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# Strategies for Combating Patent Trolls

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# STRATEGIES FOR COMBATING PATENT TROLLS

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## I. INTRODUCTION

Patent litigation against non-practicing entities, commonly known as patent trolls,<sup>1</sup> is traditionally a one-sided game. Patent trolls are able to choose the forum. Patent trolls have little at stake, at worst the invalidation of some or all claims of a single patent in what is often a huge patent portfolio. In addition, they generally have few documents to produce—the patents, the prosecution histories, and any past licenses. Finally, there is no disruption to their business by engaging in litigation, as litigation and licensing are their business. Defendants in these suits, however, bear significant risks and costs. Discovery is expensive and disruptive. The possibility of treble damages makes the monetary risk significant. Moreover, unlike patent suits between competitors, there is no opportunity to counter-assert patents against a patent troll because they do not make any products. This Article focuses on adjusting the risks and costs in patent litigation against trolls. Part II is directed to strategies to obtain a more empathetic court or jury. Part III describes other strategies, such as reexamination, that can shift, at least temporarily, the fight to alternative fora. Part IV describes strategies to adjust the balance of discovery, including requesting early discovery of licenses or infringement contentions.

## II. VENUE STRATEGIES

Like any good plaintiff, patent trolls will seek out jurisdictions that have a higher probability of (a) putting immediate financial pressure on the defendant to promote settlement,<sup>2</sup> (b) empanelling juries that will side with the patent owner and inventor, and (c) denying a motion to stay pending reexamination. Often, these jurisdictions are far removed from the defendant's principal place of business and may be only tangentially related to the litigation based on distribution or sales of accused products in the district.

The best current examples of such jurisdictions are the Eastern District of Texas, Western District of Wisconsin, and the District of Delaware.<sup>3</sup> Recent

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<sup>1</sup> Though there is much dispute about a correct definition of a patent troll (*see, e.g.*, Joe Beyers, *Perspective: Rise of the Patent Trolls*, CNET, Oct. 12, 2005, [http://news.cnet.com/Rise-of-the-patent-trolls/2010-1071\\_3-5892996.html](http://news.cnet.com/Rise-of-the-patent-trolls/2010-1071_3-5892996.html)), we use the term to mean an entity which does not practice its patents and whose business model is primarily related to revenue obtained from licensing its portfolio of patents.

<sup>2</sup> For example, patent friendly jurisdictions likely have local rules, including local patent rules that set rapid and definitive deadlines for discovery, causing defendants to expend a large amount of upfront costs for preserving, collecting, reviewing, and producing relevant documents.

<sup>3</sup> However, jurisdictions, much like popular music, may be overplayed. For example, the race to the Eastern District of Texas courthouses in the past several years has significantly increased the average time to trial and has drawn the attention of the Federal Circuit, at least with respect to the court's tendencies to vigorously keep actions from being transferred. *See, e.g.*, John Council, *Help*

statistics show that a plaintiff is 20% more likely to obtain a favorable judgment in the Eastern District of Texas than the nationwide average.<sup>4</sup> The recent slowdown caused by the backlog of cases in the Eastern District of Texas has resulted in the development of other districts with favorable reputations for patent trolls; the Western District of Wisconsin has gained a reputation for speedy trials and favorable juries, while the District of Delaware has a reputation for being favorable to patentees and relatively resistant to stays.<sup>5</sup>

A defendant in a patent troll lawsuit thus may consider moving to transfer its case to a more convenient forum.<sup>6</sup> While each circuit differs slightly in the standards required for a transfer, each requires the movant to demonstrate that several private and public interest factors clearly weigh in favor of transferring to the requested district.<sup>7</sup> The private factors generally are directed to the burdens

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*Wanted: Senior U.S. District Judges Keep Federal Dockets Moving in Texas*, TEXAS LAWYER, Jan. 4, 2010, available at <http://www.law.com/jsp/tx/PubArticleTX.jsp?id=1202437267272&slreturn=1&hbxlogin=1> (“Most patent suits now take between 27 and 30 months to resolve . . .”); see also *In re TS Tech USA Corp.*, 551 F.3d 1315, 1321 (Fed. Cir. 2008) (granting writ of mandamus directing Eastern District of Texas court to vacate its order denying defendant’s motion to transfer venue, and holding that the district court erred in finding that public interest factors weighed against transfer when the “rationale could apply virtually to any judicial district or division in the United States” (internal quotations omitted)).

