



Ask a Lawyer: What Should Tech Companies Consider When Patent Trolls Come Calling?

By Seva Batkin

“Patent trolls,” also known as “non-practicing entities” (NPEs), are companies whose primary business is the acquisition of patents for the purpose of enforcing them against companies that are already using the patented technology.

NPEs do not use the patented technology themselves—hence the “non-practicing” label—but threaten and actually bring patent infringement lawsuits to extract license fees and monetary settlements.

While the existence of NPEs is well known, many if not most small to medium-sized Canadian technology companies believe that they are too small to become a target for an NPE, who set their sights on high-profile targets such as Blackberry and Microsoft. However, although NPEs are certainly not as active in Canada as they are in the US, in my IP and business litigation practice, I see and hear of more and more small and medium-sized technology businesses being attacked by NPEs.

The driving forces behind this are that the cost of threatening or commencing litigation, and the likelihood of the targeted business fighting back, are relatively low. Thus, even modest monetary settlement resulting from these threats can be profitable to the NPE. The flip side is that these businesses may feel the effects of these attacks much more acutely than larger companies.

For example:

- they have neither financial nor human resources to deal with these threats and/or litigation
- lawsuits, which are a matter of public record, have reputational risks and may alienate customers, suppliers and investors; and
- lacking legal budgets and/or trusted advisors, they may agree to settlement terms that do not adequately protect them against further claims from the same trolls

In light of this, I offer these businesses the following comments:

1. DO NOT PANIC: Neither a threatening letter from a troll’s lawyer, nor a court action commenced by a troll, necessarily means that the troll’s allegations have any merit, that you have to shut down your business, or that you will spend a lot of money to resolve this. A troll’s usual strategy, especially when it comes to small businesses, favours birdshot over snipers.

2. GET LEGAL ADVICE: Find a lawyer who practices IP litigation and has previously dealt with NPEs and, if possible, who has dealt with the NPE attacking you. You will get objective and practical advice on how to resolve this threat in the cheapest and most efficient manner. Hiring a lawyer does not mean that you have just signed up for expensive litigation. Usually, when lawyers are involved at an early stage, these situations are resolved faster and cheaper than when businesses attempt to negotiate settlements on their own.

3. TAKE A PRAGMATIC VIEW: It is your livelihood that it is being attacked by a troll, and this can take an emotional, as well as a financial toll, and affect your ability to handle the situation objectively. A lawyer is there to give you objective advice, but you also have to keep in mind that the most practical solution is likely a settlement. Consider the following facts:

A. **in the US**, NPEs are successful in about two thirds of cases that go to trial – your chance of successfully defending the lawsuit may be less than you think; and

B. **in Canada**, a party who wins in court, usually recovers 30-40% of their actual legal costs—i.e. winning may cost you well over \$100,000.

4. SETTLE WISELY: A good settlement not only minimizes the amount you have to pay, but also maximizes what you get in return. For example, an ideal settlement would include:

A. **a comprehensive release** of all current and future claims that the NPE has or may have against you, your business, your directors and shareholders, and your customers;

B. **a broad license for the patents that you are alleged to have infringed** and all related patents and patent applications—NPEs usually acquire patent portfolios, including pending applications, that relate to a particular field or technology; and

C. **a broad license for corresponding foreign patents and patent applications** – the Canadian patent(s) that the NPE has asserted against you are likely to have counterparts in other countries, especially in the U.S. Whether or not you already have operations in those countries, this will ensure that you will not have to deal with the same threat in other countries. Remember, selling products to U.S.-based customers may be sufficient for a patent infringement action to be commenced against you in the U.S.

The terms of these licenses, such as geographic scope, permitted use by you and your clients, and ability to sell or assign, are extremely important and should be drafted by your lawyer.

5. MAXIMIZE SETTLEMENT VALUE: Consider how you can use the licenses you obtained from the NPE to generate value. For example:

A. in advertising—“using patented technology” may be a good sales pitch;

B. customer confidence—large clients may feel more comfortable knowing that you already have these licenses; and

C. investor attraction—a license is a form of property and may increase the value of your business, including by lowering business risk associated with your technology.

In summary, when a patent troll comes calling, don’t panic, consider the above, and obtain legal advice.

Note: This article is not legal advice. Consult a lawyer when considering the best way to respond to threats from a NPE based on your particular situation. This article was originally posted on Techvibes on October 19, 2013 and is reprinted with permission.

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