

## Appendix C-2: Tactics for Responding to Patent Assertions

To disseminate best practices and information we developed a list of tactics for responding to a NPE suit culled from interviews and research. We then solicited advice from experts about how these tactics fare in practice. We received comments from attorneys practicing at lawfirms, in-house counsel, solution providers, and a public interest lawyer and summerized their feedback in the “Ask the Experts” column.

| Tactic  | Stage of Dispute   | Description, Timing & Example, if Any  | Resources Needed  | Ask the Experts - Comments on Each Tactic  |
|---|--|--|---|--|
| Third-Party submission of prior art in a pending patent application | Anytime you have concerns about a pending patent application | To challenge a patentholder's portfolio, look for their pending applications and consider submitting prior art in the worrisome applications. The window of submission is the later of: 1) 6 months following publication of the application; or 2) before the first Office Action. If for some reason there is a Notice of Allowance earlier than the above, the submission must be made before then. Timing: StackExchange founder put in "10 minutes" and had their first "patent kill" in 2 months. ( <a href="http://www.joelonsoftware.com/items/2013/07/22.html">http://www.joelonsoftware.com/items/2013/07/22.html</a> )  | Prior art, analysis of the prior art references; Filing fee of \$180 for more than three references, legal help to find and analyze the prior art would pose additional expenses. | You don't have a guarantee that the patent office will see the art as invalidating, and if the patent is issued notwithstanding it, the reference loses some of its ability to be used to challenge the patent later. Need to do a robust prior art search before undertaking this tactic. |
| Making Examiner aware of the prior art                              | Anytime you have concerns about a pending patent application | To challenge a patentholder's portfolio, use a site like AskPatents to ask for prior art to be provided on a patent. The supplied art has a reasonable chance of being considered by the patent office because of AskPatents' visibility within the USPTO examiner community. Timing: You should see impact, if any, in the prosecution history fairly quickly   | Patent number   | This merely suggests, not requires, that the PTO look at prior art, assuming some is provided in response to your question.  |
| Indemnification clauses   | Anytime you are entering a purchase agreement                | Anticipate PAE claims during the procurement process via indemnification clauses. Timing: Preventative. For example, an indemnity clause in a vendor agreement can protect a company from PAEs by requiring the supplier of the product or service that gives rise to the patent claim to defend the company. An indemnification provision properly allocates risk to the supplier, the party that is in the best position to understand and assess the risk of a claim, and provides an economic incentive for the supplier to battle a PAE that the end user company may lack ( <a href="http://eyesonecomlaw.blogspot.com/2013/06/indemnification-clauses-critical-to.html">http://eyesonecomlaw.blogspot.com/2013/06/indemnification-clauses-critical-to.html</a> ). | Varies, but at least cost of negotiation  | Can't hurt to ask, especially if you are a big customer. If you are in a position to do this, it's great. But given the current state of the patent system, I can understand why suppliers don't indemnify.  |
| Lobby   | Anytime  | Contact and arrange meetings with the appropriate members of Congress and/or their staff to explain defendant positions and needs. Timing: Long play   | Minimal   | Congresspeople are trying to get educated on this issue now so it's a good time to share your experiences with the patent system.  |

| Tactic   | Stage of Dispute | Description, Timing & Example, if Any  | Resources Needed        | Ask the Experts - Comments on Each Tactic  |
|--|------------------|--|-------------------------|--|
| Industry Alliance                              | Anytime          | Identify sympathetic or supportive trade groups and non-profits . Get connected to resources, recommendations, and policy actions. Timing: Long play   | Joining is usually free | See "Big Tent" and related letters for groups engaged in patent reform. Those focused on startups include EFF, Engine Advocacy, the App Developer's Alliance, and 1776. See <a href="http://www.patentprogress.org/documents/big-tent-letter-to-congress/">http://www.patentprogress.org/documents/big-tent-letter-to-congress/</a> ; <a href="https://www.eff.org/document/open-letter-shield-act">https://www.eff.org/document/open-letter-shield-act</a> ; For the web community, I urge you to join The Internet Association, which is actively working on trying to solve the patent troll problem.   |
