FUTURE PAIN FOR PATENT NPEs

The activities of companies or individuals who accumulate patents and then file aggressive infringement lawsuits in a strategic effort to extract patent licensing revenue are being targeted from several quarters, as Paul J. Sutton explains.

The non-practising entity (NPE), also known as the 'patent troll', is regarded as a pariah by many US companies, both large and small. The terms 'NPE' and 'troll' are pejorative labels used to describe a person or entity that (a) opportunistically enforces patent rights, and (b) has no intention of actually manufacturing or selling a product, or supplying a service covered by those patent rights. NPEs are often companies that accumulate patents solely for extracting licence revenues from alleged infringers.

However, there is no universal agreement on exactly what constitutes an NPE. The more popular term NPE will be used throughout this article to describe those who file aggressive patent infringement lawsuits in a strategic effort to extract patent licensing revenue. Other terms used to describe NPEs include 'patent shark', 'non-manufacturing patentee', 'patent licensing company', 'patent dealer', 'patent marketer', and 'patent licensing company'.

This article seeks to summarise and augment this author's prior examination and analyses of NPE conduct, in order to provide the reader with a more comprehensive understanding of their impact upon the US legal landscape.

To be clear, the fundamental activities of NPEs, while troublesome to many, are not unlawful. In fact, as observed in other articles by this author, NPEs operate in much the same manner as a number of other companies that seek to protect and aggressively exploit their patent portfolios. The line between them may be blurred. A difference, however, is that NPEs seek monies from existing users, as opposed to concentrating on and contributing to future technology innovations. And the monetary, legal and manpower costs associated with defending NPE patent infringement lawsuits have reached profound numbers.

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Filing at the ITC

NPEs frequently target alleged infringers by filing actions at the US International Trade Commission (ITC). Such ITC cases are commenced with a petition-type complaint, seeking an investigation under Section 337(a)(1)(B) of the Tariff Act of 1930. Section 337 bans the importation into the US of articles that infringe valid and enforceable US patents.

The ITC has the power to act only to protect a 'domestic industry', which is reflected by (a) a significant investment in plant and equipment, (b) a significant employment of labour or capital, or (c) a substantial investment in exploitation, including engineering, research and development, or licensing. To qualify, these activities must relate directly to the IP rights sought to be protected.

There is no assurance that filing a complaint will result in an investigation. Within 30 days of the complaint's filing, the commission decides whether it will investigate. The investigation is referred to an administrative law judge (ALJ) if an investigation is to proceed. The ALJ sets the ground rules and the discovery schedule. The ALJ's determination may be reviewed by the ITC at its discretion. In addition to there being counsel for the complainant and for the respondent, ITC staff counsel will participate in the discovery process. The final determination following this investigation will stand, unless the US president rejects it.

A number of technology companies such as Cisco are lobbying to block the ITC from hearing complaints by NPEs, claiming that NPE patent suits are a burden on US businesses. This effort is going nowhere. The House Judiciary Subcommittee on IP, Competition and the Internet has heard testimony that NPEs do not qualify for using the ITC.

Others have made claims that NPE Section 337 cases have become a burden on US companies. These claims have been rejected. The rejection has taken the form of a document called *Facts and Trends Regarding USITC Section 337 Investigation*. Approximately one fifth of the Section 337 cases filed over the past seven years were initiated by NPEs. According to an RPX Research study, published on March 23, 2012, the ITC is neither bound by the new America Invents Act joinder rules that limit the number

of accused infringers per action, nor is it likely to strengthen its generous interpretation of the 'domestic industry' requirement.

So, how do NPEs acquire their patent rights? The answer is quite interesting. Some companies have formed with the goal of attracting finance to purchase patents from others, in order to enforce them against accused infringers. Very few, if any, obtain patents solely from employees who create new inventions.

A case study

A company that has attracted a great deal of attention is Intellectual Ventures (IV). Characterised as an NPE, IV was founded in 2000 by Nathan Myhrvold and Edward Jung, former Microsoft chief technology and architect officers. IV has aggregated some 35,000 patents and applications in diverse fields such as life sciences, medical devices, semiconductors and computer software. It holds the fifth largest patent portfolio of any domestic US company, and is armed with billions of dollars from many large companies such as Apple, Google, Sony, Microsoft, Nokia, and German software firm SAP AG.

