and logistics of proving claims ✓ <u>Finalize infringement opinion and damages estimate</u>: Prepare rough proof outline based 	Fees: \$25-100k Costs: \$1-20k Local counsel: \$3-6k



Month of Event	Activity on Behalf of Plaintiff	Estimated Fees and Costs
	<p>on available information, retain experts in technology, damages and patent law (as dictated by case)</p> <ul style="list-style-type: none"> ✓ <u>Prepare draft of complaint</u>; confer with Pure Fishing and local counsel regarding same; revise and file complaint 	
0-1	<ul style="list-style-type: none"> ✓ <u>Open settlement discussions</u>: Send defendant a courtesy copy of the complaint and invite settlement discussions ✓ <u>Get to know opposing counsel</u>: Discuss extension of time to respond to complaint (if requested) and conduct initial settlement discussions with opposing counsel ✓ <u>Continue getting to know plaintiff's case</u>: Continuing to review plaintiff's documents, contacting predecessor companies and/or inventors, interviewing same and arranging to copy and then review any documents they might have ✓ <u>Get ready for discovery</u>: Issue litigation hold and circulate among plaintiff's employees and IT department; send litigation hold letter to defendant's counsel; begin coordination with plaintiff's IT department for collection and review of electronically stored records (documents, files and email) 	<p>Fees: \$25-100k Costs: \$1-20k Local counsel: \$3-6k</p>
1-3	<ul style="list-style-type: none"> ✓ <u>Prepare for the initial conference</u>: Prepare initial written disclosures, exchange same with defendant, review responses, travel to and participate in initial conference before presiding judge, report results of same to plaintiff ✓ <u>Prepare discovery schedule</u>: Confer with defendant's counsel and establish a proposed discovery schedule, forward draft to plaintiff, file joint Scheduling Order with court before initial conference ✓ <u>Continue to discuss settlement with defendant</u>: Continue to negotiate potential settlement terms with plaintiff and defendants, discuss mandatory mediation (if required by local 	<p>Fees: \$200-600k Costs: \$1-20k Local counsel: \$3-6k</p>



Month of Event	Activity on Behalf of Plaintiff	Estimated Fees and Costs
	<p>rules)</p> <ul style="list-style-type: none"> ✓ <u>Phase I of written discovery</u>: Prepare and serve 1st set of requests for documents, interrogatories and requests for admission; review and forward defendant’s first sets of requests to plaintiff’s contact; prepare and circulate draft responses to defendant’s requests; revise and serve responses on defendant; review written responses from defendant to plaintiff’s first requests; prepare and forward letter detailing insufficiency of responses ✓ <u>Continue getting to know Plaintiff’s case</u>: Complete review of documents initially copied, begin review of third party documents and newly located electronic documents from plaintiff ✓ <u>Prepare for claim construction hearing</u>: Identify claim construction issues, prepare proposed claim interpretations for disputed terms that are likely in dispute; exchange same with opposing counsel 	
<p>4-6</p>	<ul style="list-style-type: none"> ✓ <u>Phase 2 of written discovery</u>: Prepare and serve second set of requests for documents, interrogatories and requests for admissions; meet and confer with counsel over sufficiency of first responses; prepare and file motion to compel (if needed); produce copies of documents to defendant in electronic form; begin review of documents in electronic form that have been received from defendant; prepare log of documents withheld from discovery due to claims of privilege or work product ✓ <u>Continue to prepare for claim construction hearing</u>: Identify key documents from prosecution history, plaintiff and defendant that are pertinent to claim construction; confer with expert(s) (if needed) towards proper claim construction; prepare joint claim construction report and file with court to identify terms in 	<p>Fees: \$200-700k Costs: \$15-40k Local counsel: \$10-20k</p>

