PATENT TROLLS
WHO, WHAT, WHERE & HOW TO DEFEND AGAINST THEM

By Christopher T. Vrountas, Richard S. Loftus, and Cori Phillips Palmer

“Trip trap trip trap,” went the bridge
Who’s that tripping over my bridge!” roared the Troll

The rising tide of patent litigation has threatened to swamp businesses of all sorts, including those not traditionally considered to be within the “high technology” sector. Restaurants, hotels, publishers and others have recently faced unexpected demands from “patent trolls” to pay substantial royalties for using what has become basic technology (such as website search engines, searchable data bases, or wi-fi internet connections) or face the daunting prospect of defending a patent litigation suit potentially a continent away from the company’s home office. Trolls and the litigation they spawn have become the subject of bipartisan concern in Congress, and have led to the recent passage of the America Invents Act which was developed in part to mitigate the negative economic effects patent troll litigation can have on the economy and on innovation generally. This article will review the “patent troll” phenomenon, the developments in the U.S. patent laws that contributed to its occurrence, and the recent reform enacted to address it. Finally, it shall briefly discuss how a company should respond to a demand from a purported patentee seeking payment of a license fee.

WHAT IS A PATENT TROLL?

What is a patent troll? The very term conjures a Grimm’s fairy tale image of a hunched and hungry monster who lays in wait under a bridge to catch unsuspecting and innocent passers-by. Indeed, the Grimm image is often not far from the fact. Typically, a patent troll is a company that does not create products, but purchases patents from bankrupt entities or other companies that hold patents but no longer actively use them. The patent troll (euphemistically referred to as “non-practicing entities”) may never intend to put the inventions claimed in its patents into practice, or to make or manufacture anything at all. Rather, the troll’s business model typically involves threatening litigation against potential infringers and collecting any royalties they can extract through such threats.

Patent trolls operate by hoarding as many patents as possible with the goal of obtaining broad patents in an essential technology. With such patents, the patent troll searches for companies that could potentially be infringing. After assembling its patent portfolio and identifying its targets, the troll serves its demand letters to hosts of businesses, alleging that they may be infringing its patents and that they can avoid litigation only by paying a “reasonable royalty” or “licensing fee” that will be available for “a limited time.” Often, these demand letters are short on specifics yet they may make very broad claims.

On occasion, a patent troll may file suit based on a vaguely worded and potentially invalid patent. It is not necessary, however, for the troll’s suit to have a reasonable likelihood of success for the troll to have a reasonable expectation of success. Patent trolls with weaker patents often target small companies that cannot afford the legal fees required to defend a patent infringement matter in court. These companies frequently opt to pay the demanded license fee rather than defend to avoid the expense of litigation that could dwarf the amount of the demanded license fee. Not surprisingly, trolls will use the license fees collected from smaller entities to fund litigation against larger alleged infringers.

The Eastern District of Texas has become a frequent venue for patent infringement matters, especially those brought by patent trolls. The venue has the reputation for an expeditious “rocket docket,” and has a history of verdicts in favor of patent holders. Although the venue in the Eastern District may not be convenient for many defendants in any given case, patent plaintiffs often seek to maintain this venue by joining so many defendants that no other forum could be claimed as more convenient.

One matter fitting within this profile involves over 300 retail and hospitality industry defendants sued by Geotag, Inc., in the Eastern District of Texas. Defendants include Starbucks, Barnes and Noble, Best Buy, and McDonald’s, and other companies scattered throughout the entire United States. These defendants, like many other targets of patent trolls, have been forced to defend themselves in the Eastern District of Texas against Geotag’s claim that the store-locator function on the defendants’
websites allegedly infringes a search technology patent held by Geotag.

While Geotag has targeted customers for this technology, other suppliers of this technology, including Google and Microsoft, obviously have a significant stake in the outcome of the litigation and have accordingly filed a separate declaratory judgment action against Geotag in Delaware. The suppliers seek, among other things, to invalidate the patent at issue and to stay the Texas claims pending the Delaware litigation.2 Meanwhile, the cases against most of the original defendants remain pending in the Eastern District of Texas.

Another example of patent troll litigation against the hospitality industry includes a string of lawsuits filed by Innovatio IP Ventures, against multiple defendants including Panera Bread and various hotels.2 Innovatio essentially claims that businesses providing “hot spot” wirelessly networking capability to customers infringe on a series of patents it claims to hold.

