

Morgan Lewis

# ***Fighting the Patent Troll***

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**Shanghai Silicon IP Exchange**

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# *Presentation Outline*

1. Key strategies for patent trolls
  - Find patents that can be asserted against many companies
  - Prepare general infringement claims that can be used against all targets
  - Select a court that is friendly to patent owners
2. Recent case law relating to declaratory judgment actions, injunctions, obviousness, and limiting enhanced damages are helpful to targets of trolls
3. Strategies for fighting the trolls
4. Case studies
  - Lemelson – machine vision
  - St. Clair – digital cameras
  - Alliacense – computer chips
  - Orion IP – business method
  - Taurus IP – business method

# *Trolls*

- **Troll** - (in Scandinavian folklore) any of a race of supernatural beings, sometimes conceived as giants and sometimes as dwarfs, inhabiting caves or subterranean dwellings.



# *Patent Trolls*

- **"Patent troll"** is a controversial new word having multiple definitions. Among them is a party that:
  - Purchases a patent, often from a bankrupt firm or individual inventor, and then sues another company by claiming that one of its products infringes on the purchased patent;
  - Enforces patents against purported infringers without itself intending to manufacture the patented product or supply the patented service;
  - Enforces patents but has no manufacturing or research base; or
  - Focuses its efforts solely on enforcing patent rights.

Source: Wikipedia

## *Case Studies of Patent Trolls*

- Jerome Lemelson Machine Vision Patents
- St. Clair Intellectual Properties Digital Still Camera Patents
- Alliacense MMP Patent Portfolio
- Orion IP Internet Ordering System Patents
- Taurus IP Ordering System Permitting Product Configuration

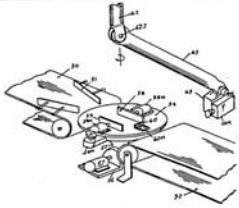
# *Jerome Lemelson*

## *The King of Trolls*

### **Jerome Lemelson**

- Individual inventor
  - over 550 United States patents
  - second in number to Thomas Edison
  - never manufactured or designed any products covered by his patents
- Machine vision/bar code licensing program
  - collected in excess of \$1Billion (US)
  - over 950 licenses
  - only licensed method claims

