



## 201 - Attack of the Patent Trolls - Is Your Company Troll-Proof?

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## Faculty Biographies

### **Robert Borden**

Vice President  
The Hartford Financial Services Group Inc.

### **Joshua Krumholz**

Joshua C. Krumholz is a trial attorney who concentrates his practice in civil litigation, focusing primarily upon patent, intellectual property and complex commercial litigation. Mr. Krumholz is the head of Holland & Knight LLP's intellectual property practice group and a member of the Healthcare and FDA Teams. Holland & Knight LLP is located in Boston.

Mr. Krumholz's patent litigation experience covers a variety of technologies and jurisdictions. Technology with which he has been involved has included, among other areas, software, hardware, computer chip wafer processes, cancer treatments, air jet technology and consumer goods.

In addition to his intellectual property experience, Mr. Krumholz also handles complex commercial litigation. Among other areas, he has represented companies in a variety of corporate governance disputes, including disputes involving shareholders, boards of directors and partners. He also has been engaged in, for example, complex multiparty antitrust litigation and partnership tax litigation, among other fields. Recent results include successful jury verdicts after a six-week trial involving claims of environmental contamination and a three-week breach of contract trial. He is a member of Boston College's Inns of Court for Intellectual Property Group, the Boston Bar Association's Intellectual Property Section, and the ABA.

Mr. Krumholz received his B.A. from Johns Hopkins University and earned his J.D. from Cornell University, where he was a member of the Cornell University Law Review and in the top ten in his class.

### **Robin Smith**

Robin Smith is corporate counsel at LEGO Systems, Inc., in Enfield, Connecticut, which is the American subsidiary of the Danish LEGO toy company. Robin currently handles general corporate legal affairs for the Americas. In previous years, she was responsible for all of the trademark, copyright, and patent law issues for the Americas and all of the Internet law issues for the company worldwide.

An active member of the International Trademark Association (INTA), Ms. Smith is a former member of the INTA board of directors and the INTA internet committee. She is a current participant in the INTA nominating committee.

Ms. Smith is a member of the ABA and the Connecticut Bar Association and is a frequent speaker at legal and business conferences and seminars on intellectual property law and other issues. She worked as an associate at the Connecticut law firm of Day, Berry & Howard LLP (now Day, Pitney) in the firm's general commercial litigation, and technology and intellectual property law practice areas, where she litigated a variety of matters at the trial and appellate levels.

She earned her J.D. from the Syracuse University College of Law and her B.A. from Wesleyan University.

### **Philip Wellman**

Philip Wellman is vice president and chief compliance officer for MassMutual Select Funds, MassMutual Premier Funds, MML Series Investment Fund, and MML Series Investment Fund II, based in Springfield, Massachusetts. He is responsible for the adequacy and effectiveness of the compliance program for the funds, including policies and procedures, regulatory matters, conflicts and risk management, and service provider due diligence.

Prior to his appointment as chief compliance officer for the funds, Mr. Wellman served as senior litigation counsel for Massachusetts Mutual Life Insurance Company. He also handled IP litigation for the company. Prior to joining MassMutual, Mr. Wellman was senior vice president and assistant general counsel at Advest, Inc. He served as Advest's senior litigation counsel. He also held the title of director with Merrill Lynch, Pierce, Fenner & Smith, Inc., which acquired Advest.

Mr. Wellman is an A/V-rated lawyer, and is involved in many legal and local community activities. He also is an active member of the ABA, the Connecticut Bar Association (CBA), the ACC, and the Securities Industry and Financial Markets Association. He currently serves as the co-chair of the trade secrets subcommittee of the business torts committee of the ABA's Litigation Section; the immediate-past chair of the CBA's antitrust and trade regulation section; and the president of the board of directors of ACC's Connecticut Chapter and a founding member of the ACC's financial services committee.