Innovatio has also been engaged in campaign of sending demands letters to numerous businesses seeking quick payment of licensing fees in lieu of litigation. Similar to the pattern in the Geotag litigation, the large providers of the service or product at issue (in this case Cisco and Motorola) have filed a separate action against the Innovatio IP Ventures in another court, seeking, among other things, invalidation of the patent at issue, while the cases against the customers of such suppliers continue. Numerous cases brought by Innovatio are pending.

PATENT TROLL LITIGATION

The term “patent troll” first came in use in 2001, when it was coined by Peter Detkin, then Assistant General Counsel to Intel, to describe TechSearch, a patent holder and plaintiff that had sued Intel for patent infringement. Detkin referred to the plaintiff as a “patent extortionist,” a comment that led to even further litigation. Somewhat chastened by the objection to the term “patent extortionist,” Detkin asked his young daughter how she would describe someone who operated like the plaintiff had in his case. She said that it sounded like a troll under a bridge, and thus out of the mouths of babes the term “patent troll” was born.

Since 2001 both the term, and litigation fitting the patent troll model, have become prevalent. The rise of patent troll litigation was in part exacerbated by the emergence of a patent law environment conducive to the patent troll model. Subsequent case law and statutory reform have developed to stem but not stop the rising tide.

The first development contributing to the patent troll phenomenon, no doubt unintentionally, was the establishment of the Federal Circuit’s exclusive jurisdiction. Prior to 1982, all federal circuit courts of appeal held subject matter jurisdiction over patent suits arising from actions filed within their respective circuits, resulting in considerable variation in the case law applying the federal statutory scheme concerning patents. As a result, the value of a patent largely depended on the circuit in which it was litigated.

In attempt to standardize the field, Congress passed the Federal Courts Improvement Act in 1982.3 This statute granted the Federal Circuit exclusive jurisdiction over patent law appeals from the U.S. District Courts, the U.S. Patent and Trademark Office, the U.S. Court of Federal Claims, and the U.S. International Trade Commission.

The Federal Circuit used its exclusive grant to promulgate several broad uniform patent law standards that frequently favored the patent holder. These favorable standards for plaintiffs served to encourage patent trolls to engage in, or at least threaten, litigation against potentially infringing entities. Since 2006, however, the tide has slowly turned against patent plaintiffs and against companies whose business model has focused on waging patent infringement litigation battles. The Supreme Court has issued decisions narrowing a number of the Federal Circuit’s decisions.4 Additionally, Congress recently passed the Leahy-Smith America Invents Act5 which substantially alters the Patent Act in several ways. These changes have not stopped patent trolls, but they have provided defendants with more tools to combat them.

A. Federal Circuit introduces Business Method Patents and opens the Troll’s Advantage

Not every idea or mechanism is patentable. Under §101 of the Patent Act, a patent may only issue if the invention is “a new and useful process, machine, manufacture, composition of matter, or any new and useful improvement thereof.” Furthermore, §103 of the Patent Act requires a patent application to demonstrate that the subject of the patent has utility, has not been invented before, and is not obvious from the prior inventions in the field. Of these requirements, the obviousness inquiry established by §103 of the Patent Act is the most significant. It requires a showing that the invention represents enough of an advance in technology by the inventor to warrant a grant to the inventor of a monopoly over the claimed invention, and that the invention is not just the next step that a person of ordinary skill in the art would obviously take.

Despite the express statutory limitations, the scope of patentable technology has expanded over time. In large part, this expansion stems from the Federal Circuit’s 1998 decision to allow patents for business methods under the “new and useful process” category set forth in §101 of the Patent Act. Until 1998, the issuance of patents for a way of doing business was prohibited. In State Street Bank & Trust Co v. Signature Fin. Group,6 however, the Federal Circuit ruled that a sufficiently specific business method could be considered a “process” patentable under the Patent Act. Business method patents flooded the market after the State Street decision, and the Federal Circuit upheld several Internet business method patents including that protecting the 1-click feature used by Amazon.com.7

Business method patents are frequently the subject of patent litigation pursued by patent trolls as they are sometimes vague and capable of an extremely broad application. Indeed, it has been estimated that 30 percent of the patents issued by the Patent and Trademark Office are invalid since this change in the law. The purported inventions claimed by method patents are frequently indispensable to the businesses that use them, providing the patent troll with more leverage in extracting licensing fees. Perhaps because of the practical problems business method patents created, the Federal Circuit retreated significantly 10 years after it let the proverbial genie out of the bottle.

Specifically, in 2008, the Federal Circuit adopted a more stringent test for patentability, providing that patents must claim either a “machine” or a “transformation” of a previous invention to be valid. Under
the “machine or transformation” test an applicant must demonstrate that the invention to be patented is either tied to a particular machine or that “it transforms an article into a different state or thing.”