# Jerome Lemelson The King of Trolls

United States Patent [19]		[11] Patent Number: 5,283,641
Lemelson		[45] Date of Patent: Feb. 1, 1994
[54] APPARATUS AND METHODS FOR AUTOMATED ANALYSIS	2,131,911 10/1938 Ayres .....	250/41.5
[76] Inventor: Jerome H. Lemelson, Svc. 286, Unit 802, 930 Tahoe Blvd., Incline Village, Nev. 89451-9436	2,137,187 11/1938 Stoise .....	88/14
[21] Appl. No.: 78,681	2,184,156 12/1939 Bowles .....	33/123
[22] Filed: Jan. 16, 1993	2,184,157 12/1939 Jones .....	33/123
	2,184,159 12/1939 Stockbarger et al. ....	33/123
	2,184,160 12/1939 Stockbarger et al. ....	33/123
	2,220,736 11/1940 Stockbarger et al. ....	88/14
	2,239,947 6/1941 Row .....	179/100.3
	2,247,684 7/1941 Hickok .....	209/111
	2,261,542 11/1941 Dickinson et al. ....	235/61.11
	2,260,848 6/1942 Gulliksen .....	209/41.5
	2,295,000 9/1942 Morse .....	171/97
	2,318,856 5/1943 Hoffman .....	209/92
	(List continued on next page.)	
[60] Continuation of Ser. No. 826,617, Jan. 28, 1992, which is a continuation of Ser. No. 426,080, Oct. 24, 1989, Pat. No. 5,119,190, which is a division of Ser. No. 906,949, Sep. 15, 1986, Pat. No. 4,984,073, which is a continuation of Ser. No. 723,183, Apr. 15, 1985, Pat. No. 4,600,096, which is a continuation of Ser. No. 394,946, Jul. 2, 1982, Pat. No. 4,511,918, which is a division of Ser. No. 13,608, Feb. 16, 1979, Pat. No. 4,338,626, which is a division of Ser. No. 778,331, Mar. 16, 1977, Pat. No. 4,148,061, which is a continuation of Ser. No. 254,710, May 18, 1972, Pat. No. 4,118,730, which is a continuation-in-part of Ser. No. 267,373, Mar. 11, 1963, abandoned, which is a continuation-in-part of Ser. No. 626,211, Dec. 4, 1956, Pat. No. 3,081,379, and a continuation-in-part of Ser. No. 477,467, Dec. 24, 1954, abandoned.		
[51] Int. Cl. <sup>3</sup> .....	H04N 7/18	[57] ABSTRACT
[52] U.S. Cl. ....	348/92; 348/142	Apparatus and methods are disclosed for automatically inspecting three-dimensional objects or subjects. A detector and the object are moved relative to each other. In one form, a detector, such as a camera or radiation receiver, moves around an object, which is supported to be rotatable such that the detector may receive electromagnetic energy signals from the object from a variety of angles. The energy may be directed as a beam at and reflected from the object, as for visible light, or passed through the object, as for x-ray radiation. Alternatively, the detector passively receives energy from the object, as in an infrared detector. The detector generates analog image signals resulting from the detected radiation, and an electronic computing means process and analyzes the analog signals and generates digital codes, which may be stored or employed to control a display.
[56] Field of Search .....	358/93, 101, 107, 106, 358/108, 903, 356/237, H09N 7/18, 7/00	
	<b>References Cited</b>	
	<b>U.S. PATENT DOCUMENTS</b>	
	Re. 31,239 5/1983 Lemelson .....	178/6
	Re. 31,239 5/1990 Lemelson .....	178/6
	1,243,160 10/1917 Grieb .....	
	1,722,751 7/1929 Jones .....	
	1,815,986 7/1931 Parker .....	
	1,815,996 7/1931 Weaver .....	
	1,889,576 11/1932 Snoch .....	235/92
	2,000,403 5/1935 Masi .....	
	2,002,208 5/1935 McFarlane .....	178/5
	2,015,738 10/1935 Winkley et al. ....	33/123
	2,016,581 10/1935 Seg .....	271/129
	2,031,503 2/1936 Rainey .....	243/126
	2,043,293 6/1936 Jennings .....	243/126
	2,056,382 10/1936 Ayres et al. ....	209/111
		<b>20 Claims, 13 Drawing Sheets</b>
		

- Patent applications first filed in 1954 – 1956 issued as patents as late as the mid 1990s
- Japan Automobile Manufacturers (100M USD), Sony (40M USD) and Sanyo (25M USD) bowed to Lemelson's pressure and signed as first licensees
- Hundreds more companies then took licenses

# Jerome Lemelson The King of Trolls

## United States Court of Appeals for the Federal Circuit

04-1451

SYMBOL TECHNOLOGIES, INC., ACCU-SORT SYSTEMS, INC.,  
INTERMEC TECHNOLOGIES CORP., METROLOGIC INSTRUMENTS, INC.,  
PSC INC., TEKLOGIX CORPORATION,  
ZEBRA TECHNOLOGIES CORP., COGNEX CORPORATION,  
and TELXON CORPORATION,

Plaintiffs-Appellees,

v.

LEMELSON MEDICAL, EDUCATION & RESEARCH FOUNDATION, LP,

Defendant-Appellant.

Jesse J. Jenner, Ropes & Gray LLP, of New York, New York, argued for plaintiffs-appellees. With him on the brief were Charles Quinn, Krista M. Rycroft, Kenneth B. Herman, William J. McCabe, and Pablo D. Hendler.

Richard G. Taranto, Farr & Taranto, of Washington, DC, argued for defendant-appellant. With him on the brief was Victoria Gruver Curtin, of Scottsdale, Arizona. Of counsel on the brief Gerald D. Hosier, of Las Vegas, Nevada, and Louis J. Hoffman, of Scottsdale, Arizona.

George M. Sirilla, Pillsbury Winthrop LLP, of McLean, Virginia, for amicus curiae National Retail Federation. With him on the brief was Raymond L. Sweigart.

Harold C. Wegner, Foley & Lardner LLP, of Washington, DC, for amicus curiae Takeda Pharmaceutical Co. Ltd. With him on the brief were Stephen B. Maebius, George C. Best, Rouquet F. Henschel, and Sean A. Passino.

Frank E. Scherkenbach, Fish & Richardson P.C., of Boston, Massachusetts, for amici curiae Cypress Semiconductor Corp., LSI Logic Corp., Micrel, Inc., and Linear Technology Corp. With him on the brief were Katherine Kelly Lutton, John A. Draqseth, and Christian A. Chu.

