

Issues to Consider During Settlement and Licensing Negotiations with an NPE

NJIPLA Presentation

JANUARY 24, 2013

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Word Images of a “Patent Troll”

- “patent extortionists”¹
- “patent predators”²
- “non-competitor patent holding company (or a patent troll)”³
- “small operations whose only apparent asset is a patent and whose only apparent business is sending demand letters to potential infringers in order to secure licensing fees.”⁴
- “A patent troll is ‘somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and . . . [have] never practiced.’”⁵

“Patent Troll” Commentary

- **Congressman Howard Berman:**
 - “[P]atent trolls have a ‘negative effect on innovation’⁶
 - “[P]atent holders, making no effort to commercialize their inventions, lurk in the shadows until another party has invested substantial resources in a business or product that may infringe on the unutilized invention. The patent troll then steps out of the shadows and demands that the alleged infringer pay a significant licensing fee to avoid an infringement suit.”⁷
- ***Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.***
 - “[T]he weaker the infringement case, the more likely the alleged infringer's decision to settle will be motivated by the high costs of litigation, which causes the settlement to fail to reflect the true economic contribution of the patent to the allegedly infringing product”⁸
- **Use of “patent troll” or “submarine patents”**
 - At least one court found it appropriate to preclude the parties from referring to the corporation as a “patent troll” or to the corporation's patents as “submarine patents” before the jury.⁹

Is Any Definition Meaningful?

Is every patent owner that monetizes patents it is not practicing a patent troll?

- “A patent troll is ‘somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and . . . [have] never practiced.’”¹⁰

A. *Kodak v. Sun Microsystems*

- Kodak acquired Java patents from Wang Laboratories, Inc. in 1997.
- Kodak did not practice the patented methods.
- Sun Microsystems settled for \$92 million

Is Any Definition Meaningful?

B. Independent inventors who do not practice their patent inventions

- “The classic definition of a non-practicing entity, or patent troll, does not envision an entity which the patent inventors themselves wholly own.”¹¹
- Individual inventors generate ~ 12% of patents¹².

Is Any Definition Meaningful?

C. Universities that do not practice their patented inventions?

- Universities and their inventors earned more than 1.8 billion in 2011.¹³
- 5,398 licenses & 12,090 new patent filings.¹⁴

NPE Bargaining Power

- High litigation costs
 - Early settlement an affordable way to get out
 - Analysis of asserted patents and infringement
- Risk of potentially debilitating liability
 - Injunctions?
 - ITC Exclusion Orders?
- Lack of meaningful risk
 - No disruption to core business
 - No product subject to potential infringement
 - No customer indemnification issues

Injunctions

- Do they exist after *eBay Inc. v. MercExchange*?
 - Courts have generally found NPEs can not show “irreparable injury”
 - NPEs attempt to overcome by licensing to competitors
 - Boilerplate licenses likely insufficient
- *Harris Corp. v. Federal Express Corp.* (M.D. Fla. 2011)¹⁵
 - NPE wins injunction
 - Shows “irreparable injury” based on “sufficient commercial activities”
 - Direct competition with licensees
 - Explored, but ultimately choosing not to manufacture claimed products
 - Soliciting purchase offers for patents
 - Granting licenses to select entities

ITC Exclusion Orders

- Since the eBay decision (May 15, 2006), the USITC instituted 258 investigations through the first quarter of 2012.¹⁶
 - 21 investigations (8%) were filed by Category-2 NPEs¹⁷
 - Only 1 obtained an exclusion order (*Rambus*)
 - 26 investigations (10%) were filed by Category-1 NPEs¹⁸
 - Only 2 obtained exclusion order. (Tessera & UNeMed).
 - 62% settlement rate for investigations by Category-2 NPE¹⁹
 - 38% settlement rate for investigations by Category-1 NPE²⁰

Understanding the NPE

- What Does NPE really want:

Collect licensing fees

- University: ROI, fund additional R&D, prestige
- Individual : ROI, fund continued inventing, cash out
- Corporation: ROI for unused patents
 - Capitalize on underserved market
 - Demonstrate value of IP to drive sale/investment
- Patent agglomerate: ROI on the \$\$ invested in the pool patents

NPE Leverage:

- Multiple defendants for same effort
- A patentee friendly venue with limited transfer
- Slow roll the matter to limited non-group activity
- Vigorously oppose any stay for reexamination

Before the first call to the NPE

- **Have an agreed position with your client in writing (talking point)**
- **Know exactly how far your client is willing to go**
- **Press for disclosure of any prior deals**
- **Press for disclosure of the real party in interest**
- **Check earlier cases for settlement, dismissal or stays**
- **Check for any prior opinions on the patents**
- **Check with other defendants for possible joint defense agreements or sharing of prior art**
- **Know the judge and the jurisdiction's rules**
- **Know if you are in a patent rules jurisdiction**

Understanding your client

- What is the risk to the client's business
- Are customers involved
- Likelihood that the client can handle the costs of litigation
- Potential costs for: invalidity study
reexamination filing
motion practice
- Potential for a joint-defense agreement

The Final Word

- Dealing with an NPE is really no different than dealing with any adversary
- Do not get hung up on the fact that the NPE probably only did enough pre-filing investigation to avoid Rule 11 sanctions
- Evaluate the risk/benefit of litigating or settling and put your initial efforts into the best outcome for your client
- Pressing an NPE who does not want to do the litigation work can drive a settlement
- Focus on your case and forget the moral indignation

Additional Reading

- U.S. International Trade Commission, *Facts and Trends Regarding USITC Section 337 Investigations* (2012)
 - Available at:
http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf.
- Brian T. Yeh, *An Overview of the “Patent Trolls” Debate*, Congressional Research Service Report for Congress (August 20, 2012)
 - Available at: <http://www.fas.org/sgp/crs/misc/R42668.pdf>

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Professional Experience Tony started his career as the first in-house IP attorney at the Allen Organ Company and latter joined the in-house IP staff of AMP Inc. In the late 1970s, he returned to Philadelphia and entered private practice in an IP boutique. In 1987, he joined Fred Koenig as a founding shareholder of Volpe and Koenig.

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- Tony has corporate and private practice experience in all aspects of intellectual property rights. His current practice focuses on client counseling and the development of IP strategies that yields the best value from the client's IP and, to the extent possible avoids the IP rights of third parties.
- Tony is experienced in IP due diligence reviews for domestic and foreign transactions. He has prosecuted patent and trademark applications and rendered opinions regarding patentability, availability, validity, enforceability, licensing and enforcement of patent, trademark and trade secret rights concerning a wide array of technologies.
- **Publications, Presentations and Recognitions** Tony is a frequent presenter at intellectual property seminars in the United States, Canada and Europe and was a Scholar-in-Residence for Legal Studies at Temple University's Fox School of Business.
- Tony has been named to Pennsylvania Super Lawyers (2005-2012), Best Lawyers (2007-2012), Top 100 in Philadelphia, Top 100 in Pennsylvania, has been recognized as a "Leader in the Field" by Chambers USA (2009 – 2012), and celebrates more than 10 years of being rated AV Preeminent by Martindale-Hubbel.
- Tony has been a Scholar-in-Residence, Legal Studies, Temple University Fox School of Business

