

CORPORATE COUNSEL

Getting the Patent Industry to Stand Up to Patent Trolls

Scott Burt08/27/2014



From Main Street U.S.A. to the halls of Congress, ordinary citizens are up in arms over the patent trolls who send form letters to hundreds or even thousands of random small businesses, claiming with little or no evidence that they are “infringing” the troll’s patents. Typically, these letters demand so-called “licensing fees,” ranging from \$1,000 to \$50,000 or more to avoid a patent infringement lawsuit that could cost these businesses far more to defend against in court—even if the business owner is innocent of any infringement.

But amid the clamor from the business community and elected officials to rein in patent trolls, one group has remained largely silent: the patent licensing industry itself. Unlike responsible players in other industries where abuses have occurred over the years, the leaders of America’s two-century-old patent licensing industry have not exactly been strong advocates of reform in their own backyard.

This is unfortunate, because while patent troll demand letters are a big economic problem for small businesses, costing them millions of dollars in settlement fees and legal costs annually, they are an even greater political problem for our industry and for the patent system as a whole. Simply put, they are wrecking public confidence in the patent system—and by extension, undermining the nation’s bedrock belief in the great economic benefits that system produces.

Yet even as the damage caused by demand letters spreads, most legitimate patent licensors whose businesses depend upon continued legislative and public trust stand idly by, doing little or

nothing to address it. Well-insulated within the patent industry's cozy professional bubble, we are, in effect, fiddling while innovation's Rome burns.

That's too bad, because although reliable data on the extent of the demand letter problem and its economic impact are hard to come by, there is mounting anecdotal evidence that the deluge of demand letters is harming one of the nation's most critical job-creation and innovation sectors. I am referring, of course, to small businesses and startup companies. The reported impact usually takes the form of hiring delays, reduced R&D spending, or a negative change in product or business strategy. One study reported that 70 percent of 200 venture capitalists surveyed had invested in startup companies that later received extortionist demand letters.

This is serious stuff—especially for an economic sector that produces most of this nation's net job growth. And that's why we at Conversant Intellectual Property Management think it's time for responsible members of the patent licensing industry to step up and help deal with the scourge of patent troll demand letters. The last thing we want is to be tarred by the same brush.

Standing Up to Patent Trolls

In July 2014, Conversant launched [Stand Up to the Demand](#), an educational and advocacy campaign designed to help small and mid-size businesses identify and respond to demand letters. The first phase of our campaign features a website with a video and an infographic quiz to help business owners distinguish a patent troll demand letter from a legitimate notice letter, and provides samples of each.

Here are some telltale signs to look for:

- **The demand letter is addressed to no one in particular—perhaps “To Whom It May Concern” or “Dear Business Owner.”** That's a pretty good indicator that a patent troll has targeted your company (and many others of a similar size or industry classification) in what we call a “form-letter patent shakedown.” By contrast, a legitimate notice letter will be addressed to a specific person at your company. In any event, responsible licensors shouldn't seek licenses or threaten litigation against small businesses such as start-up companies, local retailers or end-user customers anyway.
- **The letter fails to identify the true owner of the patent.** That's another clue that the business is the target of a bad demand letter.
- **The letter provides no concrete evidence that your business, or its products and services, are infringing a patent.** Vague accusations of infringement that have no clear connection to your company's business or products are the hallmark of bogus demand letters.
- **The sender of the demand letter strongly implies or threatens legal action.** That's another clue it's coming from a patent troll, not a legitimate patent owner. Proper notice letters invite negotiation. Only someone trying to intimidate you would threaten litigation.
- **The sender gives you an unreasonably short time frame in which to respond.** Legitimate notice letters should provide ample time for the business to investigate the allegations of patent infringement and come to their own conclusions.

- **It includes a demand for money.** That's the biggest red flag of all. Legitimate notice letters ask for a conversation, not a check. They invite the prospective licensee to discuss the evidence of infringement, which should be clearly documented, and then respond.

Protests Against Demand Letters Soar

What's most striking about these abusive demand letters is the enormous protest they have generated from the business community, the public and from elected officials. The National Federation of Independent Businesses (NFIB) and many other retail business groups and trade associations have demanded that the government act.

