PINSKY LAW
Business & Intellectual Property Law

SUITE 900
45 SHEPPARD AVE. EAST
TORONTO, ONTARIO
CANADA, M2N 5W9
WWW.PINSKYLAW.CA

INTELLECTUAL PROPERTY PROTECTION

FIGHTING THE PATENT TROLL

1. Introduction

Patent trolls are an increasingly prevalent aspect of today's business culture in the USA. For manufacturing companies that rely on technical innovation, a patent troll can present a serious impediment to profit. Although the patent trolls predominantly exist and operate in the USA, Canadian manufacturers are not immune to lawsuits from the patent trolls and several of our Canadian clients recently reported receipt of letters from patent trolls alleging patent infringement. This newsletter outlines several methods of challenging a patent troll's claim to patent infringement.

2. Patent Trolls

A patent troll is a derogatory term used to describe a company, or an individual, who accumulates a patent portfolio consisting of one or more patents and then sues a large number of companies for patent infringement. Unlike many patent holders, patent trolls are non-practicing entities, or NPEs, who do not manufacture products, but instead hold patents, which they license and enforce against alleged infringers. The patent troll seeks licensing fees, or if litigation ensues, a judgment for patent infringement, against the accused infringers. Therefore, a patent troll may be "more interested in negotiating a license than enforcing its patent rights.

Knowing the definition of a patent troll and background information on how patent trolls operate may prove useful in order to understand the various ways of battling them. Typically, the patent troll begins and builds its patent portfolio by purchasing patents from individual inventors. For example, if an independent inventor obtains a patent on a key area of technology, the patent troll may offer to buy the patent for an amount of money that may be considered significant to the independent inventor. If the offer is accepted, the patent troll adds the patent to their portfolio and actively searches for companies that appear to be infringing upon the patent. Once these target companies are identified, the patent troll usually sends these companies a letter offering to license the patent - or, in some instances, multiple patents from the patent troll's portfolio - to each target company. If a license is not forthcoming, patent infringement litigation inevitably follows.

Typically, the patents acquired by the patent troll are broad patents in a key technology area within a particular industry. Because of these characteristics, the target companies of a patent troll lawsuit may include an entire industry, or at least a significant portion of that industry's major players. Once a patent troll is born, the patent troll, like a hurricane at sea, may begin to gain strength. The patent troll may look for additional patents to add to its portfolio by reviewing patent applications published by the United States Patent Office. The patent troll may also look for possible additions by actively reviewing news articles or other media coverage. Alternatively, the patent or patent application may also be discovered by the patent troll as a result of the inventor or owner of the patent approaching the patent troll with an offer to assign the patent rights to the patent troll for a certain fee. Eventually, a much more sophisticated patent troll may emerge, resulting in a patent holding company that may employ several hundred employees and even be publicly traded.

Patent Trolls usually have preferred venues, which may depend on the physical location of the patent troll or a history of pro-patent troll verdicts. The Eastern District of Texas has established itself as a jurisdiction that attracts a large amount of patent infringement cases because of the expeditious docket in that jurisdiction (known as the "Rocket Docket") and the knowledge and experience of the judicial bench in patent matters. Thus, many patent troll cases usually are filed and litigated in the Eastern District of Texas.

3. Defence Strategies

Patent trolls and patent troll lawsuits are increasing in numbers. Patent troll litigation accounts for nearly half of all patent litigation in the USA. Therefore, with the increasing number of patent troll cases in all geographical regions, it is likely that many Canadian manufacturing companies, regardless of industry, technology, or area of the country, may find themselves at the receiving end of a patent troll's attention. A Canadian manufacturing company may first learn that it appeared on the radar screen of a patent troll via the licensing offer letter discussed previously, also referred to as a "nastygram," which is a letter extending an amicable offer to license the patent(s) at issue. Understandably, this first letter may arouse panic, especially if the manufacturer is a small business lacking financial resources for such expenditures. The license offered might include a license to the entire patent troll's portfolio or a select few patents that apply to the manufacturer's business, product, or industry.

Typically, the license amount is strategically calculated with respect to the costs of litigation. Defending a patent infringement claim is not cheap; the defence costs for a patent litigation claim may exceed $1 million to merely proceed through the discovery phase. The expense to fully defend a patent litigation claim to trial may exceed $2 million.

