

Mind those annoying patent trolls

They're known as NPEs, or non-practising entities. Their reason for being is to make money from the patents that an operating company uses in its products. If a letter arrives from one, here's why it should not be tossed in the trash / **Luigi Benetton**

There's a certain type of letter that will put any company on edge — if not notice.

It can take several forms. The kindest may politely inform you that a product your company sells uses intellectual property covered by a patent your company doesn't hold.

The not-so-kind form may ask you to contact the patent holder if you want to license the patent. At the extreme, the letter may angrily demand that you stop infringing the patent. It may even threaten legal action.

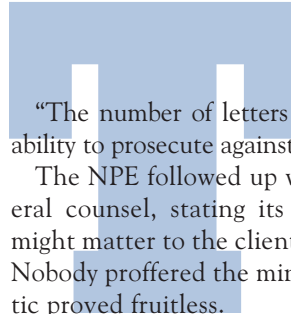
In recent years, the letters Cory Furman's clients have received say something like this: "You're infringing our patent, but because we're nice guys we'll let you off easy and sell you a licence," says the Regina-based MacPherson Leslie & Tyerman patent agent and partner.

Don't ignore letters like these. You may find your business disrupted by non-practising entities (NPEs), a subset of which is known as patent trolls. These outfits hold patents but don't produce anything using the intellectual property covered by the patents.

"An NPE's business model is completely different from that of an operating entity," says Michael Whitt, Calgary-based partner and patent agent with Bennett Jones. "An NPE wants money in exchange for not suing you. They don't have any interest in taking business away."

Due in part to their tactics, patent trolls stand out from the NPE crowd. For instance, one of Neil Kathol's clients received a letter from an NPE with a claim involving a business method used in a payment service.

After some research, the NPE was found to have bought a group of patents from an inventor. The letter itself was directed to the company, but no specific person. The name of the company was that of a predecessor to the current company. These facts led Kathol, a Calgary-based partner with Field Law, to surmise the NPE was using a "scattergun approach" on would-be targets.



“The number of letters sent probably exceeded the troll’s ability to prosecute against the recipients,” Kathol says.

The NPE followed up with an e-mail to the client’s general counsel, stating its intent to auction a patent that might matter to the client. The client watched the auction. Nobody proffered the minimum bid, so the troll’s scare tactic proved fruitless.

“In litigation, patent trolls can come across as having broad patents that seem to interfere with business,” Kathol says, citing a lawsuit that named one of his clients along with giants such as LinkedIn and Facebook. The claim stemmed from a patent for methods of dealing with data that an organization would acquire from third parties.

Pedram Sameni says such opportunities arise because of a glut of bad patents. “R&D teams at companies can spend years developing technology, then send an application to the U.S. patent office,” says the founder and CEO of Patexia Inc., a website that helps corporations assess the validity of patents. “It isn’t easy for a patent office worker who averages 10 hours examining a patent application to really digest that application.”

Meanwhile, innovation occurs the world over. Patents are written in many different languages. These factors plus time pressure compounded by inadequate resources at the patent office lead Sameni to claim that the U.S. patent database contains many poor patents.

Kathol believes NPEs, which are just as entrepreneurial as the companies they target, bank on settling. “They want to throw the money into a pot and fund cases against other, bigger defendants. They keep playing with that early departure money to go for bigger prizes.”

One particular NPE is plaguing a client of Whitt’s but in a roundabout way. Instead of suing the client, the NPE informed the client’s customers that their supplier’s goods infringed on the NPE’s patent.

He says the NPE carefully worded its demand against the customers and not the supplier, thus making privity a concern. “It’s like the mutation of a virus,” Whitt says.

Whitt must wonder how a given response by his client scales. For instance, few suppliers can reimburse all their customers for the cost of dealing with NPEs. “You have to think three to 10 chess moves out,” he says.