Mr. Wellman received a B.A. with honors in political science from Trinity College and a J.D. with honors from the University of Connecticut School of Law



## **201: Attack of the Patent Trolls – Is Your Company Troll-Proof?**

**Christopher Gerardi, FTI Consulting**  
**Joshua Krumholz, Holland & Knight**  
**Robin Smith, LEGO Systems, Inc.**  
**Philip Wellman, MassMutual**



## **Overview**

- What is a Patent Troll?
- Patent Litigation Overview and Trends
- The Changing Legal Landscape
- Patent Troll Targets
- Reacting to a Demand or Lawsuit
- Settlement and Litigation Dynamics



## What is a Patent Troll?

- “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 never practiced.”

- Peter Detkin, Intel Corp., *The Recorder*, Trolling for Dollars, July 30, 2001



## What is a Patent Troll?

- “People and companies who get patents for products they never plan to make, just so they can sue for infringement if a company turns out something similar.” (Associated Press)
- “A pejorative term used for a person or company that enforces its patents against one or more alleged infringers in a manner considered unduly aggressive or opportunistic.” (Wikipedia)
- “Non-producing entities.” (FTC Report)



## What is a Patent Troll?

- 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.
  - \$45 billion annually in US and \$100 billion globally in licensing
    - *The Economist*, A Survey of Patents and Technology, 10-22-05

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## Some Well-Known 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
- 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.

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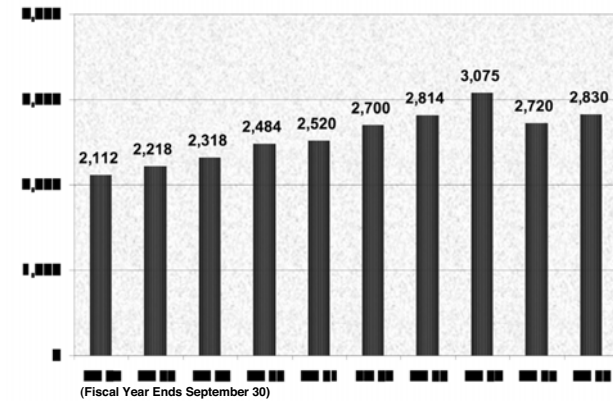


## Patent Litigation Overview and Trends

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## Patent Cases Commenced in U.S. District Courts FY1997 - FY2006

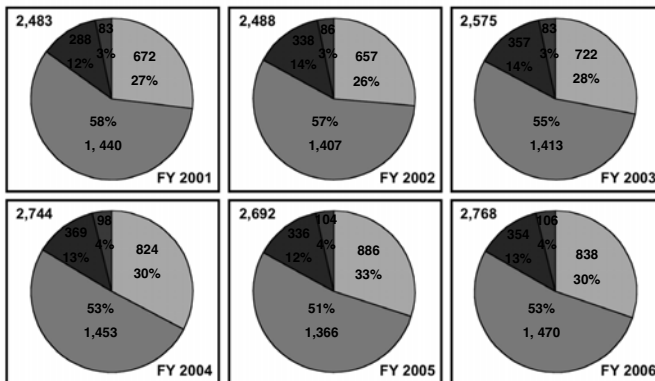


Source: Administrative Office of the U.S. Courts

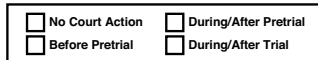
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## Completed Patent Cases in U.S. District Courts FY2001 - FY2006



(Fiscal Year Ends September 30)



Source: Administrative Office of the U.S. Courts



## Where are Troll Cases Filed?

- Troll cases filed from January through July, 2007, according to the *Patent Trolltracker* blog:
  - ED TX: 93 of 233 patent cases filed against 792 defendants
  - ND IL: 16 of 90 patent cases against 178 defendants
  - ND CA: 14 of 86 patent cases against 170 defendants
  - SD NY: 11 of 77 patent cases against 215 defendants
  - Delaware: 9 of 85 patent cases against 224 defendants
  - CD CA: 8 of 165 patent cases filed against 361 defendants
  - D NJ: 7 of 132 patent cases against 230 defendants



## Why the Eastern District of Texas?

- Why EDTX?
  - Fast and friendly
  - Open discovery
- Will it continue?
  - According to LegalMetrics, the EDTX win rate in jury and bench trials was 11% through August, less than half the national win rate of 24% (this includes summary judgment and trial wins)
  - EDTX juries have generally awarded smaller damages (most in the \$1-4 million range)

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## What other Venues are Popular for Trolls?