- Symbol Technologies and Cognex filed a declaratory judgment action to protect their customers
- Case went to the Court of Appeals for the Federal Circuit and patents were invalidated in 2005 based on prosecution laches for unreasonable delay in prosecution

## *St. Clair Intellectual Property Consultants Inc* *Two Enterprising Lawyers*

- St. Clair Intellectual Property Consultants Inc. was established by two lawyers and has six staff members
  - St. Clair purchased patents from a group of inventors who failed to establish a camera company
  - The purchase price was less than \$100K
  - The patents allegedly cover technology allowing digital cameras to selectively store pictures in different formats, such as TIFF and JPEG

## *St. Clair Intellectual Property Consultants Inc* *Two Enterprising Lawyers*

- St. Clair sued FujiFilm, Canon, and Sony in the District Court of Delaware and eventually won \$3M from Fujifilm, \$34.7M from Canon, and \$25M from Sony
- Six other companies have settled with St. Clair for a total of more than \$120M from its small investment
- St. Clair hired its lawyers on a contingency base and pays them about 35% of the money it receives
- St. Clair has now sued cell phone makers such as Samsung Electronics, LG Electronics, and Nokia Inc. because their phones include digital cameras

# *Alliacense*


- Licensor claims that “[v]irtually every product manufactured utilizing microprocessors or embedded processors requires a license.”
- Patents allegedly describe the principal means used by the microprocessor industry to increase internal modern microprocessor operating speeds.
- Licensor claims that portfolio patents are essential to the design of advanced microprocessors, digital signal processors, embedded processors and system-on-chip devices.
- The portfolio allegedly covers most end-user electronics.

# *Alliacense*

The portfolio contains 7 U.S. patents and their related European and Japanese counterparts.

- US 5,440,749
- US 5,530,890
- US 5,604,915
- US 5,659,703
- US 5,784,584
- US 5,809,336
- US 6,598,148

# Alliacense



US005809336A

**United States Patent** [19] **Patent Number: 5,809,336**  
**Moore et al.** [45] **Date of Patent: Sep. 15, 1998**

[54] **HIGH PERFORMANCE MICROPROCESSOR HAVING VARIABLE SPEED SYSTEM CLOCK** 4,338,675 7/1982 Palmer ..... 364/748  
 4,398,265 8/1983 Pahl et al. .... 395/882  
 4,453,229 6/1984 Schaire ..... 395/250  
 4,503,500 3/1985 Magan ..... 395/800  
 4,539,655 9/1985 Trusnell et al. .... 395/280  
 4,553,201 11/1985 Pollack ..... 395/183,22  
 4,627,082 12/1986 Pelgram et al. .... 377/63  
 4,670,837 6/1987 Sheets ..... 395/550  
 4,680,698 7/1987 Edwards et al. .... 395/800  
 4,761,763 8/1988 Hicks ..... 395/286  
 5,414,862 5/1995 Suzuki et al. .... 395/750

[75] Inventors: Charles H. Moore, Woodside; Russell H. Fish, III, Mt. View, both of Calif.  
 [73] Assignee: Patriot Scientific Corporation, San Diego, Calif.  
 [21] Appl. No.: 484,918  
 [22] Filed: Jun. 7, 1995

**Related U.S. Application Data**

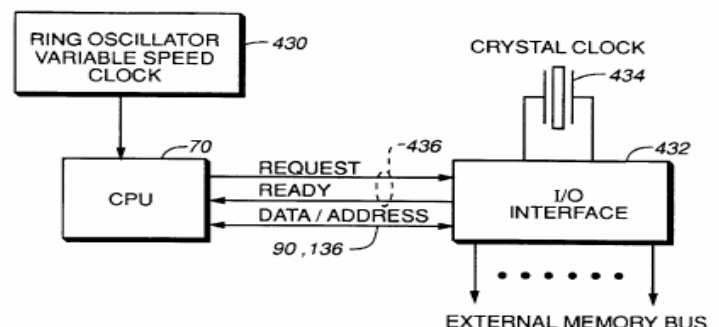
[62] Division of Ser. No. 389,334, Aug. 3, 1989, Pat. No. 5,440,749.  
 [51] Int. Cl.<sup>5</sup> ..... G06F 1/04  
 [52] U.S. Cl. .... 395/845  
 [58] Field of Search ..... 395/500, 551, 395/555, 845

