

Patent Trolls

28 June 2011

Patent Trolls (1)

- Troll: a Scandinavian folkloric creature, hostile to men, lives under bridges and seizes those who try to cross without paying



Patent Trolls (2)



- Patent Troll:
 - Does not practice or commercialise patented inventions
 - Acquires and/or holds patents solely for enforcing and licensing
- Origin of the name
 - In 2001 Intel was sued
 - Intel's Assistant General Counsel outraged and called the patentee a « patent extortionist »
 - After being sued for defamation, he called the adverse party a « troll » to lessen risk of defamation suits

Patent Trolls (3)

- Other names:
 - Non-practicing entity
 - Patent holding company
 - Patent assertion entities (FTC report, The Evolving IP Marketplace – Aligning Patent Notice and Remedies with Competition, March 2011)
- Different types
 - “True Blue Troll”: non-manufacturing companies which acquire patents from inventors
 - “The Thinking Person’s Troll”: they develop inventions for the purpose of licensing, not to manufacture and sell
 - “Incidental trolls”: failed manufacturing companies left with patent assets ready to be exploited

Patent Trolls (4)

- Not concerned with exposure to liability:
 - Often no assets other than patents and no business other than litigation, whereas other companies believe litigation is a distraction/burden
 - Don't fear counterclaims for patent infringement like other patent holders do
 - Not afraid that patent will be invalidated and cause the loss of jobs for its employees, like other patent holders do
- Typically hire attorneys on a contingent fee basis
- No pressure from customers to settle litigation
- No board members and shareholders to whom they need to answer and who may not want to enter into litigation
- Can be more aggressive and take more risks

2000–2005: Perfect (US) Landscape for Patent Trolls (1)

- Patents

- Burst of tech bubble: lots of cheap patents were available from bankrupt start-ups
- Patent applications soared during high-tech revolution starting late 1980s, early 1990s:
 - Venture capitalists demanded that their portfolio companies protect themselves with patent applications
 - New generation of visionaries that did not need large scale R&D departments to develop potentially significant inventions relating to new technologies such as the Internet and computer software
 - USPTO overwhelmed and old searching techniques not apt to uncover prior art that might prevent this deluge of (often enormously broad) patents from issuing;

2000–2005: Perfect (US) Landscape for Patent Trolls (2)

- Procedure
 - Infringement = Injunction
 - Huge litigation cost: average cost of patent infringement lawsuit in 2009 was \$5.5 million (2009 AIPLA Economic Survey)
 - Huge damage awards (treble damages)
- Result:
 - Due to costs involved and risk of injunction, defendant companies often find it more cost effective to settle, even if they do not believe that infringement has occurred, rather than proceed through expensive and uncertain litigation.
 - At too high a price (“hold-up”)

Turning point: *eBay v. MercExchange* (1)

- Section 283 US Patent Act

*“The several courts having jurisdiction of cases under this title [35 USCS Sects. 1 et seq.] **may** grant injunctions in accordance with the **principles of equity** to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”*

Turning point: *eBay v. MercExchange* (2)

- 1989: Federal Circuit establishes a “general rule” in favor of granting injunctions based on a presumption of irreparable harm:

“Infringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee’s right to exclude others from use of his property. The right to exclude recognized in a patent is but the essence of the concept of property. It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it (...) In matters involving patent rights, irreparable harm has been presumed when a clear showing has been made of patent validity and infringement” (Richardson v. Suzuki)

Turning point: *eBay v. MercExchange* (3)

- MercExchange sued eBay for infringing two patents relating to on-line sales
- First Instance
 - Jury returned a verdict of willful infringement and awarded damages of \$35 million
 - District court, though recognizing that injunctive relief was “*considered the norm*”, denied patentee’s motion for a permanent injunction because patentee did not practice its inventions, had licensed its patents in the past, and had made statements in the media that it was willing to license eBay

Turning point: *eBay v. MercExchange* (4)

- Appeal
 - Federal Circuit reversed denial of permanent injunction on the ground that district court had not provided a persuasive showing that the case is “*sufficiently exceptional*”
 - Rejected the district court’s concern that MercExchange did not practice the patents: “*Injunctions are not reserved for patentees that intend to practice their patent, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well.*”
 - “*If the injunction gives the patentee additional leverage in licensing, that is the natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace (...)*”

Turning point: *eBay v. MercExchange* (5)

- Supreme Court (15 May 2006)
 - Rejected both the Federal Circuit's "general rule" supporting the grant of an injunction and the district court's opinion that a patentee who did not practice its invention and was willing to license could not obtain an injunction
 - Relying on the express language of the Patent Act which provides that that district courts "*may*" issue injunctions "*in accordance with the principles of equity*", the Supreme Court listed four factors that a patentee must satisfy to obtain an injunction

Turning point: *eBay v. MercExchange* (6)

- Plaintiff must demonstrate:
 - (1) that it has suffered an irreparable harm
 - (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury
 - (3) that, considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted;
 - (4) that the public interest would not be disserved by a permanent injunction

Turning point: *eBay v. MercExchange* (7)

- Chief Justice Roberts wrote a concurring opinion, joined by Justices Scalia and Ginsburg, pointing out that from "*at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases,*" by applying the four-factor test.