NPEs aren’t the only entrepreneurs working the patent conflict “industry.” Companies use Patexia’s prior art service — in which professionals search for patents that may affect the

status of a patent under review — to perform due diligence before doing things such as acquiring patents or engaging in litigation. “We form a contest and invite our community to submit prior art,” Sameni explains, adding that the “community” consists of experts of various stripes willing to work as freelance sleuths.

Costs to clients and bounties paid to researchers can vary depending on the size of lawsuits and costs of business disruption. Sameni figures clients usually pay between \$10,000 and \$20,000 while “winning” individual researchers typically make between \$1,000 and \$5,000 per find. The service takes between two and six weeks to perform.

Sameni wants Patexia to eventually bring more transparency and efficiency to the patent process, potentially reducing currently escalating numbers of patent disputes before the courts.

When litigation happens, NPEs tend to sue in plaintiff-friendly jurisdictions. One of Kathol’s Canadian clients was named as a defendant in what Kathol calls the “usual Eastern District of Texas.”

“Reputationally, it’s thought that plaintiffs stand a better chance of success in that district,” he explains.

Trolls stay away from Canadian courts, which don’t feature the “winning conditions” of their more southerly counterparts. For instance, forum shopping isn’t a factor in Canada, where the only worthwhile venue from an NPE’s perspective is federal court. George Locke calls it “the only court that can offer injunctive relief that applies across the whole country.”

Although still expensive in Canada, patent litigation is costlier, and thus scarier to defendants, in the United States. Add in the uncertainty of trial by jury and defendants get even more spooked. If defendants lose, they may suffer injunctions removing their products from the market.

“Sometimes, the risk is too important to leave to a jury,” says Locke, a Montreal-based Norton Rose partner and patent agent.

NPEs face little downside risk in U.S. courts, where they rarely pay penalties or court costs if they lose. Canadian courts, on the other hand, make a loser pay a significant portion of the winner’s court costs.

How in-house counsel approaches patent infringement claims depends largely on what counsel can learn about the patent owner. Furman, of MacPherson Leslie, advises in-house counsel to remain vigilant of what’s going on in the industry. Should the need arise, he figures smaller companies could



band together to share the legal costs.

Furman admits that some of his smaller clients are inclined to ignore letters from NPEs, owing to the consternation they often spark.

The first time Furman sees letters is “usually two days before a response is due,” he laughs. “Sometimes it’s two days before the second response is due, when clients realize the NPE hasn’t just gone away.”

Don’t automatically assume patents aren’t valid just because of their broad language. “Patents are prima facie valid and have to be respected,” Kathol says. “Companies are better off taking the patents seriously.”

Research the patent thoroughly using in-house resources or third parties such as Patexia. “One of [my client’s] seasoned programmers had encountered data management programs very early on and helped the settlement by explaining he might be able to invalidate [the patents] based on his own records and experience,” Kathol says.

Adds Furman: “As you go further down the line in a case, experts will get involved and do that kind of work in front of the court.”

While research is a must, an immediate response is not. When a troll affects many large market players, another party in the market may get sued and take the lead in defence of the

action. “If I keep my client out of that fight, I get the benefit of the effort without having to pay for it,” Locke says.

Kathol’s client took this route. “A major financial institution was already litigating against the troll to prove its patents invalid.” He figures the financial institution would probably back his client if it was named in a suit, so his client didn’t engage the troll.

To minimize the cost of a patent dispute, a defendant should consider whether an NPE could afford the dispute. Locke figures defendants can push the matter to make the other side spend a lot of money early on and soften up the opponent to accept whatever settlement gets offered.

Trolls do math too. They can often extract settlements by “pricing” them “below” the costs of litigation and disruption to the defendant’s business. Locke, for instance, represented a company against an NPE. “On two separate occasions, my client settled a patent infringement claim by an NPE by paying an amount that, though substantial, was considerably less than the cost of litigation,” Locke says.

If the patent appears to be valid, a cheap licence might be available. Locke figures licensing could be a smart competitive move, freeing the company to pursue its business objectives, “but if you go this route, will you be targeted again by others?” he wonders. **END**



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