Month of Event	Activity on Behalf of Plaintiff	Estimated Fees and Costs
	<p>dispute; review technical and/or legal expert report(s) on claim construction; depose defendant's expert(s) for claim interpretation; prepare opening brief on claim construction; review defendant's opening brief on claim interpretation</p> <ul style="list-style-type: none"> ✓ <u>Continue settlement efforts</u>: Communicate with plaintiff and counsel for defendant to negotiate terms for settlement; arrange for logistics of mediation; prepare confidential mediation statement and send same to selected mediator; participate in mediation 	
7-9	<ul style="list-style-type: none"> ✓ <u>Claim construction hearing</u>: Prepare and file response briefs on claim construction; prepare and file reply briefs; prepare for and argue on behalf of plaintiff at oral hearing on claim construction ✓ <u>Phase 3 of discovery</u>: Complete review of plaintiff's documents and produce responsive documents to defendant; continue to review documents and invalidity/noninfringement contentions received from defendant; identify key documents for use in corporate representative and fact witness depositions; prepare for and take depositions of defendant's corporate representative and fact witnesses; defend depositions of plaintiff's corporate representative and fact witnesses; work with plaintiff's technical and damages experts to prepare expert reports; review reports from defendant's experts; prepare for and take/ defend depositions of expert witnesses ✓ <u>Continue settlement discussions</u> 	<p>Fees: \$300-800k Costs: \$20-40k Local counsel: \$3-6k</p>
10-12	<ul style="list-style-type: none"> ✓ <u>Close of discovery</u>: Prepare for and take any remaining depositions of fact witnesses; produce any late-discovered documents and review same from defendant ✓ <u>Dispositive motions practice</u>: Prepare, file or respond to one or more motions for partial or complete summary judgment on infringement 	<p>Fees: \$200-700k Costs: \$15-40k Local counsel: \$9-20k</p>

Month of Event	Activity on Behalf of Plaintiff	Estimated Fees and Costs
	and/or validity issues; prepare, file or respond to one or more motions to dismiss or <i>in limine</i> to limit expert or fact testimony, attend oral hearings before court on motions ✓ <u>Continue settlement discussions</u>	
13-15	✓ <u>Pretrial preparation</u> : Identify trial exhibits; identify deposition designations and counter-designations; prepare pretrial disclosures, pretrial order, proposed jury instructions (if jury is requested) and motions <i>in limine</i> ; prepare for and conduct mock trial to refine case theories and evidence presentation; attend final pretrial conference before presiding judge; prepare opening statement, outlines of direct and cross examination, and closing statement, prepare trial brief (if required) ✓ <u>Continue settlement discussions</u>	Fees: \$500-900k Costs: \$15-40k Local counsel: \$9-20k
16-18	✓ <u>Conduct trial</u> : Select jury (if jury desired), prepare fact and expert witnesses; present testimony of fact and expert witnesses; cross examine witnesses for defendants; present plaintiff's rebuttal case ✓ <u>Continue settlement discussions</u> ✓ <u>Post-trial briefing</u> : Prepare and submit post-trial briefs	Fees: \$500-900k Costs: \$15-40k Local counsel: \$9-20k
TOTAL ESTIMATED LEGAL FEES		\$1.9M to 5.0M

The overall cost estimates in the above table are generally in line with reported ranges for patent litigation where \$1-25 million in damages is at stake. (Source: 2011 AIPLA Report of the Economic Survey)

Appeal costs were not included in the table. Relative to the costs of district court trial proceedings, however, the costs for the appeal are usually much less. The cost for an appeal from a district court decision in a typical case will likely be on the order of \$25,000 to \$100,000 depending on your status as an appellant (lost at the district court and have to pay for the appendix on appeal) or an appellee as well as the number and type of issues in the appeal.

Perennial Considerations

There are few constants in life, but there are a few when it comes to litigation costs. This is my list:

- Every plaintiff would like to recover more in a judgment than the case costs to go through the proceeding. Litigation as a profit center can work for some cases, but not necessarily those cases where the infringement has just begun and the real value lies in the potential injunction and the protection of the patentee's own sales margins.
- The availability of a potential recovery will also drive the incentives for, or against, legal representation based on a conventional contingency fee arrangement. Because legal service fees can easily top \$2 million, some firms have established a cut-off of as high as \$40 million in actual damages before a contingency fee arrangement can be considered.
- A detailed case analysis is critical before client or lawyer can decide on a fee arrangement. Thorough investigations into claim interpretation, validity, infringement and how these three interact all have to be analyzed to identify the issues that an opponent might raise. Both plaintiff and defendant will look for key decisions that could represent benchmarks for an alternative fee arrangement.
- Even the best and most detailed case analysis will miss something. Count on it. Litigation involves two parties. If your opponent elects to take an aggressive posture and not cooperate, the litigation costs will go up.
- Litigation costs can be avoided by settlement. Settlement usually occurs fastest when both sides have accurate, realistic information about the weaknesses of their case. This is likely the reason many courts have adopted local rules that require early disclosures of infringement and validity contentions. Thus, overreaching settlement demands early in the case by either plaintiff or defendant will likely make the opponent feel that better odds are with more litigation.
- Lastly, patent litigation becomes very expensive when it becomes personal or "bad blood" becomes the motivating force. "Make'em hurt" is a very expensive proposition even if emotionally gratifying.

Litigation over patent infringement issues is always expensive. A keen focus on the merits of the case with a realistic business eye towards the certainty of settlement are two ways to help reign in these costs.

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