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# How to Defend Against Patent Trolls Without Breaking the Bank



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# Foreword

Trolls – those who seek to enforce patent rights, but do not actually manufacture or supply services based on the patents – are a problem for almost all companies. Also known as “non-practicing entities” or “NPEs,” trolls are filing claims of patent infringement with increased regularity and have become an unfortunate fact of business life in the United States. In 2012, almost 60% of all patent suits were filed by trolls, with over 6,000 companies sued by trolls.<sup>1</sup> Of the companies sued by trolls, about 55% had revenues of \$10 million or less per year.<sup>2</sup>

Your company can be sued by a troll (or by a “legitimate” patent owner) if it makes, uses, sells, offers to sell, imports an item, or practices a method for conducting business (e.g., a method for distributing copyrighted material over the Internet) that is covered by a U.S. patent. Your company can be sued for patent infringement even if it does not directly infringe, but rather induces others to infringe or contributes to their infringement. Because of the patent laws’ breadth of protection, no sector of American business is immune from trolls. Retailers, manufacturers, financial services companies, and investment funds are all potential targets, as are companies at every step of the supply or service chain.

## Patent litigation can cripple a company.

- For example: Defending a patent case against trolls is expensive, with the average cost of a “small” case (projected liability under \$10 million) at \$1.25 million, a medium-sized case (projected liability of \$10-\$25 million) at \$2.4 million, and a large case (projected liability more than \$25 million) at \$4 million.<sup>3</sup> Depending on where the suit is pending, the median time to trial is 2.3 years, though a case can take anywhere from 1-3 years to go to trial,<sup>4</sup> plus an additional year for the first round of appeals. In some instances, a patent case can take 10 years or more from start to finish.
- Potential damages for patent infringement usually take the form of a reasonable royalty – what you would pay for a license to the patent knowing that the patent is valid and infringed. One study of royalty rates awarded in litigation over a 23-year period concluded that the average rate was about 13% of the price of the infringing product.<sup>5</sup> Another study reveals that, inexplicably, the median damages awarded to trolls

## A troll’s business model is simply to get as much money as possible, typically as soon as possible.

are twice the median award for practicing entities.<sup>6</sup> In addition, increased damages (up to three times the award) are available if the infringement is “willful,” and attorney’s fees can be awarded in “exceptional cases.” (Generally, court injunctions are not available to trolls since they do not make a competing product. But trolls are starting to bring actions in the International Trade Commission to prevent importation of allegedly infringing products.)<sup>7</sup>

- Executives and key employees are distracted from growing the business. And investors, partners, and customers are often scared of being involved with a company that is the subject of a patent suit.

While the definition of a troll is open to debate, a universally accepted characteristic is that the troll is not seeking to stop infringement by a competitor or to recover actual damages (i.e., lost profits) resulting from the infringement. A troll’s business model is simply to get as much money as possible, typically as soon as possible.

Since trolls do not produce anything (they cannot be counter-sued for patent infringement as competitors often can be), and are often bank-rolled by investors whose sole purpose is to engage in litigation or by law firms that work on a contingency, trolls do not have the business motives of a competitor.

In this paper we set out suggestions for resolving threats from and lawsuits brought by trolls without spending millions of dollars and having your business disrupted for years. Conventional wisdom of how to best defend a patent case does not always make business sense as it is often the most conservative, expensive, and time-consuming approach. Winning a case means little if your company does not survive.

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# Settle with the Troll

Trolls are in business to make money and often will take less to settle a case quickly against a smaller defendant in order to build its war chest to pursue larger defendants.

While many claims of patent infringement brought by trolls are frivolous and may even be made with the hope that the target will settle quickly in order to avoid the costs associated with defending the claim – a classic strike suit – that does not mean that a claim made by a troll lacks merit. It is important to keep in mind that a patent asserted by a troll has gone through the same examination procedure in the U.S. Patent Office as patents owned by non-trolls. Moreover, patents asserted by trolls are often acquired from reputable, multi-national corporations that sell patents they no longer need to the highest bidder.<sup>8</sup>

While settling a frivolous case presents philosophical issues – do I want to pay off extortion? – settling a claim that is not frivolous does not raise such issues. It is a valid exercise of business judgment to avoid disruption, uncertainty, and the risk of a significant damages award.

A quick settlement can:

- Cost less than legal fees to fight the case.
- Limit distraction to the company.
- Avoid uncertainty and negative publicity that can scare off investors and customers.
- Avoid having to set up litigation reserves or contingency funds.