| Plead Poverty/Seek an early and low settlement | Demand/Suit      | Inform the PAE about the company's financial situation and that you really aren't worth their time. Ask what it will take for them to go away, and educate them that there's really no revenue from the accused products ( <a href="http://techcrunch.com/2012/10/07/10-ways-startups-can-deal-with-patent-troll-demands/">http://techcrunch.com/2012/10/07/10-ways-startups-can-deal-with-patent-troll-demands/</a> ). Timing: Can quickly change settlement dynamic  | Minimal                 | If you say you have no revenue, you'd better not be bluffing, and must be ready to file bankruptcy if the troll sues you to call your bluff. Also see: If you have limited money, invest some time in educating the other side: lawyers will read that you completed a funding for \$3 million and then the lawyers assume you have a piece of that laying around that you can give to them. Education is critical and you have to talk a language they understand. There are many patents that are valid and it is a mistake to not recognize that sometimes taking a license is the wise thing to do. I don't get large or small companies that run up a meaningful legal bill battling on every front (non-infringement and invalidity) only to take a license after they have run up a big bill. I think the better thing to focus on is that as a small company our legal system is not set up for you. Even if you "win" after 24 months, so what? |
| Do your research                               | Demand           | Use resources to find out as much as possible about the lawsuit. Dig through documents, court dockets, and websites to find out everything you can about the people behind the lawsuit. Timing: Will immediately help you inform your strategy. PatentLens, Google Patents, and Freepatentsonline.com are recommended as more user friendly than the PTO for getting information about the patent. This site has good instructions on how to use the patent office search engine: <a href="http://www.lib.utexas.edu/engin/patent-tutorial/tutorial/pattut.html">http://www.lib.utexas.edu/engin/patent-tutorial/tutorial/pattut.html</a> . When drilling down into who owns the patent, you need to get the articles of incorporation to see the owner of the LLC or partnership. Most states have a corporate registration search engine. This site has links to all the state registration search sites, which are generally free: <a href="http://www.coordinatedlegal.com/SecretaryOfState.html">http://www.coordinatedlegal.com/SecretaryOfState.html</a> . See also <a href="http://pandodaily.com/2013/07/26/how-to-slaughter-a-patent-troll-in-5-steps/">http://pandodaily.com/2013/07/26/how-to-slaughter-a-patent-troll-in-5-steps/</a> . | Minimal                 | You, or If you have a lot of money, your lawyer, will do this. Getting your hands dirty, particularly in the prior art, is the key to success. Definitely, spend some time getting to know the art, who was doing what before the critical date, and reach out to real people to talk to them about helping you with their time and their testimony.   |

| Tactic                         | Stage of Dispute | Description, Timing & Example, if Any   | Resources Needed  | Ask the Experts - Comments on Each Tactic  |
|--------------------------------|------------------|---|---|--|
| Keep a low profile             | Demand/Suit      | For small companies, there's a reasonable chance that they're only one of many receiving a demand letter. Take a look at the patent and the allegations; if you can form a reasonable belief that a license is not needed, file the letter away ( <a href="http://techcrunch.com/2012/10/07/10-ways-startups-can-deal-with-patent-troll-demands/">http://techcrunch.com/2012/10/07/10-ways-startups-can-deal-with-patent-troll-demands/</a> ). Timing: It may fail quickly, success in the form of the plaintiff never calling you back takes longer  | Minimal - engineer time   | I call this the "prairie dog" rule -- the one that comes out of the den gets eaten. If many letters are being sent, keep a low profile while doing the bare minimum to avoid willful infringement (though hard to know what that is at this point). Ignorance works in some cases and should be the initial response. Because if you talk to a troll, you will open up a long conversation with them that will result in your paying them or a lawyer money. Learn to live with the open threat.   |
