



ELUDING THE PATENT TROLL “TAX”: STRATEGIES FOR ENERGY-INDUSTRY AND OTHER NASCENT NPE TARGETS

by Stefani Shanberg and Eugene Marder

Over the past decade, the energy sector has experienced an unprecedented explosion of technological innovation and business restructuring. As with telecommunications and personal computing, this burst of creativity has greatly increased consumer choice. It has also greatly increased the number of patent suits filed against energy-sector defendants¹ and has forced yet another industry to reckon with a problem that has plagued technology companies for years: patent trolls.

Non-practicing entities (NPEs), also known as patent-assertion entities or patent trolls, own patents but do not make or sell products based on those patents. Rather, these entities—often formed for the sole purpose of acquiring and enforcing patents—derive most or all of their revenue from monetizing intellectual property through licensing or lawsuits.² Energy companies are becoming more welcome targets for NPE suits because they may not have developed strategies for combating such litigation, typically enjoy high profit margins, and rely on constant technical innovation, including technologies that incorporate hardware components.

The energy sector has also become increasingly concerned with software as it pivots from a focus on infrastructure to distributed grid technologies. In addition, deregulation of power markets has allowed energy companies to grow in technological sophistication—a trend that will only continue in the future. For example, the aggregation, management, and optimization of thousands of rooftop solar systems or energy storage batteries have required the development of web-based, software-intensive operating platforms, often with mobile portals that allow customers to interface with the energy technology. Unfortunately, these new energy systems make the industry more enticing for exploitation by patent trolls.

Patent trolls’ invidious practice is well known and well documented, but until recently has been somewhat confined to the computer and information technology industries.³ Developments in patent law, however, have made it more difficult for NPEs to successfully pursue their usual targets. For example, the United States Supreme Court’s ruling in *Alice Corp.*⁴ and the wave of district court and U.S. Court of Appeals for the Federal Circuit decisions that followed have created an inhospitable environment for vague software or business method

¹ See Jayme Partridge and Todd Patterson, ‘Patent Trolls’ Find New Target in Energy Sector, NAT’L LAW J. (Sept. 28, 2015), available at <http://www.nationallawjournal.com/id=1202738247874/Patent-Trolls-Find-New-Target-in-Energy-Sector>.

² See Patent Assertion Entities Study, Federal Trade Commission, available at <https://www.ftc.gov/policy/studies/patent-assertion-entities-pae-study>.

³ See 2015 Patent Dispute Report, Unified Patents, available at <http://unifiedpatents.com/2015-year-end-report/>.

⁴ *Alice Corp. v. CLS Bank International*, 573 U.S. ___, 134 S. Ct. 2347 (2014).

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patents. In addition, the post-grant review proceedings created by the America Invents Act, known as *inter partes* review (IPR) and covered business-method (CBM) review, provide a means by which defendants can often quickly and effectively challenge invalid patents while staying the corresponding litigation. As a result, NPEs have been disincentivized from asserting patents that simply apply conventional practices on computers or the Internet.

The best response to the growth in NPE lawsuits is to avoid a patent lawsuit in the first place, but that cannot always be achieved. Once sued, it is often in the defendant's best interest to resolve the suit as expeditiously as possible. Thus, defendants should litigate in a convenient and friendly forum, minimize costs during the suit by coordinating with other defendants, and seek early opportunities to win on the merits or otherwise put pressure on the plaintiff. It is also important to accept that sometimes early settlement may be the best course of action. Before examining these scenarios in detail, this LEGAL BACKGROUNDER will cover the most effective strategy of all: avoiding suit in the first place.

1. Avoid Becoming a Target

For large and successful companies, including those in the energy industry, attracting the attention of patent trolls may be unavoidable. For small companies, receiving a complaint or demand letter often signals, albeit in a negative manner, that you have arrived. While it is rarely prudent to make business decisions based solely on avoiding the crosshairs of patent trolls, companies of every size may employ certain practices to minimize the likelihood of being sued.

Before a suit is filed, companies should be careful about sharing technical and financial information with the public, as NPEs could seize on any such data to develop new allegations or strengthen a potential complaint. Further, not every patent demand letter merits a response. Often NPEs send letters to dozens of companies at the same time. Investigate the patent holder, its counsel, and the subject patent(s) to craft a customized approach. Some NPE threats will resolve if simply ignored, and responses range from doing nothing to filing a declaratory judgment action, discussed below.

