

## **A Reverse Patent Troll, seeking invalidation of the Philips' mp3 patents asserted by Sisvel against major consumer electronics companies.**

### Introduction

Consumers are paying for licenses which were (involuntarily) taken by consumer electronics companies from Sisvel, acting on behalf of Philips c.s, due to patent assertions and subsequent settlements to pay royalties). Consumers in general and society at large should not bear the costs for licenses which are the result of patents that should not have been granted in the first place. There needs to be an *independent* party with no assets to countersue on, with no products that can be seized, with a sole purpose of invalidating patents, initially the Sisvel patents, which company needs to be funded (see below).

A **Reverse Patent Troll** is what we need.

### Sisvel and the Philips patents asserted

Sisvel is a licensing vehicle for Philips c.s. for mp3 (audio compression) patents. Sisvel has, for a while, conducted a very aggressive BDO (Border Detention Order) approach basically using (Philips) patents to force large corporations in licensing deals with Sisvel. They claim to have now more than 300 licenses (<http://www.sisvel.com/list.asp>). Most of the time the companies were forced to take a license because of very aggressive court centered behavior and smart use of EU Border Regulation laws.

### Powerful and comprehensive prior art, able to invalidate the mp3 patents asserted

There is as far as we know no company left that is challenging the Sisvel Philips patents in court. We have found prior art, which has not been asserted other than by two companies (at great expense). We found, in our capacity as patent trial counsel for those two companies, prior art that no other company has been able to find let alone use in their patent litigation against Sisvel. The prior art has been thoroughly studied and evaluated by patent counsel in Netherlands and United Kingdom. It is estimated to be very effective prior art against the validity of the Philips patents<sup>1</sup>.

In most settlements, licensees of Sisvel have no incentive or opportunity to further look for prior art. On the contrary. Seeking invalidation gives Sisvel a right to terminate the license. A consequence that any serious company would like to prevent, hence no action by licensees against the patents.

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<sup>1</sup> For an overview of the EP and US patents and the way they have been asserted, see [Appendix](#).

### Consequences for Royalty Payments after Invalidation of Underlying Patents

Most EU and US jurisdictions have provisions preventing a patent holder to collect further royalty payments if and when a patent has been revoked or invalidated by a court. So as soon as a patent for which royalties are being paid is being invalidated, no royalties are due anymore *for the future* (unless the payment is due for other, (still) valid patents). But what about the past? A patent that has been invalidated is held to have never existed. Yet royalty payments under a patent license for which the patent is being invalidated before its expiration date can, in principle, not be paid back, unless special circumstances occur (e.g. when the licensee and licensor agree that a invalidation has the effect that license amounts already paid should be returned, which will be excluded in most license agreements).

### Effect of Invalidation in Europe

A European patent like the one we are talking about must be invalidated in each and every EU country for which it has been granted for it to have the effect as described above. However in practice a patent that is being invalidated in the UK, Germany and or Netherlands has very little chance to survive in any other EU country. In the US the invalidity has effect for the whole of the US (federal courts decide). In practice therefore an invalidation in Germany or UK has the effect that the holder of the patent will act as if the whole EU patent has been invalidated.

### Why is No Licensee Seeking Invalidity of the mp3 Patents?

Although many companies agreed to pay substantive royalties for the lifetime of the patent, no one is seeking invalidity. Why would any company *not* challenge the validity of the patent after signing the license thus saving substantial future royalty fees? The answer is quite simple. In the settlement agreement Sisvel included a clause giving them the right to terminate the license if the licensee challenges the validity of the patent. The clause reads:

*“10.03 Audio MPEG and SISVEL shall have the right to jointly or independently terminate this Agreement forthwith or to revoke the license respectively granted under any of the US Patents and Non-US Patents in the event that LICENSEE or any of its Controlled Companies, directly or indirectly (e.g. via its customers and/or suppliers) brings a lawsuit or other proceeding to contest the validity or enforceability of any of the US Patents and/or Non-US Patents.”*

Most US companies and those European companies with substantial US exposure refrain from even *looking* into the possibility as this could result in a termination of the license something they do not want to get into, endangering the continuous supply of phones, handheld or other consumer goods with their mp3 functionality. Most US attorneys

advise their clients not to be part of any attempt, by whomever, to challenge the Philips/Sisvel patents, despite the very powerful prior art available, wary of the risk of termination and subsequent further business disruption. Besides who cares anymore when *everyone* pays the license which is in all cases been passed on to the end consumer?