There are, however, downsides to a quick settlement:

- Trolls know which companies are quick to settle, regardless of merit.
- You may end up paying more than you would after you have a chance to challenge the patent and infringement.

It is important to note that trolls want to settle for an up-front, lump-sum cash payment, rather than an ongoing royalty stream. First, cash in hand has fewer risks. Second, ongoing payments stop if the patent is declared invalid. In other words, if you or another alleged infringer successfully challenge a patent's validity, then payments, including ones agreed to in a settlement, stop.

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## Summary and Recommendation

Settling a case early allows you to avoid the costs and disruption associated with a drawn-out battle, especially when the case is not frivolous. Conversely, while you may feel a sense of relief and certainty when settling a case that is frivolous, it also raises philosophical issues regarding your willingness to be “extorted” and whether you want to reward unsavory business practices. This presents a conundrum as you do not want to win the case at the expense of being put out of business due to litigation costs and distractions. While we can recommend settling a meritorious case (assuming the troll will accept a reasonable amount), settling a frivolous case presents business and philosophical issues that are unique to each company and each suit.

## Modify Your Product to Design Around the Patent

A product or business method that is accused of infringing a patent often can be modified to avoid infringement. While this will not absolve your company for past infringement, depending on the length of time remaining before the patent expires and the amount of potentially infringing activity that already took place, cutting off infringement by discontinuing the supposedly infringing activity may lead the troll to reevaluate the value of the case, potentially leading to a reasonable settlement or the troll dropping the case.

How do you design around a patent?

- First, understand the scope of the patent.
  - Typically, the scope is determined by the judge in a *Markman* hearing. But even then, in the past two years, 27% of *Markman* decisions have been reversed by the Court of Appeals for the Federal Circuit (the court that handles all patent appeals).<sup>9</sup> While legislation is being proposed that would require the *Markman* hearing to take place at the beginning of a case, most courts do not hold the hearing until much later, sometimes even after discovery concludes. Waiting for the court to rule reduces the effectiveness of designing around the patent.
  - While the troll's position on the scope of the patent is not determinative, understanding it may allow you to design around the patent. A wily troll will try to avoid being pinned down on the patent scope as long as possible in order to have the flexibility to mold its interpretation of the patent so that it fits the allegedly infringing product. But many courts require a plaintiff in a patent case to provide the defendant with its infringement contentions early in the case.<sup>10</sup> While these are normally "preliminary" and may be modified, it is not unreasonable to look to them as part of an effort to understand the scope of the patent so you can design around it.
  - Your attorneys can study the patent and other documents exchanged with the Patent Office, including statements the patent owner made in order to get the patent, as well as prior art, and give you a conservative view as to the patent's scope and how you can design around it.
- Second, determine whether there is a strategic and cost-effective way to modify your product so that it does not infringe the patent.

Does designing around always work?

- Until the court issues its *Markman* opinion in which it defines the patent, you can never be certain what the patent covers. And even when the *Markman* opinion comes down, there can be no certainty given the appeal process, as discussed above. So it is difficult to predict whether a design around will ultimately avoid infringement.

- The uncertainty of designing around a patent is further complicated by the fact that you can infringe a patent even if a claim element is not literally present. Under the doctrine of equivalents, there can be infringement where the accused device has a structure that performs substantially the same function in substantially the same way to accomplish substantially the same result. This legal doctrine blurs the boundaries of some patent claims.
- There are also two forms of indirect infringement: (i) contributory infringement occurs when an entity sells a non-staple item that has no substantial non-infringing use (i.e., it cannot be used in a manner that does not infringe); and (ii) inducement of infringement occurs when an entity does not itself literally infringe, but rather causes or induces another to infringe. If you are accused of inducing another to infringe, it may be harder to design around because potential modifications may have to be made to both the accused system and to your behavior towards customers and collaborators.

Designing around a patent does not always make sense.

- Patents have a limited life. Designing around a patent only helps to avoid future infringement and damages. Depending on the time remaining before the patent expires, and the cost of designing around, it may (or may not) make economic sense to change your product. For example, if the patent has expired, then there is no reason to modify your product; if the patent is expiring soon, it also may not make sense to modify your product; or if the associated costs – including potential reduction in the quality of your product and potential loss of business – is too high, you may not want to design around.

Is there a best time to modify your product?

- On the one hand, the sooner you design around the patent, the sooner you stop potential damages from accruing and increase the chances of a smaller settlement. On the other hand, if you modify your process or product before the troll takes a “final” position on what the patent covers (usually at the *Markman* hearing or in the *Markman* briefs), then the troll can try to change its position as to the meaning of the patent so that it covers your process or product as modified.