<sup>4</sup> See Daniel Fisher, *Plaintiff Paradise*, FORBES, Sept. 7, 2009, at 32, available at <http://www.forbes.com/forbes/2009/0907/outfront-patent-law-texas-plaintiff-paradise.html>.

<sup>5</sup> See, e.g., Joe Vanden Plas, *With Patents, Wisconsin Court Gaining Reputation as a “Rocket Docket,”* WIS. TECH. NETWORK, Oct. 2, 2006, <http://wistechnology.com/articles/3363>; Posting of Matthew Smith to Patently-O, <http://www.patentlyo.com> (Nov. 1, 2009, 21:52 EST) (citing the grant percentage of a stay of litigation in Delaware at 35%). The Western District of Wisconsin was the third fastest docket in the United States in 2008, averaging about a year from filing to trial in civil cases. See Judicial Caseload Profile Report: Western District of Wisconsin, available at <http://www.uscourts.gov/cgi-bin/cmsd2008.pl>. In contrast, districts that are perceived as “unfriendly” to patentees or patent trolls include the Northern and Southern Districts of California, the Eastern District of Pennsylvania, and the Eastern District of Michigan. See, e.g., Legal Metric, <http://www.legalmetric.com/patent> (offering statistical rankings by district based on pro-infringer and pro-patentee decisions in the district). This perception persists even though many of these districts also have local patent rules.

<sup>6</sup> “For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought.” 28 U.S.C. § 1404(a) (2010).

<sup>7</sup> See generally *id.* For example, private interest factors in the Fifth Circuit include: “(1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious and inexpensive. . . .” *In re Genentech, Inc.*, 566 F.3d 1338, 1342 (Fed. Cir. 2009) (citing *In re TS Tech USA Corp.*, 551 F.3d 1315, 1319 (Fed. Cir. 2008); *In re Volkswagen of Am.*, 545 F.3d 304, 315 (5th Cir. 2008) (en banc)) (internal quotations and citations omitted). Public interest factors in the Fifth Circuit include: (1) administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of laws [or in] the application of foreign law. *Id.*

of discovery on parties and potential witnesses. The public interest factors generally are directed to the court's particular expertise and caseload, and the degree of connection of the issues in the litigation to the district. Certain circuits also consider the plaintiff's choice of forum to be a separate factor that automatically weighs against transfer.<sup>8</sup>

Because most of the public interest factors are typically district-neutral in patent litigation, motions to transfer generally hinge on where the parties and witnesses are located. If, as with most forum shopping patent trolls, the plaintiff is not located within the district where it brought suit, the factors may weigh in favor of transferring at least to the defendant's principal place of business or the district in which a large number of its relevant employees or former employees are located.<sup>9</sup>

As the trend is for district courts to accord less deference to a plaintiff's choice of forum in patent litigation (at least when the plaintiff is not tied to the district in some manner),<sup>10</sup> patent trolls have instituted several strategic measures to defeat motions to transfer. Among these strategies are (a) assigning patents to shell entities incorporated within the district,<sup>11</sup> and (b) bringing suit against large numbers of corporations with diverse locations throughout the United States and abroad.<sup>12</sup> While these strategies may tip the scales toward the plaintiff or provide

<sup>8</sup> See, e.g., *Kolcraft Enters., Inc. v. Chicco USA, Inc.*, No. 09 C 3339, 2009 U.S. Dist. LEXIS 101605, at \*7 (N.D. Ill. Oct. 23, 2009) (considering choice of forum as a separate factor and, where plaintiff resided in the district, giving the choice "substantial weight" in denying a motion to transfer); *Turn of the Century Solution, L.P. v. Int'l Rectifier Corp.*, No. 05-816-SLR, 2006 U.S. Dist. LEXIS 39893, at \*8 (D. Del. June 15, 2006) (considering choice of forum as a separate factor and acknowledging that "this jurisdiction . . . gives great deference" to the choice in denying a motion to transfer).