| Conduct prior art search       | Demand/Suit      | Conduct prior art searches to encourage PAEs to settle during earlier stages of litigation or to ward off a demand. Prior art searches can be done on some or all of the patents held by the PAE, whether or not they were asserted. Do it in house - look esp. for non-patent prior art! Some engineers have technical manuals, if you go the extra mile you'll find stuff. Timing: days to weeks to complete the search. BlueWave Computing paid a law firm \$5,000 to conduct a prior-art search of Project Paperless' patents. When founder Steve Vicinanza had enough prior art, he warned Project Paperless that he had evidence that invalidated the patent and was going to request a reexamination ( <a href="http://www.inc.com/magazine/201202/kris-frieswick/patent-troll-toll-on-businesses.html">http://www.inc.com/magazine/201202/kris-frieswick/patent-troll-toll-on-businesses.html</a> ). Having prior art gave us a huge confidence boost in fighting them. If nothing else, we knew we could initiate a patent re-exam and hold off the litigation for a long time. The settlement had no conditions on our side other than to drop our countersuit. | Patent number; 5 - 12K or cheaper if done in-house or via AskPatents (free), competition among searchers "is pretty intense"  | This is key to obtaining leverage in a case. The patents are the only asset PAEs own, and typically their plan is to exploit it against many defendants in order to get a good rate of return on the investment. If you can successfully attack the patent, then you have a great chance of success in the case or at least reaching a low cost settlement. Need to involve your engineers and try to find good system art that has not been before the PTO. Newer companies should look to the older companies in their space for system art. Yahoo!, Google, and Amazon and others are typically willing and able to provide early system art in the Internet space. Don't be afraid to reach out to those companies for prior art. At the demand phase, don't spend a lot of money on it. If it's easy to find a piece of prior art, go for it, but haven't heard that many stories of hearing the troll go away. If can do it efficiently, may change the dynamic. |
| Collaborate/Join as defendants | Demand/Suit      | Combining resources allows for co-defendants to share in litigation costs, prior art, information and overall strategy. By establishing an efficient collaboration model, litigations costs can be split amongst many defendants. Additionally, defendants may seek contributions from interested third parties. Timing: May not shorten anything, except by allowing a better invalidity defense for less money. Chris Friedland of Build.com began to contact other PAE defendants, most of which were not direct competitors, and asking them to join with him and share resources. "I would tell them that we have mutual interest," said Friedland. For one suit, Friedland managed to persuade all the co-defendants to fight, even though many initially wanted to settle ( <a href="http://www.inc.com/magazine/201202/kris-frieswick/patent-troll-toll-on-businesses.html">http://www.inc.com/magazine/201202/kris-frieswick/patent-troll-toll-on-businesses.html</a> ).   | Relatively easy. Run Internet search for blogs, news articles by journalists and call the authors. Same for PACER for current litigation. People want to talk and share information as far as NDAs permit.; No out of pocket cost | Collaboration has no downside except for time spent on joint defense activities. Makes sense even if all that happens is informal telephone communication. Be aware that non-privileged communication is discoverable, however. As part of a joint defense, a small company can coattail on larger defendant and "go on life support." But logistics can be complicated. Its important for parties to have their interests aligned. In short: be sure you are not the last one left at the dance.  |

| Tactic   | Stage of Dispute | Description, Timing & Example, if Any   | Resources Needed  | Ask the Experts - Comments on Each Tactic   |
|--|------------------|---|---|---|
| Post grant challenge at the PTO (reexam, CBM, IPR) | Demand/Suit      | Filing for a post grant administrative challenge (patent reexamination, inter partes review, post grant review, covered business review) request allows both target companies and third parties to invalidate patents held by PAEs after they have been issued, without having to litigate. Further, requesting that nonasserted patents be reexamined sends a strong message to PAEs. Timing: Typically have Board ruling on IPR/CBM Review in 18-24 mos. Example: Rotatable sued Rackspace in February 2013, and then offered to settle the claim for \$75,000. In return, Rackspace filed an inter partes reexamination (IPR) request with the USPTO to challenge the validity of a patent based solely on the existence of prior art. Rackspace believes that an IPR is the best way to combat this particular PAE on behalf of itself and all the app developers who are also targets.   | Ex parte requires prior art and brief to file, IPR requires search, brief, and an expert decl. to file, 25-50K; IPRs require 75K to get on file including an expert declaration, 200-300 total. Standing and biz method patent needed to file a CBM, around 350K, but it also contains more favorable estoppel provisions | You should have a clear idea of what your objective is with the patent. Only do IPR if prior art is strong, because of collateral estoppel. Upside: chance to narrow or knock out the patent. Downside for all: if the patent survives, it will be stronger and the patentee's leverage, greater. Doesn't stop them from asserting another patent. Stay won't always be granted, sometimes it will. Cost is one way to decide between ex parte and IPR. Ex parte will be much cheaper, but comes with the greater possibility that the patent will survive in some form. I would only use an ex parte if you have to because IPR is not available for that patent or if the patent is not asserted against you and you just want to make life difficult for the business model of the patent owner. I'm not a big fan on relying on the PTO to get it right in any circumstance. I'd rather rely on myself. |
| Contact the manufacturer                           | Demand/Suit      | When you are sued because you used someone else's technology, contact the supplier of the allegedly infringing technology and demand that they indemnify you. Timing: May take a couple of months of sustained effort to get real help. Example: Steve Vicinanza of BlueWave Computing filed a third-party complaint against four of the companies that actually made the allegedly infringing scanners. That could have compelled the manufacturers to get involved in the case ( <a href="http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/">http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/</a> ).   | Minimal   | Many trolls that exclusively sue customers fear this more than anything else. And don't let the niceties of the contract dissuade you from asking for voluntary help. Business pressure is real, and if your company is important enough you may get help despite the disclaimers, etc. Useful because smaller supplier might not know. Most manufacturers want to protect their customers and stand-up for their products. So contacting what should be the real party in interest and getting them to act is a great tactic. Companies should think about that more proactively ... when entering into commercial contracts, make sure to seek appropriate indemnities for coverage of patent litigation.   |
| Public relations                                   | Demand/Suit      | Tell your story. Companies should commission and draft articles explaining the defense's version of case and why lawmakers and the public should support the defendants' position. Timing: Can take time or be relatively fast. Todd Moore was able to get Lodsys to drop its suit rel. quickly. See <a href="http://toddmooore.com/2013/07/02/why-im-not-paying-the-troll-toll/">http://toddmooore.com/2013/07/02/why-im-not-paying-the-troll-toll/</a> . Draft articles that highlight the PAE's role in perpetuating trolling strategy, and emphasize the "obviousness/breadth of patents asserted, tax-like implications of trolling activity on everyday life, extortionary aspect of defense-cost settlements, [and] fundamental unfairness in venue shopping in many patent cases." Articles should then be submitted to legal, technology and general interest magazines and journals. Any public comments should also actively discourage trolling, attempt to share information, and advocate for patent reform | Minimal   | Scorpion tactic. Be the ringleader of the defense group. Encourage others to demand help from manufacturer/supplier - multiple demands are what get results. Blog, reach public interest groups, local reporters - editorial boards and tech beat reporters. Call public interest groups like EFF, etc. who can blog your story and get it out for reporters to pick up.  |

| Tactic                             | Stage of Dispute | Description, Timing & Example, if Any   | Resources Needed  | Ask the Experts - Comments on Each Tactic  |
|------------------------------------|------------------|---|---|--|
| Complain to State Attorney General | Demand/Suit      | Complain about predatory or bad-faith behavior by PAEs to the state Attorney General. Timing: Can be very fast - a couple of months from first complaint to action. Example: The Vermont, Minnesota, and Nebraska AGs have investigated PAE MPHJ Technology Investments and its subsidiaries for violating various Consumer Protection statutes, alleging that the defendants engaged in bad faith assertions or unfair and deceptive trade practices. In particular, accounts that lack of specificity about an alleged infringement, demand an excessive licensing fee, contain legal threats which prove to be empty, or contain unreasonably short deadlines for payment may be considered actionable.  | Minimal, but helps if you or your client are well-connected, or particularly sympathetic (e.g. non-profit, long-term family business; think political photo op value) | No downside. Easy and important. State AGs are taking an increasing interest, now is the time to get in touch. I call this part of the "scorpion" defense approach -- make yourself so poisonous the troll will move on to another victim. I never thought this would work, but it really has been effective. Troll in the cross-hairs has referred to this response as "shi* storm," and clearly played a role in its decision to suspend all licensing demands. The key is being able to point to parts of the letter that are false or at least misleading, perhaps by omission. Note that in the Innovatio litigation Cisco tried to call those kinds of licensing tactics a RICO violation, and failed.   |