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## Summary and Recommendation

Designing around a patent is an effective method for curtailing damages and speeding up the resolution of the case. But you also have to consider the effect that a change in your product will have on your business, including the cost of the change and its disruption to your customers. If the patent is straight-forward, and the cost/disruption little, then designing around may make sense.

## Move to Dismiss the Case when it Commences

A motion to dismiss is made if the complaint is faulty as a matter of law, or if the troll brings the case in a state in which you are not present. This permits a defendant to dispose of a case before engaging in expensive discovery.

- In patent cases, a complaint may be faulty when:
  - The plaintiff does not own the patent or have sufficient rights to the patent.
  - The patent covers an abstract idea (e.g., a computer method for processing credit applications), laws of nature (e.g., isolated genes), or other unpatentable subject matter.
  - The complaint does not identify the infringing product.
  - The case was brought in an improper jurisdiction (e.g., if your company is incorporated, located in, and only does business in California, but the case was brought in Texas).
- Are there any downsides to making a motion to dismiss?
  - A motion to dismiss based on inadequate rights to the patent or a patent being improperly granted has little downside, other than the costs associated with it.
  - Attacking the complaint for failing to identify the infringing product normally will result in the plaintiff being given a chance to cure the defect.
  - A motion to dismiss based on improper jurisdiction usually will be granted without prejudice to recommence the case in a proper jurisdiction. Also, a court may permit the troll to take limited discovery in order to challenge the factual assertions supporting the motion to dismiss, i.e., that you are not subject to jurisdiction in the particular forum.

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A motion to dismiss sometimes is an effective method for disposing of a case before costs escalate. While there is little downside, you should consider whether the costs associated with the motion – particularly if the troll might be given the opportunity to cure the defect or to take discovery – is worth the cost of making the motion. Transferring a case from a “troll-friendly” jurisdiction often makes the cost worthwhile.

## Move for Sanctions

Various types of sanctions are available to help a defendant redress a plaintiff's frivolous patent suit. While these sanctions are not unique to suits brought by trolls, they can be particularly useful against trolls that file suits without adequately investigating the legitimacy of their claims. Conventional wisdom discourages seeking sanctions as overly aggressive, unlikely to be granted, or irritating to the court. But, these procedures exist for a reason – to deter bad cases. The threat of sanctions creates a downside for the troll and its lawyers that goes beyond just losing – the troll and its lawyers may actually have to pay your attorney fees.

- What types of sanctions are available to a defendant in a patent case?
  - Rule 11 of the Federal Rules of Civil Procedure requires that all pleadings be signed by an attorney who represents that the pleading, to the best of his/her knowledge “formed after an inquiry reasonable under the circumstances,” (i) is not being made for an improper purpose, such as to harass, cause delay, or needlessly increase the cost of litigation; (ii) the claims are warranted under the law; and (iii) all factual assertions have evidentiary support, or are likely to have after reasonable investigation. Sanctions may be granted against a troll and the troll's attorneys for bringing a frivolous suit and for maintaining a suit once they learn that it has no merit. Sanctions may include reimbursement for your legal fees.
  - 28 United States Code §1927 authorizes an award of excess costs, expenses, and attorney fees against an attorney who “multiplies the proceedings in any case unreasonably and vexatiously.” This section produces an additional basis for sanctions against a troll's attorney who files and maintains a frivolous case.
  - Section 285 of the Patent Statute (35 U.S.C. §285) authorizes the court to award reasonable attorney fees to the prevailing party in “exceptional cases.” This section on its face applies to both prevailing patent owners as well as prevailing accused infringers. While it is more frequently used against a “willful” infringer, it can, and has been used, against trolls who bring infringement actions without a reasonable basis for charging infringement or when the invalidity of the patent is apparent.
- What is the procedure for seeking sanctions?
  - Before making a motion for Rule 11 sanctions, you must provide the troll with the proposed motion setting forth the basis for the motion. The troll has 21 days to attempt to cure the defective pleading. If it does not, then you can file the motion.