Despite accumulating this incredible number of patents, IV filed no patent infringement lawsuits until 2010. This changed when, as reported in the January/February 2011 issue of *World Intellectual Property Review*, "the sleeping giant (IV) armed with its multibillion dollar war chest … awakened with a roar". IV filed three patent infringement lawsuits against nine defendants, including Symantec, McAfee, Trend Memory, Hynix Semiconductor, Altera, Microsemi, and Lattice Semiconductor.

IV had a good year in 2011, signing patent licensing deals with a host of companies, including American Express, Samsung, HTC, RIM, Pantech, SAP, Micron and Wistron. On November 8, 2011, IV announced a patent agreement with LG Electronics. Since then, IV's assets have further appreciated.

Despite IV's great efforts to encourage accused infringers to take a licence from it, a number of such companies have resisted. On July 11, 2011 IV sued memory chip makers Hynix Semiconductor, of Korea, and Elpida Memory, of Japan, in the US District Court for the Western District of Seattle. It also named accused infringers of patents covering various computer applications and devices as defendants. These included Acer, Adata Technology, Asustek Computer, Asus Computer, Dell, H-P, Kingston Technology, Logitech, Pantech Wireless, Best Buy and Wal-Mart.

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On October 6, 2011, IV brought a patent infringement action against Motorola in the US District Court of Delaware, alleging infringement of six IV patents by Motorola's products such as its Atrix, Photon 4G, Milestone, Triumph and Brute i680. Google, an investor in IV, acquired Motorola's Mobility mobile phone division, which placed it on both sides of this particular dispute.

Then, on October 26, 2011, IV filed a patent suit against Nikon and its US and Japanese affiliates in the same court, alleging infringement of five patents relating to image editing, image sensor fabrication technology, touch screen methods, and a virtual reality camera.

The parade of patent lawsuits continued in February 2012, when IV filed a patent infringement lawsuit against AT&T, Sprint and T-Mobile, alleging infringement of 15 patents covering a variety of mobile technologies, such as message transmission between mobile terminals, mobile service blocking and network customer service access. As reported on February 16, 2012 in PCMAG.com, Melissa Finocchio, the chief litigation counsel of IV, said in a statement: "We previously attempted to discuss licensing options with each of these companies, but none was responsive."

NPEs have come under attack from many quarters. IV is not your typical NPE. Most have not acquired the same magnitude or high quality of patents. The typical NPE has increasingly become the target of companies accused of patent infringement or who see themselves as potential targets. In large part, the patent bar has seen NPE activities as reckless and distasteful, especially when they have filed meritless lawsuits.

The courts are not afraid to award sanctions, such as attorneys' fees, to meritless lawsuits, and when the requirements of Rule 11 of the Federal Rules of Civil Procedure have not been met. Many legislators have come to view NPEs as an enemy of US business and commerce, and a threat to practising entities. This is best evidenced by the AIA, which was signed into law by President Obama on September 16, 2011.

Among the new law's aims is to prevent situations where large numbers of small defendants who have been sued decide that a token payoff is less trouble than mounting a defence. Accused infringers may not be joined as defendants in one action, based solely upon allegations that they each have infringed the patent(s) in suit. Plaintiffs must initiate a single filing for each individual defendant, thus increasing plaintiffs' costs and making settlements more likely. Increasing NPEs' costs of litigating is but one of many strategies being implemented.

Time will tell whether the attacks upon NPEs will be successful. The assault will certainly increase their business costs. I expect to see increasing instances of courts sanctioning them for meritless claims. I also expect to see awards of attorneys' fees against NPEs where they are unsuccessful in litigation.

Whether investors will continue to find their business model attractive is an open question. One thing is for certain: NPEs will feel increasing pain in the future. ■

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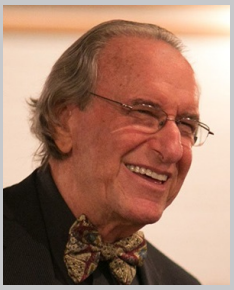

Paul J. Sutton, with a juris doctor degree, an 'AV Preeminent' highest Martindale-Hubbell rating, and four decades of IP law counselling and litigation strategy experience, was honoured by *Super Lawyers* magazine, and is listed in *Strathmore's Who's Who*. He is adjunct professor of law at the Polytechnic Institute of New York University. Prior to practising law, Sutton was a member of the team that designed the Apollo Saturn third-stage booster rocket structure, which carried the first US astronauts to the Moon.