

The Supreme Court's *eBay* Decision
Sets Back Pesky 'Patent Trolls'
or American Innovation, Depending
Upon Which Side You're On

Troll Control

STEVE SEIDENBERG

RICHARD LANG DOESN'T THINK OF HIMSELF AS EVIL—EVEN though many would accuse him of participating in a deadly attack on America's business, innovation and economic well-being.

Lang is co-founder and CEO of Burst.com, a company that many would call a "patent troll," the nefarious term for businesses that produce no products or services and have the sole purpose of obtaining money by licensing patents they own and winning infringement lawsuits against others.

"Patent trolls find questionable patents ... then use the leverage of patent litigation to get a tax, essentially, on some of the most successful computer and software projects that exist," says Jason Schultz, an attorney with the San Francisco-based Electronic Frontier Foundation. "This takes away resources that would otherwise go to R&D and increasing competition. They definitely hurt the economy."

But Lang paints himself and his company as the good guys. Burst, like many other so-called patent trolls, is just a small inventor fighting an uphill battle to protect its hard-earned intellectual property from being stolen by huge corporations, he says.

"Only an infinitesimal percentage of small inventors can muster the resources to defend their property—to spend millions of dollars and many years trying to collect through the courts," Lang says. "So in 99 percent of cases, the large companies get the IP for free. It is a great business model, but only for large companies."

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Richard Lang

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The odds against Burst and other so-called trolls may soon increase significantly as a result of the U.S. Supreme Court’s May 15 decision in *eBay Inc. v. MercExchange*, 126 S. Ct. 1837. That unanimous ruling changed the standard for granting injunctions in patent infringement cases, making it tougher for trolls to get them. Since the 1980s, courts could almost automatically issue permanent injunctions once infringement and validity were found. The *eBay* case replaced that rule with the traditional—more stringent—standard for issuing injunctions.

The consequence, experts say, is a diminished ability of trolls to wrest large licensing fees from other companies.

“This is a serious threat to the easy riches that patent contingency lawsuits have offered for some years now,” says James Dabney, an IP litigator in New York City.

On the other hand, more frequent refusals of injunctions to patent trolls could bump up the amount and duration of patent litigation. In addition, the trolls may turn to the International Trade Commission for relief, because that agency’s rules for injunctive-type relief are less stringent than those set out in *eBay*. (See sidebar, page 54.)

And, Lang fears, the lack of injunctions may cripple not just the trolls, but America’s ability to innovate.

“The bulk of all innovation comes from small inventors,” he says. “If *eBay* and later cases succeed in taking away injunctions, what other options will be left for small inventors to protect their rights? If small inventors go to large companies [seeking to partner with them or license their inventions], the companies can steal their inventions with impunity. If small inventors create their own businesses [to commercialize their inventions], large companies can steal the inventions and put them out of business. The effect would be to kill small inventors.”

A DREAM BURSTS

FOR HIS PART, LANG SAYS HE NEVER WANTED TO BECOME A so-called patent troll. He had dreams of heading a successful Internet technology company, and for a while it looked as if his dreams would come true.

Burst.com, the software company he co-founded in 1988, seemed destined for success. It sold a product that was far ahead of anything the competition had to offer, providing a faster, cheaper, higher-quality and more reliable way to stream audio and video over the Internet. By the late 1990s, Burst had 110 employees and a growing business.

Then Microsoft came into the picture. In 1999, the software giant began a two-year negotiation to license Burst’s

technology. The license never happened. Instead, in late 2000, Microsoft issued a new version of its Media Player software that was incompatible with Burst’s technology.

The change devastated Burst. Customers and financial backers fled. By September 2001, the company had withered to just two people.

And then, at the end of 2001, Microsoft announced an upgraded version of its Windows Media Player—which used technology that was strangely similar to Burst’s.

Burst sued the software giant for patent infringement in June 2002. Almost three years later, on the eve of a court hearing into Microsoft’s alleged destruction of evidence, the software giant settled. It agreed to buy a license from Burst for \$60 million.