[56] **References Cited**  
 U.S. PATENT DOCUMENTS  
 3,967,104 6/1976 Brantingham ..... 364/709,09  
 3,980,993 9/1976 Bedard et al. .... 395/550  
 4,003,028 1/1977 Bennett et al. .... 395/742  
 4,042,972 8/1977 Gruner et al. .... 395/389  
 4,050,096 9/1977 Bennett ..... 395/494  
 4,112,490 9/1978 Pohlman et al. .... 395/287  
 4,315,308 2/1982 Jackson ..... 395/853

*Primary Examiner*—David Y. Eng  
*Attorney, Agent, or Firm*—Cooley Godward LLP

[57] **ABSTRACT**  
 A high performance, low cost microprocessor system having a variable speed system clock is disclosed herein. The microprocessor system includes an integrated circuit having a central processing unit and a ring oscillator variable speed system clock for clocking the microprocessor. The central processing unit and ring oscillator variable speed system clock each include a plurality of electronic devices of like type, which allows the central processing unit to operate at a variable processing frequency dependent upon a variable speed of the ring oscillator variable speed system clock. The microprocessor system may also include an input/output interface connected to exchange coupling control signals, address and data with the central processing unit. The input/output interface is independently clocked by a second clock connected thereto.

**10 Claims, 19 Drawing Sheets**



# *Alliacense*

## *Allegedly Infringing Products*

- Home appliances
- Remote controls
- Smart cards
- Digital cameras
- Desktop personal computers
- Portable computers and devices
- Workstations
- Video game players
- Servers or Routers
- Printers
- Home theater systems
- Digital televisions
- DVD recorders/players
- Portable media players
- Mobile handsets
- Cellular phones

## *Alliacense Negotiation Style*

- Licensors seek licenses by industry field and offer incentives to companies who take a license early. Thus, effectively penalizing those that wait.
- Licensors propose multi-tier royalty rates with steep discounts to early licensees and progressively higher rates to follow.
- Royalty base is based on average company sales over the entire life of the portfolio.
- Licensors negotiate aggressively once a company agrees to meet with them.
- Licensors give companies little time to respond to an offer.

# *Alliacense*

## *400 Warning Letters and 20 Licensees*

- Advanced Micro Devices
- Intel
- Hewlett-Packard
- Casio Computers
- Fujitsu
- Sony
- Nikon
- Seiko Epson
- Pentax
- Olympus
- Kenwood
- Agilent
- Lexmark
- Schneider Electric
- NEC
- Funai
- SanDisk

# *Alliacense Licensing Revenue*

- HP: \$20 – 26.4 M
- Casio: \$2.0 M
- Fujitsu: \$31.6 M
- Sony: \$19.4 M
- Nikon: \$1.9 M
- Seiko Epson: \$4.0 M
- Pentax: \$0.3 M
- Olympus: \$5.8 M
- Kenwood \$1.0 M
- Intel: \$10 M
- AMD: \$4.0 M
- NEC: undisclosed

**Sources: Patriot SEC filings (SB-2, 10QSB, and 8-K (2005 – 2007))**

**<http://www.nanalyze.com/forums>**

**<http://www.agoracom.com/ir/patriot>**

# Alliacense Litigation

## The Complaint

- Filed 10/24/2005 in the Eastern District of Texas
- Accuses the defendants of direct, contributory, and induced infringement
- Requests damages, enhanced damages, a permanent injunction, and attorneys' fees

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
MARSHALL DIVISION

FILED-CLERK  
U.S. DISTRICT COURT  
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TX EASTERN-MARSHALL

Technology Properties Limited, Inc.,  
Plaintiff,  
vs  
Fujitsu Limited, Fujitsu General America, Inc.,  
Fujitsu Computer Products of America, Inc.,  
Fujitsu Computer Systems Corp., Fujitsu  
Microelectronics America, Inc., Fujitsu Ten  
Corporation of America, Matsushita Electrical  
Industrial Co., Ltd., Panasonic Corporation of  
North America, JVC Americas Corporation,  
NEC Corporation, NEC Electronics America,  
Inc., NEC America, Inc., NEC Display  
Solutions of America, Inc., NEC Solutions  
America, Inc., NEC Unified Solutions, Inc.,  
Toshiba Corporation, Toshiba America, Inc.,  
Toshiba America Electronic Components, Inc.,  
Toshiba America Information Systems, Inc. and  
Toshiba America Consumer Products, LLC,  
Defendants

