

# LITIGATION DEPARTMENTS OF THE YEAR

IN-HOUSE IMPACT AWARDS

GAME CHANGERS

GIANT SLAYERS

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WEEK OF APRIL 18, 2016

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## GIANT SLAYER

### Stephen Korniczky, Sheppard Mullin Richter & Hampton

**T**he U.S. Supreme Court recently made it easier to recover attorney fees from patent holders who file abusive lawsuits. Sheppard, Mullin, Richter & Hampton partner Stephen Korniczky proved last year that law firms can be forced to pay too. It wasn't just any law firm he was up against, either. It was a team from Niro, Haller & Niro that included Raymond Niro Sr., an accomplished patent litigator who is sometimes described as the original "patent troll." Following a trial, a Freedom of Information request and more than a year of fee litigation, Judge William Hart of Illinois ruled that Niro and his partners had maintained an infringement suit against Korniczky's client, HTC Corp., despite knowing that inventor Daniel Henderson had fraudulently obtained the patents-in-suit. He held Henderson's Intellect Wireless Inc., Niro Haller and four partners jointly and severally liable for \$4 million in fees. The decision led directly to a second judge sanctioning Intellect Wireless and Niro Haller for a similar case against

four other companies, including two clients of Korniczky's.

**You were up against not only Ray Niro and his law firm, but a client of his who'd had a lot of success enforcing these picture-phone patents, right?**

That's correct. To Ray Niro's credit, he certainly has been a leader in the plaintiff patents bar, and has helped a lot of inventors monetize their patents against many, many, many defendants. And Intellect Wireless had been successful in collecting over \$25 million in licensing the portfolio that was at issue in this case.

**But you and HTC decided to go to trial in 2012. Were you thinking about sanctions way back then?**

Yes. We were thinking about sanctions when we first pitched this case to HTC. We had reviewed about 25 different file histories relating to



Stephen Korniczky

TOM KURTZ

the different patents in this portfolio. And we noticed that there was something strange about the way some of the earlier patent applications had been prosecuted.

**Why would so many other companies have paid such big licenses if there was a noticeable fraud problem?**

We gave a lot of thought to the very same question. We had to wrestle with our own judgment because we

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were taking a contrary strategy to what had been done by 12 other law firms and 20 other defendants. But our hunch was right.

**So Judge Hart found there was inequitable conduct, the Federal Circuit affirmed, and you moved for an exceptional case finding. At that point something really unusual happened.**

That's right. We understood the patent office had been investigating Robert Tendler, the prosecuting attorney for Henderson's patents. So we subpoenaed the documents that Tendler had produced to the patent office through the Freedom of Information Act. And when we obtained those documents, we found an email string between [Daniel] Henderson, the inventor and, Tendler, the prosecuting attorney.

**And parts of that email string were pretty remarkable, right?**

I practically fell out of my chair when I read it. It was a conversation where Henderson was complaining to his prosecuting attorney that he shouldn't have filed [Rule 131] declarations because the declarations were false. And his attorney was complaining to Henderson that if those declarations were false then you shouldn't have signed them.

**And Mr. Henderson said, "We need to check with our litigation counsel."**

He actually said a little bit more. He said I agree with your recommendation that the two of them contact their litigation counsel at the Niro law firm.

**The Niro lawyers have always maintained this was never brought to their attention. What were the key developments in winning the award?**

Intellect Wireless stipulated that this was an exceptional case. In almost 30 years of litigating patent cases I'd never seen that happen before. The big issue for us at that stage was whether we would be able to [collect]. So we spent almost a year seeking discovery to figure out what the Niro firm knew and when they first knew about it.

Judge Hart reopened discovery and waived the attorney-client privilege on the crime-fraud exception. And during this process we were able to recover some additional emails that demonstrated that Henderson had communicated to his litigation counsel that his invention didn't work.

**Judge Hart ultimately drew an adverse inference that the Niro lawyers were aware of the misconduct.**

That's right. The Niro firm refused to produce a lot of the discovery that we were requesting, even after the judge waived the attorney-client privilege on the crime-fraud exception. ... And so Judge Hart held them jointly and severally liable for HTC's fees and costs.

**Last fall, you filed a partial satisfaction of the judgment from the Niro firm and most of the Niro lawyers. So they did pay their share of the sanction?**

The judge appointed a magistrate to help the parties figure out how

those fees were going to ultimately be paid. And suffice it to say that HTC is very pleased with how everything worked out.

**Do you think the award sent a message beyond the players in this case?**

I believe that it did. This case was reported on extensively at a time that the IP bar has been greatly concerned about abuses by non-practicing entities and patent trolls. There has been legislation passed to help protect defendants from abusive patent lawsuits. So when this decision came down, it showed that even patent litigators were not immune from being sanctioned for bringing abusive and improper patent lawsuits.

**Do other patent defense lawyers thank you, or do they say, "Hey, you're killing our business!"**

[Laughs] There certainly has been a decrease in the amount of NPE litigation that's taking place. But I believe that's a result of many things. Certainly the Supreme Court's decision in *Highmark* and *Octane* have lowered the standard for litigants to obtain reimbursement of their attorneys fees. In addition, the *Alice* decision has practically eliminated much of the patent litigation that centered around software and business method patents. And the institution of the IPR process has provided litigants with a much more efficient way to invalidate frivolous patents that tend to be asserted by many NPEs and patent trolls.

— Scott Graham