

Why Patent Litigation Costs Appear To Be Going Down

By **Scott McBride** (September 30, 2019)

According to the just-released American Intellectual Property Law Association "Report of the Economic Survey," it appears that the cost of patent litigation in U.S. district courts has largely remained constant during the last decade. During that period, the low end of the range for the median cost of such litigation has stayed about level, and the top end of the range has decreased. In 2009, the median patent litigation cost through post-trial (fees, expenses and costs) was \$650,000 to \$5.5 million.[1] By 2013, that range was \$700,000 to \$5.5 million.[2] By 2019, the range was \$700,000 to \$4 million.[3]



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Does this make sense? And if it does make sense, how can this be?

Some of the likely reasons for this steadying or drop make sense. But some of the reasons are misleading — as they merely reflect, for example, a shift in cost from one proceeding (or one type of proceeding) to another.

First, since September 2012, the Patent Trial and Appeal Board has been available as an alternative venue in which to challenge patentability (validity). Inter partes review and/or covered business method review have been available before the PTAB for nearly all patents at nearly all times. Post-grant review has been available at other times for America Invents Act patents (i.e., patents with an effective filing date after March 15, 2013).

Reexamination, which existed previously, was not a viable option in many patent cases. Inter partes reexamination took several years, and ex parte reexamination did not permit ongoing participation of the accused infringer. Validity (in the form of patentability) is now challenged before the PTAB concurrently to district court litigation in nearly every dispute. This frequency is likely to increase now that the PTAB now applies, in IPRs, the same claim construction standard as district courts (for IPRs filed after Nov. 12, 2018).

Thus, if the median cost of the litigation in U.S. district courts has actually steadied or gone down, one of the likely reasons for this is a mere shift in cost. Costs have been shifted from district court litigation to IPRs.

One positive about IPRs is that they are almost always less expensive than district court litigation. For example, in district court litigation, invalidity contentions frequently extend hundreds or thousands of pages to purportedly "preserve" all rights and to address all possible combinations of references and arguments. In IPRs, on the other hand, the parties must select only their best arguments, as they have only a limited number of words to make their case for or against patentability.

Second, along with the creation of IPRs, many district courts have routinely stayed district court litigation during the pendency of IPRs. For many of these stayed cases, the district court litigation never had a chance to restart due to either settlement (16% so far)[4] or a final decision of unpatentability of all claims from the PTAB (63% of all final decisions so far).[5] This has made patent litigation even less likely to reach a trial in U.S. district court. The likelihood of obtaining a stay has also increased with court precedent and a recent change in U.S. Patent and Trademark Office rules.

For example, the U.S. Supreme Court's 2018 decision in *SAS Institute Inc. v. Iancu* made the IPR an all-or-nothing endeavor, and it eliminated "partial institution" on only certain challenged claims.[6] And in January the U.S. Court of Appeals for the Federal Circuit in *AC Technologies SA v. Amazon.com Inc.* held that if the PTAB institutes an IPR, it must address all grounds for unpatentability that the petition raised.[7]

These decisions eliminated an often successful argument against a stay (that at least some of the asserted claims would remain unaffected by the IPR). Also, the USPTO has changed its claim construction standard to match the standard in district courts, effective Nov. 13, 2018.[8] This change eliminates another argument against a stay going forward, as IPRs are more likely to simplify district court proceedings because the PTAB will construe claims first and will apply the same standard the district court uses.[9]

Third, starting in Sept. 2012, the America Invents Act eliminated the ability of patent owners to sue unrelated defendants in the same action.[10] Because the AIPLA survey assumes a single patent in a single civil action, the median cost of litigation may be lower for each individual action, even though a patent owner may need to bring multiple actions under the AIA, where it could have previously brought only one. This tends to reduce the median cost per action for at least patent owners.

Fourth, motions to dismiss patent cases for ineligible subject matter were bolstered significantly in 2014. In *Alice Corp. v. CLS Bank International*, the U.S. Supreme Court strengthened a previously seldom-used challenge — patent ineligibility under 35 U.S.C. Section 101.[11] Many such challenges have been successfully made, including at the pleadings stage as either (1) a motion to dismiss (Federal Rule of Civil Procedure 12(b)), or (2) a motion for judgment on the pleadings (FRCP 12(c)). Thus, in the five years since *Alice*, many patent litigations have been shortened dramatically, and their cost significantly decreased.

Fifth, more and more district courts have adopted patent local rules. In December 2000, the U.S. District Court for the Northern District of California adopted the first district-wide patent local rules.[12] By 2013, 25 more district courts had adopted patent local rules,[13] and since then several more district courts have done so, including Massachusetts, Western New York, Kansas, Western Missouri, Colorado and Utah.[14] The stated purpose of such rules is to "improve judicial efficiency and [to] provide structure to complex patent cases." [15]

In the author's experience, patent local rules almost always improve efficiency and decrease overall cost. Instead of fights over the timing of responses to contention interrogatories, for example, patent local rules provide times certain by which contentions must be disclosed and call out specific reasons for which such disclosures may be amended. Moreover, some district courts with large numbers of patent cases, but no official patent local rules, still provide for staged disclosures and contentions in patent cases.[16]

Sixth, the Supreme Court's 2017 decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC* also narrowed the venues in which accused infringers may be sued.[17] As a practical matter, this means that even more cases were filed (and will continue to be filed) in Delaware. In essence, *TC Heartland* generally makes patent litigation more efficient because more patent cases are filed in Delaware, a jurisdiction that is very familiar with such cases.