<sup>9</sup> Of course, if the defendant's business or numerous relevant, identifiable party or non-party witnesses happen to be located within the district in which the litigation is brought, a motion to transfer is likely to fail (absent unique circumstances).

<sup>10</sup> See, e.g., *In re TS Tech USA Corp.*, 551 F.3d at 1321 (where the only "relevant connection between the actions giving rise to th[e] case and the [district]" is that certain accused products have been sold in the venue, as well as throughout the United States, that factor alone is an insufficient basis to deny a motion to transfer).

<sup>11</sup> For example, the Constellation entities, including Plutus IP, Orion IP, Taurus IP, among others, have had various entities incorporated in the Western District of Wisconsin and the Eastern District of Texas, and have brought suit in both venues. John Letzing, *Speculator of Mundane Patents Casts a Long Shadow*, MARKETWATCH, Sept. 7, 2007, <http://www.marketwatch.com/story/as-congress-mulls-patent-reform-holding-company-files-more-suits> (Sept. 7, 2007, 12:38 A.M.).

<sup>12</sup> For example, in 2006, Ronald A. Katz Technology Licensing brought over twenty-five different suits in the Eastern District of Texas and the District of Delaware, and in 2007 in various other Districts, naming over 100 defendants and defendant groups whose principal places of business were located throughout the United States. See, e.g., *Ronald A. Katz Technology Licensing, L.P. v. Genesys Conferencing, Inc.*, No. 5:06-cv-00187, Document No. 1 (E.D. Tex. Aug. 21, 2006) (PACER Service Center, [pacer.psc.uscourts.gov](http://pacer.psc.uscourts.gov)); *Ronald A. Katz Technology Licensing, L.P. v. TD Banknorth, Inc.*, No. 06-544, Document No. 1 (D. Del. Sept. 1, 2006) (PACER Service Center, [pacer.psc.uscourts.gov](http://pacer.psc.uscourts.gov)).

a willing court with the rationale to deny a transfer, they do not preclude a successful motion. Where one defendant is litigating against a local patent troll, the proximity of non-party witnesses and evidence may still outweigh the plaintiff's choice of forum. Where related litigations in other districts are involved, moving to transfer to those districts may be successful.<sup>13</sup> Further, joint defendants may collaborate and find that another particular district is much more central to the suit, or defendants may move to sever and transfer based on their particularized circumstances.

Unless the particular circumstances of the litigation clearly indicate a motion would be denied, a defendant who finds itself litigating in patent troll territory should attempt to transfer to a more convenient location, especially if its business is located in a district that provides for longer discovery periods, has patent local rules that require prompt disclosure of infringement contentions, or tends to be favorable to accused infringers.

### III. STRATEGIES THAT SHIFT THE DEFENSIVE BURDEN TO THE PATENT TROLL

#### A. REEXAMINATION

Submitting a reexamination request to the United States Patent and Trademark Office (USPTO), especially an *inter partes* reexamination request, is a double-edged sword for a defendant.<sup>14</sup> If the reexamination is successful, it may significantly narrow the scope of infringement for a defendant or eliminate a case entirely by invalidating the patent(s)-in-suit. If unsuccessful, the asserted claims are only strengthened in the eyes of the bench or jury and will likely increase settlement demands from patent trolls. Preparing a reexamination request is a time-consuming and often costly process (although much less costly than a district

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<sup>13</sup> Also, where many different litigations are being conducted regarding the same or similar patents, defendants may file before the Judicial Panel on Multidistrict Litigation to seek to transfer all of the cases to one centralized location, at least for the purposes of discovery and motion practice. See 28 U.S.C. § 1407 (2010).