And make no mistake: Washington, D.C., is listening. Just two years ago, only a handful of members of Congress gave any serious thought to patent issues. Today, anti-patent sentiment is widespread, especially among Congress' core Main Street constituency, and as a result it appears quite determined to enact some sort of anti-troll legislation.

At the state level, meanwhile, 12 states have already enacted laws to curb abusive patent demand letters in the past year or so, and 14 others are actively considering similar bills. In addition, the attorneys general of several states have brought suit against trolls who send these letters, using existing consumer protection laws against making false claims to extort money.

One of the most successful suits took place in New York, where in January 2014 Attorney General Eric Schneiderman forced MPHJ Technology Investments LLC to sign a consent decree requiring it to repay all the money it received from businesses in the state. MPHJ, using various shell companies, had falsely claimed in demand letters it sent to 16,465 businesses that it had analyzed each target company's scanning systems and determined these to be in violation of its patents. In fact, MPHJ had merely sent form letters to companies of a certain size and industry classification without investigating or uncovering any evidence of infringement.

More recently on August 11, the U.S. Court of Appeals for the Federal Circuit allowed Vermont Attorney General William Sorrell's suit accusing MPHJ of violating state consumer protection laws to move forward in Vermont state court, rejecting MPHJ's claim that because the case involved patents, it should be tried in federal court.

As patent licensing and legal professionals, we must do our part to condemn the practices of bad actors who victimize innocent businesses, just as responsible members of other industries condemn the predatory practices of bad actors in their own fields. Then we must support concrete steps to root them out. Only by doing so can we ensure that the U.S. patent system plays its proper role in spurring innovation and economic growth.

Advocating for Ethical Patent Licensing

Our company, Conversant (formerly MOSAID Technologies), is a privately held patent licensing company founded in 1975. Initially a computer memory semiconductor design company, Conversant started licensing its own patents in 1999 and then, in 2007, decided to focus exclusively on patent portfolio licensing. Today, with more than 12,500 patents and patent

applications under management, we offer IP management services and work with global innovators such as Nokia, Elpida and Sandisk to license portions of their patent portfolios.

In November 2013, we became the first patent licensing company—sometimes called a “nonpracticing entity” or NPE—to publicly commit itself to a set of ethical patent licensing practices. These included vows not to sue small businesses or hide behind shell companies, and we articulated the ethical obligations of both patent licensors and potential licensees.

Conversant strongly supports the nascent reform movement within our industry to develop a code of conduct to which all responsible licensors would be expected to adhere. The Licensing Executive Society (U.S. and Canada) is now taking the first steps toward creating what could become a series of best practice standards relating to the IP marketplace. A workshop was held in August 2014 in Chicago to discuss possible plans to codify recognized good behavior and processes in IP licensing negotiations and transactions. Three pilot programs are being discussed for possible launch in early 2015.

As an attorney and patent licensing professional with more 25 years’ experience in this industry, I believe that a code of conduct is long overdue. Before joining Conversant, I provided legal counsel to the victims of one especially litigious patent troll and therefore know first-hand the damage that abusive patent litigants do to small businesses.

There is no business gain for Conversant in waging the Stand Up to the Demand campaign, because small and mid-size businesses are not our partners or licensees. We are advocating for reform because only when the patent licensing industry acts to curb abuses in its own backyard can we begin to restore public trust in the patent system as a national engine of economic progress and competitiveness.

Former U.S. Patent and Trademark Office director David Kappos once described the patent system as America’s 401(k) plan. As a vital guarantor of our nation’s economic future, the patent system certainly warrants that description. Let’s not forfeit that future by allowing patent trolls to corrupt it today.

Scott Burt is senior vice president and chief intellectual property officer for Conversant Intellectual Property Management Inc. He leads the company’s legal team, including the corporate counsel and secretary functions, litigation, and patent prosecution. He also heads Conversant’s public policy initiatives, and in 2013 he spearheaded the development of its ethical patent licensing principles. Burt joined Conversant in 2012 after a 21-year career at Jones Day, where he led a diverse IP and technology practice focused on complex litigation, IP counselling and IP transactions. He can be reached at sburt@conversantip.com.