

## PATENT LITIGATION How to deal with “patent trolls”

By Melanie Scarborough, contributing editor

In a recent ABA telephone briefing, expert panelists discussed "Patents and Patent Trolls: What Bankers Need to Know."

The issue is a crucial one for banks because they are a favorite target of "non-practicing entities" trolling for business methods they claim are patent infringements. Since it is often less expensive for banks to pay a settlement than to fight the charges in court, patent trolling is lucrative for its practitioners. Moderator Lauren Bowers, senior vice president and senior counsel of ABA, cited a Boston University study that found patent trolling cost the United States \$29 billion in lost revenue last year.

Patent resources from  
ABA

ABA member banks can find additional information and resources on patent trolls and on patents generally at a special section of [aba.com](http://aba.com), Patents and the Financial Services Industry. Regulations, litigation, and legislation are covered, and other resources are listed.

"You're seeing a lot of defunct companies that have only intellectual property and are seeking ways to monetize that," explained Kirk Johnson, senior vice president and senior attorney at TCF Bank, Wayzata, Minn. "They have lawyers at the ready to sue vast numbers of people on patents."

Not only are the lawsuits tremendously expensive to litigate, they can have devastating consequences when "trolls" win injunctions. "If they stop you from doing online banking, for instance, that can shut the bank down," said Hope Mehlman, senior vice president and senior compliance manager at Regions Financial Corp., Birmingham, Ala.

To mitigate such risks, she recommends that banks put together a questionnaire for prospective vendors, asking about indemnity and liability and whether they have the right to license the intellectual property. "If they can't make that warranty, beware," she advised.

#### Negotiating favorable contracts

The contract-review process is critical, not only to make sure there is a warranty of non-infringement, but also that indemnification is adequate. Regions Bank pushes for broad indemnification that

includes such costs as expert witness fees. Ryan Pumpian, a partner at the Brian Cave law firm in Atlanta, said it may be difficult to get vendors to include your preferred terms in every contract, so negotiate for as much as you can get. Start with basics: Do they indemnify you? Do they hold you harmless? How much coverage do you have?

Mehlman recommended several tactics for negotiating favorable terms. One is for banks to interview multiple vendors and not become dependent on any. Second, try to negotiate or renegotiate contracts during the time of year when a vendor has to show earnings. Third, don't be swayed by bogus spiels such as, "Bank of America agreed to this; it was good enough for them." Such claims aren't true, Mehlman said-the terms of contracts are confidential-"and you can't go into court and say, 'Regions agreed to that.' That's not a defense."

Don't count on regular insurance to protect you from patent trolls either. Very few standard commercial liability policies cover loss or damages to intellectual property. That's why it's important to make sure your vendors can cover any claims made against your bank. Mehlman recommended that banks insist on unlimited liability. That can have a potential drawback, according to Marc Kaufman, a partner at Reed Smith in Washington: "If you demand that coverage, vendors may say 'fine,' but will price it accordingly."

One of the best times to get favorable concessions is when you're renewing a contract. If you suspect a problem before then, Kaufman recommends looking into your ability to terminate. "If you've identified a particular risk, a particular patent, you may want to go to the vendor with that and tell them your concerns and talk about renegotiating."

Bankers won some leverage last year with enactment of the Leahy-Smith America Invents Acts. Before the AIA, trolls could sue in any venue, so they shopped for the most amenable judges and courts, and could sue multiple defendants in a single case. They no longer are allowed to do either in most circumstances.

The new law also created a transitional program for the review of business method patents. "The Patent Office has said they will consider any credible threat of suit as qualifying for program review," Kaufman said. "You can expect costs to run from \$150,000 to \$500,000, so it's not cheap; but it's less expensive and faster than regular litigation." Last year, the median cost of a patent-infringement lawsuit where more than \$1 million was at stake was \$2.5 million.

#### What to do if you're accused

After discussing preventive measures, the panel addressed the steps to take if your bank is accused of patent infringement. Pumpian said patent owners are obligated to put alleged violators on adequate notice and to identify the patent number being infringed-although not all do.

The next step is to investigate the threat, which requires help from your technology experts. "You have to understand the system you're accused of infringing," Johnson said. "You need to partner with someone smart who understands the technology, and that's probably not someone in the legal department."

Panelists agreed that even if you believe the accusation is unfounded, it's almost always best to acknowledge a demand letter. "At least say you received it-that you take intellectual property seriously, and will do your own investigation," Kaufman said. "Often these letters have very little detail, so your response can say, 'We'd evaluate, but you have to tell us what patents/activities you're talking about.' That can trigger additional liability, so you want to be careful, but you usually do want to make some kind of response."

Review your contract and know what sort of coverage and notice provisions it has. Also, Kaufman advised, Know Your Troll. "Some send out thousands of letters and never sue. Some send out targeted letters and sue everyone," he said. "Find out how they've behaved in the past."

An accused bank also should retain a specialized patent attorney who knows the law and where liability hinges. Patents are very technical documents, case law is quite complex, and venue matters. Get competent counsel.

What are your options?

In deciding whether to fight or settle an infringement claim, TCF Bank's Johnson said several factors should be considered. How willing is your vendor to step up? Do you think you have substantive grounds on which to fight?

The deciding factor usually is financial. "If what the troll wants is in the low six-figures, you may want to start talking settlement," Kaufman said. "As distasteful as it is to pay a troll \$250,000 to settle, that will be less than the cost of litigation."

Paying off a troll does not buy your bank immunity from legal action, however. "People think if they settle, they'll never see the troll again," Mehlman said, "but the trolls have a whole portfolio [of lawsuits]."

Before the AIA, when suits were often brought against multiple institutions, it was common for defendants to join forces and share counsel. Panelists disagreed on whether that is always the best strategy. While presenting a strong and united defense can take leverage away from trolls, there's also a risk that not all defendants will receive equal attention from counsel. Moreover, not all the banks may be accused of identical infringements. If you do participate in a joint defense, Mehlman advised, it is wise to have your own counsel representing your bank's interests.

are costly pests, but they probably are here to stay. Nonetheless, Mehlman told bankers, "Don't underestimate what you're able to do."

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