Civil Action No. **2-05 CV-494**  
Jury Trial Demanded

**COMPLAINT FOR PATENT INFRINGEMENT**

Plaintiff Technology Properties Limited, Inc., for its complaint against defendants Fujitsu Limited, Fujitsu General America, Inc., Fujitsu Computer Products of America, Inc., Fujitsu Computer Systems Corp., Fujitsu Microelectronics America, Inc., Fujitsu Ten Corporation of America, Matsushita Electrical Industrial Co., Ltd., Panasonic Corporation of North America, JVC Americas Corporation, NEC Corporation, NEC Electronics America, Inc., NEC America, Inc., NEC Display Solutions of America, Inc., NEC Solutions America, Inc., NEC Unified Solutions, Inc., Toshiba Corporation, Toshiba America, Inc., Toshiba America Electronic Components, Inc., Toshiba America Information Systems, Inc. and Toshiba America Consumer Products, LLC, alleges:

# *Accused Defendants*

## Original defendants

- Fujitsu
- Matsushita
- Panasonic
- JVC
- NEC
- Toshiba

## Current defendants

- Matsushita
- Panasonic
- JVC
- NEC (chip making division only)
- Toshiba
- ARM (intervened as defendant)

## *Reexaminations*

- Multiple reexamination requests filed by NEC, Toshiba and an industry group for all three patents in litigation.
- US 5,784,584. The examiner has entered nine rejections under 35 U.S.C. §102(b), one rejection under 35 U.S.C. §102(a), and one rejection under 35 U.S.C. §102(e), relying on different prior art references for each rejection.
- Reexaminations pending for US 5,809,336 and US 6,598,148.

## *Orion IP LLC*

### *Successful Assertion of Internet-based Patents*

- **Orion IP LLC** - Patent holding company incorporated in Texas
  - March 2007 - Orion filed two suits the U.S. District Court for the Eastern District of Texas against 80 companies for allegedly violating two patents for online sales methods
    - One patent is for a computerized system that assists a salesperson in selecting appropriate parts needed by customers
    - The other patent involves an electronic system that creates customized product proposals

## *Orion IP LLC*

### *Successful Assertion of Internet-based Patents*

- Many companies settled with Orion IP by taking a license, including Philips Electronics North America Corp. Office Depot, AT&T Inc., LG Electronics MobileComm USA Inc., Pioneer Electronics (USA) Inc., Eastman Kodak Co., Casio Inc., Isuzu Motors America Inc., Maytag Corp, Whirlpool Corp., Nike Inc., Adidas America Inc. and Best Buy Co. Inc.
- May 2007 - a jury found that Hyundai Motor America willfully infringed one of the sales method patents. They ordered the company to pay \$34 million.
- 19 other motor vehicle sales companies have settled, including Mercedes Benz, Rolls Royce, Maserati and Porsche.

# Taurus IP

IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF WISCONSIN

TAURUS IP, LLC,  
a Wisconsin Limited Liability Corporation,  
Plaintiff,

v.

1. HYUNDAI MOTOR AMERICA,
  2. REEBOK INTERNATIONAL, LTD.,
  3. PUMA NORTH AMERICA, INC.,
  4. PUMA AG RUDOLPH DASSLER SPORT,
  5. POLO RALPH LAUREN CORP., and
  6. MICHELIN NORTH AMERICA, INC.
- Defendants.

Case No. \_\_\_\_\_  
Jury Trial Demanded

07 C 0477

## COMPLAINT AND DEMAND FOR JURY TRIAL

For its Complaint against Defendants Hyundai Motor America (“Hyundai”), Reebok International, Ltd. (“Reebok”), Puma North America, Inc. (“Puma NA”), Puma AG Rudolph Dassler Sport (“Puma AG”), Polo Ralph Lauren Corp. (“Polo Ralph Lauren”) and Michelin North America, Inc. (“Michelin”) (collectively the “Defendants”), Plaintiff Taurus IP, LLC (“Taurus”) alleges as follows.

### PARTIES

1. Taurus is a Wisconsin Limited Liability Company with its principal place of business at 6320 Monona Drive, Monona, Wisconsin 53716.