The software giant admitted no wrongdoing. “While we were confident of prevailing in this lawsuit, we have been open from the beginning to finding a reasonable way to resolve this case,” says Tom Burt, corporate vice president and deputy general counsel for Microsoft. “Securing a license to the Burst patent portfolio through this settlement allows us to focus on the continued development and deployment of Windows Media technologies.”

Today, Burst has become a very different type of company from what Lang had intended. The company consists of “three people plus a fairly substantial legal team,” Lang says. Its main business is to license its patents to other companies and to sue those who use Burst’s technology without a license. In short, some would say, it is a patent troll.

It’s not the sort of business Lang had hoped to run, but he says he had little choice. “Once we no longer had the resources to support our product in the marketplace, it was clear that the only option left to us was to license the IP behind our product,” he says. “The fact that we are licensing our patents—it’s a business model we were forced into because of Microsoft.”

Other small companies and independent inventors could tell similar tales of large corporations using their inventions without authorization, forcing the inventors either to give up their hard-earned inventions or to sue.

“That goes on all the time,” says Paul Ryan, chairman and CEO for Acacia Research Corp., a company that partners with small inventors and helps them license their inventions. Acacia, however, isn’t a disinterested observer. The Newport Beach, Calif.-based company earned almost \$20 million in licensing revenue last year, making it, in many eyes, one of the country’s largest patent trolls.

VALLEY OF THE TROLLS

THE TERM *PATENT TROLL* HAS AN IRONIC ORIGIN. IT WAS first used in 2001 by Peter Detkin, then an in-house counsel at Intel Corp., to describe the small companies that were suing Intel for patent infringement.

Now Detkin works for Intellectual Ventures, a company based in Bellevue, Wash., that seeks to develop and acquire patents that it can license to other companies.

Detkin has said that his company isn’t a patent troll because the term applies only to an entity that owns a single patent or a small group of patents and essentially is look-

ing for nuisance-value settlements. Intellectual Ventures, by contrast, owns thousands of patents and seeks royalties that far exceed mere nuisance-value settlements.

Some argue that this just makes Intellectual Ventures a particularly dangerous patent troll.

Although the term has been widely used for more than five years, there remains no agreed-upon definition. And not surprisingly, everyone defines the term so that it applies to someone else, not to one's own company and clients.

"Anybody who tries to enforce a patent in an area where they are not actively competing with a product or process, that's one definition of a patent troll," says Adam Jaffe, an economist at Brandeis University who has written books on the U.S. patent system. "Other people use it more generally for anyone who threatens litigation on dubious patents. Some people would combine the two definitions."

Of course, dubious patents are in the eye of the beholder. Companies of all sizes frequently say that patents asserted against them are invalid.

As for Jaffe's first definition, companies that have patents in areas where they do not actively compete would encompass an extremely wide range of businesses. IBM, Honeywell and Lucent, for example, have all licensed patents in industries for which they are not actively making any products or processes. RCA, during the 1920s and '30s, stopped making radios and licensed the technology to others. And Thomas Edison often licensed his patented inventions to others. Was Edison a patent troll?

Joseph Potenza, a Washington, D.C., attorney who helped write the ABA's amicus brief in the *eBay* case, has another definition of *patent trolls*: "companies that acquire patents in diverse technologies solely for purposes of revenue generation." But some would consider this definition too narrow. It excludes Burst because the company developed its patents rather than purchased them.

Then there are those who say that the term is simply a nasty PR ploy. "There is no such thing as a patent troll," says Burst's Lang. Large corporations, he claims, are just using the term to smear small inventors who try to protect their legal rights in their inventions. "The term is the equivalent of swift-boating small inventors," he says.

"What these very large companies want is to have it both ways," Lang says. "They want IP to be immensely valuable when they own it, but worthless when a small company owns it. That isn't fair. ... Patents are either a valid form of property or they are not. The matter of who owns them is irrelevant."

'THE COURT BASICALLY SPLIT'

LANG MAY SOON BE PROVED WRONG. THE *EBAY* DECISION MAY make the matter of who owns a patent quite relevant. It all depends on how the lower courts interpret the ruling.

