

## Finding The Right Way To Deal With Patent Demand Letters

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From reports on NPR to an episode of "Maron," stories about abusive patent claims have become a popular topic, with episodes bearing such ominous names as "When Patents Attack!" [1] Efforts to legislate against such claims have stalled in Congress, but 18 states have passed their own "anti-troll" legislation. [2] The problem, of course, is that the ability to transfer and enforce a patent is central to the value of the constitutionally guaranteed "exclusive right" to a limited monopoly intended to promote the "Progress of Science and Useful Arts." [3] For an "idea economy" like the United States, patents are important, and making them enforceable and transferrable is key to ensuring their value. This tension necessitates that efforts to curb abusive practices by some patent holders (such as nonpracticing entities) cannot go so far as to undermine the ability of all patent holders (including operating companies) to develop and enforce their intellectual property.



Joshua M. Dalton

### Responding to a Demand

How best to respond to demand letters from nonpracticing entities, often referred to as patent trolls, remains a challenging question for many companies. One option is to attempt to settle the claim, given that defending against even a relatively weak claim could represent a huge cost. As the American Intellectual Property Law Association reported, in 2015 the median cost of litigating a patent suit with less than \$1 million at risk was \$600,000. [4] The median cost of litigating a patent suit with \$1-10 million at risk jumped to \$2 million, and then to \$3.1 million for a patent with \$10-25 million at risk. [5] These dynamics create a collective action problem for businesses targeted with demand letters. Particularly for small businesses, settling the case often is preferable to incurring huge cost and risk. Recent state-level legislation and certain private companies offering to license aggregated patents or provide patent insurance have attempted to give companies another option. A recent case brought by a Maryland company that received a demand letter from a well-known NPE provides a window into some pros and cons of these different approaches.



Sarah K. Paige

### Shipping and Transit and TRIPLE7

In May, Triple7Vaping.com LLC sued Shipping and Transit LLC after it received a demand letter from Shipping and Transit. [6] With the support of the advocacy group the Electronic Frontier Foundation, Triple7 sought a declaration in federal court in the Southern District of Florida that Shipping and Transit's patents were invalid, and a finding that Shipping and Transit violated Maryland's bad faith assertion statute by sending its letter. [7] Then, in July, a patent insurance organization filed for inter

partes review of at least one of the patents at issue.[8]

Shipping and Transit's demand letter claims violation of four patents that covered "a multitude of open architecture arrival and status messaging systems and methods," and that Triple7 allegedly infringed through its use of notice and tracking services for shipping its products.[9] The letter sought \$25,000 to settle the claim and license the technology.[10] Shipping and Transit has sent hundreds and hundreds of demand letters and filed over 500 lawsuits, including against major international corporations like AT&T Inc., to enforce its patents. But is it a "patent troll"? And does the letter really violate the Maryland statute? What should another company receiving a similar letter from Shipping and Transit do?

### **Bad Faith Assertion Statutes**

Paul Gugliuzza, a professor at Boston University School of Law gives the example of MPHJ Technology Investments LLC as the type of "troll" driving states efforts to enact bad faith assertion statutes.[11] MPHJ has sent tens of thousands of letters to small businesses offering to settle very weak and often implausible patent claims for roughly a thousand dollars, threatening to sue if the recipient does not respond in two weeks.[12] Unlike Shipping and Transit, MPHJ has never actually sued.[13]

Vermont was one of the first states to pass a statute trying to protect small businesses against this type of activity. The Vermont law states, "A person shall not make a bad faith assertion of patent infringement," and lists factors that courts may consider in assessing bad faith, including presence or absence of factual allegations about the infringement, and whether the patent holder knew or should have known that the claim was meritless.[14] Wisconsin has passed a variation of the Vermont law, outlining more carefully what a demand letter must include, and creating liability based on failure to provide the required content upon request, or based on false or deceptive information.[15] Oklahoma has taken a slightly different approach, creating liability for specific acts, such as falsely stating litigation has been filed or failing to include factual allegations about how the letter recipients products infringe the patent.[16]

Most of the 18 states that have passed similar statutes, including Maryland, have followed the Vermont approach. Like Vermont's, Maryland's bad faith assertion statute states that "A person may not make an assertion of patent infringement against another in bad faith," and lists a series of factors.[17] The Maryland statute provides that the target of a bad faith infringement letter who prevails in proving a statutory violation may seek costs and fees, including attorneys' fees, as well as exemplary damages up to \$50,000.[18]