- The improper multiplication of the proceedings sanction (28 U.S.C. §1927) is typically sought after a party has won, but can be raised along with a motion for Rule 11 sanctions.
- The exceptional case provision (35 U.S.C. §285) is applicable after a party has won. Nevertheless, if you have a strong basis for prevailing, you can put the troll on notice that you will be seeking sanctions under this statute.
- When is the best time to seek sanctions?
  - If you have a strong basis for non-infringement or have located invalidating prior art, it may make sense to send a draft Rule 11 motion or even a letter setting out your position early in the case. Depending on the strength of your position, the troll may decide to drop the case or settle for a nominal sum. If you are confident of your position, you can either follow up with a formal notice or, if you served the draft motion in the first place, you may file it with the court. Even if you do not immediately file the Rule 11 motion, you may be able to use the fact that you put the troll on notice of the basis for non-infringement or invalidity to your advantage later in the case.
- What are the advantages to seeking sanctions?
  - Seeking sanctions early in a case shows the troll that you are taking the case seriously and going to fight hard. It also puts the troll and/or the troll's attorneys at-risk. Often, the troll's attorneys are on contingency, causing them to want to settle with the least effort. A well-founded motion for sanctions will not only tell the troll and counsel that their case is flawed, it will also tell them that you are not going to roll over easily and that they should think long and hard about whether it is economical to pursue your company.
  - As discussed in the next section, courts often restrict parties from making motions for summary judgment early in a case and often limit a party to making one summary judgment motion. A motion for sanctions gives you the opportunity to point out how the troll's case is flawed and "get the judge on your side." This can lead to the court determining that you have a valid basis for disposing of the case at an early stage and allow you to make a summary judgment motion. The troll may also come to the same conclusion and drop the case as a result. Finally, the motion can lead to you recouping part or all of your legal fees.

- Are there downsides to seeking sanctions?
  - An early motion for sanctions requires you to lay out your defense, often prior to the time that the troll has committed to its position. This may allow the troll to shift position, including how it will seek to have the court interpret the scope of the patent in the *Markman* hearing, in a manner that avoids your own arguments.
  - Some judges look askance on sanctions motions. Making an early motion in front of such a judge may hurt you and your attorney's credibility with the judge.
  - A frivolous motion for sanctions can backfire and lead to sanctions being granted for making the motion in the first place.

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Making an early motion for sanctions should not be taken lightly as courts prefer attorneys to act respectfully and in a courteous manner towards each other without accusing each other of taking frivolous action. But a well-founded motion gives you the opportunity to convince the court, as well as the troll and its attorneys, that the troll's case is frivolous. As the attorneys are personally at-risk if they bring or maintain a frivolous action, the motion may persuade the attorneys to drop the case or settle cheaply.

## Move for Summary Judgment

A motion for summary judgment helps litigants avoid trial when no reasonable jury (or judge) could find a genuine issue of material fact and the moving party is entitled to a judgment as a matter of law.

- Summary judgment may be appropriate when:
  - There is prior art that invalidates the patent.
  - The patent is not being infringed.
- When can a summary judgment motion be made?
  - Courts and judges often have rules as to when a summary judgment motion may be made without permission. Often, summary judgment is discouraged before discovery concludes. This is to allow both parties sufficient opportunity to make their cases and to encourage a party to make one all-encompassing motion as opposed to a series of motions that would require overburdened courts to consider whether to dispose of a case on more than one occasion. Courts should, however, allow a defendant to make a well-founded motion prior to the end of discovery.

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If you have a strong basis for summary judgment that can be articulated simply and quickly, then you should consider making the motion early on in an attempt to avoid the cost and disruption associated with a drawn-out battle. In considering whether to make a motion, you must take into account the statistics of how often the particular judge grants summary judgment as well as whether you will be giving the troll a clue to your defense. While the conventional approach of waiting until the very best time to make a motion may make sense for a company that can afford to litigate until the end, it may not make sense for a smaller company whose very survival can be imperiled by the case.

- Are there any downsides to making an early motion for summary judgment?
  - You may be restricted from making more than one summary judgment motion. Making an early motion on a particular ground can restrict your opportunities to raise other issues later in the case, which could result in your going to trial on a case that could have been disposed of had you waited to file an all-encompassing motion for summary judgment after discovery.
  - Filing an early motion for summary judgment clues the troll in to your theory of the case, potentially enabling the troll to shift strategy to avoid the arguments made in your summary judgment motion.
  - Some judges rarely grant summary judgment motions in patent cases; others grant them frequently, with the rate varying from 5% to 50%.<sup>11</sup> Filing a motion early, or even asking for permission to file a motion in which you set out your theory, may not only be a waste of money, but, as discussed above, may clue the troll in to your defenses.

# Challenge the Patent at the Patent Office

The U.S. Patent Office has procedures for challenging the validity of a patent. This option was made more attractive when the America Invents Act (“AIA”) was signed into law on September 16, 2011.