For smaller companies confronted with infringement allegations, it is sometimes advisable to be frank about revenues and make clear that any potential recovery would not be worth litigation (*i.e.*, to run the "poverty defense"). Finally, every company should strive to fully understand its licensing structure and indemnification agreements to ensure that it is not left to answer for its partners' allegedly infringing products.

2. Choose the Battleground

It is well known that patent trolls favor certain federal district courts more than others—namely, those in the Eastern District of Texas. For example, in 2015, the top 10 patent-assertion entities filed 82 percent of their cases in the Eastern District of Texas.⁵ The Eastern District of Texas has a reputation for moving at a faster pace than other districts, has accommodating local rules, and offers friendlier jury pools.⁶ Defendants should consequently try to avoid proceeding in these courts, and can find further benefit from a "home-court advantage."

In certain cases, the defendant can move to transfer the case after it has been filed to a jurisdiction in which a more significant part of the alleged infringement occurred (*i.e.*, the defendant's home turf). Transfer motions have been more often granted of late. As a more aggressive strategy, if litigation is inevitable, a potential defendant can ensure that it occurs in a preferred venue by filing a declaratory judgment action.⁷ Though

⁵ 2015 Patent Dispute Report, *supra* note 3.

⁶ See, e.g., Daniel Nazer and Vera Ranieri, *Why Do Patent Trolls Go to Texas? It's Not for the BBQ*, Electronic Frontier Foundation (July 9, 2014), available at <https://www.eff.org/deeplinks/2014/07/why-do-patent-trolls-go-texas-its-not-bbq>; Joe Mullin, *Why East Texas Courts Are Back on 'Top' for Patent Lawsuits*, ARS TECHNICA (Jan. 16, 2013), available at <http://arstechnica.com/tech-policy/2013/01/east-texas-courts-are-back-on-top-for-patent-lawsuits/>.

⁷ See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 126-27 (2007).

proceeding in a venue such as the Eastern District of Texas may sometimes be unavoidable, proceeding in a more defense-friendly jurisdiction can significantly weaken the patent troll's position and make the litigation more costly for the plaintiff or its contingent-fee counsel to pursue, thereby providing leverage to defendants.

3. Minimize Costs

Typically, patent trolls prefer quantity to quality, often suing many defendants at the same time. NPEs also often cast a wide net in terms of patent claims asserted and vague allegations against numerous products or product features. Defendants should strive to narrow the case as early as possible. Defendants may also consider an early "Rule 11" letter to the NPE asserting that there is no good-faith basis for the claims and citing publicly available information that belies the allegations where possible. Defendants should include notice of their intent to seek fees if the meritless case is further pursued, thus giving the patent owner a potential downside.

Accused infringers could also capitalize on patent trolls' tendency to sue many defendants at once by forming a joint defense group. Because patent cases share many common issues, including invalidity and claim construction, defendants need not duplicate the expenses associated with searching for prior art and expert discovery. Cooperating with other defendants can also pay dividends as the patent troll is forced to adopt diverging or even contradictory positions in its infringement allegations in order to capture each defendant's product.

Of course, working closely with other parties can also present problems, particularly when the defendants' interests begin to differ, or when competitors are asked to divulge confidential information. Sharing the often enormous burden of preparing an invalidity case is frequently well worth the occasional inconvenience of a joint defense group. Being a member of a joint defense group, however, is different than agreeing to joint representation with other defendants. Joint representation is best when the jointly represented defendants are of similar sizes, share similar litigation philosophies, and are relatively certain that their interests will remain aligned.

Defendants may also band together to file an IPR or CBM in the Patent Office, which is regularly done in conjunction with a motion to stay the litigation. Depending on the timing, a stay may eliminate the need to conduct discovery or otherwise respond to the infringement allegations, while focusing entirely on the invalidity case. More importantly, these Patent Office proceedings frequently result in the asserted patents being invalidated, thereby obviating the need to return to district court.⁸

There is no one-size-fits-all approach to patent litigation, however, and the risk of these proceedings may outweigh the benefits in certain cases. For example, petitioners in IPR proceedings are estopped from making arguments in district court that *could have* been raised in the Patent Office, while CBM petitioners cannot repeat arguments that *were* raised. Accordingly, accused infringers are typically advised to proceed with Patent Office challenges only if they also have strong product prior art, to which estoppel would not apply, or noninfringement defenses to fall back on, should litigation recommence following Patent Office review.

