12 Steps to Protect Your Business When Sued by a Patent Troll

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We've seen an uptick in patent infringement lawsuits from non-practicing entities (NPEs), sometimes called "patent trolls." Business owners and managers should know in advance how to manage these lawsuits, even before being served with a complaint. This article explains how and why patent trolls acquire their patents, the tactics used to assert those patents against others, and the concrete steps defendants can take to address such allegations and minimize liability for patent infringement.

What are Patent Trolls?

An NPE is a company that owns one or more patents, but does not make, use or sell any of the inventions claimed in the patents. An NPE's ownership of the patents is strictly for the purposes of enforcing its exclusive rights and granting licenses to others that may be infringing the patent claims. Importantly, not all NPEs are "trolls." Many patent owners do not make, use or sell the inventions, but choose to grant licenses under those patents to generate income.

The "troll" moniker is often used to describe patent owners who have acquired patents under one or more of several common circumstances, including:

(1) The patents were acquired from a bankrupt company (often at an auction) or from companies which are disposing of patents that may have little commercial value.

(2) The patents are nearing the end of their enforceable term, or may have even expired, with the patent owner alleging infringement that occurred prior to the expiration but within the six-year statute of limitations.

(3) The patents were acquired very recently before the lawsuit or demand letter.

(4) The new patent owner is an LLC that has no other assets other than the patents.

(5) The patents have validity problems, overly broad claims, low quality specifications, or very brief examinations with no cited prior art.

(6) Many other companies were sued for infringement within a relatively short period of time.

(7) The claims in the patent are for methods or processes that relate broadly or tangentially to methods that have long been used or which are ubiquitous in the industry, i.e., website design, QR codes, Bluetooth, software methods, etc.

While many trolls have limited resources to pursue the litigation, others are publicly traded companies funded by private equity firms and hedge funds.

The business model for trolls is simple: acquire patents for cheap and assert them against companies for nuisance value settlements which are typically less than the legal costs to defend. The last thing a troll wants is protracted litigation in which the claims are construed through a claim construction proceeding (sometimes referred to as a Markman hearing) or subject to invalidity challenges. However, many defendants are reluctant to incur the legal costs of such litigation if the dispute can be settled for a modest amount.

Understanding Patent Troll Tactics

Trolls often take an exceedingly broad view of the patent claims and are not always clear on precisely why the patent claims are infringed. In many cases, cease and desist letters are first sent to companies prior to filing a lawsuit. In other cases, lawsuits are filed without prior notice against several defendants having nationwide presence, often in a venue that is known to be friendly to patent plaintiffs, and where the defendants are subject to personal jurisdiction.

The U.S. Supreme Court case of ***TC Heartland LLC v. Kraft Foods Group Brands LLC***, which was a rare unanimous decision, helped to limit venue for patent infringement suits to districts where a company is incorporated or organized, but a challenge must still be timely made or it is waived. And it remains possible for the patent owner to show that the defendant has both committed acts of infringement and has a regular and established place of business in the district.

Another tactic is to sue smaller companies or a technology vendor's customers who unwittingly may be infringing the patents by using the technology at issue. These parties may be overwhelmed by defense costs and would often rather pay a nominal license or settlement fee rather than defend against the allegations. The troll may start by suing a particularly vulnerable company that has much to lose, or little money to defend itself, hoping that an early victory or settlement will establish a precedent to encourage other peer companies to acquiesce to licenses. The letters and lawsuits almost always include threats of injunctive relief, i.e., a court order that manufacture, use and sale must be stopped.

Unfortunately, counterclaims for infringement of a defendant's own patents are not typically available, because the NPEs are not making, using or selling anything at all.

Patent infringement litigation can often proceed very slowly, and a lot of time is spent in motion practice long before the merits or lack thereof of the infringement allegations are considered, such as on claim construction and Markman hearings. In some cases, the claim construction part of the process can be used to achieve a narrower scope of the claims, which can effectively negate the infringement altogether. However, such procedural steps typically involve discovery and the use of expert witnesses and can be uncertain, time consuming (over several months) and expensive.