In general, the Patent Office procedures provide a cheaper way to challenge patent validity than having to go in front of a court. As courts will often stay an infringement action in deference to the Patent Office, these procedures can be an attractive alternative to litigation. The procedures can result in patent claims being invalidated, modified, or affirmed. If invalidated, then you cannot, of course, be an infringer. If the claims are substantively modified, as they often are, then infringement – and damages – do not start until the modification takes effect. And in some circumstances, you may even have intervening rights, i.e., your right to continue with your product or method may be superior to that of the patent owners. And, if the patent claims are affirmed, then you are in the same place as before, except that you spent the money to challenge the patent and are less likely to be able to successfully challenge the patent’s validity in front of a judge or jury.

The procedures can take 18 months to three years to complete, and often result in clarity as to the scope of the patent claims. This will not only give you time to grow your business without the cost and disruption associated with litigation, but it will also give you an opportunity to pin down the troll on its interpretation of the scope of the patent, allowing you to design around the patent and more efficiently fight infringement claims in court.

The various Patent Office procedures have significant similarities, but also some important differences. The most important similarities are:

- The review is conducted by patent examiners or the Patent Trial and Appeal Board, who have technical backgrounds and significant experience with patent issues.
- There is no presumption that the patent is valid, as there is in a court proceeding.
- Patent claims are given their broadest possible reasonable interpretation, making it easier to invalidate due to prior art, i.e., patents, publications, work by others, and other legally defined materials that predate the invention of the asserted patent.
- The burden of proving invalidity is lower than in court.

The various procedures differ as to:

- When the proceeding may be initiated.
- What kinds of invalidity arguments may be made to invalidate the patent.
- The standard by which the Patent Office determines whether to grant the request to re-consider validity.
- The challenger’s ability to raise in a later court proceeding the same issues it raised or could have raised with the Patent Office, i.e., the “estoppel” effect.

The various procedures are briefly summarized below:

- **Ex Parte Reexamination** is a procedure that can be initiated by anyone to challenge a patent based on other prior patents and printed publications that are prior art. The standard for deciding whether to conduct reexamination is relatively low – whether the request raises a substantial new question of patentability. There is no “estoppel” effect (i.e., you can raise the same issues in court) associated with this procedure.
- **Covered Business Method Review** became effective in September 2012 and is available to parties accused of infringing patents related to “financial products or services,” which is construed broadly and is meant to include activities that are financial in nature, or incidental or complementary to financial activity.<sup>12</sup> For example, the Patent Office granted a request to review the validity of a patent directed to “human resources management” even though its only relationship to financial products or services was that retail banks could use the invention. The request to review the patent will be granted if the Patent Office determines that it is more likely than not that it is invalid on any ground. The Patent Office should render a decision within 18 months. Any grounds that were actually raised cannot be raised in court or the International Trade Commission (“ITC”). As this procedure is relatively new, statistics are not available as to rates of success.

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## Summary and Recommendation

The Patent Office procedures for challenging the validity of an issued patent may provide an attractive alternative to litigation. Even if the patent is not invalidated, it may be substantively modified in a manner that limits potential damages and may even result in your ability to avoid infringement all together. If you have a strong case on invalidating or substantively modifying a patent, then we recommend proceeding. You should not be dissuaded by the estoppel effect – or even the appearance to a judge and jury that the Patent Office has blessed the validity of a patent – as it is reasonable to assume that if you cannot convince a trained patent examiner that claims are invalid, then you will not be able to win in court, where your burden of proof is higher, and where the “gold seal” on a patent is given weight that is hard to overcome.

- **Post Grant Review** is a new procedure available for patents filed after March 15, 2013. It can be filed within 9 months of a patent issuing and a final decision should be rendered within 18 months. The Patent Office will look at any invalidity issue and will grant the request to review the patent’s validity if it is more likely than not that the patent is invalid. Any issue that was or reasonably could have been raised cannot be raised again in court, the Patent Office, or the ITC.
- **Inter Parties Review** is another new procedure that may be commenced the later of 9 months after a patent issues or the termination of a post grant review. As with Post Grant Review and Covered Business Method Review, a decision should be rendered within 18 months. The Patent Office will grant the request to review the patent if there is a reasonable likelihood of prevailing on a claim that the patent is invalid in light of prior art patents or printed publications. The party that commences the proceeding cannot raise any issue it raised or could have raised in a subsequent proceeding in court, the Patent Office, or the ITC.

## Reduce Costs if You Cannot Get Out of the Case Early

Patent litigation often involves “bet the farm” issues, as damages for past infringement can be crippling and the threat of being prevented from selling your product daunting. With so much to lose, defendants often take a “no holds barred” approach, spending whatever it takes to win. Such an approach may not be feasible.