The Supreme Court moderated the Federal Circuit’s retrenchment to some extent two years later. In *Bilski v. Kappos*, the Supreme Court held that the Federal Circuit’s revised test was incomplete, and concluded that the newly articulated test should be used only as a tool in determining whether a patent claims a process that is truly new, useful and non-obvious as required under §103 of the Patent Act. The Court however, refused to categorically reject business method patents, leaving the door open to their continued patentability and enforcement.

B. Attacking Patents for Obviousness

The most common method of attacking a patent is to claim that the patent is void for obviousness. This assertion has, in the past, frequently failed as it is a difficult defense to prove. Recent developments in the law may alter the balance in this arena in favor of defendants involved in patent litigation.

Until 2007, a patent defendant had to meet the Federal Circuit’s relatively stringent “teaching, suggestion, or motivation” (“TSM”) test to prove obviousness. Under the TSM test, a patent claim could only be proven to be obvious if “some motivation or suggestion to combine the prior art teachings” could be found in the prior art, the nature of the problem, or in the knowledge of a person having ordinary skill in the art.

In 2007, the Supreme Court in *KSR Int’l. v. Teleflex* rejected the Federal Circuit standard in favor of a lower threshold of proving obviousness. Instead, the Court held that a patent could be held invalid if “a person of ordinary skill in the art” could discover the invention through a predictable variation to current technology. Thus, under *KSR Int’l*, a patent defendant may argue that the asserted patent does not contain any real innovation and is therefore invalid, even if specific mention of the invention is not articulated in the prior art.

C. Injunctions and Patent Trolls

The Federal Circuit additionally eased the path for patent trolls when it promulgated what became known as the “automatic injunction rule.” Under the automatic injunction rule, any prevailing plaintiff in a patent infringement suit would be automatically granted a permanent injunction. This rule spurred patent troll style litigation in the early 2000s as it provided plaintiffs an enhanced bargaining position in settlement negotiations.

In 2006, the Supreme Court rejected the Federal Circuit’s approach when it unanimously refused to confirm a permanent injunction granted to a successful patent plaintiff. In *Ebay Inc. v. MercExchange*, the plaintiff company owned a patent for an online auction marketplace design, which included the ability to lock in offers to purchase items over the Internet using a credit card. After unsuccessfully negotiating with eBay and Half.com to license the patent, the company brought suit alleging infringement. The District Court ruled that the patent had been infringed but refused to grant an injunction that would have prohibited eBay and Half.com from using the marketplace design. The Federal Circuit reversed the decision and granted the permanent injunction.

The Supreme Court reversed the Federal Circuit and held that the automatic injunction rule was an unwarranted departure from the traditional test to determine the necessity of an injunction. The Court determined that the “well-established principles of equity” required that patent holders to demonstrate 1) irreparable injury; 2) inadequacy of remedies at law; 3) that the balance of hardships favors an injunction; and 4) that the public interest would not be disserved by an injunction. The Court however, refused to adopt the categorical rule suggested by the District Court that “a willingness to license patents,” or a “lack of commercial activity in practicing the patents” would bar a patent holder from obtaining an injunction under the four factor test.

Since *Ebay Inc. v. MercExchange*, federal courts have continued to grant permanent injunctions in a majority of patent cases. In applying *Ebay*, however, courts have examined whether the plaintiff/patent holder is competing in the marketplace with its patented invention. Cases where an injunction is denied under the *Ebay* standard frequently involve entities that are patent trolls (aka “non-practicing entities) and not market competitors.

For instance, in *Z4 Technologies v. Microsoft*, the Eastern District of Texas denied a permanent injunction where a patent troll company brought suit against Microsoft for infringing patents protecting methods for limiting the unauthorized use of computer software. The court found
that z4 Technologies had not demonstrated irreparable harm, and that any harm could easily be remedied by monetary damages. Cases like z4 Technologies indicate the tendency of the federal courts to examine a request for an injunction from a patent troll more stringently than a request from a company actually using its patents in the market. Nevertheless, stricter injunction standards have not proven enough to stop patent troll companies completely because they often are more interested in settlements and monetary damages than in equitable remedies.