#### A Reverse Patent Troll Can Do The Job

So if no company has an incentive to challenge the validity of the patents underlying the royalty payments, a *third, independent* company can. This would be - in ubiquitous patent speak – a “Reverse Patent Troll”. “Reverse” because it is not seeking to enforce a patent generating license income, but to do the opposite: to seek invalidity to get part of the license fees that are no longer due.

This newly to be created company – let us call it “*Challenge Ltd.*” for the time being- is being incorporated with the sole purpose of invalidating Sisvel/Philips mp3 patents for which over 300 license agreements have been signed. The plan is to use the prior art that has been found (and still being kept secret by those who did use it in a court, even after the court case was withdrawn) to initiate invalidity actions in the US and EU major jurisdictions.

Challenge approaches all licensees and offers an agreement as follows:

- 1) Challenge Ltd. will proceed to invalidate the Sisvel/Philips patents for its own account in countries of its choosing. The current plan is to initiate Germany and UK after that, the US.
- 2) Licensee enters into an agreement that if and when the Philips/Sisvel patents are being invalidated in countries mentioned above and - as a consequence – licensee will no longer pay license fees (or partly invalidated with the effect that less(er) license fees are being paid by licensee)
- 3) Challenge Ltd. will receive 40% of the net value of *all future license payments* to Sisvel, or any percentage relative to the decrease of licenses paid to Sisvel as a result of the invalidation.
- 4) Current Sisvel Licensees do not pay for the invalidity proceedings nor are they taking part in any proceedings, except for a small, flat fee (“participation fee” of 5,000 US\$ for out of pocket expenses.

In order to work, Challenge Ltd. has to clear the use of prior art found by the attorney handling the patent infringement case in The Netherlands and UK for the two companies

seeking invalidity which subsequently settled with Sisvel. Although prior art is by definition “public” (once it has been established, like in this case, that the prior art is publicly made available by the originators of the art). This clearance will be granted against payment of a fee which reflects the costs of finding, developing and testing the prior art against the patents being asserted by Sisvel.

#### Investments and funding Challenge Ltd.

Litigation in the UK is costly, as it is in the US. Germany and The Netherlands are less costly. Any income for Challenge is totally dependant upon the final outcome of the validity litigation. The risk of course is that invalidity proceedings may take quite a long time, as Sisvel has no choice but to fight the invalidity (e.g. by a first instance court) all the way through the highest courts, while the companies with whom Challenge has an agreements will pay 40% of future license fees if and when there is a *final* invalidity judgment. As this may take multiple years the investment for Challenge may produce a return only after several years, which financiers may not like.

#### Potential Complications

There may not be time enough left (the patents expire in 2010) for any court proceedings to provide result in time (namely before the patents lapse). Furthermore. depending on the text of the license agreements, Sisvel may have forced the licensees to pay for *all* mp3 patents of Philips c.s. Only three (in Italy four) patents have been asserted. Yet, the license is drafted in a way that is looks as if the licensee gets the license rights under a lot more Philips patents. So it is at best uncertain whether the licensee can stop paying royalties (or can claim back royalties already paid under the license agreement) if, for example a UK or a German court invalidates the Sisvel/Philips patents that have been asserted by Sisvel and which were the reason for most companies to take the license in the first place (for those that still need licenses of Sisvel: try to overcome this to negotiate that royalties are being paid back after an invalidation).

#### Potential income Challenge Ltd.

Most license/settlement agreements have a cap on any royalties due under the agreement (US\$ 22 million per license). There are allegedly over 300 licenses concluded. Not all licensees will reach the cap, so for these licensees the license fee to be paid to Sisvel will last as long as the duration of the patent without ever reaching the cap. For bigger players like Motorola, Nokia etc the cap could be reached much sooner. The “cap” can be reached over a shorter or a longer period of time (depending on payment schedule and numbers of items sold for which license fees are due). If 40% of “saved” royalties are due to Challenge Ltd. still a lot of financial interest is at stake.