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Beware of Patent Trolls

This material is provided for informational purposes only. Before taking any action that could have legal or other important consequences, confer with a qualified professional who can provide guidance that considers your unique circumstances.

Imagine this. You get an official looking letter from an unfamiliar limited liability corporation (LLC). The letter states that it is aware that your design firm operates a particular type of copy machine that has a push-button feature that enables you to scan documents and then email or otherwise transmit them directly from the copier via a local network. The letter goes on to inform you that this LLC you have never heard of owns a patent on that scan-and-transmit technology.

The letter demands that in order to use this software function, you must pay a licensing fee to the patent holder – \$1,000 annually per employee! It's a scam, right? Certainly the copier manufacturer wouldn't have sold you a machine that contained patented software that required a separate license to use. Unfortunately, no, it's not a baseless scam. In this case, the unknown LLC actually does own a broad patent on scan-and-email technology. Whether the patent would withstand a serious court challenge is questionable, but, to date, it has not been challenged.

This LLC is one of a growing number of firms known as Patent Assertion Entities (PAEs) or Patent Holding Companies (PHCs). Perhaps you have heard of these PAEs and PHCs by their less-than-flattering nickname -- patent trolls.

Trolling for Dollars

There are two basic types of patent trolls, neither of which invent or manufacture anything. The first type is typically a group of attorneys that forms an LLC, buys existing patents from others and then makes its money by demanding licensing fees from companies it claims are violating the patents they have purchased. The second type of patent troll doesn't purchase patents but offers its legal services to patent holders in exchange for a percentage of the licensing fees they collect.

Both types of patent trolls tend to focus on technology patents. Many target companies in particular industries – for example architect and engineering firms using scan and email technology, or coffee houses, bookstores and hotels who offer Wi-Fi services to their patrons. Some also target particular states or jurisdictions where they have had success in patent enforcement.

Patent trolls typically prey on small and mid-size companies, those most likely to be intimidated by a demand that says either pay the licensing fee or we'll see you in court. These trolls figure smaller firms can't afford to hire an attorney and fight the patent claim in court. Likely, legal costs and potential judgments will not be covered by either professional liability or general liability insurance. Unwilling to take the chance of a huge financial loss, these firms often buckle and pay the licensing fee demanded or negotiate a lower rate.

What to Do

Paying the patent trolls is not only distasteful, it's expensive. But what other options do companies have? Here are some alternatives that, while not perfect, are being used today.

Ignore it. You can simply drop the demand for licensing fees in the trash can and hope the patent troll goes away. One study of companies targeted by patent trolls showed that more than 20% simply ignored the demand letter; and these firms experienced lower average costs than firms who fought back with legal representation or paid the license fees. Patent trolls are often uninterested in pursuing their licensing fees through a legal battle. They get plenty of firms who willingly pay up and find it more profitable to simply send out more letters to more companies and collect more checks. Other trolls, however, can be aggressive, and ignoring the first letter may lead to formal demands and claims, and added costs.

Fight it. A good patent attorney can put together a substantive response that may get the patent trolls to back off. But for small firms, extended legal representation can be more expensive than the licensing fees being sought. To control defense costs, some firms in targeted industries have teamed up and share the expense of hiring a patent attorney. In any case, it is probably wise for any firm who receives a demand from a patent troll to get at least a basic review of the letter by a qualified patent attorney who can provide an opinion as to what action, if any, is needed.

Insure it. There are insurance policies that cover patent infringement. However, few carriers offer it and it can be expensive. Plus, you'd have to purchase the insurance before any patent trolls have come knocking. No insurance company is going to provide you with coverage once you've received a demand letter.

Attack it. Businesses across various industries have begun banding together to combat patent trolls. Perhaps the most well known national anti-troll group is called Stop Project Paperless (www.stopprojectpaperless.com). Specific to the design

industry, the ACEC Legal Council Forum is investigating these trolls. You might also contact your elected representatives. There is currently a bill in Congress that seeks to award prevailing party fees to firms who fight and beat the trolls, and the Vermont attorney general is currently suing a patent troll for violating consumer protection laws.

Avoid it. There are steps you can take to help avoid the potential financial losses of a patent troll. In the case of the scan-and-email patent trolls, for example, you can try to negotiate a lease modification with the company that provides your copy machine so that you are indemnified against any patent infringement claims regarding the hardware and software in the equipment. If that fails, you can consider foregoing use of the technology, having the scan and transmit functionality in your copiers disabled.

Clearly, it is almost impossible to eliminate the threat of patent trolls. If you receive a demand letter from such a firm, immediately inform your legal counsel and your insurance agent or broker. Contact your state or national industry associations and elected representatives, and take advantage of groups like Stop Project Paperless for further information and advice.

We may be able to help you by providing referrals to consultants, and by providing guidance relative to insurance issues, and even to certain preventives, from construction observation through the development and application of sound human resources management policies and procedures. Please call on us for assistance. We're a member of the Professional Liability Agents Network (PLAN). We're here to help.