

GUARDING THE TREASURE: IP VALUATION & REMEDIES

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Patent Nation: Strategies for limiting payouts and damage awards to patent trolls

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What is a “patent troll” ?

- Troll: to fish by trailing a line or net.....
- *Troll*: a Scandinavian folkloric creature, hostile to men, lives under bridges and seizes those who try to cross without paying.....
- “Patent Troll:” a 2001 neologism (disavowed in 2007) by Peter Detkin, an in-house attorney at Intel:
 - “A patent troll is somebody who tries to make a lot of money from a patent that they are not practicing and have no intention of practicing and in most cases have never practiced.”
 - The Recorder, *Trolling for Dollars*, July 30, 2001

What created patent trolls?



- Patentability
- Over-broad
- Congested courts
- Time-consuming to defendants and their staff
- Costs
- 990s tech boom
- USPTO lacks funding

Perspective



- A Matter of Perspective:
 - Texas Instruments: Millions a year comes in the form of licensing fees
 - IBM Reported: \$1.2 billion in licensing fees in their 1992 Annual Report
 - Qualcomm: One-third of their yearly revenue comes from licensing fees.
- Increasing phenomenon of large companies “monetizing” their portfolios in market segments where they are no longer active.
- “In America alone, technology licensing revenue accounts for an estimated \$45 billion annually; worldwide, the figure is around \$100 billion and growing fast.”

The Economist, A Survey of Patents and Technology, October 22, 2005

Perspective, ctd.



- **Selden** – automobile
- **Lemelson** patents: Jerome Lemelson – “machine vision” patents applied to bar code –
 - \$1 billion over 30 years; prosecution *laches*
- **Present day trolls** –
- **Acacia Research Corp** and related companies
 - Publicly traded
 - Claims 35 patent portfolios with more than 130 U.S. patents
 - Over 200 lawsuits brought by over 30 different companies
 - Over 30 pending cases at any one time in broad array of fields
 - \$35 million in revenue in 2006 from 126 new licensing agreements
 - Market cap from \$35M in 2003 to \$350M today

Perspective, ctd.



- **Constellation group of companies** (Plutus, Orion, Taurus, Constellation)
- **Ronald Katz**
 - Over 50 patents related to call center technology
 - \$750 million in licensing fees
- **Data Treasury**
 - Has sued over 50 banks and financial institutions on patents claiming check imaging technology.

Selden's Patent



- **Road Engine**
- Patent No. [549,160](#)
- Inventor: George Selden, Rochester, New York
- Filed: May 8, 1879
Issued: November 5, 1895
- This patent represents a forgotten episode in the history of the automobile. The question of who invented the motor car is an open one - Ford, Daimler, Duryea, Cugnot all lay claim to the title of "Father of the Automobile" - but you will seldom hear the name of **patent attorney George Selden** of Rochester, New York, mentioned.

Selden's Patent, ctd.



- Selden applied for a patent on the "Road Engine" in 1879. Sensing that the time was not right for a horseless carriage, he delayed issuance of the patent until 1895, by which time a young automobile industry was growing in the USA. Although he had no interest in manufacturing his invention, he was very interested in benefiting from it. Under threat of suit, almost all of the manufacturers took out **licenses from Selden**, or from the Association of Licensed Automobile Manufacturers (ALAM), to whom he sold the patent. In fact, on most cars built during the next ten or fifteen years you will find a small brass plaque reading "Manufactured under Selden Patent."
- The patent was declared invalid one year before it was set to end.



Interesting site:
<http://trolltracker.blogspot.com>

- **TrollTracker Reads:**

- [Dennis Crouch's Patently-O Blog](#)
- [Peter Zura's 271 Patent Blog](#)
- [Patent Prospector](#)
- [Michael Smith's EDTX Blog](#)
- [Delaware IP Law Blog](#)
- [Chicago IP Litigation Blog](#)
- [Phillip Brooks' Patent Infringement Updates](#)
- [Just a Patent Examiner](#)
- [SCOTUSBlog](#)
- [Patently Silly](#)

Good target companies



Companies attractive to patent trolls ~

- Are high-profile
- Have deep pockets
- May be in a group of companies that all use the same type of technology or method
 - Esp. in computer software and programming
 - Esp. in financial services industry

Most attractive ~

- Are well-known licensees or customers because
 - Less capable of proving non-infringement
 - Product sells at high price than component itself
 - Well-known name gets more publicity in “licensing” announcement
 - Believe it’s a “cost of doing business”
 - Will agree to a “vertical” or “most favored licensee” clause

Good target companies, ctd.