- **Indemnification.** If you are sued based on a product or component that is made by someone else, then the party that provided the product to you may have a contractual obligation to defend and indemnify you in the case.
  - There are potential pitfalls to tendering control of a case to your supplier. For example, the supplier may not care about the product as much as you do and may be willing to stop making it in order to avoid a lengthy court battle. Or the supplier may choose counsel based solely on cost. In the best of circumstances, your agreement with your supplier allows you to control the litigation with the supplier paying the bills.
- **Insurance.** While not the norm, some insurance policies cover claims for patent infringement. You should check your policy and consult with appropriate advisors. If you do not have insurance that covers patent infringement, it may be worthwhile to look into its availability.
- **Team up with other defendants.** Trolls often sue multiple defendants at the same time. While separate cases may be filed, they are often consolidated for discovery purposes. Having your law firm work closely with the other defendants’ law firms or hiring one law firm to represent multiple defendants can substantially reduce your legal fees. But there can be downsides to close collaboration or sharing counsel. For example:
  - Defendants often have differing interests, factually, politically, tactically, and legally. Often, the other defendants are your competitors. Sorting out a common approach can be time consuming, frustrating, and sometimes impossible.
  - A big company with more at stake may end up calling the shots in a way that you do not agree with or that is not in your company’s best interests.
  - Other defendants may settle before you do, leaving you on your own after having compromised on an approach.
- **Ride the coattails of other (bigger) defendants.** Often, larger companies want to take the lead in patent litigation. You can instruct your counsel to take a back seat to their counsel, cooperate with them, and let them do the heavy lifting. Of course, the same issues may exist here as when you share counsel with other defendants.

- **Focus on dispositive issues.** Significant time and money can be spent pursuing every possible avenue for winning a case. But some avenues may be less likely than others to lead to a favorable disposition. Focusing your effort on key dispositive issues can save money, as well as lead to a quicker resolution.
- **Avoid side issues.** “Side issues,” such as where or when depositions are going to take place, and discovery disputes, can often multiply the cost of litigation. While some issues may be very important, such as the proper forum for the case, or maintaining the confidentiality of your documents and information, others are not. Understanding the reason behind your lawyer’s recommended steps and the anticipated benefits can save time and money.
- **Streamline discovery.** Lawyers often frame document requests in broad terms in an attempt to obtain as much information as possible with the hope of finding useful information. But this approach often results in prolonged discovery battles, or in the production of millions of pages of documents, both of which take time and cost money. Serving very specific discovery requests requires your attorneys to think about what they really need to win and what is more likely than not to bear fruit. At the same time, it can reduce the costs of review.
- **Limit the scope of the case.** Trolls typically try to maximize an accused infringer’s risk and exposure through the use of open-ended complaints that do not clearly identify the specific products or processes accused of infringement. They then serve open-ended discovery requests that force the defendant to identify what is relevant and what is not. You can save money and reach a quicker resolution by forcing the troll to identify the infringing product at the beginning of the case. This limits expensive discovery only to the specific product accused of infringement.
- **Compel the troll to identify its infringement contentions.** A troll should be forced to identify its infringement theories with as much specificity as possible, as early as possible. Many local court rules require plaintiffs to serve detailed infringement contentions soon after the case starts. Plaintiffs often try to get by with superficial contentions to maximize their ability to change theories later on. While motion practice is often wasteful, making a motion to compel a troll to provide specific infringement contentions can result in streamlining the case and puts pressure on the troll by limiting its ability to change and, more importantly, by exposing a possible lack of a credible infringement theory. Moreover, by limiting the scope of a case to its proper substantive and procedural bounds, the amount in controversy is limited and the troll may be forced to confront an expected recovery that is smaller than originally anticipated. This may help resolve the case earlier.