<sup>14</sup> There are two types of reexamination requests submitted to the USPTO. *Ex parte* reexamination requests are those that are submitted by the patent owner or any third party (in name or anonymously). If the request is granted, examination proceeds with only the patent examiner and the patentee. *Inter partes* reexamination requests, in effect since late 1999, are those that are submitted by third parties (who must be named). If an *inter partes* reexamination request is granted, the requesting party may take an active role in the reexamination process. In exchange for the capability to argue its positions before the examiner, the requesting party, should it fail to establish invalidity, waives the ability to "request *inter partes* reexamination of any such patent claims on the basis of issues which that party, or its privies, raised or could have raised in such *inter partes* reexamination proceeding" in a subsequent district court proceeding. 37 C.F.R. § 1.907(c) (2010).

court litigation), thus requiring a risk-benefit analysis particular to the relative strengths of the available prior art and a defendant's non-infringement defenses.

Where warranted, however, reexaminations can be an effective strategy for shifting pressure to a patent troll. First, reexamination forces the patent troll to fight on multiple fronts, and thus expend potentially limited resources protecting what may be its only source of income.<sup>15</sup> Second, as discussed below, reexaminations often warrant stays of pending litigation, preventing the patent troll from exerting discovery pressure. Third, reexaminations force the patent troll to take positions on the construction of claim terms and the scope of the claims themselves, which may be used against the patent troll in related district court litigation.<sup>16</sup> Further, if a patent troll alters the claims during reexamination such that they are not "substantially identical" to the original claims, those claims cannot be effectively asserted against any accused infringer before the reexamination certificate is issued, reducing the potential damages and possibly the scope of infringement as well.<sup>17</sup>

USPTO statistics indicate that the odds favor defendants requesting reexamination of the asserted patents. For example, the USPTO has granted 92% of all *ex parte* reexamination requests.<sup>18</sup> These same statistics establish that in 75% of *ex parte* reexaminations, claims have been amended or cancelled.<sup>19</sup> For *inter partes* reexaminations, the USPTO has granted 95% of requests, and in 94%, claims have been amended or cancelled.<sup>20</sup> However, should the patent be one of the minority whose claims survive reexamination, a large part of a defendant's potential invalidity defenses will likely be effectively foreclosed. In addition, some consideration must be given to the fact that if the patent troll's portfolio is large, there may be sufficient claims to render reexamination ineffective at defeating enough claims to weaken the portfolio.

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<sup>15</sup> Placing a patent troll's patents into reexamination also likely prevents the troll from negotiating further licenses (and earning further income) during the pendency of the reexamination, as companies not in litigation will likely want to wait for the outcome before deciding whether to take a license. For these reasons, a pending reexamination reduces the value of a patent portfolio.

<sup>16</sup> Note that in an *inter partes* reexamination, defendant-requesters also will be forced to take positions on the construction and scope of claims.

<sup>17</sup> 35 U.S.C. §§ 252, 307 (2010); M.P.E.P. § 2293 (intervening rights prohibit patentee from obtaining past damages for any claim that is not substantially identical to an original claim).

<sup>18</sup> See UNITED STATES PATENT AND TRADEMARK OFFICE, *Ex Parte* REEXAMINATION FILING DATA 1 (2009), [http://www.uspto.gov/patents/stats/ex\\_parte\\_historical\\_stats\\_sept302009.pdf](http://www.uspto.gov/patents/stats/ex_parte_historical_stats_sept302009.pdf) ("*Ex Parte* Stats.>").

<sup>19</sup> See *id.* at 2.

<sup>20</sup> See UNITED STATES PATENT AND TRADEMARK OFFICE, *Inter Partes* REEXAMINATION FILING DATA 1 (2009), [http://www.uspto.gov/patents/stats/inter\\_partes\\_historical\\_stats\\_sept302009.pdf](http://www.uspto.gov/patents/stats/inter_partes_historical_stats_sept302009.pdf) ("*Inter Partes* Stats.>"). Note, however, that the statistics for *inter partes* reexaminations are not as robust because of the relatively short time period the reexaminations have been in effect. Compare *Inter Partes* Stats (734 requests filed since November 1999), with *Ex parte* Stats (658 requests filed from January to September 2009 *alone*).

