

quinn emanuel trial lawyers

quinn emanuel urquhart & sullivan, llp

los angeles | new york | san francisco | silicon valley | chicago | tokyo | london | mannheim

Best Practices for Defending Against Patent Trolls

Today's companies face a business reality rarely encountered by their predecessors: "patent trolls." There is much debate over what constitutes a patent troll, but by most definitions, patent trolls are patent owners that do not make or sell patented inventions, and instead enforce their patents through infringement lawsuits to generate revenue in the form of license fees gained through settlements or jury awards. These companies, also sometimes less pejoratively referred to as "patent-holding companies" or "non-practicing entities" (NPEs), with business models centered on litigation rather than competition, are unsavory to many. But some "trolls" were once operating companies in their markets, and now seek to monetize their intellectual assets. Under any name, patent trolls have become a prominent fixture on today's intellectual property landscape. While every case is unique, Quinn Emanuel's extensive experience litigating against patent trolls has revealed effective defense strategies.

Proactively Responding to a Troll's Initial Demand

Patent trolls often fire the first shot with a letter "inviting" a potentially infringing company to consider paying for a license. The opening salvo in any form should be taken seriously and responded to thoughtfully. Ignoring the letter is ill-advised, as a judge or jury will likely hear how the defendant was put on notice of its infringement, but couldn't be bothered to respond. A better practice is to respond directly, affirming one's respect for intellectual property rights and commitment to innovation, and requesting more information. Asking a troll to identify infringing products, to explain element-by-element why it believes there is an infringement, and to provide prior licenses to its patents will aid a defendant's analysis and may provide some free discovery not otherwise available until litigation ensues. It may also buy some time to begin preparing one's case. If the troll refuses to respond, this could give rise to an estoppel defense. In our experience, trolls who are not fully invested in their causes will simply go away when faced with a response that shows commitment to defending the case.

When a troll persists, companies accused of infringement should insist on entering a non-disclosure agreement to facilitate communication. Recent cases have suggested that, without extra protections, negotiations over settlement agreements may be discoverable in litigation, as evidence of a reasonable royalty. See *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 871-72 (Fed. Cir. 2010); *Tyco Healthcare Group LP, et al. v. E-Z-EM, Inc., et al.*, Case No. 2:07-CV-262 (TJW) (E.D. Tex. March 2, 2010) (ordering discovery of settlement negotiations and holding that based on *ResQNet*, a privilege no longer protects settlement negotiations from discovery).

Making an early judgment call about whether the troll's demands have merit and assessing the risk of litigation is crucial. At least three decision-makers, one who knows the technology, one who knows the sales and marketing of the accused products, and a lawyer, should review the demand letter and assess the strength of the accusations and their impact on the business if proven in court. A company's lawyers should implement a "document hold" to preserve potential evidence and avoid the risk of sanctions for not doing so. Quickly preparing for litigation often helps facilitate an early and favorable resolution.

Knowing Your Enemy

Not all NPEs are created equal. Knowing your adversary, and its lawyers, is essential. Researching who the company is, how many patents they own and have licensed, whether they have any other assets or operations that may be vulnerable to counterclaims, how often they have taken their claims to trial, and what type of settlements they have worked out in the past all provides insight into resolving a case. A start-up NPE with only a few patents may be less willing to risk its limited resources in litigation. An experienced NPE with a large portfolio may be more willing to tolerate a measure of risk with the hope of obtaining a large award. Developing an effective strategy also depends on understanding an NPE's business model. NPEs may target many defendants to accumulate many small license fees, seek larger fees from a smaller number of defendants, or look for a homerun by targeting just a handful of companies for multi-million dollar settlements or damages awards. The quality and track record of the NPE's selected counsel, and whether they typically charge hourly or on contingency, may also reflect the investment the NPE is prepared to put into its case. Using discovery, once it

quinn emanuel trial lawyers

quinn emanuel urquhart & sullivan, llp

los angeles | new york | san francisco | silicon valley | chicago | tokyo | london | mannheim

begins, to uncover a troll's prior licenses and settlements permits the prepared defendant to bargain for a better deal, or at least an equally favorable deal, compared to others. Knowing which routes an NPE usually follows is a useful guide in developing an opposition strategy.

Knowing Your Enemy's Weapons

NPEs assert patents of varying strengths. Candidly reviewing each asserted patent and its applicability to a product or method accused of infringing obviously informs litigation strategy. Whether the patent at issue already has been tested – in litigation or other legal proceedings, like reexaminations before the Patent Office – may be an indicator of the strength of the case. If the NPE is asserting a patent for the first time, it may be willing to offer a better licensing deal to early licensees. And if the patent has not yet been tested in litigation and has not yet survived challenges to its validity, a vigorous attack on the patent itself in view of the prior art may expose new vulnerabilities.