D. America Invents Act and the Future of Patent Trolls

On September 16, 2011, President Obama signed into law the Leahy-Smith America Invents Act,27 which has been touted as the most significant reform of the Patent Act since 1952. Nevertheless, many argue that the new act will not stop patent trolls, and that in some respects patent trolls could even strengthened by it. The most significant shift in America’s patent system involves the Act’s change from a “first to invent” to a “first to file system,”28 the same system used in Europe and elsewhere outside the United States. Under the “first to file” system, the first person to file the patent may claim ownership over the invention, regardless of who may be the first person to invent. Supporters of the change to a “first to file” system argue that by cutting red tape and placing the U.S. in line with international law, the system will be less prone to litigation and the process of acquiring patent rights will be simplified.26 Opponents of the “first to file” system argue that it will disadvantage smaller companies in the development stages of their business, as such entities will unlikely have the cash flow to afford lawyers to file and prosecute their patents immediately.22

The second significant change made by the America Invents Act concerns the creation of a system allowing third parties to challenge the issuance of a patent after it is issued.29 The new system allows parties to introduce evidence that the purported invention claimed in an issued patent had in fact already been invented prior to the filing of the patent application. By allowing post-grant challenges, the new Act may narrow the field of available patents vulnerable to patent troll litigation. This change, however, may also serve to benefit patent trolls who can frequently afford to instigate litigation for the purposes of disrupting and delaying the confirmation process.

The new law also adds a section to the Patent Act that prevents a patent holder from joining unrelated defendants in a patent infringement claim.30 This apparently small new detail could have the greatest impact on how patent trolls have operated up to now.

Prior to the new section’s enactment, a patent holder could join in a single action as many unrelated defendants as it wished. Patent trolls frequently took advantage of this by joining numerous defendants and then utilizing the size of the action to force their preferred venue, frequently in the notoriously patent-holder friendly Eastern District of Texas. This new provision, by limiting the numbers of defendants joined in an action by a patent troll, can put defendants in a better position to argue for transfer to a more convenient and appropriate jurisdiction. By contrast, when there are large numbers of defendants, no single venue will likely be more convenient than another, and a court will in that case

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4 Reasons to Take a DOVE Case

“DOVE provides the opportunity for me to provide short-term service to the victims of domestic violence at a time when they need help and support the most.”

**Attorney Kysa Crusco**

“As lawyers, we have a unique opportunity to help vulnerable people. DOVE is a great program that enables lawyers to advocate for survivors and have an immediate and positive impact.”

**Attorney David L. Nixon**

“One reason many of us went to law school was the prospect of representing the downtrodden and abused. That is exactly what the DOVE cases involve. I find it very rewarding to spend some time helping someone who has been abused and has no real chance without our help.”

**Attorney Jack B. Middleton**

“A lawyer is often the domestic violence victim’s last best hope for protection.”

**Attorney Donald F. Hebert**

For more information contact Pam Dodge, DOVE Project, 2 Pillsbury Street, Suite 300, Concord, NH 03301 or call Pam Dodge @224-6942 Ext. 3230 or email pdodge@nhbar.org

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typically choose the forum selected by the plaintiff.

Thus, under the new 35 U.S.C. § 299, a patent holder can only join defendants in a case if: 1) the claim may be asserted jointly and severally against the defendants or the claim arose out of the same transaction or occurrence; and 2) there are questions of fact common to all defendants. The section further states that the requirements for joinder of multiple defendants shall not be considered fulfilled “based solely on allegations that they have each infringed the patent or patents in [the] suit.”

By creating a higher barrier to joinder, 35 U.S.C. § 299 should operate to prevent patent holders from filing a single action against a large number of unrelated defendants in a self-serving venue convenient to only to the patent/plaintiff. In some cases, however, defendants have found strength in the large numbers collected by patent plaintiffs, allowing defendants to cooperate with each other to achieve greater efficiency and reduce costs. The new Act seemingly anticipates this scenario and permits defendants to waive the limitations set out in 35 U.S.C. § 299 if they choose to do so.

It is still unclear what effect the America Invents Act will have on patent troll litigation. With the exception of the new joinder provision, the Act does not specifically target patent trolls or make it more difficult for them to threaten or file suit. In fact, due to the new law's shift towards a system that favors large companies who can afford to file first and fight in the post-grant system, the new law may even facilitate the patent trolls' operations.

DEFENSES AGAINST THE TROLL

When a company receives a demand letter from a patent troll, it should make several calls immediately. First, it should know to call counsel, inform counsel of the letter, and get counsel a copy of the letter quickly. Then the company should call its insurance providers to notify them of the claim. If applicable, the company should inform its relevant vendors of the allegedly infringing product or service and seek cooperation from them. Depending on the vendor contract, indemnification from the service provider may also be an option. With technical assistance and input from the vendor, the company may also better examine the patent claims and compare them to the product or service the company offers to determine whether a viable argument against infringement exists.