4. Find Ways to Win Early

In many cases, NPE suits are based upon weak patents and defendants can secure an early victory that is fatal to the case or puts the plaintiff in a far weaker position for settlement. Defendants faced with abstract patents covering software or business processes have frequently been successful in moving to dismiss complaints for lack of patentable subject matter in the wake of *Alice Corp*. Provided that the plaintiff cannot argue that the issue depends on claim construction, a motion to dismiss or motion for judgment on the pleadings under Section 101 of the Patent Act provides defendants with an efficient method to obtain an early dismissal, with little downside.

⁸ See Comprehensive Study of Patent Trial and Appeal Board Decisions, IP WATCHDOG (Apr. 10, 2015), available at <http://www.ipwatchdog.com/2015/04/10/comprehensive-study-of-patent-trial-and-appeal-board-decisions/id=56675/>.

If the support for a Section 101 motion is not particularly strong, defendants can look for other deficiencies in the complaint, such as a patent ownership issue, a lack of support for indirect or willful infringement allegations, or a failure to identify the infringing product, and move to dismiss for those reasons as well. If granted, the court will often allow plaintiffs the opportunity to remedy these deficiencies and file a new complaint. Although such motions are not dispositive, the dismissal can provide welcome respite, shift the burden back to the plaintiff, and narrow the case.

In addition to motions to dismiss, defendants should look for opportunities to move for summary judgment at key points in the litigation. It is wise to sow the seeds early, focusing on dispositive issues such as particular claim terms for construction. As with any dispositive motion, a judge may not be amenable to hearing the same issue more than once, so finding the right time to file is critical. Moreover, a dispositive motion can alert the plaintiff to the defendant's best arguments and theories, allowing for time to pivot and develop a stronger case. With these caveats, at the appropriate strategic time, summary judgment can be a powerful tool that significantly narrows the case or ends it altogether.

5. Settle on Your Own Terms

NPEs thrive on the economics of patent litigation—attempting to leverage the high cost of defense to force settlement. Defendants faced with infringement allegations can suffer the loss of investor confidence and disruption to their normal business practices resulting from intrusive discovery and prolonged court battles. Accordingly, defendants often settle even when the case itself lacks merit.

Because NPEs often choose their targets indiscriminately, sending boilerplate letters or filing complaints against scores of defendants, they may be satisfied with a relatively low “nuisance value” settlement. For example, court documents indicate that Shipping and Transit LLC—which filed approximately 70 lawsuits in 2015—asked defendants for \$150,000, and likely received much less in many cases.⁹ Gifting a patent troll with a windfall settlement is never pleasant, but it may be the best business decision to merely pay this “tax” and move on with more productive endeavors. Experienced patent litigation counsel can also draft a comprehensive settlement, ensuring that the troll never again darkens the defendant's door. Even with these advantages, companies should avoid developing a reputation for being an easy target for trolls, picking battles—and settlements—wisely.

Conclusion

Federal court dockets in 2015 indicate that NPEs may have found a new target in the energy industry, but their tactics and business models remain the same. The strategies discussed above have been effective in the technology sector and should be helpful to energy companies facing this new challenge. There is, of course, no universal formula for patent troll defense, and deciding how and when to employ each of these strategies is critical. This leads to the final and perhaps most important piece of advice: find experienced counsel that is efficient, knowledgeable about your particular threat, well versed in patent litigation, and has good business sense. Patent litigation counsel must understand the defendant's company, its products, its industry, and its goals in order to provide effective advice that protects the company from existing suits and does not inhibit its long-term business interests. Armed with a solid strategy, energy companies will be well prepared in the unfortunate but all too likely case that a patent troll happens upon them in the near term.

⁹ See *ArrivalStar SA (a/k/a/ Shipping and Transit LLC) v. Demandware, Inc.*, Case No. 9:15-cv-80098-KAM, Dkt. No. 19-6, *2 (S.D. Fla. Apr. 24, 2015).