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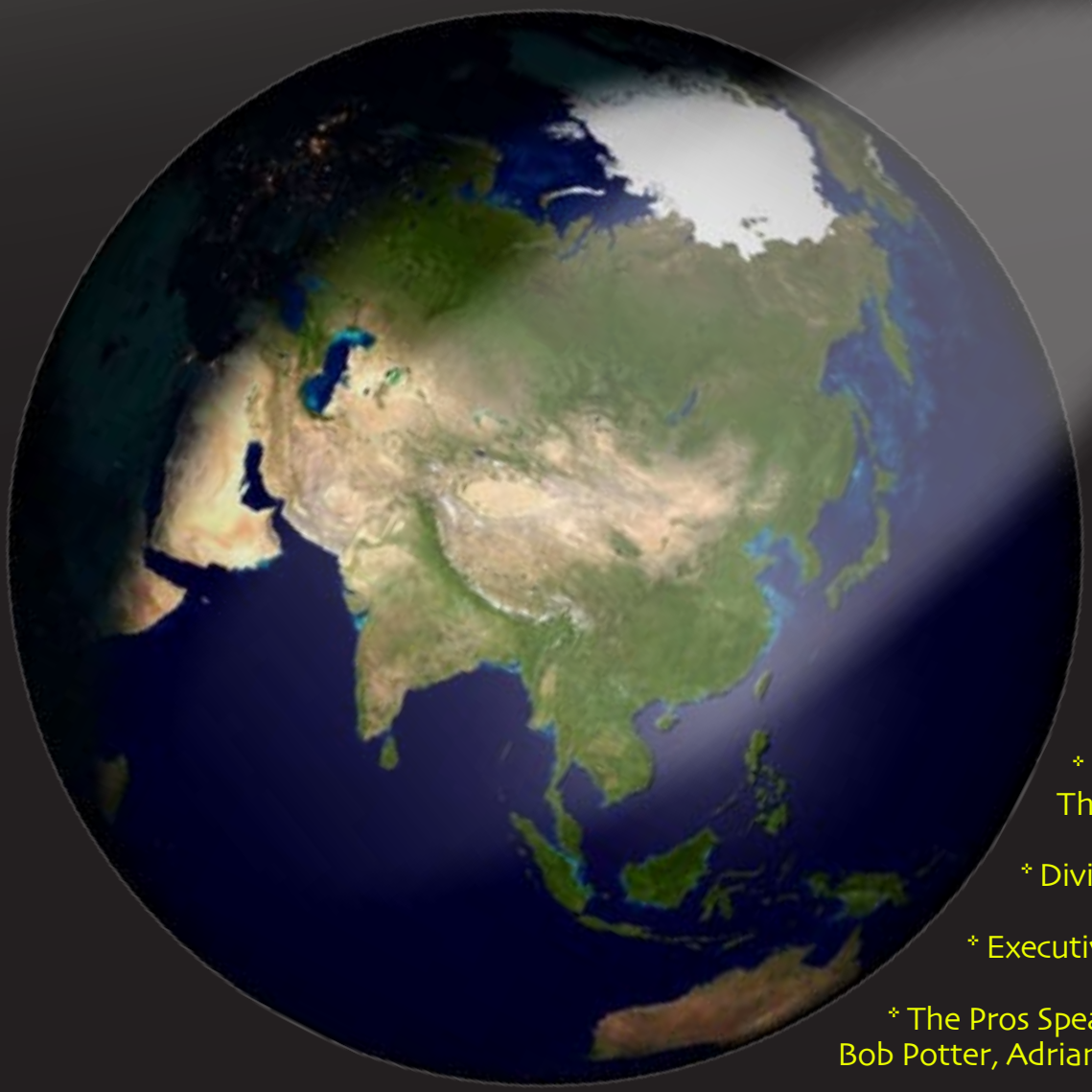
Spotlight On Asia-Pacific



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High Stakes Patent Litigation Has Found A Home

by Robert Masters, Tara Giunta and Erin Sears

Like it or not, high stakes patent wars are waging in the global satellite sector, and it is safe to assume that they are here to stay—given the money at stake. Just ask Echostar, DirecTV, and Finisar.

Recently, there has been a surge of patent infringement lawsuits concerning satellite technology, out of court settlement of these lawsuits, and strategic efforts by businesses to license their patented satellite technology. Now, more than ever, businesses in the global satellite sector are considering whether to defend or settle patent litigation, and/or enter into license agreements with their competitors in hopes of avoiding a lawsuit.

A Quick Primer

Patents are intellectual property rights that grant the owner an exclusive right to make, use, and sell their inventions. Any technological advance, from an improved antenna to an information broadcasting system via high-speed satellite links, can be the subject of a patent, provided certain requirements are met.

The **U.S. Patent & Trademark Office** ("PTO"), the government agency that issues patents in the U.S., first looks to see that the underlying application describes the invention with sufficient detail to enable persons skilled in the art to make and use the invention. If it does, then the PTO further determines whether the invention is for something that is new, useful, and non-obvious. Only if these requirements are met does the PTO award patent protection.

While U.S. patents grant exclusive rights within the U.S., foreign countries also issue patents, although the procedure and requirements may be somewhat different than the U.S. It is not uncommon for companies to be awarded patents from several countries to cover their inventions.

Where to file? That depends on your business and how it competes globally, and the impact of foreign companies on your business. In general, you want to consider the market size of each country, and where products are manufactured and sold.

While any patent application process can be lengthy and taxing, the competitive advantage that comes with patent rights is one of the primary reasons that businesses, large and small (and investors), covet them. Without the permission of the patent holder, no one can make, use, sell, offer to sell, or import the patented invention.