- The most favorable plaintiff verdicts are handed down in:
  - Middle District of Florida
  - District of Delaware
  - Western District of Wisconsin
  - Eastern District of New York
  - Not Eastern District of Texas

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## Average Time to Resolution

<u>Forum</u>	<u>Average Time to Termination On Merits</u>	<u>Time to Jury Trial Termination (months)</u>
E.D. VA	8.4	10.8
W.D. Wisc.	10.1	12.5
<b>E.D. Tex.</b>	<b>19.6</b>	<b>26.6</b>
N.D. Ill.	16.3	32.3
C.D. Cal.	14.0	33.1
N.D. Cal.	23.2	33.7
D. Del.	28.6	36.6
<b>S.D.N.Y.</b>	<b>17.7</b>	<b>40.3</b>

## Patent Troll Targets



## Patent Troll Targets

- High profile companies with deep pockets.
- Groups of similar companies that would use the same type of technology or method.
- Well-known licensees, the names of which the Patent Troll can use to bolster the credibility of its patent claims.

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## Patent Troll Targets

- Patents in the computer software and networking industries are, so far, the most attractive to Patent Trolls wanting to build their portfolio.
- Financial Services Industry is now becoming a target for the technology and methods they use for accessing information, which combine telecommunications, computers and PINS (ex. RAKTL patents).

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## Companies Most Often Sued By Trolls\*

- |                        |                           |
|------------------------|---------------------------|
| 1. Verizon (19)        | 11. IBM (7)               |
| 2t. Dell (15)          | 12t. Comcast (6)          |
| 2t. Sprint/Nextel (15) | 12t. FedEx (6)            |
| 4. Microsoft (14)      | 12t. Wal-Mart (6)         |
| 5. Motorola (12)       | 15t. Bank of America (4)  |
| 6. AT&T (11)           | 15t. Best Buy (4)         |
| 7t. HP (10)            | 15t. General Electric (4) |
| 7t. Time Warner (10)   | 15t. News Corp. (4)       |
| 9t. Cisco (8)          | 15t. Target (4)           |
| 9t. General Motors     | 15t. UPS (4)              |
|                        | 15t. Walgreen (4)         |

\*Patent Troll Tracker Statistics.

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## The Changing Legal Landscape

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## Permanent Injunctions

### *eBay Inc. v. MercExchange (5/15/06)*

- Prior to *eBay*, the “general rule” was that the court issued permanent injunctions against infringement absent exceptional circumstances.
- Supreme Court denied injunctive relief holding that **injunctive relief may issue only in accordance with the principles of equity.**
- 4 factor test for permanent injunctive relief must be met:
  - Irreparable harm
  - Monetary damages are inadequate
  - Balance of hardships between parties
  - Public interest



## Post *eBay* District Court Cases

### Summary of Post *eBay* Decisions: May 15, 2006 Through June 19, 2007

	<u>Competitors</u>	<u>Non-Competitors</u>	<u>Total</u>
Injunction	22	1	23
No Injunction	2	5	7
<b>Total</b>	<b>24</b>	<b>6</b>	<b>30</b>

Source: “The Changing Landscape of Patent Remedies after *eBay*,” June 2007.



## Declaratory Judgment Actions

### *MedImmune v. Genentech (1/9/07)*

- Supreme Court
  - ruled that a licensee could file a declaratory judgment action without first breaching or terminating a license
  - rejected CAFC's "reasonable apprehension of suit" test for determining an Article III case or controversy

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### *SanDisk Corp. v. STMicroelecs (3/27/07)*

- CAFC held that DJ jurisdiction may exist by making statements far short of threatening legal action.
- DJ jurisdiction can exist when the patentee takes a position that puts the DJ plaintiff in the position of either:
  - arguably taking illegal actions or
  - abandoning legitimate activities.

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## Obviousness

### *KSR v. Teleflex (3/30/07)*

- Rejected rigid application of the “teaching, suggestion, and motivation” (“TSM”) test for obviousness
- Reiterated an “expansive and flexible approach.”
- Rendered patents more vulnerable.