## B. STAY

Stays of litigation are most often sought in connection with a request for *ex parte* or *inter partes* reexamination, but may be sought on other grounds. The success of a motion to stay based on a pending reexamination is based on several factors. These factors generally are “(1) whether a stay will unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set.”<sup>21</sup> Thus stays are more likely to be granted early in the litigation, where a reexamination(s) has been granted for patent(s)-in-suit<sup>22</sup> and where there is no evidence of gamesmanship among the parties.<sup>23</sup>

Where the litigation has not progressed deep into the discovery stages (and even in a few cases where the litigation is well-advanced, depending on the circumstances),<sup>24</sup> many courts are ready and willing to stay a case until the USPTO, with its specialized expertise, can weigh in on issues of validity.<sup>25</sup> This

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<sup>21</sup> Xerox Corp. v. 3Com Corp., 69 F. Supp. 2d 404, 406 (W.D.N.Y. 1999); *see also* 01 Communique Lab., Inc. v. Citrix Sys., Inc., No. 06CV0253, 2008 WL 696888, at \*1 (N.D. Ohio Mar. 12, 2008); Sovereign Software LLC v. Amazon.com, Inc., 356 F. Supp. 2d 660, 662 (E.D. Tex. 2005).

<sup>22</sup> Some courts have waited until a reexamination request is granted before determining the appropriateness of a stay. *See, e.g.*, PRE Holding, Inc. v. Monaghan Med. Corp., No. 3:09CV458-HEH, 2009 U.S. Dist. LEXIS 107222, at \*9, \*14 (E.D. Va. Oct. 15, 2009) (denying stay as premature while *inter partes* reexamination request was pending). However, other courts have also granted stays upon notice that a reexamination has been filed. *See, e.g.*, Alien Tech. Corp. v. Intermedec, Inc., No. 3:06-cv-51, Document 892 at 3 (D.N.D. Dec. 23, 2009) (PACER Service Center, [pacer.psc.uscourts.gov](http://pacer.psc.uscourts.gov)) (conditionally granting stay until decision on *inter partes* reexamination request is issued); Emsat Advanced Geo-Location Tech., LLC v. Celco P'ship, No. 4:08CV816, Document 53 at 7 (N.D. Ohio May 21, 2009) (PACER Service Center, [pacer.psc.uscourts.gov](http://pacer.psc.uscourts.gov)) (granting stay of litigation pending *ex parte* reexamination before the USPTO had decided on the merits of the request).

<sup>23</sup> Gamesmanship may include uses where there is a perceived lack of cooperation between parties or where the stay appears primarily only to delay trial. *See, e.g.*, STS Software Sys., Ltd. v. Witness Sys., Inc., No. 1:04-CV-2111-RWS, Document 314 at 2 (N.D. Ga. Jan. 23, 2008) (PACER Service Center, [pacer.psc.uscourts.gov](http://pacer.psc.uscourts.gov)) (denying motion to stay where motion was made close to trial due in part to the “seemingly endless delays” in the case). Other reasons courts may deny stays of litigation pending reexamination include concerns that the reexamination proceedings will drag on for several years, that key witnesses may die during the reexamination’s pendency, or where multiple patents are asserted but only one (or a few) are in reexamination. *See, e.g.*, Touchtunes Music Corp. v. Rowe Int’l Corp., No. 07 Civ. 11450, 2009 U.S. Dist. LEXIS 117835, at \*21–23 (S.D.N.Y. Dec. 15, 2009) (where two of six asserted patents were not in reexamination, court determined that issues would not be significantly simplified).

<sup>24</sup> *See, e.g.*, *Alien Tech. Corp.*, Document 892 at 3 (PACER Service Center, [pacer.psc.uscourts.gov](http://pacer.psc.uscourts.gov)) (conditionally granting stay pending the USPTO’s decision on whether to grant *inter partes* reexamination even though trial was set to begin in four weeks).