| File a grievance with the bar      | Demand/Suit      | If lawyer representing troll clearly knows nothing about your product or operations but sends a fishing letter, consider having the client do this. Most state bar organizations make it pretty easy to raise the issue.  | Minimal   | Only applies to the most egregious cases, another scorpion tactic.   |
| Don't settle, once sued            | Suit             | Settling with PAEs allows them to cite the settlement as precedent when asserting their patents against later target companies. Further, it provides PAEs with cash to perpetuate their predatory behavior because their business model remains profitable. Timing: potentially years, or could be short. Example: Newegg's Chief Legal Officer, Lee Cheng, embraced a unique strategy in 2007: not to settle with patent trolls. Ever. Cheng believes, "Patent trolling is based upon deficiencies in a critical but underdeveloped area of the law. The faster we drive these cases to verdict—and through appeal, and also get legislative reform on track—the faster our economy will be competitive in this critical area." ( <a href="http://arstechnica.com/tech-policy/2013/01/how-newegg-crushed-the-shopping-cart-patent-and-saved-online-retail/">http://arstechnica.com/tech-policy/2013/01/how-newegg-crushed-the-shopping-cart-patent-and-saved-online-retail/</a> ). | Management buy-in is key, could cost millions   | If you can afford it, it's the best tactic. Fewer letters in the future. Companies that make some noise appear to see fewer troll suits. But companies need to understand what they are getting themselves into - a lot of people give up 6 months in. They really need some experience with the patent system. Really talk to a lawyer. It's a lot of work but, if you can pull it off, there do appear to be returns. But see: This is great in theory, but is not practicable. Even those who say they don't settle, if they get a lot of threats, ultimately does. One refinement of this tactic is to say, if you are outside of EDTX, try to litigate through claim construction. Chances are that you can win some key terms and reach a more favorable settlement or position yourself well for summary judgment. In EDTX, history suggests that it is difficult to win claim construction arguments and summary judgment is almost never granted, so you have to be prepared to litigate through trial. |
| Make discovery requests            | Suit             | Make discovery requests focused on the real owners/controllers of the troll - that is threatening to them. Also demand all license agreements/settlement agreements as evidence of reasonable royalty. They don't want you to know that either. Timing: Can quickly change settlement dynamic. Example: Drew Curtis, founder of Fark.com, was sued by PAE Gooseberry Natural Resources. After Curtis made several discovery requests, asking Gooseberry to provide, for example, screenshots demonstrating Fark.com's violation of the patent--the troll offered to drop the lawsuit, paying \$0 to settle.   | Varies, but it can be expensive.  | This hits some trolls where it hurts - their business model. But: because discovery is so expensive, it is better to engage prior to the filing of a lawsuit or through informal channels of communication. That is, always be open to a resolution. Just by discussing the case, you may avoid it.  |



| Tactic                                | Stage of Dispute | Description, Timing & Example, if Any  | Resources Needed  | Ask the Experts - Comments on Each Tactic   |
|---------------------------------------|------------------|--|---|---|
| File a abuse of process or RICO Claim | Suit             | Civil RICO generally requires an enterprise with a pattern of "racketeering" (which includes mail fraud, wire fraud, and extortion), abuse of process requires a process (e.g., complaint, discovery) that is improper in the ordinary course of proceedings and/or is sought to obtain a collateral advantage. Example: In <i>Cisco v. Innovatio IP</i> (N.D. Ill. 2012), Cisco's RICO counterclaim alleged, e.g., pattern of assertion of expired patents, assertion of patents already exhausted by prior licenses to vendors, and violation of obligations to license on RAND terms. | Millions if it goes to trial, sometimes can be recycled.      | Very difficult, not for every situation, but can be used to raise awareness of tactics. But other unfair business practices claims based on false statements/omissions of material fact in licensing communications could work. Another scorpion maneuver. But: Judges get educated through these sorts of motions being brought about troll tactics and nuisance dynamics, even if ultimately unsuccessful. If you can afford them, these are good to bring and public interest groups may will file an amicus brief on your behalf.   |