## *Taurus IP*

- Taurus IP is incorporated in Wisconsin and filed suit in the Western District of Wisconsin.
- US 6,141,658 is directed to consumers ability to configure a product, e.g., select design attributes on-line.
- Defendants represent different industries, such as motor vehicles, clothing, tires, and shoes, but all allegedly permit consumers to select product options and attributes when making an order.
- Infringement evidence cited are links to defendants' websites, such as [www.hyundaiusa.com/vehicle/lineup/type.aspx](http://www.hyundaiusa.com/vehicle/lineup/type.aspx)



# HOW TROLLS THINK

# *Trolls' Strategies*

- Find patents that are applicable to the products or services of many companies
  - US legal system permits patent owner to sue hundreds of companies in the same lawsuit
    - No increase in the nominal court fee for filing a lawsuit (total court fee can be less than 1,000 RMB).
    - Complaint makes only general allegations for each defendant, such as the location of principal place of business and whether defendant is doing business in the court's district.
    - Defendant is making, using, selling, or importing infringing products in the jurisdiction.
    - Defendant is willfully infringing so damages should be enhanced.

# *Trolls' Strategies*

- Pay as little legal fee as possible.
  - Hire lawyer on “contingency basis” -- lawyer will be paid from legal judgment or settlement payments, e.g., typically 20% - 40%.
- Hire technical experts on contingency basis.
- Proceed with uniform discovery plan so that discovery requests can be used for each defendant.

# *Trolls' Strategies*

- Select court that benefits the patent owner
  - Eastern District of Texas (Orion IP and Alliacense)
    - Rural Texas court with reputation for being pro patent and awarding generous damages.
    - Judges strongly support discovery efforts by patent owners.
  - Western District of Wisconsin (Taurus IP)
    - New “Rocket Docket” with cases going to trial in 9 – 15 months.
    - Fast track to trial can favor patent owner who can prepare in advance.
    - Fast track pressures many defendants to seek a settlement.

# *Trolls' Strategies*

- District Court of Delaware (St. Clair Intellectual Property)
  - Judges are familiar with patent litigation and have reputation for being pro patent.
  - Educated jury pool that is sometimes favorable to patent owner.
- Northern District of California
  - Specialized rules for patent cases requires defendants to disclose defenses early.
  - Many Asian companies have subsidiaries in California.

# *Trolls' Strategies*

- Minimize the defendants' chances to fight on procedural grounds and delay getting to trial
  - Transfer ownership of patents to shell company incorporated in the jurisdiction of the court to minimize defendants' arguments to transfer case to another court.
    - Orion IP formed in Texas and sued in EDTX
    - Taurus IP formed in Wisconsin and sued in WDWI
    - Alliacense formed in Texas and sued in EDTX
  - Shell company means there is little discovery burden on the patent owner.

# *Trolls' Strategies*

- Approach defendants for settlement immediately after filing of lawsuit
  - Propose settlement amount that is significantly less than the \$2M - \$5M+ fees and costs of litigation.
  - Offer much better terms to defendants that settle early to create momentum for other defendants to settle.
    - Settle with famous defendants that are known to potential jurors to create belief that patents must be strong.
  - Keep some defendants in the lawsuit through trial to try to 'hit the jackpot' (Hyundai Motors suffered \$34M jury award when almost all other motor vehicle companies settled for 95% less).

# *Trolls' Strategies*

- Immediately inform other targets of companies that have taken licenses.
  - Alliacense licensed Intel and AMD early to try to create industry recognition of its microprocessor portfolio.
- Always emphasize that the “big” companies are making huge money by using the technology of the “small innovator” and refusing to pay for it.
  - Jury often does not recognize that the troll did not develop the patents and exists only to assert patents for money.
- Pre-litigation licensing – frequently correspond and offer to meet with any target that shows willingness to discuss a license.
  - ‘Make the deal’.