Finally, there is no doubt that, as more law firms and lawyers become involved in patent litigation, pricing has become more competitive. But it is definitely not a commodity, nor should it be viewed as one (as patent prosecution sometimes is (improperly)). The unique

aspects of patent litigation and the unique issues that arise in a given case should keep the inexperienced away from patent litigation, especially in “bet-the-company” cases.

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[1] AIPLA, 2017 Report of the Economic Survey at 41.

[2] AIPLA, 2019 Report of the Economic Survey at 50. This article addresses the median cost of all varieties of patent litigation, without differentiating between district court litigation, Section 337 investigations (ITC), Hatch-Waxman (ANDA), or Non-Practicing Entity litigation.

[3] See *id.*

[4] Patexia Insight 52: Patent Litigation Down 14 Percent and IPR Down 7 Percent in 2018, <https://www.patexia.com/feed/patexia-chart-52-patent-litigation-down-14-percent-and-ipr-down-7-percent-in-2018-20190101> (Jan. 2, 2019).

[5] Trial Statistics – IPR, PGR, CBM, slide 10 https://www.uspto.gov/sites/default/files/documents/Trial_Statistics_2019-07-31.pdf (July 2019).

[6] 138 S. Ct. 1348 (2018).

[7] 912 F.3d 1358, 1364 (Fed. Cir. 2019).

[8] Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the PTAB, 83 FR 51340, <https://www.federalregister.gov/documents/2018/10/11/2018-22006/changes-to-the-claim-construction-standard-for-interpreting-claims-in-trial-proceedings-before-the->

[9] See Jennifer Bush, Changes in PTAB Trial Practice May Lead to Increase in District Court Stays (July 20, 2018), <https://www.betweentheparties.com/2018/07/changes-ptab-trial-practice-may-lead-increase-district-court-stays/>.

[10] See 35 U.S.C. § 299.

[11] See 134 S. Ct. 2347 (2014).

[12] James Ware & Brian Davy, The History, Content, Application & Influence of the Northern District of California’s Patent Local Rules, 25 Santa Clara High Tech. Law Journal 4 (2009), available at <https://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=1493&context=chtlj>.

[13] Ben Hodges, Local Patent Rules: A Survey of District Courts, available at <https://www.americanbar.org/groups/litigation/committees/intellectual->

property/articles/2013/local-patent-rules-a-survey-district-courts/.

[14] District of Utah Adopts Local Patent Rules (effective Dec. 1, 2013) [https://content.next.westlaw.com/Document/Ib97b241a643711e38578f7ccc38dcbee/View/FullText.html?contextData=\(sc.Default\)&transitionType=Default&firstPage=true&bhcp=1](https://content.next.westlaw.com/Document/Ib97b241a643711e38578f7ccc38dcbee/View/FullText.html?contextData=(sc.Default)&transitionType=Default&firstPage=true&bhcp=1) (behind paywall); Western District of New York Proposes Local Patent Rules (effective Jan. 1, 2014) [https://1.next.westlaw.com/Document/Ib97b23de643711e38578f7ccc38dcbee/View/FullText.html?contextData=\(sc.Default\)&transitionType=Default&firstPage=true&bhcp=1](https://1.next.westlaw.com/Document/Ib97b23de643711e38578f7ccc38dcbee/View/FullText.html?contextData=(sc.Default)&transitionType=Default&firstPage=true&bhcp=1) (behind paywall); U.S. District Court in Colorado Adopts Local Patent Rules (June 25, 2014) <https://www.hollandhart.com/us-district-court-in-colorado-adopts-local-patent-rules;> New Local Patent Rules [for the District of Kansas] (effective August 14, 2017) <http://ksd.uscourts.gov/index.php/2017/07/12/new-local-patent-rules/>; District of Massachusetts Adopts New Local Patent Rules to Streamline Patent Litigation (June 1, 2018) <https://www.jdsupra.com/legalnews/district-of-massachusetts-adopts-new-73385/>; Western District of Missouri – Patent Local Rules (May 14, 2019) <https://www.mow.uscourts.gov/sites/mow/files/Patent-Local-Rules-with-Scheduling-Orders.pdf>.

[15] Ben Hodges, Local Patent Rules: A Survey of District Courts, available at <https://www.americanbar.org/groups/litigation/committees/intellectual-property/articles/2013/local-patent-rules-a-survey-district-courts/>.

[16] See Jeff Castellano, The Latest Pretrial Procedures in the District of Delaware, <https://www.law360.com/articles/1142297/the-latest-pretrial-procedures-in-the-district-of-delaware> (Mar. 25, 2019); Delaware Default Standard for Discovery, Including Discovery of Electronically Stored Information (“ESI”), pp. 4-5, https://www.ded.uscourts.gov/sites/ded/files/pages/Electronic%20Discovery%20Default%20Standard_0.pdf.

[17] **TC Heartland, LLC v. Kraft Foods Group Brands, LLC**, 137 S. Ct. 1514 (2017).