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Business forum: Stemming the tidal wave of patent claims

Article by: DANIEL W. McDONALD and WILLIAM D. SCHULTZ

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Less than a year after the most significant patent reform legislation in a generation became law, some interesting trends are taking hold. The reform was partially designed to combat the flood of lawsuits by "nonpracticing entities" or NPEs -- sometimes called "patent trolls."

These companies own patents but do not produce any products. Some view their lawsuits as hindering innovation rather than promoting it, as patents are supposed to do.

One tactic of NPEs (intended to generate more settlements quickly) was to sue dozens of companies in a single suit. The new law limits this option. But the net effect of this change is unclear. While the number of defendants per suit has dropped, the number of suits has risen dramatically. Thus, the new law is no cure-all for stemming litigation.

Non-practicing entities often send letters before suing. The letters enclose patents and hint at patent infringement. They generally don't accuse the recipient of patent infringement, but instead include an implicit threat as they encourage the recipient to obtain a license for a fixed price (\$75,000 for example).

This creates a dilemma. Contesting the claim in court might risk incurring millions in attorneys' fees and an uncertain outcome. Ignoring the claim raises the risk of a lawsuit (with the added risk of punitive damages and attorney's fees due to ignoring an infringement risk).

A third option is to assess whether there is any merit to an assertion of infringement, and respond accordingly. However, even a preliminary patent infringement investigation with an experienced attorney can cost several thousand dollars. Despite these limited options, a reasonable and cost-effective response is possible.

Put the burden where it belongs: on the accuser. Some infringement allegations are weak. Others are serious assertions involving valid patents. Companies can make costly mistakes by misjudging one for the other.

Often these letters are evasive about the grounds for the infringement allegation. What is the basis for the claim and damages demand? These questions are rarely answered in letters asserting frivolous claims. A demand for specifics often exposes frivolous allegations. The party may go away if challenged, in the hopes of finding an easier target.

Develop a plan for effective "triage" of infringement allegations. Consider developing internal resources to efficiently assess infringement allegations. Persons versed in technology but not law can be trained to provide a credible initial analysis that could streamline the time and costs involved.

Proper training can help the non-lawyer focus on the right parts of the patent. Patents have many parts. It is important to understand the role each part plays in the analysis. Many law firms with patent specialists will be able to provide or direct clients to resources for such training.

Counsel should be involved immediately. This provides the important benefit of protecting communications under the attorney-client privilege, avoiding discovery problems in any future litigation. Informed internal review combined with prompt

ABOUT THE AUTHORS

Daniel W. McDonald is a senior patent trial lawyer and chair of the litigation practice group at Minneapolis intellectual property law firm Merchant & Gould.

William D. Schultz is a litigation attorney and partner at Merchant & Gould. Their e-mails: dmcdonald@merchantgould.com and wschultz@merchantgould.com.

legal advice will lead to better, quicker decision-making.

Pass the buck. In many cases, the accused product or service has been provided by a vendor. In that situation, a company may be able to demand that the vendor analyze the situation and solve the problem, on the vendor's nickel. One of the best ways to deal with a patent infringement claim is to notify a vendor that the problem is theirs, not yours.

Indemnity provisions should not be considered the unimportant "fine print" of vendor agreements. Companies should carefully and firmly negotiate indemnity in contracts, and favor vendors with the financial viability to take responsibility for any infringement claims.

Control your destiny. Hopes remain high that patent law reform will stem the rising tide of infringement litigation. But it's likely the new law will fall short of expectations for some time to come. Meanwhile, infringement charges will mount. A good strategy distinguishes between legitimate claims and frivolous demands, and deals with each accordingly.

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