<sup>25</sup> Indeed, even in declaratory judgment actions, where the accused infringer brings both the litigation and the reexamination before the USPTO, courts will allow stays pending reexamination, especially where the litigation has not progressed significantly. *See, e.g.*, Inovis, Inc. v. Classified

is because the court will likely benefit from any decisive outcome. If the USPTO determines that all of the asserted claims are invalid, the case is over. If it determines that only one or more claims are invalid, or that certain claims are valid but narrower in scope, the issues for trial and evidence presented will be narrowed. By staying the litigation pending reexamination, the court can conserve its own resources and also eliminate the possibility of issuing rulings that are in conflict with the USPTO's decision.<sup>26</sup>

Because a grant of a motion to stay is ultimately up to the court's discretion, the likelihood of a stay may be dependent upon the court's docket demands, and the judge's own comfort and experience with patent litigation and the particular subject matter.<sup>27</sup> Nevertheless, a motion to stay is a valid and effective way to delay the pressures of discovery and allow further time to prepare defenses if and when the litigation proceeds.<sup>28</sup> Stays conversely put tremendous pressure on patent trolls because, as long as litigation is not progressing, they cannot assail the defendants with discovery requests, effectively pressure for settlement, or generate income pursuant to their business model.

#### IV. DISCOVERY STRATEGIES

While patent trolls may have the upper hand when it comes to discovery obligations, there are a number of actions defendants may take to redistribute the burden. One example of this is to take the initiative and request early disclosure from the patent troll.

Especially where the jurisdiction does not have local rules that require early disclosure of infringement contentions and prior licensing agreements, requesting or moving for early discovery can be beneficial for a defendant to (a) attempt to pin down the patent troll on the specific claims asserted and products accused of infringement, and (b) learn the terms and price ranges that the entity has been

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Info., Inc., No. 07-459, Document 75 at 2 (D. Del. June 3, 2008) (PACER Service Center, [pacer.psc.uscourts.gov](http://pacer.psc.uscourts.gov)) (granting stay of litigation pending resolution of declaratory judgment plaintiff's reexamination); see also *supra* note 22.

<sup>26</sup> See, e.g., *In re Swanson*, 540 F.3d 1368, 1377 (Fed. Cir. 2008).

<sup>27</sup> The court also has discretion to fashion the length and conditions of the stay, and may remove the stay if presented with evidence that it is no longer warranted.

<sup>28</sup> Stays pending reexamination may come with their own risk to defendants. Courts sometimes will grant stays only on the condition that the same prior art before the USPTO cannot be asserted before the court if the USPTO determines it does not invalidate the claims. See, e.g., *DataTreasury Corp. v. Wells Fargo & Co.*, 490 F. Supp. 2d 749, 755 (E.D. Tex. 2006). Where the reexamination is *ex parte*, this means that the only arguments defendants can make with respect to prior art patents and publications is during the initial reexamination request. See *supra* note 14, however, since claims that emerge from reexamination are that much harder to invalidate (particularly with art that has previously been before the USPTO), agreeing not to reargue the same art before the court may be an inconsequential concession.

willing to agree upon in the past. While early discovery is not granted without good cause, documents and information regarding infringement and licensing are some of the most relevant to the litigation and will necessarily have to be produced eventually.<sup>29</sup> Good cause may be established, especially where there is a record of delay or unwillingness by a patent troll to respond to reasonable requests.

Obtaining this early discovery enables a defendant to identify its defenses and assess the relative strength of its case. It also allows defendant to evaluate the costs and benefits of taking a license. Note, however, that requesting early discovery from patent trolls may open up a defendant to reciprocal discovery requests by the plaintiff.

## V. CONCLUSION

While being a defendant in any litigation, much less patent litigation against a “troll,” is stressful, time-consuming, and risk-laden, the strategies discussed above can help reduce the burden, redistribute the risks, and aid in a more favorable outcome.

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<sup>29</sup> “Good cause may be found where the need for expedited discovery, in consideration of the administration of justice, outweighs the prejudice to the responding party. It should be noted that courts have recognized that good cause is frequently found in cases involving claims of infringement and unfair competition.” *Semitool, Inc. v. Tokyo Electron Am., Inc.*, 208 F.R.D. 273, 276 (N.D. Cal. 2002) (citing *Benham Jewelry Corp. v. Aron Basha Corp.*, No. 97 Civ. 3841(RWS), 1997 WL 639037, at \*20 (S.D.N.Y. Oct. 14, 1997)). In *Semitool*, the court found that the plaintiff had good cause for expedited discovery because, in part, the plaintiff demonstrated that narrow categories of requests would contribute to moving the case forward, and the defendants admitted that the material requested was relevant and would be produced during normal course of litigation. *Id.*