| Manage Counsel                        | Suit             | Defendants should engage in effective case management by identifying costs early, and establishing and sticking to a pre-set litigation budget. Find counsel that has already defended against the plaintiff to gain efficiencies. Don't pick a counsel based on trial, and go with the unfancy lawyer that gets the job done and is aligned with your long-term well-being, and is not only supporting you for patent litigation services. Timing: Immediate, in your monthly bill/reduced run rate   | Organization, staying on top of your expenses/outside counsel | Active case management is key. Don't let the lawyers lead you. In contrast, stay involved, make the strategic decisions, and manage the case. That will help you track the costs and make sure you are doing only what is necessary to win. Try to negotiate fixed price services up front, i.e. x dollars for prior art search, x dollars to negotiate settlement, etc. Also, take the work in-house. For example, with e-discovery, companies can copy, screen, and conduct the first review in-house at a far lower cost than it would be for a large law firm to complete the same tasks. Because the legal standard for finding willful infringement is high, companies should focus on screening only for privilege and not waste time on discovery fights. |
| Fee motion                            | Suit/Post-Suit   | Seek Rule 11 sanctions and "exceptional case" fees under 35 U.S.C. § 285. Example: In <i>Eon-Net v. Flagstar Bancorp</i> (Fed. Cir. 2011), Rule 11 sanctions of \$141,984.70 were upheld where the troll failed to reasonably investigate before filing, and pressed objectively baseless infringement allegations. The Federal Circuit affirmed the exceptional case determination on the same basis, securing Flagstar's fee award of \$489,150.48.  | 25-30K  | This is a long shot, and only available typically if you are the prevailing party, but keep it in mind for egregious cases. You can use the threat of sanctions and fees in early conversations with PAEs, particularly where you have good prior art to back up your allegations. But: Judges get educated through these sorts of motions being brought about troll tactics and nuisance dynamics, even if ultimately unsuccessful. If you can afford them, these are good to bring and public interest groups may will file an amicus brief on your behalf.   |

| Tactic               | Stage of Dispute | Description, Timing & Example, if Any  | Resources Needed                          | Ask the Experts - Comments on Each Tactic  |
|----------------------|------------------|--|---|--|
| Tactics for Settling | Settlement Phase | When you settle, there are a number of things to think about in terms of the future of your business and the goal of obtaining a lasting peace on the patents. Many don't think about what they want until it's too late - and the other side may have done this many more times. Example: Drew Curtis of Fark.com refused to sign a nondisclosure agreement or pay a settlement fee. To his surprise, the Gooseberry backed down ( <a href="http://www.inc.com/magazine/201202/kris-frieswick/patent-troll-toll-on-businesses.html">http://www.inc.com/magazine/201202/kris-frieswick/patent-troll-toll-on-businesses.html</a> ). | Small compared to overall cost of dispute | Fight hard answer : If you are paying the troll, you are the client. Do not agree to a mutual waiver of claims, non-disparagement, confidentiality, no-challenge clauses without getting something valuable in return. Demand patent peace and do not accept oral promises--trolls lie. This means demand coverage on all patents in the portfolio as well as affiliated portfolios, and coverage on patents acquired or granted in the future. Do not take a license--it validates the troll's business model and will be used against future defendants. A license is of no value anyway. Get a covenant not to sue instead. Don't be afraid to walk away- trolls don't want to try cases because they will most often lose. But: Make sure to get coverage to the related patents, not just the ones being asserted. Sometimes, you can press for a license to their entire portfolio, but that depends on the situation and the patent holder. Also, get coverage for your value chain, including your vendors and suppliers, your distributors, and your customers. We also ask for the ability for the license to continue in the event that the company is purchased or if the licensed products/services are sold. |