Given that U.S. patents remain in force for 20 years from the date the underlying application was filed with the PTO, strategic and economic gains are to be had by forcing competitors to choose which fork in the road they want to take. Competitors may: (a) invest in a design-around to avoid infringement; (b) pay for a license to use the patented technology; or, (c) risk litigation by continuing to use the patented invention.

Rarely is the choice simple, and, oftentimes, companies are not afforded the opportunity to make a choice. In fact, frequently they find they are the named defendant in a patent infringement lawsuit regarding patents that they did not even know existed, much less did they realize that their system, network, or product incorporated the very technology at issue, or something fairly close.

Even more startling for some is learning that the plaintiff that they are up against is a "patent troll". That is industry slang for a plaintiff whose business model is to acquire patents solely for the purpose of either litigating infringement cases, or forcing settlements in order to collect massive monetary damages.

Patent troll or not, patent infringement lawsuits typically involve high-dollar claims, especially in the global satellite sector. The *United States Court of Appeals for the Federal Circuit* ("CAFC"), which is the appellate court with exclusive jurisdiction to hear appeals of patent infringement matters, just ruled on two jury trial verdicts that awarded sizeable damages to the plaintiffs. The CAFC affirmed the $73 million verdict for monetary damages to *Tivo in Tivo, Inc. v. Echostar Communications Corp., et al*.

The court reversed and remanded the combined $103 million verdict for monetary damages and willful infringement to Finisar in *Finisar Corp. v. DirecTV Group, Inc., et al.* It remains to be seen if DirecTV will fare any better when proceedings in the Finisar case are start-

ed anew, or how the CAFC's ruling will affect XM Satellite Radio, Sirius Satellite Radio, Comcast Corporation and Echostar Satellite, LLC, who are involved in suits of their own against Finisar over the same patent.

Moreover, these dollar amounts pale in comparison to the $250 million claim in *Forgent Networks, Inc. v. Echostar Communications Corp., et al*. While a handful of other defendants in the Forgent case settled on the eve of trial — including Time Warner Cable and Comcast (combined $20 million) and DirecTV ($8 million) — Echostar took the case to trial nearly a year ago...and won.

Given the potentially large settlements and/or jury awards, defendant companies are carefully considering whether it is in their best interest to proceed with, or settle, high stakes patent litigation.

Where the merits of a plaintiff's infringement claim appear weak, or there are certain defenses to the claim that appear relatively strong, it may justify defending the lawsuit, in itself is not an inexpensive proposition, but certainly results in less than many awards.

Even in cases where the parties' respective positions are too close to call, companies may nonetheless choose to roll the dice to show the market that they are willing to defend such cases. In those instances, the strategy is twofold; first, signal to the plaintiff (and other patent trolls waiting in the wings) that there will be no fast-cash settlement; and second, force the plaintiff to think twice before filing its next claim against the company. This is particularly true in the case of claims brought by patent trolls.

However, there are risks to proceeding with high stakes patent litigation that must be considered. There is the

obvious risk of losing the case resulting in an extremely high dollar award with the attendant risk that the defendant company may not be able to readily absorb such a loss.

There is the added concern that the company may be enjoined from further selling the infringed product or service, and not have any alternative non-infringing substitutes. There is also the unease about how such a loss would be interpreted by the market. For example, in the Tivo case, following the CAFC's affirmation of the jury award, Tivo's shares rose 13 cents, or 1.5 percent, to $8.91, whereas Dish's shares (Echostar's successor-in-interest) dropped 81 cents, or 2.6 percent, to $30.82.

Practical considerations should play a part in the decision on whether to defend or settle, as well. For example, irrespective of the merits of plaintiff's claim, certain jurisdictions are known for being plaintiff friendly and, thus, where many cases are filed – such as with Tivo and Finisar. They were both tried in the Eastern District of Texas, a mostly rural district generally considered one of the last places in the country you want to be a defendant in a patent infringement lawsuit. If you are a defendant there, then it is critical to develop a sophisticated strategy with counsel experienced in the forum.

The cost/benefit analysis is another practical consideration. There is no denying that patent litigation can be costly. It is not just about the sheer dollar amount of the claim if one loses, but the attorney's fees that are inescapable expenses, win or lose. An out-of-court settlement early in the litigation curtails the cost of attorney's fees.

It also has the added benefit of providing the finality in the resolution of the dispute, and a release as to all claims. However, it may have the ancillary effect of encouraging additional suits, especially if you build a reputation of settling early when sued—something we have found to attract additional suits by patent trolls.

Licensing is an alternative to resolving patent infringement matters and can be a strategic tool in successfully doing business in a competitive field, such as the global satellite sector.

We often recommend and counsel clients to build and maintain strong patent portfolios (independently and through licensing) as a way to protect their technology and grow their business.

Generally, competitors have to either stay clear of the patented technology, or have little choice but to enter into a license to use the technology. In the latter case, the patentee can then leverage a royalty payment, or cross-license, and gain access to certain technology patented by the competitor. If litigation results, there is nothing better than a strong patent portfolio to use as a basis to defend against the plaintiff's claims and/or strike back and level the playing field by filing infringement counterclaims.

Take the steps now to protect your business from the litigious state of the global satellite sector that exists today, beginning with consulting patent counsel. This not only improves the odds of staving off high stakes patent litigation, but in the unfortunate, but probable, event of litigation, in defending it as well. You (and your investors) will be thankful that you did — but those patent trolls . . . not so much!

If you have any questions concerning the information contained in this article, please do not hesitate to contact Robert Masters, Tara Giunta or Erin Sears, of **Paul Hastings Janofsky & Walker LLP**, **Washington, D.C.**

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