With these costs in mind, the patent troll will typically place the licensing offer in a range that is cheaper than the costs of litigating the claim. If the manufacturer does not agree to obtain a license in response to the patent troll's licensing offer, the manufacturer should prepare to proceed with litigation. Ignoring the patent troll altogether is not a wise decision, as the patent troll will typically add the manufacturer along with other non-licensing parties as defendants to a patent litigation suit if a licensing offer has been sent without a resulting license.

One action the manufacturer should not take in response to a licensing offer letter is to file for a declaratory judgment seeking a decision of non-infringement against the patent troll. For example, the United States District Court for the District of Delaware recently held that a licensing offer letter sent by a patent troll to a company, without mention of litigation, did not present a case or controversy sufficient to support an action for declaratory judgment. Thus, if the manufacturer does not wish to accept the original licensing offer from the patent troll, manufacturer can either try to negotiate a better licensing deal or wait to be sued.

If the manufacturer decides to go with the latter approach, there are some defence strategies it should consider. First, consider whether the patent is actually valid or not. A patent may be invalidated on numerous grounds, one of which includes a finding of inequitable conduct during the prosecution of the application resulting in the patent. Many times patents in the patent troll's portfolio are the result of strings of continuations, which is an application that claims priority to another earlier filed application.

When a patent has a long history of continuations, it may be possible that the prosecuting lawyer omitted a reference that should have been cited to the Patent Office. An easy way to determine if references were omitted in a long continuation chain is to construct a simple spreadsheet including rows for each patent in the continuation family and columns for each reference. Use this spreadsheet to make sure each reference in the earliest patent in the chain was cited to the Patent Office in the patents appearing later in the chain. If there is an omission, there must be a valid reason for the omission, or the patent could be declared invalid. If the patent is invalid, it cannot be asserted against anyone.

Another defence strategy against a patent troll with a patent portfolio that includes long strings of continuations could involve presenting an invalidity defence based on prosecution laches. If the earliest applications in the continuation chain were filed a significant amount of time before the issue date of the patent, the patent could be declared invalid based on a laches argument for unfairly delaying the issuance of the patent. Although this technique is an option that should be considered in situations such as these, bear in mind that the amount of time that should elapse between the filing date of the earliest continuation and the issue date of the patent has yet to be solidly defined.

4. Supreme Court Decisions

The United States Supreme Court has issued several decisions in recent years that provide an arsenal of defences against patent trolls. In *eBay, Inc. v. Merc Exchange, L.L.C.*, the Supreme Court refused to confirm a permanent injunction granted to a patent troll, a request that had been typically granted. In *eBay*, MercExchange sued eBay for infringing upon MercExchange's online auction patents, which included patent coverage for locking in offers to purchase items over the Internet using a credit card. Even though MercExchange was awarded a judgment for patent infringement by the lower court, the permanent injunction prohibiting eBay from providing its "Buy It Now" feature was remanded to the court of appeals for reconsideration. By refusing to grant the injunction, the Supreme Court attempted to correct an imbalance in the patent system resulting from the undue leverage of patent trolls, as an injunction often causes catastrophic consequences for the patent infringer's revenues or business practices.

The Court in *eBay* applied the four-prong test historically employed by courts of equity that must be satisfied before granting a permanent injunction to disputes arising under the Patent Act. which provides additional obstacles for patent trolls seeking to obtain injunctions. The Court stated that a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (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 defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

Post *eBay* cases also suggest that an additional market competition requirement is emerging that mandates direct competition between the infringer and the patent holder. With the four factors applied in *eBay*, along with the additional market competition requirement, the defendants who are found to infringe a patent have five additional hoops a patent troll will have to successfully jump through in order to obtain an injunction.

eBay was followed by *KSR International Co. v. Teleflex Inc.*, in which the Supreme Court lowered the standard for a patent to be declared invalid. The Court held that patentability for an invention was barred if "a person of ordinary skill in the art" could implement a predictable variation to current technology (known as prior art in patent cases) to discover the invention. The Court also stated that "granting patent protection to advances that would occur in the ordinary course without real innovation retards progress and may, in the case of patents combining previously known elements, deprive prior inventions of their value or utility." Because a significant number of patents found in a typical patent troll's portfolio are similar to that found in *KSR International* - or such patents cover technology that numerous parties are using - the *KSR International* decision provides a strong weapon against a patent troll. In response to a suit for patent infringement, manufacturer could argue that the patent troll's asserted patent does not contain any "real innovation," and thus, is invalid in light of *KSR International*.