Initial demand letters from patent trolls frequently constitute offers to license the patented technology. Patent trolls know that defending a patent claim may easily cost over $1 million in defense costs and that potential defendants are often incapable of actually defending against such a claim. Accordingly, licensing amounts offered typically are priced at less than the costs of litigating the claim but far more than what the recipient may want to pay for the value of the alleged invention. To get out fast and cheap, the company must consider either accepting a license offer to buy its way out or developing a non-infringing approach to the function previously achieved by the alleged infringing method or product. Doing nothing typically does not solve the problem, and litigating frequently could do more harm than good.

Before determining how to respond to a demand letter or licensing offer, counsel should review the company’s insurance policies and vendor contracts to determine whether the company may have a third party source to help pay for legal defense. Additionally, counsel should investigate whether there are similarly-situated businesses that may be interested in pooling resources and forming a defense group which could help defray expenses and legal and expert fees.

In the event the company decides to defend against a patent claim, counsel should commence research into what prior art existed before issuance of the patent, as such prior art could potentially invalidate the patent at issue. Since the decision in In re Bilski in 2007, it has become easier to demonstrate that patented material was obvious and that the patent should never have issued.

A company particularly vulnerable to patent infringement litigation may seek to proactively mitigate the damage by building its own patent portfolio or by joining a defensive patent aggregation. A defensive patent aggregation is a type of patent holding company that has developed to serve as an antithesis to patent trolls. Defensive patent aggregations acquire a broad portfolio of patents and promise never to enforce them. Participating companies are charged a small fee and then treated as holders of all of the patents in the portfolio. Membership fees are not cheap, but can be less onerous than the costs of defending a patent infringement action.

Patent claims can be very expensive, time-consuming and fraught with risk. When faced with a demand, a company should seek counsel to develop a strategy that considers both the legal and economic parameters affecting the company’s position. Then it can move forward in a rational manner and minimize both risk and cost.

ENDNOTES

2. See, e.g., Oasis Research v. Adrive, LLC et al., No. 4:10-CV-435 (E.D.Tex. 2011) (denying motion for severance of the defendants in the actions); see also Amici Curiae Brief for Cisco Sys. et. al at 10-12, Oasis Research v. Adrive, LLC et al, No. 100 (Fed. Cir. 2011) (discussing the common strategic use of mass joinder to side-step venue precedents requiring actions to be transferred away from districts with no specific connection to the parties.)
13. In re Bilski, 545 F.3d 943 (Fed. Cir. 2008). Case involved the validity of a patent creating a three step method for a broker to hedge risks in commodities trading. The Federal Circuit held that the patent was invalid because it did not satisfy the “machine or transformation” test as required by §101 of the Patent Act.
14. Id. at 961-2.
decision that the patent was invalid. However, the Court refused to adopt the Federal Circuit’s reasoning that the patent was invalid because it was a method and instead found that it could not be upheld because it was an attempt to patent the general concept of hedging risk.


17. KSR Int’l v. Teleflex, 550 U.S. 398 (2007). In KSR Int’l, the Court examined the obviousness test under §103 of the Patent Act in the context of a patent that covered an adjustable gas pedal system for cars with engines controlled by an electronic throttle system. The district court held that the patent was obvious because those with ordinary skill in the art would have been motivated to combine pre-existing technologies to create the patented invention. The Federal Circuit reversed on the grounds that the district court failed to properly apply the teaching suggestion and motivation test. The Supreme Court rejected the Federal Circuit’s decision and found that the teaching, suggestion and motivation test was not to be applied as a mandatory rule. Instead, the Court held that the patent was obvious and invalid because the existence of the prior technology would have caused any person of ordinary skill to see the obvious benefit of combining the two.


22. See id.at 393.

23. See id.

24. Z4 Tech. Inc., v. Microsoft Corp., 434 F. Supp. 2d 437 (E.D.Tex. 2006). In Z4 Tech, the plaintiff claimed that Microsoft’s product “Windows XP” infringed on its patents for methods of preventing the illicit copying and unauthorized use of computer software. Although the jury held that Microsoft had willfully infringed upon the patent at issue, the Court refused to grant an injunction requiring Microsoft to take the product off the market. The Court held that the plaintiff could not satisfy the four part standard articulated by the Supreme Court in eBay v. MercExchange. The Court found that Z4 Technologies would not suffer irreparable harm in the absence of an injunction, and any harm caused could be compensated monetarily. Furthermore, the Court found that due to the popularity of Windows XP, the grant of an injunction could even have a negative effect on the public.


26. Id. at § 3.


31. Id.


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