- **Use alternative dispute resolution.** Courts often require parties to submit to mediation. Mediation can present an opportunity for you and the troll to understand the pros and cons of each side of the case, potentially leading to a settlement. But since mediation simply involves an independent party trying to bring the parties together to achieve a settlement, unless you have a very strong case that the troll does not understand, or unless you are prepared to write a check, you should be careful about how much you spend preparing for and participating in mediation (e.g., do you really need three lawyers to attend or will one suffice?).
- **Consider whether an opinion of counsel is necessary.** A pressure point for an accused infringer is the risk of being found to be a willful infringer, i.e., one who, despite an objectively high likelihood that its actions constitute infringement of a valid patent, made, used, or sold the accused product or practiced the accused method when it knew or should have known of this risk. A finding of willfulness permits the judge to award attorney fees to the patent owner and to increase the damages award up to three times. Historically, the best defense to a charge of willful infringement was to obtain an opinion of counsel that the patent was invalid, not infringed, and/or unenforceable. The AIA provides that the absence of an opinion cannot be used as evidence of willful infringement. Notwithstanding this change in the law, companies still obtain opinions of counsel. Opinions are expensive, ranging from a few thousand to even a hundred thousand dollars.
- **Tailor the prior art search.** The conventional reaction to an accusation of infringement or the actual filing of a patent infringement lawsuit is to commission a search for prior art that will invalidate the patent. These searches are typically conducted by specialty search firms who search for relevant, earlier patents and publications. On occasion, multiple search firms are retained to take advantage of specific expertise or language skills. The cost of searches varies considerably and can exceed \$100,000. Finding good prior art that was not considered by the U.S. Patent Office is, of course, highly important. But, with some technologies, a traditional search is highly inefficient and sometimes ineffective. An example of current relevance is e-commerce. Many entities claiming to own patents that are fundamental to e-commerce, interpret their patents in ways that necessarily cover aspects of the Internet that were embodied in the Internet when (or shortly after) it first became operational in late 1992. Conventional prior art searches in this area are less likely to be productive because the creators of the Web wanted a free and open public network unencumbered by patents, and therefore did not file patent applications. In these cases, prior art often is found by speaking to knowledgeable people or through crowdsourcing on the Internet.

- **Pick the place to fight.** Because patent litigation is expensive and disruptive, it is generally a good idea to try to avoid it. But sometimes litigation is inevitable. When that happens, sitting back and waiting for the troll to commence suit in a troll-friendly forum may not be the best strategy. Trolls often sue in a venue known to be plaintiff-friendly, i.e., a forum in which juries regard patents favorably, award generous verdicts, and cases move relatively quickly. In recent years, these districts include the Eastern District of Texas, the District of Wisconsin, and the Eastern District of Virginia. Faced with imminent litigation, an accused infringer should consider taking the initiative by preemptively filing a declaratory judgment action. This may give the accused a more convenient location for itself and its counsel and, sometimes, a venue in which it is well-known and favorably regarded. The forum may also have detailed patent rules that will focus the case and save money.

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## Summary and Recommendation

Litigation is expensive and time-consuming. Do not blindly accept conventional wisdom on how to handle your case. Challenge your attorneys and yourself to approach the case in a manner that will lead to the best overall result, which of course includes your company's survival as a healthy entity.

- **Budget the litigation.** Litigation often takes on a life of its own. Having your attorneys prepare a budget can help you and your lawyers monitor the progress and make decisions that take into consideration the costs vs. benefits of action. While no attorney can completely predict everything that will happen in a case, particularly as the opposing side will have a view as to how the case should proceed and can take steps that will cause you to exceed a well-constructed budget, having your attorney work with you on a budget will give you a well-thought-out analysis of the cost/benefit of each step of the intended action in the case.

## Avoid Being Sued in the First Place

The U.S. Constitution established the patent system, and the Supreme Court has ruled that the system covers a broad swath of inventions, including business methods. Unfortunately, no one has been able to come up with a patentable method for avoiding being sued for patent infringement.

Is there a way to avoid infringing a patent?

- Patent lawyers often conduct “freedom to operate” (“FTO”) searches. An FTO search compares your product or process to patents located through a search of the U.S. Patent Office files, in which patents are categorized by subject matter into classes and subclasses. If there are no patent claims that appear to cover your product or process, then the attorney may opine that you are free to proceed without infringing a patent. Similarly, if your attorney believes that the patent is invalid, then he may opine that you do not infringe a valid patent. Conversely, if the FTO reveals a problem, your company can forego the activity or design around the patent.
- Unfortunately, an FTO search is not foolproof. First, pending patent applications filed prior to 2000 are not publicly available, and those filed after are generally not made public until 18 months after they are filed. And even if you can review an application, it is only a “draft,” and does not necessarily reflect the scope of the patent that could ultimately issue. Second, as discussed above in connection with designing around a patent, a patent’s scope is not determined until after a court issues its *Markman* opinion and it is either upheld, or reversed, on appeal. So while your lawyer can give you his or her best judgment on a patent’s scope, it ultimately may be upset by the courts. While your attorney’s view on a patent’s validity may be well-reasoned, it will ultimately be subject to the judge’s or jury’s view.

Are there downsides to performing an FTO?