On its face, the *eBay* decision appears simple. The Supreme Court unanimously rejected the rule developed by the U.S. Court of Appeals for the Federal Circuit that automatically granted injunctions against patent infringers unless there were exceptional circumstances. (The ABA's amicus asked the high court to uphold the Federal Circuit.)

The opinion by Justice Clarence Thomas said a litigant seeking an injunction in a patent infringement case must meet the same four-part test as any other litigant seeking an injunction. The patent owner has to prove "(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."

But there was more to the case than just the court's unanimous ruling. "While there was a unanimous decision on what analysis to apply, the concurring opinions in this case reflected a pretty serious difference of opinion on how the analysis should be carried out," says E. Anthony Figg, a Washington, D.C., attorney who is immediate-past chair of the ABA's Section of Intellectual Property Law.

The concurrence of Chief Justice John G. Roberts Jr., joined by Justices Antonin Scalia and Ruth Bader Ginsburg, stressed that the new four-part test should produce much the same results as the old Federal Circuit test.

"From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases," Roberts wrote. He indicated that courts should continue this practice: "When it comes to discerning and applying those standards [for granting an injunction] ... 'a page of history is worth a volume of logic.'"

In contrast to Roberts' concurrence stressing tradition, the concurrence of Justice Anthony M. Kennedy noted that certain types of modern patent conflicts were quite different from those presented in the past, and that these new situations may require courts to deny injunctions against infringers. Kennedy's concurrence, joined by Justices John Paul Stevens, David H. Souter and Stephen G. Breyer, indicated that it could well be appropriate to deny injunctive relief if the plaintiff's patent:

- Is a business method patent.
- Is just a small component of a much larger product that the defendant makes.
- Is owned by an entity that "use[s] patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."

"The court basically split," Potenza says. "Three justices are saying you should follow history. Four are saying you should apply the four-part test in a new historical context. They are really going in different directions in new, hot-button areas."

It could be a long time before the Supreme Court revisits the issue of patent injunctions. So private businesses, their attorneys and the lower courts are attempting to thrash out the ramifications of *eBay*.

One federal district court already has weighed in on this issue, and it's given bad news to small inventors and patent licensing companies. Judge Leonard Davis of the Eastern District of Texas—a popular forum for patent infringement suits because of its reputation for favoring plaintiffs—refused to grant an injunction to a small patent licensing company, z4 Technologies Inc., even though two of its patents

were found to be infringed by Microsoft. *z4 Technologies Inc. v. Microsoft Corp.*, No. 6:06-CV-142 (2006).

The plaintiff is a one-person operation: David Colvin, a Detroit-area patent draftsman who comes up with inventions in his spare time. His company owns a small number of patents for product activation and other forms of digital rights management, which prevent unauthorized copying or use of software.

Colvin has attempted to make and sell software containing his inventions, but he hasn't been able to create any products yet.

Microsoft had more success. In 2000, the software giant added product activation to its Office software. In 2001, it added the same protection to its Windows XP products.

Microsoft, however, never obtained a license from z4.

The tiny company sued Microsoft for patent infringement in September 2004. In April 2006, a jury found the Redmond, Wash., company guilty and awarded \$115 million in damages. Then z4 asked the court to enjoin Microsoft from making or selling its Office or Windows products, because they infringe z4's patents.

Davis ruled June 14 that Microsoft prevailed on each part of *eBay's* four-pronged test. Davis relied in part on Justice Kennedy's *eBay* concurrence: "Justice Kennedy specifically mentioned the situation where a 'patented invention is but a small component of the product the companies seek to produce' and states that in such a situation, 'legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.' Here, product activation is a very small component of the Microsoft Windows and Office software products that the jury found to infringe z4's patents. The infringing product activation component of the software is in no way related to the core functionality for which the software is purchased by consumers. Accordingly, Justice Kennedy's comments support the con-

clusion that monetary damages would be sufficient to compensate z4 for any future infringement by Microsoft."

