

## **GGI Interactive Intellectual Property Business and Litigation Workshop**

**GGI World Conference New York, 28<sup>th</sup> October 2006**

### **The TransDataPhone Faces Possible Patent Litigation**

#### **I. Introduction**

We are in an age where the most valuable assets that a company possesses are likely its intellectual property, as more than 70% of the value of the companies on the public markets relate to their intangibles. Business challenges related to intellectual property are both real and increasingly becoming the central discussion point in corporate boardrooms, with companies facing daily decisions related to intellectual property threats as well as decisions whether their rights need to be protected in Court. Companies looking to create the "next big thing" must be constantly on the look-out for those trying to assert patents and other intellectual property. At the same time, a patent owner must dedicate its time and resources to make sure that its rights are both adequately protected and respected necessitating the need to understand the strength and value of its intellectual property assets. This workshop considers the balance between the legal and business perspectives of patent issues from the viewpoint of both the large business and the patent holder, including issues of licensing, risks of litigation, and effective processes for reaching sound and beneficial resolutions to IP disputes.

#### **II. Workshop Exercise**

##### **A. The Facts**

The TransData Corporation ("Transdata") designs, manufactures and sells a number of electronic products for personal business use. It has recently developed a revolutionary electronic tool - the TransDataPhone (the "TDP"). The TDP has potential to change the way we do international business. The TDP is portable, simple to use and extremely powerful. It has the ability to recognize spoken and written words in any language and simultaneously translate them into any other language in writing or orally. The TDP is also a cellular phone and has the capability of other standard personal digital assistants - email, calendars, tasks, internet access, etc. The product is just being marketed now. TransData believes that it will achieve tremendous market growth and acceptance within the next 5 years and hopes that the TDP can turn TransData into a large multinational corporation. However, some industry observers remain skeptical because other earlier all-in-one products have failed to gain broad acceptance.

##### **1. Patent Rights, Inc.**

Patent Rights, Inc. ("PRI") was found in 1995. It is not an operating company and does not have any products or services. It does not develop technology. It is a private company set up by several sophisticated investors with legal and business experience for purposes of buying patents from inventors and smaller companies and leveraging the patents through licensing agreements and litigation. In 2001, PRI purchased a patent that has applicability to translation technology. Earlier this year, PRI sent a letter to TransData, explaining that it is the owner of a patent that the TDP infringes, and offering TDP the right to license that patent. It has now been

six months, and TransData has not responded to the letter. While PRI believes it has a valid patent and a strong suit against TransData, its financial backing is limited. PRI would like to enforce what it believes are strong patent rights, and has considered the possibility of suing TransData for infringement, with an eye toward obtaining injunctive relief. If it were to pursue litigation, as it has in the past, it would likely have to find counsel that would accept a contingency fee or other creative financing arrangements. PRI intends to pursue patent infringement actions against other companies as well.

## 2. TransData Corporation

TransData has been receiving greater attention from the market recently and its stock has started to rise because of the potential of the TDP, which was introduced in January of 2006. TransData has been developing the TDP since 2002, with substantial money and time invested in its market. TransData received PRI's letter several months ago, shortly after TDP was released into the market. So far, TransData has not responded to PRI's letter. TransData considers PRI to be a mere "Patent Troll" - a company which buys patents for the sole purpose of pursuing licensing royalties from companies with real products and services which want to avoid costly and risking patent litigation. TransData has a firm policy of not giving into the demands of "patent trolls." However, in the past TransData has taken patent licenses from other companies to strengthen its patent portfolio, product line and market position. The in-house attorneys at TransData have advised their business and technology counterparts that they believe the PRI patent is invalid, but there is always the possibility that a jury would uphold and enforce the patent. Additionally, the threat of an injunction would severely hurt TransData's business. Further, the technicians at TransData have come up with a good alternative to the TDP that clearly does not infringe the patent, but it would take at least 2 years to get the alternative to market.

### B. Topics for Discussion

We ask you to break-up into small interdisciplinary groups. It would be optimal for each group to have a mixture of attorneys, accountants and consultants. Each group will represent one of the companies in the factual scenario -- either TransData or Patent Rights, Inc. Each group should consider the factual scenario from the perspective of its company. In doing so, the group should identify some specific issues and concerns raised by its attorneys, accountants and consultants and develop an overall strategy for its company. If your group does not have a representative from one of the professional disciplines, identify any issues and concerns that you would seek advice from a professional in that discipline. In your discussions, you should consider licensing negotiations, risk of litigation and litigation tactics, the threat of an injunction, valuation of the patents and patent rights, the market for TDP and competing devices, the media and investor relations, public disclosures, and potential impact on emerging market for TDP. Each group should designate a secretary to report back and discuss the results obtained by the group at the end of the break-out session.

## III. Concluding Remarks