- **Patent Troll Strategies ~**
 - Demand less than risk, including litigation costs, to defendant
 - Prepared for validity attacks (reexamination)
 - Maintain appearance before judge

Trolls prefer patents that are:



- Intangible
- Involve the use of a critical system
- Are directed to high-volume items or production
- Are related to products or services with high profit-margins that could handle a license fee
- Are suitable for a “licensing” program that will give troll a “reasonable” royalty

Why do patent trolls succeed?



- The actions amounting to “Patent Trolling” are (arguably) 100% lawful.
- Patent law provides the patent owner with the “right to exclude others from making, using, or selling an invention,” regardless of whether or not the owner manufactures it.
- Patents that trolls obtain are relatively inexpensive, making it easier and more enticing to acquire them in masses.
- Well-financed these days – hedge funds?

Why do patent trolls succeed, cont'd.



- Cost minimization through:
 - Fast dockets for early trial dates (e.g, E.D. Va., E.D. Tex., N.D. Cal.).
 - Single, favorable venues.
 - Clustering multiple defendants in a single venue.
 - Providing one set of documents early in the case and then maintaining position that there are no other documents to be had.
 - Avoiding motions practice and discovery proceedings.
- It is often easier and less costly for an operating company to settle than to litigate.
 - The risk of an injunction is too great.
 - Patent infringement litigation can cost upwards of \$2 million.
 - Microsoft settles dozens of infringement suits every year.

Why do patent trolls succeed, cont'd.



- Not concerned with exposure to liability.
 - Often no assets other than patents and no business other than litigation, whereas other companies believe litigation is a distraction/burden.
 - Don't fear counterclaims for patent infringement and/or unfair trade practices like other patent holders do.
 - Not afraid patent will be invalidated and cause the loss of jobs for its employees, like producing companies.
- Typically hire attorneys on a contingent fee basis or have them in-house.
 - In many years, Lemelson's attorney supposedly made more than the total profits of Cravath, Swaine and Moore.
- No pressure from customers to settle litigation.
- No board members and shareholders to whom they need to answer and who may not want to enter into litigation.
 - Can be more aggressive and take more risks.



Recent cases

- MercExchange v. eBay (eBay's *Buy It Now* Feature)
- New Technologies Products (NTP) v. RIM (manufacturer of Blackberry)
- Rates Technology, Inc. (RTI) v. Google, Inc.
- Eolas Technology v. Microsoft
- Forgent v. Time Warner, DirectTV, etc.
- Sharp (most sophisticated patent troll yet)

How to respond to prevent or limit payouts or damages, cont'd.



- Don't be intimidated
- Put it into appropriate hands immediately
- Preserve evidence promptly
- Notify your carrier and assess insurance coverage
- Investigate and analyze demand
 - Check the chain of title
 - Identify what the patents are and what they read on
 - Check for similar patents or articles by same inventor, *etc.* that were not disclosed to the Patent Office
 - Check on access to actual inventor (may be disgruntled)
 - Ask for prior licenses and prior rates in the industry

How to respond to prevent or limit payouts or damages, cont'd.



- Evaluate Claims
 - Get a claims chart if possible (unlikely)
 - Obtain an evaluation on infringement
 - Commission an opinion of non-infringement or invalidity to cut off any allegation of *willful* infringement.
 - Review asserted patents for validity, including checking your own prior products
 - Present strong prior art early
 - Consider counterclaims, although usually not effective against a Troll (antitrust, unfair trade practices, *etc.*)
- Respond to the cease-and-desist letter preliminarily if appropriate
- Announce up front that – whatever the outcome – you will require confidentiality

How to respond to prevent or limit payouts or damages, cont'd.