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## Post-KSR Federal Circuit Cases

- 16 cases considered obviousness under KSR
- 4 were favorable to the patentee (25%)
- 12 were favorable to defendant (75%)

ACCORDING TO LATIMER, MAYBERRY & MATTHEWS IP LAW, LLP

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## **Willfulness and Opinion Letters**

### ***In re Seagate Technology (8/20/07)***

- CAFC raised the standard for enhanced damages to “objectively reckless” behavior from negligence.
- No affirmative duty to act
- CAFC also ruled that non-infringement opinions were not necessary to avoid enhanced damages

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## **Case Law Conclusions**

- Trolls lose leverage of threat of injunctions in negotiations
- Trolls lose leverage of willfulness in negotiations
- Harder for trolls to put defendants on notice and engage in pre-litigation negotiations for fear of DJ action
- Easier to invalidate patents based on obviousness

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## So what if you are approached by a Troll?



DEWEY, CHEATEM & HOWE  
666 DEVILS RIDGE ROAD  
NOWHERESVILLE, NEW YORK 66666

Manuel Manuel, Esq.  
1111 Manhattan  
1111 Maple Street  
New York, New York 11111

Re: Manuel Manuel Esq., U.S.'s Patent Portfolio

Dear Mr. Manuel:

We represent Manuel Manuel Esq., U.S. ("Manuel") and in accordance with Manuel Manuel Esq., U.S. Manuel has requested us to contact 1111 Manhattan ("1111") regarding Manuel's patent portfolio, which currently includes 1111 United States patents, 1111 pending applications, and several foreign counterparts, for a total of approximately 1,111 total and pending claims. We have conducted a list of the current Manuel patents, which represent approximately 111 of the total 1,111 patents.

We believe the portfolio has great value to 1111's operations, and we respectfully request that you advise us accordingly within 1111 days of your response. If you have any questions regarding the Manuel portfolio, please contact us at 1111-1111-1111.

We would like to meet with you to discuss the value of the portfolio and the applicability of 1111's operations. We would like a return call regarding our request for information. We look forward to hearing from you within the next 1111 days.

Sincerely,

J. Blumenthal





## Checklist – If approached by a Troll

- Do nothing – can work, at least for awhile....
- Understand the troll business model and the current position on the timeline in that model of any troll that contacts you.
- Investigate chain of title
- Identify what the patents are and what they cover
- Search for and raise issues that better due diligence on the part of the troll's attorneys would have revealed.

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## Checklist (cont'd)

- Early Dispute Resolution Processes
- Check on inventor access
- Evaluate Claims
- Look for ways around most favored licensee clauses
- Consider re-examination of the patent
- Look at what other patents the troll has in its portfolio

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## Checklist (cont'd)

- See if any indemnity obligation on the part of a vendor
- Look at any prior comments or valuations of the patent
- Consider Declaratory Judgment Action
- Settle – expensive, but could be less expensive and disruptive than litigation

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## Checklist (cont'd)

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

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## Settlement

- Determining When and How to Settle
  - Gather available information regarding claims/issues
  - Perform preliminary value analysis
  - Educate the parties
  - Attempt to negotiate a “positive net present value” settlement
- Lost profits generally not relevant
- Royalty payments typically are the result
  - Determine appropriate royalty base
  - Determine reasonable royalty rate

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## Is There A Third-Party Claim?

- Consider whether an indemnification claim may exist against the supplier of a product that a troll is claiming infringes its patents.
  - Contract
  - UCC or Common law
- Consider whether other legal claims exist.
  - Breach of contract
  - Fraud in the inducement
  - Negligent misrepresentation

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## What is different about Troll litigation?

- Dynamics are very different:
  - Troll not in your business.
  - More often than not, a troll doesn't understand the dynamics of you, your competition, your customers, your markets.
  - No or limited cross-licensing potential or desire.
  - Economic impact of business interruption is considerably one-sided.

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## What is different about Troll litigation?

