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Intellectual Property

How to Confront an NPE

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Even if you have yet to square off with an NPE, known more pejoratively as a patent troll, if you sell, market, manufacture, or develop products, goods or services, especially in industries where they are active, you likely recoil at mention of the term.

NPEs are companies whose business model consists of acquiring and enforcing patents through cease and desist demands, licensing schemes, or lawsuits. NPEs generally have no interest in developing or selling products or services. Rather, they generate revenue by threaten-

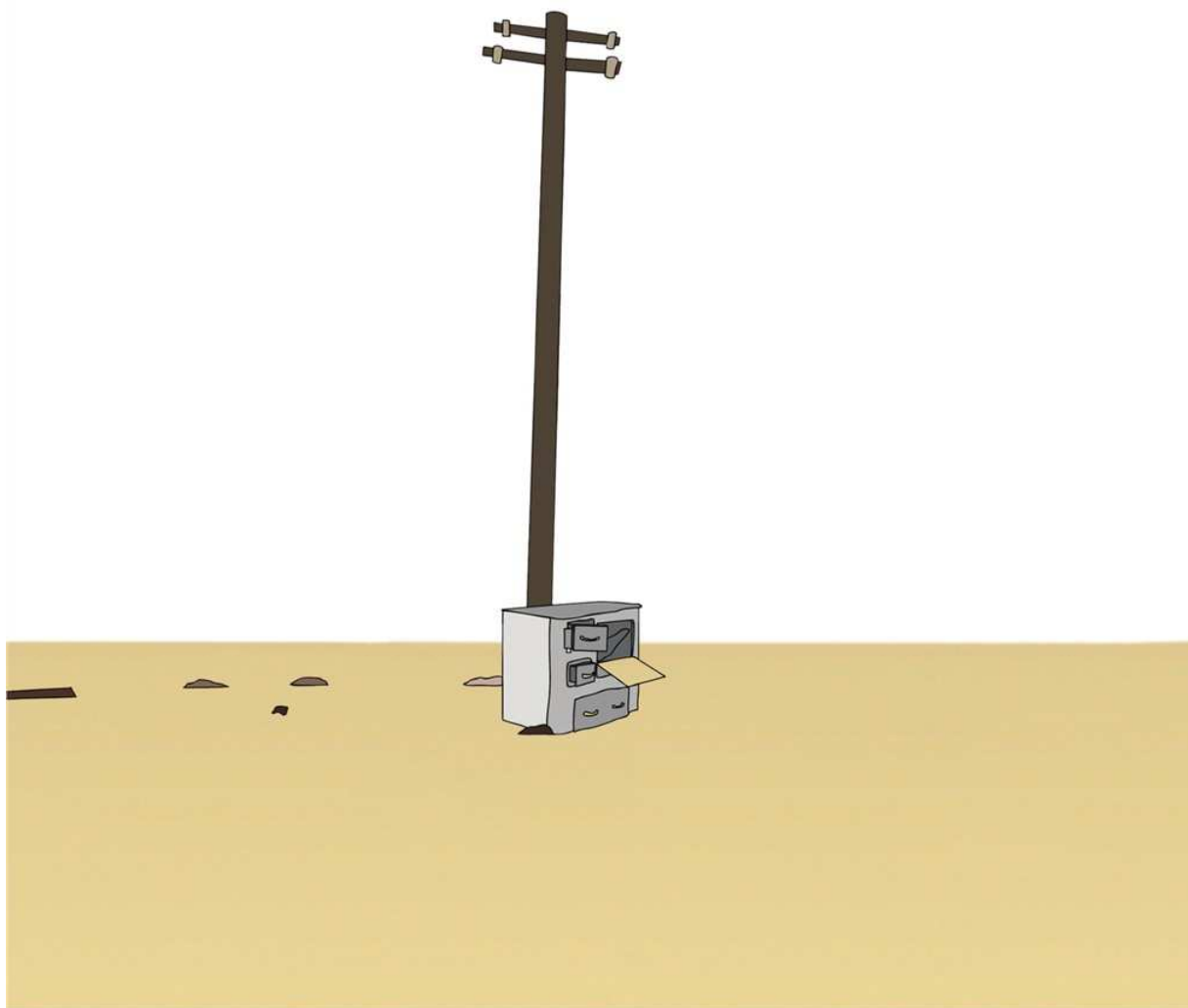
ing legal action and extracting settlements from companies that allegedly infringe their patents.

Because NPEs sell nothing, they have little to lose by aggressively enforcing a patent portfolio. Unlike the defendant in an NPE lawsuit, NPEs possess little to no discovery (documents or information) to exchange during a lawsuit, one of the most costly activities for a party in litigation.

Court dockets continue to be clogged with filings by NPEs, even after enactment of the 2011 Leahy-Smith America Invents

Act. That law included provisions intended to discourage the NPE strategy of filing lawsuits against multiple but wholly unrelated defendants.

Before Congress acted, an NPE could join any number of defendants, based in different locations and offering disparate products or services, in one lawsuit and in a forum chosen at the convenience of the NPE, based on a perception of that jurisdiction as one that favored patent owners. Now, an NPE can join multiple defendants together only if certain conditions are met.



