

PATENT LITIGATION: THE NEW NORMAL

Whitewater West
Industries
Michael Heaven

Toyota Motor Engineering
& Manufacturing North
America
Frederick W. Mau II

Power-One
Tina McKnight

Snell & Wilmer
J. Rick Taché
Ketan Vakil
Elizabeth Weldon

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Speakers



Michael Heaven
Chief Operating Officer
Whitewater West Industries
604.273.1068 x442
Michael.heaven@whitewaterwest.com

Photo
Not
Available

Frederick W. Mau II
Intellectual Property Counsel
Toyota Motor Engineering & Manufacturing
North America
734.995.7152
Fredrick.mau@tema.toyota.com



Tina McKnight
General Counsel
Power-One
805.987.8741 x4561
Tina.mcknight@power-one.com



Rick Tache
Intellectual Property Partner
Snell & Wilmer L.L.P.
714.427.7039
rtache@swlaw.com



Ketan Vakil
Intellectual Property Partner
Snell & Wilmer L.L.P.
714.427.7405
kvakil@swlaw.com



Elizabeth Weldon
Moderator
Commercial Litigation Partner
Snell & Wilmer L.L.P.
714.427.7461
eweldon@swlaw.com

AGENDA

1. The New Patent Litigation Landscape
2. Understanding Your Opponent
3. Understanding the Game
4. Understanding Your Disadvantages
5. Avoiding Litigation
6. Anticipating Litigation
7. Gaining the Offensive

The New Patent Litigation Landscape

- Patent Litigation – Competitor v. Competitor
 - Plaintiff:
 - Competitor
 - Small, Often Contingency Lawsuits
 - Defendant:
 - Competitor (rarely more than one named defendant)
 - Patents:
 - One, maybe two, patents at issue
 - Forum:
 - Typically Plaintiff's jurisdiction (place of business) if possible
 - Motivation:
 - Preserve market share and limit competition
 - Possible license
 - Financial gain

The New Patent Litigation Landscape

- Plaintiff Competitor's Litigation Strategies
 - Stop Defendant Competitor From Copying Your Product
 - Upfront Research and Strategy (cost/benefit, public)
 - Front Load the Work and Fees
 - File Dispositive Motions (TRO, PI, SJ) Early in the Litigation
 - Acquisition Strategy (Buy Defendant)
 - Quick Settlement
 - Get Budgets for Each Task / Month

The New Patent Litigation Landscape

Plaintiff Competitor's Advantages and Disadvantages

- Defendant on notice for damages; purchasers on notice for patent issues
- Move aggressively to stop competitor from selling infringing products
- Monetize patent preparation fees and costs by licensing
- Inequitable Conduct now favors patent holder (Therasense)
- Cost resistance to filing lawsuits (money can be used for R&D)
- Defendant's counterclaims – possibly for patent infringement
- May end up cross-licensing with little money exchanged
- Takes longer and costs more than management anticipates
 - \$1-\$25M at risk – \$2.5M
 - >\$25M at risk – \$5.5M

The New Patent Litigation Landscape

- Patent Litigation – NPE v. Company
 - Plaintiff:
 - Non-Practicing Entity (“NPE”)
 - Large Contingency Lawsuits
 - Defendant:
 - Multiple defendants
 - Unrelated industries/products
 - Patents:
 - Portfolios not patents
 - Forum:
 - Plaintiff biased – rocket dockets
 - Motivation:
 - Business model

Understanding Non-Practicing Entities

- As of January 1, 2011 – 380 distinct NPEs exist
- > 4,000 lawsuits against > 5,000 defendants
- 2,600 Defendants sued in 2010 (increase of 48% over previous 3 years)
- Acacia Technologies filed 337 lawsuits against 678 operating parties (in the name of as many as 36 different Acacia subsidiaries)
- NPEs not built on large patent portfolios, rather focus on smaller number of patents capable of withstanding validity and non-infringement challenges
- 91% NPEs have less than 100 patents in their portfolios
- According to the General Services Administration, in 2009 > \$3 Billion was paid in legal fees and settlements

Source: PatentFreedom © 2011

Understanding the Game: NPE Advantage

NPE Controls the Game:

- Choice of Patent(s)
- Choice of Claim(s)
- Choice of Timing
- Choice of Venue
 - Eastern District of Texas
 - Western District of Wisconsin
 - District of Delaware
- Choice of Parties – Plaintiff *and* Defendant(s)

