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Introduction

Risk resulting from patent infringement allegations has always been high in the United States. The emergence of the Non-Practicing Entity (NPE) model has served to increase this risk. NPEs are sometimes referred to as “patent trolls” because of their attempt to assess a fee on the activities of alleged infringers (referred to as “targets” herein). The typical business model of an NPE is to assert patents and generate revenue from licensing fees or damage awards assessed by courts. NPEs, as the name suggests, do not compete in the marketplace that they claim is covered by their patents. Therefore, traditional mechanisms of leverage used against competitor patent assertion, such as counterclaims for patent infringement, a partnering deal, a cross license for patents or other intellectual property, and the like, are not effective to assert leverage against NPEs. This, combined with the aggressiveness of NPEs because of their revenue model, has led to a significant increase in risk because of patent infringement in the United States. Companies operating in the areas of digital media, advertising, and financial services are particularly vulnerable as a result of the large amount of relevant patents that were originally owned by start-ups that did not succeed. Often, these patents end up in the hands of NPEs.

To be clear, the typical NPE revenue model is perfectly legal. NPEs range from venture capitalists purchasing patents on the open market for a return on investment, to innovators who have developed significant technology only to see it misappropriated by large companies without remuneration. However, the frustration and uncertainty caused by this business model has led to various changes in the common law and statutes. The NPE business model, though, will likely remain legal and perfectly viable in the foreseeable

¹ This article is intended as a summary of the legal landscape and potential strategies for dealing with that landscape. However, nothing herein should be construed as a legal opinion or specific legal advice for a particular matter or situation.

² For example, recent changes to 35 U.S.C. have made it more difficult to sue multiple defendants in a single case, and have provided alternative agency proceedings for challenging patents outside of civil litigation.

future. Therefore, a good strategy for managing the risk presented by NPEs is necessary when doing business in the United States. This article will avoid the discussion of visceral and emotional reactions to the NPE model in favor of articulating constructive approaches to managing risk and uncertainty.

It is important to understand the typical NPE value proposition. Most NPEs will offer a license that, while expensive, will likely be less than the costs of taking the NPE to trial and less than the cost of evaluating the patent in some cases. The proposition presented by the typical NPE is, “for X dollars, we (the NPE) will provide a guaranteed result (license to the patents) as opposed to paying a multiple of X dollars to your lawyers and experts with no guarantee.” Sometimes this value proposition is not unreasonable. However, there are ways to apply leverage and present risk to the NPE that will, at the very least, reduce “X” significantly. Of course, there are situations where a license is the best approach and others where a license is not appropriate.

The NPE revenue model leverages the uncertainty and inefficiencies that are inherent in patent defenses. Patents are often complex legal and technical documents, and the patent laws in the United States are far from simple. In order to truly understand the scope of a patent, it is often necessary to review and interpret thousands of pages of technical documents, and the history of the proceeding before the U.S. Patent and Trademark Office that resulted in the patent. On the other hand, NPEs often utilize contingent fee attorneys and thus have little out-of-pocket expense. This imbalance is the foundation of the NPE revenue model.

However, the target of the NPE assertion can present risk to the NPE. A successful defense against an NPE assertion requires demonstrating to the NPE that:

- The NPE is at risk of having the patent assets declared invalid or otherwise unenforceable
- The assertion will take a great deal of time and will be expensive to the NPE
- The target has the resolve to go to trial if necessary
- The industry players will cooperate to reduce costs for the targets

By demonstrating that it is sophisticated and has resolve, the target of the NPE assertion becomes a less desirable opponent and thus eliminates some of the

leverage of the NPE. The five key components to a successful resolution of an NPE assertion are:

- Risk assessment
- Aggressive license negotiation tactics
- Aggressive litigation (when necessary)
- Creative legal fee models
- Industry collaboration

Risk Assessment

It is critical to understand the risk presented by the NPE assertion before beginning negotiation in earnest. NPE assertions range along a spectrum from “nuisance,” in which the NPE does not have a strong legal position and is looking merely for a modest payment, to high risk, in which the NPE has a strong legal position against a significant product or service being offered by the target. It is helpful to place the assertion on this spectrum. While the target and the NPE will likely disagree on the relative legal strength of the NPE assertion, each party, in most cases, will understand the position of the assertion on this spectrum, plus/minus a “point of view” (POV) value. While some NPEs are completely unreasonable, most are quite sophisticated these days and understand the strengths and weaknesses of their legal position. Accordingly, if the target has evaluated its own legal position, the parties are, for the most part, on the same page (even if the parties do not admit to this).

It may be difficult to admit, however, that some NPE assertions have solid legal and factual bases and are best treated as such. Therefore, it is important to assess risk. The best approach is a step-by-step approach. While there is no single recipe for evaluating risk, the following will provide some guidelines. Of course, some of the activities can be conducted in parallel and the order prescribed below is not optimum in all cases.

First, a title search on the asserted patents should be conducted. It is not unheard of for a party to try to assert patents that it does not have a right to assert. Also, in some instances the target has the benefit of a license to the asserted patents granted to a supplier or the like. A title search is not difficult to conduct. At this time, it is also worthwhile to investigate any potential indemnity, through supplier contracts or the like, and to comply with any notice provisions thereof.