## *New Case Law Favorable to Targets of Trolls*

- **eBay v. MercExchange, 126 S. Ct. 1837 (2006)**
  - Higher standard to obtain an injunction, especially plaintiffs that do not manufacture under the patents
- **MedImmune v. Genentech, 127 S. Ct. 1746 (2007)**
  - Easier for targets of trolls to file declaratory judgment actions requesting that patents be declared invalid, not infringed, or unenforceable
- **KSR v. Teleflex, 550 U.S. \_\_\_\_, 127 S. Ct. 1727 (2007)**
  - Easier to successfully challenge the validity of patents based upon obviousness
- **In re Seagate Tech., Misc. No. 830 (Fed. Cir., August 20, 2007)**
  - More difficult for a successful plaintiff to obtain enhanced damages for willful infringement

## *More difficult for Trolls to Get an Injunction*

- **eBay v. MercExchange, 126 S. Ct. 1837 (2006)**
- A patent is a property right and gives its owner a right to exclude others from practicing the patented invention.
  - 35 U.S.C. § 283 authorizes the granting of an injunction against patent infringers.
  - The threat of an injunction has been a strong weapon for trolls.
- Supreme Court held that the standard for granting an injunction in a patent case, like any other case, is based on a four-part equity test. Plaintiff must demonstrate:
  - (1) that it has suffered an irreparable injury;
  - (2) that monetary damages are inadequate to compensate for the injury;

## *More difficult for Trolls to Get an Injunction*

- (3) the balance of hardships between the plaintiff and defendant favors the plaintiff; and
- (4) the public interest is served by the granting an injunction.
- Four of the eight justices joined in concurring opinion that when one is dealing with a patent holder that does not commercialize the invention (like a patent troll), “an injunction may not serve the public interest.”
- Injunctions may be difficult for trolls to obtain even if they successfully prove infringement of a valid patent

## *Troll Targets May File Declaratory Judgment Actions to Select the Timing and Locations of Litigation*

- **MedImmune v. Genentech, 127 S. Ct. 1746 (2007)**
- Liberalized the rules to permit a target of a patent assertion (such as a warning letter) to file a preemptive lawsuit to ask the court to declare that a patent is invalid and/or not infringed.
- Permits the target to select the timing and the court for the lawsuit, thereby possibly gaining some strategic advantage.
- Declaratory judgment can disrupt a licensing program because once a patent is being litigated other targets may decide to wait and see the result.
- Under the holding in MedImmune, a target can file a declaratory judgment even if the patent owner states that it has no intention of filing a lawsuit.

## *Obviousness Standard Has Been Lowered*

- **KSR v. Teleflex, 550 U.S. \_\_\_, 127 S. Ct.1727 (2007)**
- Under 35 U.S.C. § 103, patents are only granted for inventions that are not obvious in view of the prior efforts of others.
- Prior to KSR, when combining teachings in multiple references to establish obviousness there must have been a teaching, suggestion or motivation in the references to combine them to produce the claimed invention.
- The Supreme Court found the prior test too rigid and held that the appropriate test should be more flexible and consider whether there is some other reason to combine the known elements in the fashion claimed to produce the invention as claimed.

## *Obviousness Standard Has Been Lowered*

- A long list of factors can be considered when analyzing obviousness, including design incentives, market forces, and interrelated teachings of patents.
- A patent for a combination of old elements with no changes in their respective functions is likely to be obvious.
- It is now easier to invalidate a patent during reexamination or litigation by arguing that it is obvious.

## *In re Seagate – Limit on Enhanced Damages*

- **In re Seagate Tech.**, Misc. No. 830 (Fed. Cir., August 20, 2007).
- Lowers the risk that a judge or jury may award enhanced damages, such as triple damages.
  - Before Seagate enhanced damages were asked for in 90% of all patent infringement cases and awarded in 50% of the time when a jury found infringement.
  - Prior to Seagate, upon notice of another company's patent, a target had an affirmative duty to seek advice of counsel before initiating any possibly infringing activity.

## *In re Seagate – Limit on Enhanced Damages*

- All judges of the Federal Circuit participated in the decision.
  - Overruled prior precedent on the standard for determining willful infringement.
  - Held that before a claim of willful damages can be heard, there must be clear and convincing evidence of *objective recklessness*.
  - Patent owner must prove the objectively-defined risk was either known or obvious to the accused infringer.
- Decision limits the circumstances for awarding enhanced damages.

## *How Targets Fight Back*

- Reexamination of asserted patents
- Declaratory judgment actions
- Joint defense arrangements
- Creative defenses

# Reexaminations

- Any person can request reexamination of a patent based upon new prior art.
  - Ex parte
    - After reexamination is granted only patent owner can participate in the PTO proceedings.
  - Inter parties
    - Requestor and patent owner participate in prosecution before the examiner.
    - Some penalty against requestor if it is involved in subsequent litigation with the patent owner over the reexamined patent, (the requestor is estopped from later raising the same issues in the subsequent litigation).