These bad faith assertion statutes, however, apply only when a letter's claims are "objectively baseless." In *Globetrotter Software Inc. v. Elan Computer Group Inc.*, the Federal Circuit held that absent a showing that claims of infringement were objectively baseless, any state law liability for assertion of patent rights — including demand letters — would be preempted by federal law.[19] To be objectively baseless, a court would have to find that "no reasonable litigant could realistically expect success on the merits." [20] "Objectively baseless" is a high bar that has been used to protect some aggressive NPEs with relatively weak claims.[21] It seems unlikely that Shipping and Transit's demand letter, which contained specific factual allegations regarding infringement, would clear this bar.

That bad faith assertion statutes cover such a narrow range of activity — and likely do not cover letters like that Shipping and Transit sent — reflects wariness of diluting the protection afforded patent holders.

## **Patent Insurance Companies and Patent Aggregators**

Purchasing services from different variations of patent aggregators and insurers is another alternative that companies facing patent claims may consider. These options, however, are no panacea. Coverage is not uniform, and the costs often run into the \$100,000s per year. “Ultimately it’s an economic decision,” says Enrique Colbert, general counsel at online retailer Wayfair Inc. “But high retention that fails to help with nuisance claims, relatively low limits that may not protect against major threats, and expensive premiums all cut against buying insurance.” Colbert went on to note that “the impact of macro trends related to patent litigation also complicates the analysis.”

RPX Corp., a defensive patent aggregator, offers a membership model, where its membership costs help the company purchase potentially problematic patents on the open market to prevent their use against members.[22] The company boasts that this approach has reduced the incidence of NPE litigation for its membership by approximately 20 percent. At the same time, RPX offers litigation insurance funding litigation for members that are sued, and using its increasing ability to assess litigation risk to price that product effectively. RPX says it has about 250 companies as members, with annual fees reportedly ranging from \$85,000 to \$7 million.[23]

AST, an alternative model, helps coordinate buying consortium when a defensive license is desired that then stays with the purchasing firms whether they leave or stay with AST.[24] AST uses a bidding system to distribute the cost of purchasing these patents among the companies that are most interested in each patent.[25] AST has only about 30 members and offers services for between \$25,000 to \$200,000 per year depending on the size of the company.[26]

Still another popular alternative is Unified Patents Inc., which purchases and challenges patents in specific technology areas, which it calls “zones.”[27] Members join particular zones, and Unified uses subscription fees to challenge potentially problematic patents in the U.S. Patent and Trademark Office through inter partes review. Unified will purchase patents on the open market but not from patent trolls, and it grants members in its zones perpetual licenses for any patents it purchases in those zones.[28] Unified’s fees vary significantly based on size, and it still offers a free membership option for startups, though costs can reach \$400,000 per year for bigger companies in certain zones. Unified also offers patent insurance. Unified Patents is currently seeking inter partes review of the patents at issue in the Shipping and Transit case.

## **Choosing the Right Strategy**

With state-level legislation failing to address most NPE claims, and the often prohibitive cost of patent aggregators/insurers, companies may find themselves right back where they started — calling outside counsel to defend against the claims. And that might be the most economical approach in the end. “For now,” says Colbert, “we have stuck with approaches that have worked to our satisfaction. But we continue to watch closely as insurance products evolve and laws change.” In some cases, this may mean utilizing weapons such as joint defense groups, IPRs, and joint representations to fight back against NPEs. And in some case, it can also mean settlement. In either case, trusted and experienced outside counsel may be in the best position to keep costs down. Many firms with large intellectual property practices find themselves working together on a repeat basis, further ensuring efficiencies and economies of scale on issues like invalidity searches and expert analysis should the case proceed. Such counsel also often know the “usual suspects” among NPEs and their law firms and can quickly obtain the lowest-cost settlement. It is not dramatic, but it can be effective — or at least the lesser of the currently available evils.

## Conclusion

While well-meaning, the “anti-troll” legislation passed by states to date will do little to address all but the most egregious NPEs. For the rest, companies will still need a plan to respond to these claims. Patent aggregation and patent insurance companies have an important part to play in ensuring that the patent system protects companies against NPE litigation without weakening the value of patent rights. These models seek to identify and intercept potentially problematic patents — through inter partes review, or purchasing and licensing the patent. Utilizing smarter and more efficient modes of litigation can also help. The combination of these efforts suggests more accurate pricing of these patents in the future. Truly weak patents will, in theory, become less valuable because companies will be more willing to either litigate or seek to invalidate those patents. In the meantime, dealing with NPEs will remain a cost of doing business. The only questions being: Who do you pay, and how much?