Fighting on Your Own Turf (or at Least the Most Favorable Turf)

One of the most important influences on outcome is venue. Although plaintiffs generally select their preferred courts in which to file suit, companies accused of infringement usually have options to secure a more favorable forum. If an NPE has been threatening litigation but has not yet filed suit, an accused infringer may start the litigation and pick the battlefield by seeking a declaratory judgment (of non-infringement or invalidity) in a court of its choice, such as its home state or a locale where it enjoys name recognition and a positive reputation. NPEs often prefer forums with historically short times to trial, such as the Eastern District of Texas and the Eastern District of Virginia, although recent increases in time to trial in Texas may be changing the calculation. See PriceWaterhouseCoopers, *A Closer Look: Patent Litigation Trends and the Increasing Impact of Nonpracticing Entities*, 17 (2009). Speed is valuable to NPEs, and especially to counsel representing them on contingency, because it lessens legal fees and shortens the time to secure a settlement or verdict. The Eastern District of Texas is a popular venue choice for NPEs because of a perception that it is both friendly to plaintiffs and moves cases to trial quickly.

Even when an NPE has already filed suit in a preferred forum, the battle for venue is by no means over. A growing body of case law has made clear that if a defendant does not have significant ties to the venue, and another court is clearly better situated to try the case, transferring venue may be in order. Recent decisions from the Federal Circuit have eased the requirements for venue transfer and given defendants new ammunition when attempting their cases to more appropriate venues. The shift began with *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008), in which the Federal Circuit reversed the denial of a transfer motion by a trial judge in the Eastern District of Texas. The Federal Circuit held that the trial court had erred in its weighing of the factors for and against transfer. *Id.* at 1320-21. The district court gave too much deference to the plaintiff's choice of venue by treating it as a separate factor weighing against transfer and gave insufficient weight to the inconvenience to witnesses, ease of access to evidence, and the localized interests of the transferee venue. *Id.* The deference some trial courts had given plaintiffs' choice of venue was further eroded the following year by *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009), in which the Federal Circuit ordered transfer to the Northern District of California because many of the witnesses and much of the physical evidence was in California and none was in the Eastern District of Texas. *Id.* at 1344-46. These decisions have made it easier for some defendants to transfer cases out of the Eastern District of Texas – particularly where the evidence and witnesses are located elsewhere. See, e.g., *In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011) (granting transfer when Plaintiff's presence in Texas was established solely for litigation).

Fighting with the Right Platoon

NPEs often name as many defendants in a case as possible to try and defeat potential venue transfer motions (by naming defendants located throughout the country and some in Texas) and to exploit potential conflicts in claim construction, non-infringement, discovery and other strategic issues. However, defendants can take advantage of being sued together in a number of ways. Most familiar, defendants can pool resources in a joint defense group and share fees and costs associated with common work, such as claim construction, invalidity, and discovery of

quinn emanuel trial lawyers

quinn emanuel urquhart & sullivan, llp

los angeles | new york | san francisco | silicon valley | chicago | tokyo | london | mannheim

the NPE. Defendants may also be able to achieve more favorable settlements as members of a group than they would otherwise obtain on their own.

It does not always make sense for defendants to stay together in a group, however. Another important strategic move can be to move to sever one's case from other defendants who are uncooperative or have different interests, often in connection with a motion to transfer, or a motion to sever under Federal Rule of Civil Procedure 21. There is a current strand of thought in the Federal Circuit and elsewhere that multi-defendant patent cases are actually a violation of Federal Rule of Civil Procedure 20, which outlines what parties may be joined as defendants in a single action, and many companies view misjoinder motions as a way of gaining some control over large multi-defendant patent suits. Severing a case may also give an individual defendant greater control of strategy, can avoid conflicts, and may result in another defendant's case being resolved first, providing a preview of litigation developments.

Counterattacks

It is a common misconception that typical trolls have no exposure to liability in the patent lawsuits they file. But patent litigation provides defendants with an opportunity to target an NPE's most valuable assets, often only assets, its patents, by proving their invalidity or unenforceability. Focusing on ownership and assignment has also been an effective strategy for many defendants involved in litigation with patent trolls. Proving improper assignment through different entities, co-ownership of patents through divorce proceedings, or improperly identified inventors are some ways that defendants have turned the tables on patent trolls. Defendants also should pursue all available discovery that could uncover invalidating prior art or activity. Not just deposing the inventors, but also seeking evidence from them, their current or former employers, co-workers, and consultants, to name a few, may reveal helpful prior art or evidence of invalidating public disclosure or early sale of the patented inventions. Aggressive and creative discovery by the defense often exposes invalidity issues that trolls failed to anticipate before filing suit.

