



The Troll under the Bridge

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Dealing with patent infringement lawsuits filed by non-practicing entities—derisively known as “patent trolls”—is part of the cost of doing business in the US.

When the US Patent and Trademark Office issues a patent to an inventor, that inventor gets a bundle of rights to control the invention. Specifically, the inventor receives the power to exclude anyone else from making, using, selling, offering to sell, and importing into the US the patented invention for a limited period of time, usually 20 years. The basis for this is in the US Constitution and reflects the belief that giving inventors these rights as a reward for their discoveries promotes further innovation.

In recent years, however, it isn't just the inventors and the inventors' employers who are claiming the reward. Non-practicing entities (NPEs), the so-called “patent trolls,” are sometimes established to acquire ownership of selected patents, look for potential infringers, and obtain fees from those potential infringers—either through licensing or litigation—in return for the use of the patents.

This is controversial, due to a perception that the NPE might be getting the benefit of the patent without having made the corresponding invention or selling products that embody the invention. Notwithstanding this controversy, most NPE activities are acceptable under current US law, in spite of recent efforts to tighten any loopholes.

For an expanded discussion on this topic, listen to the podcast that accompanies this column at www.computer.org/portal/web/computingnow/computing-and-the-law.

FUEL FOR THE NPE

Many patent owners have acquired numerous patents over time, and it's not uncommon for several patents in an owner's portfolio to not be exploited as originally envisioned. For example, a company that owns several patents might decide to pursue a different technical path that leaves its earlier-acquired patents underused. Maintaining its patents usually requires that a

company pay government-mandated maintenance fees or annuities on a regular basis. A company looking to cut costs might consider stopping payment and abandoning those patents.

NPEs have created a market for such underused patents, acquiring certain rights to these patents or buying them outright. Consequently, companies that want to get some sort of return on these patents might look to an NPE as a source of revenue.

Individual inventors can look to NPEs as well. If these inventors own patents on their inventions but have had difficulty commercializing their inventions, an NPE might be able to enforce the patents and share the proceeds with the inventors.

Many NPEs target several potential infringers, often at the same time. Therefore, the patents that NPEs acquire usually need, or are perceived to have, broad applicability. This has occurred in cases where certain telephony-related patents are being enforced against companies engaged in Internet-based



transactions such as e-commerce; Wi-Fi technology is another target. Sometimes the patents are old and approaching their expiration dates, but in many cases, the arguments made to allege infringement are strained or otherwise questionable. This likely contributes to the controversy surrounding NPE litigation.

As long as an NPE has a good-faith belief that a patent it owns or has exclusively licensed is being infringed, it can file a lawsuit. That's the same standard that applies to any patent infringement lawsuit filed in the US. Once the NPE files the lawsuit and serves copies of the summons and complaint on the accused infringer, the negotiations begin.

RESPONDING TO NPEs

The vast majority of patent infringement lawsuits usually settle before going to trial. The same holds true for lawsuits that NPEs file. Indeed, many NPEs follow a business model that relies on quick settlement rather than trial. The response to an NPE-initiated patent lawsuit is usually determined by an assessment of the litigation risk and an economic analysis of the settlement cost versus the litigation cost.

Settlement with an NPE typically involves paying the NPE an agreed-upon royalty associated with the alleged past infringement and includes a license to the patent or patents at issue to cover continuing and future activities. Unless the negotiated royalty rate is high or the alleged past infringement was extensive, the payment to the NPE is usually less than the expected cost to litigate the matter. In fact, by keeping the settlement amount under the estimated litigation cost, NPEs can make settlement the more attractive resolution to the dispute and minimize the likelihood of full-blown litigation.

Accused infringers' resistance to settlement usually increases significantly when they and their patent

attorneys conclude that the NPE's allegations of infringement are without merit. For example, an accused infringer might have identified prior art that could render the NPE's patent claims invalid or determined that the claims can be construed such that they don't cover the products or services as the NPE alleges. The strength of these invalidity and noninfringement counterarguments, the cost of litigation versus settlement, and the accused infringer's philosophy on dealing with litigation are factors that drive the decision whether to fight or settle.

