

Patent trolls

Beware of licensing and patent complications. **Interviewed by Usha Viswanathan**

A U.S. Supreme Court decision last May handed a victory to patent reform advocates who long have argued that courts should not automatically award injunctions blocking the use of a technology after juries find a patent violation. Observers note the decision comes at a time of widespread misuse of the patent system, particularly in the electronics industry.

“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,” wrote Justice Anthony Kennedy in the decision. “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.”

Smart Business spoke to Anthony Dain, a partner in the San Diego-based law firm of Procopio, Cory, Hargreaves & Savitch LLP, about the significance of the decision to local businesses and why the decision could make it tougher to exact large settlements or license fees from productive businesses.

Will the recent U.S. Supreme Court decision make it harder to file a case of patent infringement?

It shouldn't have any effect on legitimate lawsuits. However, it will have an effect on lawsuits brought by 'patent trolls' — those who only acquire patent rights so that they can exact license fees.

The problem had been that patent trolls would look at major manufacturers and sellers of consumer products as revenue sources, threatening them with injunctions that would effectively stop them from manufacturing the products. Because injunctions were virtually automatic upon a finding of infringement, companies threatened by a patent troll couldn't risk their companies by defending even questionable patent assertions.

Additionally, many litigation forums favor the patent trolls.

First, a patent certified by the United States Patent and Trademark Office is pre-



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sumed valid. Therefore, a district court judge starts with that precept. It is up to the defending company to overcome the presumption; this is very difficult to do. In reality, however, an overworked and understaffed United States Patent and Trademark Office has validated many patents even though they do not meet the novelty and non-obviousness requirements for validity.

Second, patents can be very technical, and difficult for non-practitioners to understand. Most district court judges, while masters of the law in general, have little technical or substantive patent background.

With this in mind, most companies could not previously take the risk fighting patent trolls. Now, however, the main arrow in the quiver of the patent troll has been sheathed. Even if a questionable infringement claim is upheld, and even if the presumption of validity is not overcome, the questions now become, 'Does equity require shutting down the defendant? Why are damages not sufficient to compensate the plaintiff?'

How did the 'patent troll' come into being?

Patent trolls spring from weaknesses in

the patent system. They have become widespread in the last five to 10 years. Certain enterprising CFOs and lawyers saw that it was easier and more profitable to gain and use patent rights as a revenue source, rather than as a means for gaining competitive advantage in an industry.

Most patent owners are from the industry that their patent supports. They obtain patents as a means to gain a competitive edge. Even though the research and development is expensive, because they work in the industry, they understand the market forces that dictate both cost thresholds and price points the public will bear. Therefore, if industry patent-holders charge others to license important technology, they know that they can only charge reasonable royalty amounts to their vendees and competitors.

For example, to manufacture and sell a cellular phone, a company must license literally 1,500 to 2,000 patents. If licenses for these patents are not maintained at reasonable levels, cellular phones would have to be priced at thousands of dollars, clearly not acceptable to the public.

How can a firm defend itself against claims of patent infringement?

A company must first internally or externally assess any assertion brought against it for both validity and infringement. If the assertion has merit, the firm should begin negotiations to license the technology. What results as a fair license will take into consideration such things as exclusivity and whether the holder of the patent rights is offering tangible technology in addition to the mere right to practice the patent. On the other hand, if the assessment reveals that the patent(s) asserted are invalid, or that the company does not infringe, the company must prepare to defend itself vigorously.

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