INJUNCTION JUNCTION

ONE RESULT OF *EBAY* ALREADY SEEMS CLEAR. PATENTEES will need to work harder to get injunctions against infringers. No longer will a patentee be able to get an injunction merely upon a showing of infringement. Now, a patentee will need to prove every element in the four-part test.

This creates a new legal issue that will be contested in patent infringement cases. As a result, those cases will become longer and costlier for clients. The lawyers involved will get more work and additional fees.

What will all this additional work accomplish? In most cases, very little, according to IP experts. Courts will continue to grant injunctions in the vast majority of patent infringement cases, even under the four-part test. "I think it will change the result in some cases, but not in most," Figg says.

However, some major changes would occur if the lower courts follow the standards of Kennedy's concurrence and the z4 ruling. Injunctions would be denied in the most controversial types of patent cases, including suits brought by companies whose primary business is licensing their patents.

"I think it is going to be harder for patent trolls to get their injunctions," Potenza says. "Even though only four justices endorsed this position, I think there may be a *sub rosa* working requirement" in order to get an injunction.

Giving injunctions only to companies that actively use their patents instead of merely licensing them could greatly weaken the bargaining position of patent licensing companies like Burst or NTP Inc.

Consider, for instance, how this standard would have affected NTP's infringement suit against BlackBerry

ANOTHER OUTLET FOR PATENT HOLDERS

Should the courts refuse to grant injunctive relief to patent licensing companies, these companies may decide to seek relief from a different venue: the International Trade Commission. This independent federal agency has the power to prohibit any imports that infringe a company's IP rights.

Unlike the courts, the ITC does not apply a four-pronged test for determining when to grant injunctive-type relief. The agency will—absent extraordinary circumstances—issue an exclusion order if three simple conditions are met:

- The complaining company has a valid U.S. patent.

- The complainant is using the patent in the U.S. (e.g., is attempting to license the patent).

- The complainant's patent is infringed by an imported product.

"Exclusion will apply unless it would create a definite, defined injury to the public," says Richard Kelly, a litigator in Alexandria, Va.

Not all patentees can benefit by going to the ITC, however. The ITC can't protect a patentee whose patent is being infringed solely by actions in the U.S. But as more and more U.S. manufacturing is being outsourced to Asia, a growing number of patentees are finding that they can use the

ITC to attack U.S.-based infringers.

For instance, Creative Labs, based in Scotts Valley, Calif., asked the ITC in May to stop alleged patent infringements by Cupertino, Calif.-based Apple Computer. Creative has a patent covering an interface for digital media players, and the company has complained that this patent is being infringed by Apple's iPods. The ITC can act because, although the iPod is designed in California, the devices are manufactured in Asia.

"If *eBay* reduces patent trolls' odds of winning injunctions in court, then the trolls may well find the ITC to be more attractive," says Brian Busey, a Washington, D.C., attorney.

Joseph Potenza

Based on opinions from the Supreme Court and from Texas, “I think it is going to be harder for patent trolls to get their injunctions.”

manufacturer Research in Motion Ltd. The lawsuit had dragged on for years but was settled in March just as a judge was preparing to rule on NTP’s request for an injunction against RIM. The injunction, if it had been issued, would have shuttered RIM’s BlackBerry system, turning millions of the devices around the country into high-tech paperweights.

Without the threat of this injunction, it seems unlikely that RIM would have suddenly agreed to give up its court battle and pay NTP \$612.5 million. RIM and NTP would probably still be fighting in court.

“The patent trolls have lost a big bargaining chip,” Potenza says. As a result, large companies and their customers will have far less to fear.

However, denying injunctions to patent licensing companies may result in an increase in infringements and the number of patent suits. “Most law firms love the prospect because they think it will lead to more patent litigation,” Acacia’s Ryan says. “This will embolden more people to take intellectual property, knowing that the worst-case scenario is having to write a check.”

Lang warns the long-term results may be far more dire. “Large companies may wind up destroying the system that provides innovation. That’s the real danger for the business world.” ■