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If the decision is to fight the NPE in court, the actions that follow are similar to those in most patent infringement lawsuits, with a few notable differences. For example, in many patent cases, the accused infringer can supplement its defense by asserting one or more of its own patents against the plaintiff. But because NPEs don't make or sell products or services, they're rarely doing anything that amounts to infringement. Consequently, the accused infringer can't leverage its patent portfolio to put pressure on the NPE.

Another difference results if an NPE has filed infringement lawsuits involving the same patent or patents against several defendants. This sometimes gives rise to joint defense groups (JDGs) in which defendants join together to formulate strategy and share information on how to combat the allegations of infringement. Joining a JDG can reduce

litigation costs, especially if a single law firm is able to represent multiple defendants.

A defendant should consider whether to challenge the patent it's accused of infringing by using one of the new procedures provided in the America Invents Act (AIA). These procedures—post-grant review, inter partes review, and business method patent review—take place in the US Patent Office, not in the court where the litigation is pending. In fact, if the Patent Office agrees to conduct one of these reviews, it's possible to suspend the litigation until the review is completed. The review could invalidate the patent claims, which would have a significant effect on the litigation, possibly ending it.

PREVENTIVE MEASURES

Some companies have responded to the possibility of being sued by NPEs by joining forces through patent aggregators to acquire patents in key technology areas. The objective is to prevent NPEs from initially acquiring these patents and using them as bases for lawsuits. Although these patents are taken off of the market, they're often sold off at a later time subject to licenses granted to the companies. Thus, the companies are assured that they can't be deemed an infringer of these patents, even if an NPE acquires them later and uses them to start a litigation campaign. Of course, this approach is successful only to the extent that the "right" patents are acquired and licensed. It's hard to predict which patents are likely to be used in future NPE litigation.

Ultimately, the best defense is a good offense. Companies should review their insurance policies to determine if they're covered for patent infringement. This would apply to any type of patent infringement lawsuit filed against the company, not just those that NPEs file. Triggering coverage usually involves promptly notifying the insurance carrier of

the lawsuit and compliance with other prerequisites.

Although these steps provide some security from NPE litigation, they're unlikely to have any effect on the increasing number of NPE lawsuits being filed. The increase is an unintended consequence of the AIA, which eliminated the earlier practice of NPEs filing a single lawsuit naming dozens—if not more—of unrelated defendants as infringers. The AIA mandates that defendants can't be joined in a single lawsuit based solely on the allegation that they're all infringing the same patent or patents. This has forced NPEs to file one lawsuit per accused infringer, greatly increasing the number of cases. The thinking behind this aspect of the AIA might have included a belief that the greater cost and complexity of multiple lawsuits would dissuade NPEs from filing their cases, but that's not what has happened. NPEs

have tolerated the additional cost, and many courts are consolidating the separate cases for pretrial purposes as a way to manage their dockets efficiently.

Companies being hit with more and more suits by NPEs have complained to Congress, which responded with several bills that aim to curtail NPE litigation. President Obama weighed in on this as well, announcing executive orders on 4 June 2013 that address patent ownership and examiner training issues. It remains to be seen whether any of these bills are enacted, or if the president's orders will have any effect. If the goal is to deny or significantly limit NPEs' patent rights, a challenge is how to do so without affecting the so-called garage inventor's patent rights. On the surface, both parties own patents and don't make or sell anything covered by those patents, so it's difficult to craft a law that has the desired effect.

Dealing with patent infringement lawsuits that NPEs file is a fact of life and part of the cost of doing business in the US. Under the current law, there are only limited ways that companies can protect themselves from these suits. The harsh reality is that accused infringers usually need to decide whether to fight or acquiesce based primarily on the cost of each of these alternatives. **C**

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