# Reexaminations

- Old thinking was that ex parte reexamination was usually not effective because only the patent owner could argue to the examiner.
- In 2005, the USPTO established special group to handle all reexaminations that seems willing to reject issued claims.
- The KSR case makes it more likely that examiner will make an obviousness rejection and more difficult for the patent owner to overcome such a rejection.
- If patent owner is forced in reexamination to amend all claims asserted in an infringement action, it loses all rights to damages for sales prior to grant of reexamination request.
- Target can use a third party or law firm as requestor of record and thus not reveal its identity to the patent owner.

# Reexaminations

- A defendant can request a stay of an infringement litigation if reexamination of the asserted patents is ongoing.
  - The stay request should be filed at an early stage of a litigation.
  - Best if all asserted claims are being reexamined.
  - Grant of stay is at the discretion of the judge and denial of stay cannot be appealed.
  - Even if stay is not granted, the rejection in reexamination of a patent being litigated may have a strong influence on the jury, thus favoring the defendants.

# Reexaminations

- Rejection of claims in reexamination strongly deters targets from taking licenses.
  - Strong reexamination requests filed by defendants Toshiba and NEC in the Alliacense case did not result in a stay, but has greatly slowed Alliacense's licensing program.
  - May influence the judge to grant summary judgment of invalidity on the basis that the examiner, an expert in patent law, is asserting that the patent is invalid.
  - Reexamination filed against St. Clair's patents was filed relatively late, when most camera companies had either already settled or had been sued so no stay was requested.

# *Declaratory Judgments*

- In a declaratory judgment action the target is the plaintiff and the patent owner is the defendant.
- Allows the target to choose the timing and location of any lawsuit with the patent owner.
- Almost always must be filed before patent owner sues a party to avoid being dismissed or transferred to court where patent owner sued.
- Statistics show that the mere status as a plaintiff influences a jury and provides a statistically significant increase in the likelihood of winning.
  - A target that acts to become a plaintiff and asks a court to declare non-infringement and/or invalidity has, on average, a meaningfully better chance of winning than if it merely raises those defenses as a defendant against the same patents.

# Declaratory Judgments

- Standard under *MedImmune* makes it much easier to file a declaratory judgment action during license negotiations
  - If patent owner views the court as unfavorable, it may choose to settle quickly and then sue other targets in its court of choice.
  - Fear of declaratory judgment action is not likely to deter most trolls from launching licensing programs.
  - Downside for a target is the potential that it will have to litigate through trial and incur both risk and legal expenses.
    - Discovery burden is much greater on the target company than on the patent owner.
    - Target should have strong defenses to the asserted patents before initiating a declaratory judgment action.

# *Joint Defense Agreements*

- Two or more targets may join together to cooperate in defending against the claims of a patent owner.
  - Agreement that permits (but does not obligate) the targets to cooperate in areas such as prior art searching, retention of experts, development of invalidity, unenforceability, and non-infringement defenses.
  - May protect inter-party communications from losing protection under attorney/client privilege.
  - Allows the targets to divide the work and share the expenses.
  - Targets retain the right to settle with patent owner without notifying the other members of the joint defense group.
  - Usually leads to stronger invalidity defenses because of greater resources.

# *Creative Defenses*

- Violation of antitrust laws and/or equitable estoppel
  - Particularly if the patent owner was a participant in a standard setting body and did not reveal its pending patent applications on the technology it is proposing.
- Ownership/Standing to Sue
  - US procedure requires that all parties with an ownership interest in a patent be parties to a suit for infringement.
- Exhaustion/Implied License
  - Target has immunity from a patent assertion because it purchases from a licensee under the patent.
- Indemnification
  - By contract, a target has a right to bring in another party to negotiate a license for the subject product or to defend it in litigation.

## *Conclusions*

- Patent trolls have common strategies in licensing and enforcing their patents.
- Recent decisions of the US Supreme Court and the Court of Appeals for the Federal Circuit lower the risk of enhanced damages and injunctions and provide stronger tools for targets to attack patent trolls.
- Targets of trolls are cooperating more frequently and effectively to fight the patent assertions of trolls and to reduce the costs of doing so.

*The End*



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# ***Fighting the Patent Troll***

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