



The Curse of the Patent Troll - What Every SME Should Know

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Consider this scenario: You are an ambitious technology-based product or service company that decides to enter the market in the USA. You set up an office and a website and you start to do business.

Within a matter of months, a court order appears alleging that your products or services are infringing a patent. The chances are that the claimant will be a patent troll (also known as a non-practising entity or NPE) and the court issuing the “rocket docket” will be in the Eastern District of Texas¹. NPEs acquire patents, often at low cost as a result of company liquidations, and then identify companies that possibly might be using the technology protected by the patents. They are non-practising in the sense that they exist to generate income solely from the patents they hold - they do not design, develop or produce anything; they certainly have nothing to do with the inventions behind the patents.

At this point, you are set for a potentially long and expensive period of asymmetric litigation warfare.

It is estimated that 2500 companies were sued in 2016 by patent trolls and £6 billion was expended in litigation costs and settlements². This sum excludes the cost of the management time wasted defending cases. Small and medium-sized enterprises (SMEs) that do not have lawyers in-house to take the burden, may find their top management seriously distracted from running their business.

To be fair, many US politicians have tried to eliminate what amounts to an unproductive “innovation tax” on business³. Unfortunately, the vested interests in maintaining the status quo have sometimes seemed insuperable⁴.

I mentioned above that this was asymmetric warfare: the claimant is non-practising (i.e. has no sales revenues), so having defensive patents of one’s own with which to counter attack will not help.

Let us say that once having reviewed the patent that has been asserted against you, you are convinced that you do not infringe the claims.

There is a temptation to fight and not give in; after all, you have the moral high ground. Generally, this is a dangerous strategy for an SME as there is no guarantee that you will convince the court, especially if the intricacies of the technology are hard for a layman jury to understand.

Once accused of infringement, the timetable at every stage leading up to court will be determined by the court. This treadmill of legal deadlines (disclosures, claim construction, discovery, hearings, etc) can go on for years and legal costs may escalate.

So, what can be done? There are several courses of action:

1. Attempt to settle the case as soon as possible, at minimum cost and reducing long-term risk.
2. Use a company that acquires patents or licence rights on behalf of their clients.
3. Buy litigation insurance (though the premiums will be eye-wateringly expensive).
4. Join a mutual defence group formed of other companies faced with an attack relating to the same patent.
5. Have a partner, perhaps a customer, who already has a licence to the patent or will help fund the defence.
6. Attempt to have the court action moved to a more appropriate US jurisdiction⁵.
7. Fight the case yourself.

Each of these and others, such as patent pools and standards essential patents (SEPs), deserve articles, in their own right.

There is a right and wrong way of doing *Option 1*. The patent troll is trying for a quick win, knowing that few companies can afford *Option 7*. A settlement agreement should include safeguards that prevent future attacks from the same troll and allows you to use the technology described in the patent. If your company comes to a settlement, it runs a risk that it is seen as one that capitulates without a fight, which might make you more vulnerable to attacks from other patent trolls.



Strictly speaking, having a physical presence in the US does not mean you will not be attacked: patents aim to prevent competitors producing, selling, importing/exporting and using infringing goods and services. However, if you do have a US office or distributor (or even a customer), in my experience you are more likely to be targeted.

Some companies have a policy of never giving in to patent trolls⁶. These companies tend to have in-house legal departments and deep pockets, so we are not talking about SMEs.

Lessons:

- If you are a technology-based product or service company, especially one doing business in a litigious vertical market, do not neglect to factor in litigation or insurance costs when trading in the US.
- In the case of patent trolls, the value of having a defensive patent portfolio is limited; the troll will not be amenable to a cross-licensing agreement. As the troll has no product or service revenues, a counter claim of infringement will not work, but it is standard practice to respond with a counter attack claiming the patent is invalid, i.e. showing that prior art existed before the patent was filed which the examiner might have overlooked.
- Use databases to find out who else is being

attacked – you might learn something from the other defendants, or they might wish to join in certain parts of the defence in order to share costs.

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- Assess the consequences of mounting a challenge; if it is hard to do this objectively because of emotional involvement - in knowing you are right and they are wrong- involve people who are more detached.
- At least have a US lawyer who is licensed to act in Eastern Texas lined-up ready for when this happens – there will not be much time to react when it does!
- The above implicitly assumes there is no genuine infringement happening. Be absolutely clear of your facts; objectively compare the products or services you sell in the US against the claims in the asserted patent at an early stage.

Finally, make sure your development people are aware of the basics of patent infringement and how to avoid it.

Sources

1. *Commonly the Texan towns of Marshall and Tyler.*
2. *NPE Litigation* - <https://www.rpxcorp.com/wp-content/uploads/sites/2/2015/05/Final-NPE-Litigation-Costs-by-Key-Events1.pdf>
3. *The Private and Social Costs of Patent Trolls* <http://www.bu.edu/law/faculty/scholarship/workingpapers/2011.html>
4. *Section 19 of the Leahy-Smith America Invents Act, passed by Congress in 2011, requiring patents holders suing multiple defendants to file each claim as a separate lawsuit instead of one consolidated complaint, has begun to have the intended impact of reducing the number of industrial-scale legal actions brought by trolls.*
5. *The patent troll wants the case to be heard in the jurisdiction district in which it filed the petition because it is more likely to succeed here. If the jurisdiction can be moved to another court district, it may encourage the claimant to drop the case, but previously it could be hard to argue that there was a more appropriate jurisdiction for the case to be heard. Earlier this year, the Supreme Court ruled in T C Heartland LLC v. Kraft Food Group Brands LLC, 2017, case that a patent infringement action may not be brought against a corporation in a judicial district in which it is not shown to have committed any of the alleged acts of infringement and which is outside the State where it is incorporated. This is likely to improve the chances of a defendant having the jurisdiction changed.*
6. *Geotag press release* - <https://www.geotag.com/press-release/geotag-emerges-victorious-in-orthosie-systems-llc-patent-infringement-lawsuit/>