—By Joshua M. Dalton and Sarah K. Paige, Morgan Lewis & Bockius LLP

*Joshua Dalton is a partner and Sarah Paige is an associate in Morgan Lewis' Boston office.*

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[1] This American Life: When Patents Attack!, Chicago Public Radio (July 22, 2011), <http://www.thisamericanlife.org/radio-archives/episode/441/when-patents-attack>; WTF with Marc Maron: Patent Trolls, (April 13, 2015), [http://www.wtfpod.com/dispatches/entries/patent\\_trolls](http://www.wtfpod.com/dispatches/entries/patent_trolls).

[2] Bad Faith Patent Demand Letters, Uniform Law Commission, <http://www.uniformlaws.org/Committee.aspx?title=Bad%20Faith%20Patent%20Demand%20Letters> (last visited Aug. 30, 2016).

<http://www.uniformlaws.org/Committee.aspx?title=Bad%20Faith%20Patent%20Demand%20Letters>

[3] U.S. Const. art. I, § 8.

[4] Report of the Economic Survey 2015, AIPLA, 37, <http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf>.

[5] *Id.*

[6] Complaint at 1, TRIPLE7VAPING.COM, LLC v. SHIPPING & TRANSIT, LLC (No. 9:16-cv-808855), <https://www.eff.org/document/cugle-v-shipping-transit>.

[7] TRIPLE7VAPING.COM, LLC v. SHIPPING & TRANSIT, LLC, <https://www.eff.org/cases/triple7vapingcom-llc-et-al-v-shipping-transit-llc> (last visited Aug. 30, 2016).

[8] Unified Files Against Shipping and Transit (f/k/a Arrival Star) Patent Asserted Against More than 90 Companies, Unified Patents (July 25, 2016), <https://www.unifiedpatents.com/news/2016/7/25/unified-files-against-shipping-and-transit-fka-arrival-star-patent-asserted-against-more-than-90-companies>.

[9] Exhibit F to Complaint, TRIPLE7VAPING.COM, LLC v. SHIPPING & TRANSIT, LLC (No. 9:16-cv-

808855), <https://www.eff.org/document/exhibit-f-demand-letter>.

[10] Id.

[11] Paul R. Gugliuzza Testimony Before the House Committee on Energy and Commerce, Hearing on Patent Demand Letter Practices and Solutions, (Boston University School of Law Public Law & Legal Theory Paper No. 15-07, 2015), <http://www.bu.edu/law/faculty/scholarship/workingpapers/2015.html>.

[12] Id.

[13] Id.

[14] Vt. Stat. Ann. tit. 9, § 4197.

[15] Wis. Stat. Ann. § 100.197.

[16] Okla. Stat. Ann. tit. 23, § 112.

[17] Md. Code Ann., Commercial Law, § 11-1603.

[18] Md. Code Ann., Commercial Law, § 11-1605.

[19] Globetrotter Software, Inc. v. Elan Comput. Grp., Inc., 362 F.3d 1367, 1377 (Fed. Cir. 2004).

[20] Id.

[21] In re Innovatio IP Ventures, LLC Patent Litig., 921 F. Supp. 2d 903 (N.D. Ill. 2013).

[22] RPX Rational Patent, <https://www.rpxcorp.com/> (last visited Aug. 30, 2016).

[23] Marta Belcher & John Casey, The Patent System, A Guide to Alternative Patent Licensing for Innovators, Juelsgaard Intellectual Property & Innovation Clinic, Stanford Law School (Jan. 2016), [https://www.eff.org/files/2016/01/26/hacking\\_the\\_patent\\_system\\_belcher\\_and\\_casey\\_updated\\_january\\_2016.pdf](https://www.eff.org/files/2016/01/26/hacking_the_patent_system_belcher_and_casey_updated_january_2016.pdf).

[24] Allied Security trust, <http://ast.com> (last visited Aug. 30, 2016).

[25] Belcher & Casey, *supra* note 21.

[26] Id.

[27] Unified Patents, <https://www.unifiedpatents.com/> (last visited Aug. 30, 2016).

[28] Belcher & Casey, *supra* note 21.