- On the other hand, Justice Kennedy, joined by Justices Stevens, Souter, and Brewer, wrote in a separate concurring opinion:

"In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. (...) For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. (...) When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test."

Turning point: *eBay v. MercExchange* (8)

- In Supreme Court decision, little guidance on application four factors
- Divergent emphasis of two concurring opinions
- Uncertainty
- Article examining 27 cases decided in the year following *eBay*, found that in the 4 cases involving NPEs no injunction
- A longer term review post-*eBay* reveals that as of March 1, 2010 of 13 requests by NPEs for a permanent injunction (including a university, a research institute and an independent inventor) 7 have been granted.

Turning point: *eBay v. MercExchange* (9)

- Decisions refusing the injunction held that no irreparable harm and/or monetary damages were adequate because there was no competition between plaintiff and defendant
- Conclusion: tougher for patent trolls also because:
 - Easier for targets of trolls to file declaratory judgment actions requesting that patents be declared invalid or not infringed (Supreme Court, 2007, *MedImmune v. Genentech*)
 - Easier to successfully challenge the validity of patents based upon obviousness (Supreme Court, 30 April 2007, *KSR Int'l Co. V. Teleflex Inc.*)
 - More difficult for a successful plaintiff to obtain enhanced damages for willful infringement (Federal Circuit, 20 August 2007, *In re Seagate Technology, LLC*)

Trolls come to Europe (1)

- Famous trolls such as Alliacense (processor technology) and Rovi (EPG technology) come to Europe
- Different environment than in US:
 - Cost of litigation is much lower (less leverage)
 - Damage awards (no jury) are lower (less leverage)
 - BUT infringement = injunction (more leverage)

Trolls come to Europe (2)

- Infringement = Injunction in Belgium:
 - Article 53 §1 of the Patent Act of 28 March 1984

“Wanneer de rechter een inbreuk op een recht bepaald in artikel 27 vaststelt, beveelt hij tegenover elke inbreukmaker de staking van deze inbreuk.”

“Lorsque le juge constate une atteinte à un droit visé à l'article 27, il ordonne la cessation de celle-ci à tout auteur de l'atteinte.”

Trolls come to Europe (3)

- Article 3, § 1 of the Act of 6 April 2010 concerning the regulation of some proceedings in the framework of the Act of 6 April 2010 on market practices and consumer protection (“stakingsvordering” / “action en cessation”)

“De voorzitter van de rechtbank van koophandel stelt bovendien het bestaan vast en beveelt de staking van elke inbreuk op een intellectueel eigendomsrecht, met uitzondering van het auteursrecht, de naburige rechten en het recht van de producenten van databanken.”

“Le président du tribunal de commerce constate l'existence et ordonne la cessation de toute atteinte à un droit de propriété intellectuelle, à l'exception du droit d'auteur, des droits voisins et du droit des producteurs de bases de données.”

Trolls come to Europe (4)

- One exception to infringement = injunction rule: abuse of right
- Not excluded that some behaviour of trolls amounts to such abuse

What to do when confronted with troll? (1)

(1) Check vendor agreements

- Indemnification provision?
- Procedure to be followed for indemnification
- Indemnification is capped?

(2) Have IP counsel review the patents and the allegedly infringing product/process

- Very often trolls patents are 'bad' patents
- Design around possible?
- Obtain an opinion of IP counsel (to avoid 'bad faith' scenario) on invalidity and/or non-infringement

What to do when confronted with troll? (2)

(3) Extent of potential damages/royalties

- If cost of licensing offer exceeds cost of litigation and patents are bad patents indeed, it might be worth fighting
- Fighting will also help in keeping other trolls at a distance

(4) Explore whether other companies are prepared to cooperate /joint defense arrangements

- Cooperate in areas such as prior art searching, development of invalidity and non-infringement defenses
- Divide work and share expenses
- Usually leads to stronger invalidity defenses because of greater resources

What to do when confronted with troll? (3)

- If decision to fight, might be worthwhile to take the initiative (declaratory action requesting that patent(s) be declared invalid and/or not infringed)
 - Allows you to choose timing and location
 - Blocks fast cease-and-desist proceedings
 - Status as plaintiff provides increase in the likelihood of winning
- Fighting does not preclude you from having (confidential) settlement discussions
- As troll wants to keep patents/reputation, they become nervous when hearing and decision comes nearer