

Have the 'patent trolls' lost their best cudgel with recent events?

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Patent reform is in the air. The U.S. Supreme Court has weighed in on patent law several times this year, and Congress is preparing to rewrite some existing statutes.

When the Supreme Court found in favor of eBay Inc. last spring, it may have stripped patent holders of one of their most effective means of pursuing a case of patent infringement, said patent attorney Tom Oppold, at Bloomington-based Larkin Hoffman Daly & Lindgren. Now appellate courts must subject a patent infringement claim to a four-fold test before issuing a permanent injunction to cease production, sales or use of a product or technology.

Oppold worries this decision may have shifted the balance of power in the patent system too far away from inventors, who use the system to seek a proper reward for innovations they create.

If at least one aim of the court decision is protection against so-called "patent trolls" and other undue harassment of legitimate business through infringement suits, Oppold wonders if this is throwing the baby out with the bath water.

A patent troll is a company or individual patent owner that exists purely to obtain or enforce patents, they themselves adding nothing creative to the process, critics claim.

A favorite technique of so-called patent trolls has been the 'submarine patent,' said local patent attorney Phil Goldman, with Fredrikson & Byron. "A submarine is a patent filed without fanfare, that exists for years under the surface -- that is, out of sight, in anticipation of the development of a technology."

Once the technology is in full commercial bloom, the patent holder calls attention to his patent, in the most extreme cases sending forth blanket calls for license fees from whole industries, Goldman said.

Some attorneys argue there is a place for such activity.

"The system allows for firms like this -- so-called trolls," said attorney Dan McDonald at Merchant and Gould. "As a concept, it's no sin to buy or sell a patent. Patent-enforcement companies and technology-licensing companies play a role for the inventor who doesn't have the wherewithal to produce and market something. The inventor can say to himself, 'I will use the patent system to show it to the world, and then sell it to someone to develop it.' We have a lot of free markets -- stocks, pork bellies, gold. Shouldn't it be the same for intellectual property? You've got people buying and selling assets to make for a fluid marketplace, a stable marketplace, one that sets the right price for things."

McDonald said that small companies, or even ad hoc groups of investors, occasionally take the side of the patent holder, putting up the funds to pay for litigation in exchange for a percentage of the proceeds if they win.



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Oppold described the most high-profile David vs. Goliath case in recent patent litigation, one that sent a shudder through the whole business world. Virginia-based NTP Inc. sued the Canadian company Research In Motion Ltd. (RIM), the maker of Blackberry handheld e-mail devices, for patent infringement, and sought a permanent injunction.

"A friend of mine, who is also a patent attorney, went in with a group of investors that helped NTP fund its litigation," Oppold said. "When NTP approached Research In Motion, they were told, in essence, to 'go pound sand.' So they got together some business friends to help out; went to a well-known patent firm; and then spent millions pursuing their infringement case. It's a sad irony that the inventor of the technology at NTP died of cancer before the process ended with an award of \$612.5 million in a full and final settlement."

The eBay case, in which a small company called MercExchange sued eBay over a piece of online auction software technology, resulted in a Supreme Court finding that lower courts may not automatically issue a permanent injunction when infringement has been found. However, the court also found that an injunction may be issued even if the patent holder doesn't produce the item.

With less fear of an injunction, alleged infringers will more freely continue to produce, sell or use a product despite the patent claim winding its way through the court system, Oppold said. "The Research In Motion case was definitely on their minds when they decided the eBay case."

Before issuing a permanent injunction, the court must first subject the case to these four tests: Without the injunction does the patent holder suffer "irreparable harm?" Is there another legal remedy, besides a permanent injunction? Would the injunction or lack of one cause undue harm to the patent holder or the alleged infringer? And does this injunction serve the public interest?

"The patent troll will have a difficult time saying a monetary settlement isn't an adequate remedy," Oppold said.

In some cases, trolls will take on many companies over a single patent and garner millions in judgments and royalties. Even more frequently, the approach yields multiple settlements with many companies agreeing to pay royalties, Goldman said.

"It does snowball. There are presumptions that build in favor of the troll," Goldman said. "First, there is a presumption that a patent is valid when issued, and that the examiner's decisions are particularly difficult to second guess or reverse. Second, if the patent owner is successful at licensing or litigating its patent, each success adds to the presumption of the patent's strength and validity, making it increasingly difficult to challenge the patent. Whether based on legal principals or just common sense, a troll's strategies rely heavily on the perception and fact that its patents are strong by showing that other parties have conceded by taking a license, or have tried and failed in litigation.

Are the Supreme Court decisions of the past 12 months a setback for patent trolls? It's too early to tell, Oppold said.

"If you don't have the club of a permanent injunction to hold over them, the infringer is going to be less likely to settle," he said. In many cases, the small entrepreneur doesn't have the funds to bring a case to court. But trolls often have deep pockets.

"To me, it's not the trolls, but the courts that are the problem. It can take two years before you even get as far as establishing the scope of the case," Oppold said. He added that it's hard to know if this four-fold test would slow the number of claims or injunctions. However, federal courts have overturned a number of patent infringement rulings and permanent injunctions from district courts based on eBay.

From here on in, it's likely that more patent infringement cases would proceed where the plaintiff hires his attorney on a contingency basis. High contingencies are among the phenomena that have turned public opinion against so-called trolls, Oppold said.

"You don't want to paint the whole group with too broad a brush because of a few who abuse the system," Goldman said. "That doesn't mean that all the different practices that seem to be this genre are all the same. IBM has tens of thousands of patents that they license. No one would call

them a troll, but a huge part of their revenue is generated through those patents."

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