Most recently, the Court in *Quanta Computer, Inc v. LG Electronics, Inc.* held that patent holders cannot require consumers to pay for a license to a product that has already been licensed. LG Electronics licensed patented microprocessors to Intel, which in turn sold products containing the patented microprocessors. The *Quanta* Court held that "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control post-sale use of the article." Thus, the Court's decision in *Quanta* prevents patent trolls from seeking licensing fees from an entire supply chain, another patent troll tactic commonly used in the past.

5. Additional Recommendations

Despite these many tools for battling against patent troll in a patent infringement lawsuit, be advised that, with a patent troll, the judicial landscape may reach beyond that of a patent infringement action. In the case of a product-manufacturing defendant, a Federal Trade Commission action may also arise if the defendant imports the allegedly-infringing products into the United States. In the case of a telecommunications company, associated litigation may arise regarding the essentiality of the defendant's patents to standards bodies. For example, patent trolls pursuing telecommunications companies may assert that the defendants' patents are not essential to one or more European Telecommunications Standards Institute (ETSI) standards. This argument, if successful, would impact the amount of royalties the defendant could receive from the patents that were declared essential to ETSI.

More recently, patent trolls have used the false marking statute, 35 U.S.C. § 292, to extract fines from patentees when the claims of a patent arguably do not cover the marked product. The false marking statute provides a $500 fine for each offence and also states that "[a]ny person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States." Thus, even the smallest business that produces a product covered by a patent, and includes an associated patent marking, is very much at risk of a large judgment from this new patent troll tactic.

With the costs of patent litigation added to the risks of other associated litigation, manufacturer may want to band together with other defendants to form a joint defence group. This option poses an interesting scenario, as fellow defendants may also be competitors. However, the co-defendants may be interested in pooling

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together the resources that would otherwise be spent on obtaining a license to the patent troll's portfolio to instead attempt to defend the patent infringement claim by sharing invalidation strategies or other defensive tactics.

The practicalities of defending any patent infringement claim may prove to be more onerous than one would think. Typically, local rules require documents to be submitted to the court that are unique to patent infringement cases. For example, the Eastern District of Texas requires invalidity contentions to be prepared and filed with the court from each defendant. The defendant will also receive, and needs to closely scrutinize, infringement contentions that are prepared and filed by the plaintiff patent troll. The infringement contentions include a listing of the claims from the asserted patent, along with evidence of infringement for each asserted claim and asserted claim limitation.

If you own a manufacturing business and you are blessed enough to have not yet encountered this situation, you should know that there are steps you may take to avoid this situation with the patent troll altogether or at least minimize possible consequences. Intellectual property, patents in particular, is typically categorized as discretionary spending. When the economy turns for the worse, or revenues or related earnings benchmarks do not meet projections, many companies will cut patent prosecution costs to save money. However, this may prove to be a cutting off your nose to spite your face strategy. A company with a portfolio of its own patents will find itself in a position of possibly bargaining a licensing deal with a patent troll. For example, upon receiving a licensing offer letter from a patent troll, you could offer up one or more patents from your portfolio to appease the monster. Of course, this tactic does not work if the patents cover your key technology, or cover any system, method, or apparatus used in your operations. However, if you make a conscious effort to keep the patent portfolio broad, with defensive purposes in mind, you may find yourself in a much better position when negotiating with a patent troll. In a bad economy it would be much less painful to a small-to-medium-sized business to give up one or two patents in their portfolio - which are obtained for defensive purposes and are of no use to you except for the possibility of this specific predicament - rather than shelling out a large amount of money for a license to the patent troll's portfolio.

6. Conclusion

Patent trolls are posing an increasing risk to businesses. However, there are ways to challenge, and win, against the patent troll while minimizing the costs. If you have not yet had the pleasure of dealing with a patent troll, you can prevent or minimize the damage from a future potential patent troll by proactively building your patent portfolio or by joining a defensive patent aggregation.

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