- If you believe their patent is vulnerable – fight it all the way
- Look at what other patents the Troll has in its portfolio (In case you might finish one lawsuit and get hit with another).
- Seek another venue if possible
 - Troll does not want to be distracted by a unique lawsuit in a different venue.
 - If Troll names holding-company with no contacts in its favored venue, file a declaratory judgment action in a venue favorable to holding company. Might force dismissal without prejudice of both actions and settlement discussions.
- Look at any prior comments or valuations of the patent.
 - Company might have made statements in past undervaluing the patent in a negotiation with a potential buyer of the patent. Can make great evidence if found in admissible format.

How to respond to prevent or limit payouts or damages, cont'd.



- **Possible 3rd-party claim?**

- See if any indemnity obligation on the part of a vendor.

- Use the threat of a very-interested indemnitor, if you can.

- Indemnification vs. UCC Section 2-312(3)?

- Breach of contract?

- Fraud in the inducement?

- Negligent misrepresentation?

- **Choose your position**

- Consider re-examination of the patent

- Pros and Cons

- Consider Declaratory Judgment Action

- Rule 11 Analysis

- Patent Troll may have skimmed on this analysis in order to save money

- Settle – expensive, but could be less expensive and disruptive than litigation

How to respond to prevent or limit payouts or damages, cont'd.



- **Percentage of patent cases that settle:***
 - 2005: 85.9%
 - 2006: 86.5%
 - ` * Prof. Paul Janicke, University of Houston Law Center, *Patent Litigation Remedies: Some Statistical Observations*

How to respond to prevent or limit payouts or damages, cont'd.



- Other companies agree to “vertical arrangement” offers or “most favored licensee” clauses.
 - Troll says you will get a better deal if you are the first Tall Widget company to agree to a license.
 - Troll claims it is ‘forced’ to sue your company because of a most favored licensee clause in another license signed previously with another company.
- Use contacts to find other defendants or likely targets
- Form a working group

Less appealing possibilities



- Change the product or process at issue to design *around* the patent - to cut off damages exposure going forward and to have a clearly defined economic case.
- Determine whether client/company is willing to let name be used on licensee list for lower license fee.
- Determine whether client/company is willing to acknowledge validity in exchange for reduced license fee.
- Determine whether Troll is interested in the right to enforce your client's own patents

How to respond and limit payouts/damages



- **A counterclaim of champerty***:
 - One state that recognizes **champerty**, albeit in a very limited sense, is New York (see New York Judiciary Law § 489). New York is one of the very few jurisdictions that has found specific IP agreements champertous in the recent past:
- **Refac Int'l, Ltd. v. Lotus Dev. Corp.**, 131 F.R.D. 56 (S.D.N.Y. 1990) - found assignment champertous where a five-percent interest in the patent was contracted in exchange for Refac's obligation to sue at least two alleged infringers within one month. The patent was subsequently invalidated for inequitable conduct by the Federal Circuit, but no opinion was given on appeal with regard to the agreement itself.
- **American Optical Co. v. Curtiss**, 56 F.R.D. 26 (S.D.N.Y. 1971) - the assignment of certain IP that was expressly conditioned on the assignee bringing suit was champertous, and therefore void.
- *<http://271patent.blogspot.com/2006/09/revisiting-champerty-and-patent.html>

How to operate your business proactively



- Know your own client.
 - Its objectives, exposure, tolerance for risk, and view of litigation.
- Know your own landscape.
 - Who owns patents in your field?
 - Should you acquire those patents?
- Do a prior art search before starting a development project.
- Do a product clearance before a product release.

How to operate your business proactively, ctd.



- Protect your own products with patents: build a patent portfolio
- Join in with a competitor and/or vendor – operating companies banding together to jointly-acquire patents from inventors in a defensive move (taking away trolling weapons)
- Obtain an opinion to minimize damages
- Investigate *Patent Infringement Insurance*
- Be careful you don't become a troll: Makes it harder to argue someone else is....

Good targets' backlash – plus reform possibilities



- Many high tech companies have banded together to lobby Congress for increased statutory protection.
- Cisco attorneys reported last year that not a single case they face is brought by a competitor or a product company, and that was not the case 10 years ago.
- Change “first-to-invent” to “first-to-file”
- Stricter standards for injunctive relief (eBay)
- Challenge patent > 6 mos after publication
- Base damages on % contribution to “infringing” devices, rather than gross sales
- Loser pays all fees
- Eliminate continuing applications

The End



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