Next, it is important to gather as much information as possible on the NPE, its targets, its business model, and settlement terms. For example, has the NPE filed suit before? If so, what was the outcome and did the outcome affect the value of the asserted patents? What tactics has the NPE used for licensing/settlement? Who is counsel for the NPE and what is counsel's reputation? The answers to these questions will help ascertain what you are up against and will help you begin to place the assertion along the spectrum noted above. In many cases, the outcome of your research on the NPE may indicate that there is an opportunity for settlement at a very low dollar amount. While settlement may seem "distasteful," it may be the best business choice if the matter can be disposed of for a relatively small amount.

If the steps above do not lead to a resolution, it is important to determine the likelihood that the alleged conduct actually infringes the asserted patents. This is accomplished by having counsel review the patent(s), the record of prosecution of the patent before the Patent Office, and technical details of the accused activity. Counsel can then make a determination of the strength of the infringement allegation. If the non-infringement position is extremely strong, it can often be used to negotiate a favorable settlement, or even to convince the NPE to drop the assertion.

If the infringement position is subject to doubt because of possible claim construction issues, a validity analysis of the asserted patent(s) should be conducted. Such an analysis includes a thorough search of the relevant prior art and an analysis thereof by patent counsel to determine if the patents are not novel and non-obvious, and thus are likely to be invalidated by a court. A strong position of invalidity will, of course, provide settlement leverage. Finally, a high-level damages analysis should be conducted to ascertain the amount of revenue and profit as a result of the alleged infringing activity.

License Negotiation

Once the requisite-level risk analysis has been accomplished, the target can begin to negotiate a license/settlement with the NPE. As noted above, license negotiation can occur in tandem with risk analysis and thus, depending on the situation, the "requisite level" of risk analysis varies based on specific circumstances. At the outset, the target should press the NPE for details, such as how the asserted patent claims map to accused activities and the amount of any initial settlement demand. Also, based on the risk analysis, the target should soon present information to the NPE demonstrating that the

NPE has risk as a result of potential invalidity and/or non-infringement. Also, if the damages analysis shows that the NPE is not likely to achieve a large reward, such evidence possibly should be presented at this time.

Regardless of the circumstances, the target should demonstrate the ability and resolve to make the assertion difficult for the NPE. Counsel with a strong patent litigation reputation should be retained and mitigating evidence from the risk analysis should be presented. Notwithstanding the above, the target should define “success” in the matter and be open to a settlement that is within the range of this definition.

Litigation

If license negotiations are not productive, embarking upon some level of litigation may be necessary. Of course, the target can let the natural course of litigation unfold by waiting for the NPE to file suit in a venue of the NPE’s choice. Alternatively, it may be desirable to be proactive and put pressure on the NPE. One tactic is to file for a review of the patent through one of the administrative review proceedings in the U.S. Patent Office. Another way to reduce leverage of the NPE is to file a Declaratory Judgment action in a venue of the target’s choice prior to any suit being filed by the NPE. Whether litigation is filed by the NPE or the target, the target might want to push for early claim construction and/or quick Summary Judgment. Of course, any use of the tactics above depend on the forum and specific facts of each case. Finally, nontraditional counterclaims, such as false advertising, unfair competition and other antitrust claims, should be considered. While such claims are not always available, they are becoming more acceptable by some courts.

Legal Fee Models

As noted above, the typical NPE model leverages the traditional legal fee models, typically hourly rates or fixed fees per matter, in which there is a high incremental cost for each litigation matter. However, to the extent that a legal fee model can be negotiated that reduces the incremental costs per litigation matter, the NPE has reduced leverage and the target is empowered. One example is a legal fee model in which a fixed monthly or yearly fee is paid to a law firm in exchange for a specified package of legal services throughout the year. The package of legal services and the fee can vary, of course. The concept is that the target has purchased a sort of “insurance policy” at a predictable rate and removed the incremental cost, and related budgeting issues, of individual matters that arise throughout the year.

Industry Collaboration

Since NPEs often assert against multiple players in a single industry, it is axiomatic that the various players in an industry can benefit from collaboration. Since the players are often competitors, this can require a careful balancing of how much information can be shared. However, the benefits far outweigh the balancing efforts. Collaboration can be at one or more levels. For example, collaboration may be limited to permissible sharing of information about the NPE's tactics and demands, sharing information about prior art, and sharing legal analysis (when approved by counsel).

Collaboration may be in the form of a joint defense agreement among targets or may be elevated to a broader collaboration of all industry players through a trade association or other entity. More creative opportunities for collaboration include the organized challenge of patents that are perceived to be an industry threat, or even a purchase of patents to "take them off the street." Further collaboration can include accepted shared indemnities within an industry. Of course, antitrust counsel should be consulted before embarking on any collaborative activity among competitors.

Bottom Line—What You Need to Do

While the threat of NPEs cannot be eliminated – at least not in the short term – many tactics can be used to reduce uncertainty and thus reduce NPE leverage. Reduced NPE leverage means reduced risk for the target. Potential targets of an NPE should investigate all of the tactics outlined above, and any others presented by the specific facts, in order to reduce the uncertainty presented by the various NPE patent assertion models.