Defendants also should seize every opportunity to exploit behavior by an NPE that could subject it to counterclaims. For example, abusing the patent system or engaging in monopolistic practices may subject NPEs, even those that do not compete in the marketplace, to serious counterclaims. See, e.g., *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 667-68 (Fed. Cir. 1986) (finding patent misuse). And NPEs who are overly aggressive in their pre-litigation tactics and communications with potential infringers and their customers may find themselves subject to claims for wrongly interfering with business relationships. See, e.g., *Enzo Life Sciences, Inc. v. Digene Corp.*, 295 F. Supp. 2d 424, 429-30 (D. Del. 2003). Thinking creatively, and outside the context of traditional patent defenses, can help the thoughtful defendant apply unexpected litigation pressures. Few NPEs are prepared to have their role as plaintiff reversed and take on the burden and expense of defending against counterclaims, which may provide valuable leverage.

Proceedings in the Patent Office

Initiating proceedings before the Patent Office to reexamine the validity of a plaintiff's issued patent can be a valuable tool that impacts litigation. For example, some – but far from all – courts may be persuaded to stay their proceedings pending the outcome of a reexamination, providing a respite from the expense of litigation. The extra burden and risk to a plaintiff whose patent is being reexamined for validity may factor into a potential settlement. But reexaminations carry potential risks and should be used very carefully. If the Patent Office confirms in reexamination that the patent is valid, and the patent emerges from the proceedings unscathed, the NPE may well be in a stronger position than before the reexamination, its patent now battle-tested. With an *ex parte* reexamination, where a third party (often the defendant in litigation) initiates but does not participate in the reexamination, if the Patent Office does not narrow or invalidate the claims, the patent may appear more legitimate in litigation, especially since the NPE will most certainly have provided the Patent Office all of the prior art produced by the defendants in the lawsuit, "washing" that art in the eyes of the judge and jury. With an *inter partes* reexamination, where a third party initiates and also participates in the reexamination, the risks are even greater. Although the initiating party is allowed to participate in the *inter partes* proceeding, the cost for that

quinn emanuel trial lawyers

quinn emanuel urquhart & sullivan, llp

los angeles | new york | san francisco | silicon valley | chicago | tokyo | london | mannheim

participation is that the initiating party may be estopped in litigation from challenging patent claims on invalidity grounds that were or *could have been raised* in the course of an inter partes reexamination. In the end, a successful reexamination that invalidates or narrows a patent's claims can be an effective way to weaken the position of an NPE, but the decision to file for reexamination depends on a careful consideration of the specific facts and circumstances surrounding the case, including whether a particular judge is likely to stay proceedings pending the reexamination.

Major Patent Case Milestones

Another important strategic decision involves when to request a claim construction hearing. An early interpretation of the patent's claims is often advantageous to defendants because a positive defense construction (for example, a narrow construction that avoids infringement or a broad construction that supports an invalidity argument) may undercut an NPE's theory of the case. At a minimum, the parties have more clarity as to the direction of the case once the meaning of disputed patent claim terms is resolved. Because the discovery burdens typically weigh far more heavily on defendants than plaintiffs in patent cases, having claim construction issues resolved early and before much discovery takes place can effect significant savings in costs and legal fees. Some courts, recognizing that claim construction can be case dispositive, may also stay fact discovery until claim construction is resolved.

Early summary judgment on non-infringement or invalidity can also save defense costs by bringing about a swifter resolution. Summary judgment also keeps the cases out of the hands of juries, where NPEs tend to have far higher success rates than they do at the summary judgment stage. See *PriceWaterhouseCoopers*, at 12.

Trial Themes

A clear and compelling trial theme is as important to winning a case against an NPE as any other. The contrast between NPEs who simply collect patents without contributing valuable products or technology to the marketplace, on one hand, and companies that through innovation and entrepreneurialism bring new products to market, on the other, often resonates with juries. On the other hand, NPEs often attempt to present themselves as the everyman "David" against "Goliath" corporations, and defendants in such cases are well served by personalizing their case with human interest stories about the individuals who independently created new technology now accused of infringement. Arriving at universal trial themes early in a case helps separate the important from the irrelevant throughout the litigation, and humanizes the story before a judge and jury, setting the framework for a winning defense.

Conclusion

Developing an effective defense against a troll requires understanding the themes common to NPE cases and tailoring the strategies to the specific characteristics of a particular adversary. Patent trolls or NPEs, a reality of today's business climate, must be taken seriously and an informed and comprehensive litigation strategy can maximize the opportunity for a successful resolution.