- Modifying your product/method to avoid a patent located in an FTO search can unnecessarily cause expenses and delays in the introduction of your product/method.
- We are often asked if an FTO search could ultimately lead to a finding of willful infringement if the FTO search locates the patent being sued on. Unless you plan to completely ignore your attorney’s advice, the fact that you became aware of a patent through an FTO search should not lead to a finding of willfulness.
- Similarly, companies often ask if “ignorance is bliss,” i.e., that they would be better off not knowing if there are patents that would present a problem. There are many benefits to knowing about patents in addition to being able to design around them. For example, you can buy the patent and gain a competitive advantage over others; you can improve your own product from what you learn from the patents, that is, leapfrog existing technology; and you can gain a better understanding as to what your competitors are doing or are likely to do.

- An FTO search can be expensive, potentially costing over \$100,000.

Will an FTO search prevent my company from being sued?

- The short answer is no. If a troll thinks that you are infringing its patent, that it can convince a jury that you are, or that you will roll over and make a quick settlement payment, it will sue you. An FTO search will not save you.

Other ways to avoid being sued:

- Be reasonable. Develop policies under which you expect others to respect your intellectual property and under which you respect the intellectual property of others.
- If approached with a patent, sit down and talk. Don't dismiss anyone who accuses you of patent infringement.

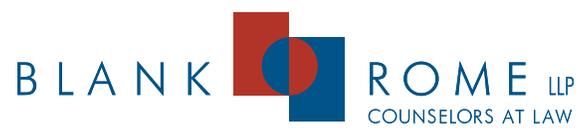
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## Summary and Recommendation

If your company has not committed to a product and has money to conduct an FTO search in time to change its focus or product depending on the results of the search, then we recommend conducting a search. But we recognize that most companies do not have this luxury and must rely on their employees' knowledge of the marketplace to design new products and methods.

# Endnotes

- <sup>1</sup> Robin Feldman et al., *The AIA 500 Expanded: The Effects of Patent Monetization Entities*, page 7, UC Hastings College of the Law “Legal Studies Research Paper Series” (April 9, 2013).
- <sup>2</sup> Colleen V. Chien, *Patent Trolls by the Numbers*. <http://patentlyo.com/patent/2013/03/chien-patent-trolls.html> (last visited February 20, 2014).
- <sup>3</sup> *2013 Report of the Economic Survey*, page 35, American Intellectual Property Law Association (2013).
- <sup>4</sup> Chris Barry et al., *2013 Patent Litigation Study: Big Cases Make Headline, While Patent Cases Proliferate*, pages 5 and 30, PricewaterhouseCoopers LLC (2013).
- <sup>5</sup> Mark A. Lemley and Carl Shapiro, *Frontiers of Intellectual Property: Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 2032 (2007).
- <sup>6</sup> Chris Barry et al., *2013 Patent Litigation Study: Big Cases Make Headline, While Patent Cases Proliferate*, page 3, PricewaterhouseCoopers LLC (2013).
- <sup>7</sup> Ahmed J. Davis, Hon. Theodore R. Essex, and Bert C. Reiser, “Cases in the Development of Domestic Industry at the International Trade Commission and Non-Practicing Entities” in *Patent Litigation*, 2012, pages 141 and 143, Practising Law Institute (2012).
- <sup>8</sup> For example, in 2011, BT Group Plc (British Telecom) reportedly sold 400 patents to a German patent fund. (See Patrick Anderson, *German Patent Fund Acquires Substantial Portfolio from British Telecom*, <http://gametimeip.com/2011/08/04/german-patent-fund-acquires-substantial-portfolio-from-british-telecom>; last visited February 20, 2014).
- <sup>9</sup> Thomas Hungar and Michael Sitzman, *Federal Circuit Year in Review 2012/2013*, page 8, Gibson, Dunn & Crutcher LLP (2014).
- <sup>10</sup> U.S. District Court for the District of Delaware, Default Standard For Discovery § 2(b)(i). <http://www.ded.uscourts.gov/court-info/local-rules-and-orders/guidelines>.
- <sup>11</sup> While these rates reflect the success of motions filed by patent owners, it is instructive. Chris Barry et al., *2013 Patent Litigation Study: Big Cases Make Headline, While Patent Cases Proliferate*, pages 32-33, PricewaterhouseCoopers LLC (2013).
- <sup>12</sup> *Transitional Program for Covered Business Method Patents*, U.S. Patent and Trademark Office. [http://www.uspto.gov/aia\\_implementation/faqs\\_covered\\_business\\_method.jsp#heading-2](http://www.uspto.gov/aia_implementation/faqs_covered_business_method.jsp#heading-2) (last visited February 20, 2014).



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