The intent of these provisions of the American Invents Act was to put a dent in the number of lawsuits filed by NPEs, on the assumption that the expense of having to pursue litigation in multiple jurisdictions against multiple defendants would discourage them. The flow of lawsuits, however, has yet to subside, and as a result a company having to confront an NPE must continue to evaluate the comparative risks of litigating or settling.

A demand letter from an NPE can seem daunting, especially to a smaller or start-up venture without a large cadre of

lawyers. NPEs have become savvy about identifying targets. Company don't receive a demand letter by accident, and playing ostrich will not make the NPE go away. The company may have been targeted because of its success, its marketing efforts to promote a brand, or its appearance in key lists of successful companies in some relevant industry. For whatever reason, the NPE has the target in its sights.

There is no one approach to responding to an NPE demand. Target companies have options to weigh and risks they must try to minimize.

Even before responding to a demand letter or lawsuit, target companies – with legal counsel involved – should do some leg work. In addition to reviewing the patent, do some research to determine who is behind the threat. Investigate other lawsuits filed by the same entity to determine whether it tends to settle early or litigate.

Use legal counsel to communicate with other companies who have been targeted or sued by the NPE. These co-targets can provide invaluable information about the NPE's intentions and practices. And be
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sure to determine whether another party may be responsible for indemnifying you.

There are a number of possible pre-response strategies, but the first step should be contacting legal counsel to discuss alternatives. Though you may consider engaging the NPE in a non-confrontational manner, without legal counsel's assistance, the NPE is unlikely to go away without a payment and license. This can create a host of legal complexities. How you respond to an NPE threat, and how quickly, can impact negotiations and positions in any subsequent litigation.

The negotiations may not be simple. The NPE may be seeking to extract a large payment and comprehensive license. Or it may be pursuing smaller payments from multiple defendants, to amass a war chest that it plans on using against a deep-pocketed target. Either way, NPEs often set arbitrary early deadlines, after which they will dramatically increase settlement numbers, so as to encourage early settlement.

Choosing to settle and be done with an NPE is no easy choice. Settling can be expensive. Legal fees and licensing costs associated with negotiating settlements can run to tens and even hundreds of thousands of dollars. But do not choose to settle merely because the prospect of litigation seems daunting. Yes, patent litigation is expensive. A defendant in patent litigation should expect significant legal fees, and it should also budget for potential damage awards.

Settlement may create a domino effect. NPEs look to outcomes of past lawsuits when looking for new targets. A company that settles early with one NPE is a perfect target for the next. So while early settlement may be appealing, the unintended result may be increasing your visibility to other NPEs.

Outright settlement and knock-out litigation are not the only alternatives, however. A new industry has emerged to combat patent-aggregating NPEs. Companies in the new industry buy and license patents in particularly NPE-

heavy fields (such as e-commerce and wireless telecom) in order to gain some control and leverage. The companies differ in philosophy. Some, such as Intellectual Ventures or Acacia Research, aggregate patents and seek to offensively monetize them through licensing or even litigation.

Others, such as RPX Corporation, offer defensive alternatives. RPX, headquartered in San Francisco, has amassed a large portfolio of high value patents but promises not to assert its portfolio offensively. Rather, RPX offers an alternative to traditional settlement and litigation by selling memberships to companies targeted by trolls.

Client members pay RPX an annual fee for perpetual licenses to the RPX patent portfolio. RPX further seeks out licenses from active NPEs, offering its members dismissal from litigation and marketing membership to new clients defending themselves in patent litigation matters where RPX has acquired a license.

The appeal of RPX is obvious. It handles negotiations for licenses and has the look and feel of patent insurance during the membership period. But RPX does not come cheap. Fees to join are based on company size and revenue, but even for a small company a real financial commitment is required.

While RPX may sound like patent insurance, it is not. Companies considering joining RPX should be mindful that RPX provides only license protection from patents within the RPX portfolio. RPX cannot guarantee members that they will be free from NPE threats.

Moreover, RPX itself has been criticized by NPEs and by some targeted for RPX membership, as anti-trust violators and extortionists. RPX is presently defending a lawsuit, brought by an NPE, Cascades Computer Innovation, which asserted anti-trust violations against RPX and some of its member clients for price fixing and conspiracy to restrain trade in violation of federal and state laws. The Cascades lawsuit remains pending while the defendants await a ruling on a motion to dismiss.

RPX has also been accused of orchestrating NPE enforcement of patents while simultaneously offering its membership to those targeted by NPEs. Kaspersky Lab submitted a complaint to the White Collar Crime Division of the FBI in early 2011, alleging that RPX threatened to damage Kaspersky's business reputation and embroil the company in patent litigation if the company did not join its membership.

The concerns about RPX's business model, as well as its cost, should be weighed against the expense and risks associated with settlement or litigation. Companies targeted by NPEs have options, and they should be discussed with legal counsel familiar with the issues.

Companies threatened by troll demands can also take heart from the fact that Congress seems to know that it needs to address the patent troll epidemic. Legislative efforts have focused on statutory amendments that would require plaintiffs (including NPEs) to pay defendant legal costs if the suit is unsuccessful, and not just in exceptional cases.

Meanwhile a company on the receiving end of an NPE demand, or a company active in a technology field that is targeted by NPEs, must be prepared. You need not concede defeat, but you do need to be thoughtful in your approach to the risk. Working with legal counsel to develop pre-emptive strategies, including potential relationships with patent aggregators like RPX, is a cost effective approach to mitigating risk. ■



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