Understanding the Game: NPE Advantage

Venue Advantages:

- Increased financial pressure to settle
- Deny Motion to Stay pending outcome of Reexamination
- Bias against Venue Transfer
- Defendants are from all over which makes transfer difficult
- Federal Circuit is giving broad discretion to the District Courts

Understanding the Game: NPE Advantage

- Nothing to Lose:
 - Large portfolio – only selective patent(s)/claim(s) at risk
 - Limited documents to produce (volume/sensitivity)
 - No distraction from core business
 - No risk of defendant's patents being asserted in counterclaims
 - Limited litigation costs since contingency-fee representation
 - Purchase the patent portfolio and then immediately file a lawsuit

Understanding Defendant's Disadvantages

- Much to Lose:
 - Treble Damages and Attorneys' Fees
 - Volumes of documents to produce
 - Sensitivity of documents to be produced
 - Potential large distraction from core business
 - No opportunity to assert defendant's patent(s) in counterclaims
 - Competing business interests discourage settlement

Avoiding Litigation

- Be Proactive
- Companies continue to invent but need to do more to stay ahead of the game
- Keep track of Your Competitors' patents, litigations, products
- Perform Freedom to Operate Analysis during Product Design
- Get Opinions / Design Arounds done
- Ask for a License
- Make Settlement Agreements broad to cover parties / industry / family of patents / applications

Anticipating Litigation

- Search for Prior Art in Your Industry
- Keep track of Your Industry – both patents granted and asserted
- Search for Issued Patents / Publications to Purchase or to use for Reexamination (act like NPE)
- Get non-infringement and invalidity opinions done
- Select 2 Law Firms on Your Short List

Gaining the Offensive

- Respond Quickly
 - Cease and Desist Letter
 - Negotiate License / Settlement
- File for Reexamination
 - Stay lawsuit
 - Force costs on NPE
 - Force NPE to take positions helpful in lawsuit
 - Time consuming
 - Risk of loss

Gaining the Offensive

- Reexamination – Positive Statistics
 - Ex parte:*
 - 95% requests granted
 - 75% cancelled or amended claims
 - Inter parties:*
 - 94% requests granted
 - 92% cancelled or amended claims
- Must be Filed Very Early in the Case
- Need Prior Art – Limited to Patents / Printed Publications

Gaining the Offensive

- Setting Up for Discovery
 - Plan end-game at the beginning
 - Immediately start prior art searches; hire prior art firm(s)
 - Immediately engage at least some experts re invalidity defenses
 - If multiple defendants, look into a JDA > attempt to split tasks and coordinate attacks on plaintiff for common issues for cost saving purposes for defendants
 - Plan discovery with other defendants – may be forced to work together by discovery limitations in some jurisdictions (e.g., ED TX)
 - Look at Federal Rules and Local Rules
 - Keep eye on the ball of individual issues too – infringement issues may put defendants on their own

Gaining the Offensive

- Defensive Patent Aggregator (“DPA”)
 - Buys patents and/or licenses and licenses them solely to operating companies to inoculate against NPEs based upon an annual membership fees
 - Examples:
 - RPX - San Francisco based with annual fees (\$35K - \$4.9MM depending upon operating income)
 - DPA – New Jersey based with 15 member companies each with >\$1B in annual product revenue and each contributes to escrow account to purchase patents
 - Provides only limited immunity against NPEs – if products are covered by NPE patents will still get sued

Gaining the Offensive

- Industry Defensive Agreement
 - Each industry member contributes to defense fund based upon their annual operating revenue
 - Funds used to: (i) pay legal fees to defend members against lawsuits filed by NPEs; (ii) purchase patents to be licensed to industry members and generate revenue from licenses to non-members; (iii) pay for amicus briefs on behalf of non-party members to support member defendants; (iv) offset cost of members' efforts to locate prior art to help invalidate patent(s) being asserted by NPE; (v) retain experts to assist in the defense; (vi) pay for re-examination of patents being asserted; (vii) pay legal fees to handle appeals of lawsuits; and (viii) pay any resultant damages
 - Retain dedicated law firms to handle NPE litigation and re-examination proceedings against NPE patents on behalf of industry

THANK YOU!

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