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What To Do When Hit with a Patent Infringement Lawsuit

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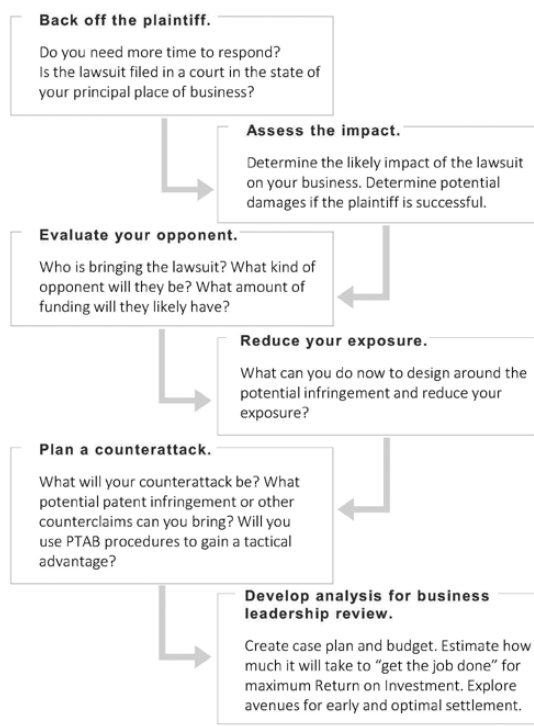
Karen McDaniel is an intellectual property attorney at Taft with more than 35 years' experience assisting clients with intellectual property matters. A veteran of more than 75 lawsuits involving IP, Karen has been entrusted with cases having significant economic impact to her clients. She has secured damages awards on behalf of clients totaling several hundreds of millions of dollars (in reported decisions) and has recovered or helped her clients to avoid paying many times that amount in defense verdicts and confidential settlements and license agreements. Karen's previous experience as in-house litigation counsel to the largest medical device manufacturer in the world means she understands litigation from the client's point of view and employs client-driven values in her practice today. Her full biography can be found at taftlaw.com/people/karen-d-mcdaniel/.

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It's a bad day when your company gets sued. But when you've been hit with a patent infringement lawsuit, it's even worse. Perhaps you've been down this road before, and you know that patent litigation is expensive and very time-consuming for your employees. Or perhaps this is your company's first time being sued for patent infringement, so you do not know what to expect, but you've heard the horror stories. It doesn't have to be horrible, though. Patent litigation is an event that, if managed properly, can help you achieve your business objectives, even when you're the one who's been sued. We're about to tell you how.

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ROI-Focused Flowchart for Patent Infringement Litigation: Defense



Where to begin?

We start with the premise that more than 95% of patent infringement lawsuits settle before trial. As the party sued (the defendant), you want to use that information to your advantage. The more quickly you can reach a negotiated agreement with the party who brought the lawsuit (the plaintiff), the fewer costs you will have in defense of litigation. Developing a case plan that has several off ramps for settlement opportunities is critical to your strategy — as is understanding your anticipated expenses.

This article outlines what your next steps should be, and which to focus on first.

Back off the plaintiff. Getting this lawsuit under control and doing so fast is important to your ultimate success in litigation. What is the first thing to

do? Back off the plaintiff. Take some wind out of their sails. Seek more time to respond if needed. Explore changing the location of the lawsuit if appropriate. Consider an early motion to gut at least a portion of their case and make them think twice about pursuing the lawsuit.