Settlement agreements are typically structured to grant a perpetual license to the defendant in exchange for a lump sum fee, but often with some potentially significant limitations and risks with the license terms, including:

- Not transferrable except under specific conditions
- May not extend to all affiliates or the defendant's downstream customers
- Cannot be sublicensed to non-affiliate third parties
- May impose patent marking requirements
- Scope of the license may be what is "covered by the claims," but should be the defendant's current use as alleged (if there is no actual infringement)
- May not cover future improvements or modifications
- No warranty of validity of the patents during the license
- No obligation by the patent owner to enforce the patents against other competitors using the same products or methods

Defending Against Patent Trolls

If you become the victim of a patent troll, there are several important steps you can take to understand the potential weaknesses of the patent, help to negotiate a lower settlement amount, or resolve the matter entirely:

- Review patents and prosecution histories to understand the prior art, the scope of the patent claims, and any possible limitations based on amendments or arguments made during the examination (so-called "prosecution history estoppel").
- Review records of the **Patent Trial and Appeal Board (PTAB)** of the U.S. Patent and Trademark Office (USPTO) to learn of any post-grant proceedings which may impact the asserted patents, including Post-Grant Reviews, *inter partes* reviews, and *ex parte* reexaminations.
- Verify ownership of the patent from the **USPTO** records. Learn what other patents are owned by the plaintiff that have not been asserted but might be asserted later to avoid piecemeal litigation or settlement.
- Check your commercial general liability (GCL) insurance policies for possible coverage. Even if patent infringement claims are not covered, there may be a defense obligation that can help with legal fees. Specialized insurance policies are available for patent infringement, but they tend to be expensive, narrowly tailored and conditioned, have significant co-insurance, deductibles, and caps on what can be paid toward the litigation costs and any judgment or settlement. Depending on the applicable policy, you may be able to select your own defense counsel to handle the matter.
- If the technology involved was supplied to your company by a vendor, check any contract with that vendor to determine whether it includes an indemnification clause or a warranty of non-infringement of third-party intellectual property rights. Such a provision may entitle your company to look to the vendor to cover the costs of defense or settlements and judgments.
- Check laws in your state for possible recourse against the patent owner for noncompliance with making infringement allegations. These laws often require specific references to the claim elements allegedly being met by features of the accused infringing product or method (sometimes referred to as claim charts).
- Check **PACER** federal court records for other litigation matters by the same plaintiff on the asserted patents. Some cases may be further along, where motions have been filed which may shed light on other tactics that can be used in the defense.
- Consider collaboration with other defendants to pool resources in the defense, possibly through a joint defense agreement.
- If you are inclined to settle the matter, aggressively negotiate the license fee based on specific problems with the patents being asserted, both from a noninfringement and invalidity standpoint. A thorough review of the patent and its prosecution history is indispensable here.
- If the matter will be litigated, or as an adjunct to settlement discussions, conduct a patent search to determine the existence of prior art that may not have been cited in the prosecution of the patents being asserted. If helpful prior art can be found, it may support invalidation of certain patent claims or meaningful amendments that cause the accused product or method to be non-infringing. A related tactic is to file an *inter partes* review (IPR) or similar proceeding

within the USPTO. An IPR is still expensive to file and prosecute, but it may end more quickly than litigation in federal court.

- Consider some “design around” options for purposes of avoiding future exposure, although designing around the patent does not resolve the question of past infringement for which the troll expects payment.
- If sufficient grounds are available, file a motion to dismiss, which would require more work by the patent owner (which they do not want to do), and which causes it to make its infringement positions of record.

Do not fear the trolls. Please contact **Warner Delaune** or any member of Phelps’ **Intellectual Property** team if you have questions or need advice or guidance.