- Financial analyses differ and impacts the litigation process:
  - Discovery takes on a different perspective as a broader analyses required to determine extent of use and economic benefits attributable to patents.
  - Need to touch more parts of the organization to determine whether any economic benefits are derived from the patents.
  - Experts need to be retained to determine the true value of technology and economic damages.

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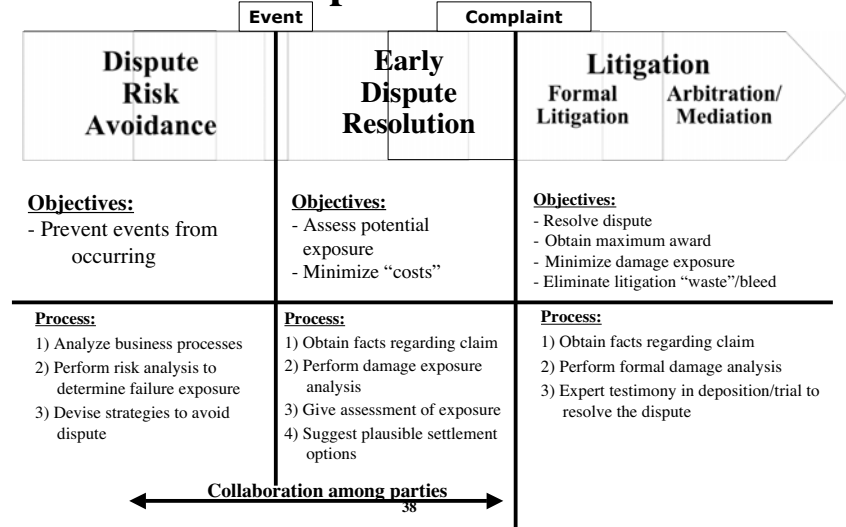


## What is different about Troll litigation?

- Determination of economic damages
  - No lost profits so reasonable royalty
- Determination of whether the Entire Market Value Rule or Apportionment applies.
  - The Entire Market Value rule permits recovery of damages based on the value of a patentee's entire apparatus containing both the patented and non-patented features.
  - Apportionment evaluates the portion of the profit credited to the invention as distinguished from other elements, the portion of the profit customary in the industry for use of similar technology and the advantages of the patented technology over prior technology



## The Dispute Continuum





## What the Trolls Are Counting On

- 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*



## Why Do Patent Trolls Succeed? (cont'd)

- Not concerned with exposure to liability.
- Typically hire attorneys on a contingent fee basis or have them in-house.
- No pressure from customers to settle litigation.



## Why Do Patent Trolls Succeed? (cont'd)

- Well-financed – hedge funds?
- Cost minimization
- It is often easier and less costly for an operating company to settle than to litigate.

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## Patent Indemnification Claims

- SELLER agrees to defend or settle any claim against You and to pay all Damages that a court may award against You in any suit, that alleges a Service infringes any patent, trademark, copyright or trade secret, **except where the claim or suit arises out of** or results from: Your or User's Content; modifications to the Service or combinations of the Service with non-SELLER services or products, by you or others; SELLER's adherence to Your written requirements; or, use of the Service in violation of this Agreement. You agree to defend or settle, at Your own expense and without prejudice to SELLER or SELLER's continued provisioning of the Service to You or others, all claims or suits against SELLER covered by the exceptions in the preceding sentence. The indemnifying party will also pay all Damages and costs that by final judgment may be assessed against the indemnified party due to infringement by the indemnifying party.

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## UCC Section 2-312(3)

- “Unless otherwise agreed, a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like, but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.”

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## UCC Section 2-312(3)

- UCC Section 2-312 does not cover claims by the buyer against the seller where the buyer had been sued by the patentee for infringement, the infringement arose from the subsequent use of the good, and the good itself, as sold, did not infringe the patent.

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## Breach of Contract

- Sale of a product with knowledge of a potential patent claim, while not providing an indemnity for that claim, may amount to a contract that fails of its essential purpose.

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## Tort Claims

- Negligent or Fraudulent Misrepresentation
- Fraud in the Inducement

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## **Attack of the Patent Trolls – Is Your Company Troll-Proof?**

● Questions?