Assess the impact. Naturally, expenses can vary greatly, but a general rule of thumb is that costs increase where there are more allegations (typically, more patents) in play, how much money is at stake, and how far the proceedings progress. The American Intellectual Property Association (AIPLA) Economic Survey for 2023 reports statistics for patent litigation on a per-patent basis. See *AIPLA Report of the Economic Survey 2023*, 2023. AIPLA reports that it costs \$300,000 per patent to take a patent lawsuit alleging less than \$1 million in damages through discovery and claim construction (a required phase in all patent litigation), and another \$600,000 per patent to take that case through trial and appeal. *Id.* at 61. Where the damages increase to between \$1 million and \$10 million, those numbers increase to \$600,000 and \$1 million per patent, respectively. *Id.* Where the damages alleged are between \$10 million and \$25 million, those numbers balloon further yet to \$1.5 million and \$3 million per patent, respectively. *Id.* And where damages alleged exceed \$25 million, AIPLA reports it will cost more than \$1.5 million per patent to take the case through claim construction and discovery, and an additional \$3.625 million per patent to take the case through trial and appeal. *Id.* If the technology is more complex, such as is the case with pharmaceutical-related patents, those costs can rise by more than 50%.

Evaluate your opponent. You'll want to also do some research now around your opponent and the impact that the lawsuit may have on your business if the plaintiff is successful. What could those damages look like if the plaintiff ultimately wins the litigation? What kind of opponent are they likely to be? Are they well-funded? What is their history with litigation and with the patent they have asserted against you?

Reduce your exposure. Now is also a great time to get your engineers working on a design-around to avoid infringement. Even if the plaintiff has a good infringement case against your current product, if you change that product to avoid the infringement, damages will necessarily stop once you change over to the new product. Make sure you get a seasoned patent attorney involved with that design-around effort, too. It will ensure that your design-around really does avoid the claims of the plaintiff's patent.

Plan a counterattack. You'll also want to consider your counterattack and your defenses. Do you

have any counterclaims to bring? For example, do you have a patent that the plaintiff may be infringing? Now is the time to do that analysis. It will help to level the playing field. You may also have other counterclaims you can bring. How has the plaintiff been behaving in the marketplace? Get your sales team involved to find out what has been going on out there. It may be that the plaintiff has been behaving in a way that gives rise to a business tort, such as unfair competition. Your lawyer can help you identify whether the behavior of the plaintiff has created a legal cause of action.

In terms of your defenses, figure out your non-infringement theory. Determine on what basis you will attack the plaintiff's patents. Maybe they are invalid for anticipation, or for obviousness. Maybe there is some defect in the prosecution history that you can exploit to your advantage.

And speaking of gutting at least a portion of the plaintiff's case, now is the time to consider an inter partes review (IPR) or other procedure managed by the Patent Trial and Appeal Board (PTAB). An IPR costs a fraction of the price of a lawsuit. For example, while IPR costs vary with the technology involved, AIPLA reports IPRs cost, on average, between \$100,000 and \$200,000 to draft and file the Petition, and between \$350,000 and \$600,000 to take an IPR through the hearing and trial. *AIPLA Rpt.*, at 63. IPRs can result in the plaintiff losing one or more of the patent claims asserted against you due to patent invalidity. Many courts will stay the litigation while the PTAB proceeding occurs and the plaintiff will be waiting longer to get its case to trial and receive a judgment (the money from damages awarded due to your company's alleged infringement). And, guess what else? Commencing a PTAB proceeding is another potential off-ramp to settlement.

Develop analysis for business leadership review. You will want to develop a case plan and budget. Estimate how much it will take to "get the job done." What this means for you as the defendant is getting the best possible outcome for the least amount of investment in the case (both in terms of time and money). Think about what the plaintiff has that you might need. What is the scope of a license to the patent that would allow you freedom to operate? What can you pay for a license and still make a reasonable profit on the product (at least until you design around)? Remember, the sooner you can get that license, the sooner this case will go away and the less you will pay in discovery costs and other litigation expenses.

What if my company's patent is being infringed? If you are on the other side of the equation, there are different steps your company should take to evaluate how to enforce your patents from

the plaintiff's perspective. Stay tuned for more on this in our next issue.

Bottom line: protect your company's bottom line

Litigation is an event that can be managed, just like any other business process. An intellectual

property attorney can guide you through your analysis to ensure important details are not overlooked. It takes upfront planning and ongoing management to have a successful litigation event. Don't let the plaintiff and their lawsuit control you. Take charge of your own destiny and protect your company's bottom line.

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