Countering the Patent Troll

Patent extortion: Next-vehicle arrival information is finding some communities facing hefty lawsuits.

By Eric J. von Vorys

There has been a lot of fuss in the last few years over patent trolls. A "patent troll" is an individual or company that holds the patent rights to an invention, but does not produce the invention. The troll just waits until someone else produces an infringing invention, and then files a lawsuit against the alleged infringing producer. Once the lawsuit is filed, the troll sends a notice to the alleged infringer announcing that the troll is willing to settle the case if the alleged infringer pays a patent licensing fee for a six-figure sum. Because of the uncertainty in defending patent lawsuits and any such defense generally costs more than $1 million, it is cheaper for the alleged infringer to pay the settlement amount, even for meritless claims. The

typical business model of a troll also has been called patent extortion.

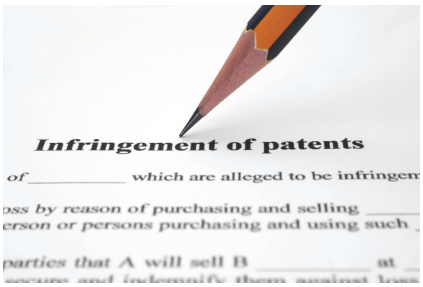
This runs counter to the purpose of granting patents to inventors. The U.S. Constitution recognizes that in order to "promote the progress of science and useful arts," inventors should receive for a limited time the "exclusive right to their respective writings and discoveries." This expression forms the basis for the U.S. Patent Act. The Patent Act can be seen simply as a pact between an inventor and the U.S. government. Under the pact, the inventor tells the U.S. government exactly how the invention is built and how it works in language that ordinary people can understand. In exchange, the U.S. government grants the inventor 20 years of monopoly rights to practice the invention. When the 20 years runs out, the invention becomes part of the public domain and anyone can practice the invention without liability. Trolls are not in the business of practicing inventions; they are in the lawsuit business.

PATENT TROLLS AND TRANSIT

Recently the trolls began targeting cities and municipalities. One such widely reported troll is ArrivalStar, S.A., the patent enforcer for the inventor of tracking and notification technology. ArrivalStar filed suit against Seattle's King County and the city of Portland, Ore., among others, over their mass transit tracking systems. These systems keep track of when the next bus or train will arrive and then posts the information for the mass transit ridership. In the lawsuits, ArrivalStar alleges that King County and the city of Portland are using technology that infringes one of its patent holder's patents. Instead of trying the case in court, King County decided to accept ArrivalStar's settlement offer for a reported $80,000. While this article was being written, the city of Portland had not yet settled, but was still weighing its options.

The extortion model wouldn't work as well without a couple of Supreme Court decisions. First, in Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd., the Supreme Court held that liability for intellectual property infringement extends from the directly infringing company to all downstream defendants. Under this ruling the liability for intellectual property infringement is not just limited to the company that produces the infringing device, it also flows downstream. So both the middleman who distributes the infringing device and the ultimate end-user consumer are likewise liable for intellectual property infringement. That's potentially three settlement payoffs to the trolls.

Next, the Supreme Court in Jinks v. Richland County held that cities and municipalities do not have immunity



from lawsuits under the 11th Amendment. In short, the 11th Amendment says that states enjoy a position of sovereignty, like a king, and as such cannot commit a legal wrong in the performance of its duties. So by this logic, states are immune from lawsuits. The court continued that this sovereign immunity, however, does not extend to a state's subdivisions, such as counties, cities or municipalities. A state's subdivisions, like the knights and lesser nobles, do not have sovereignty. Consequently, they are ready targets for trolls.

CAN YOU BE PROTECTED?

Congress has not yet exterminated the troll through amendments to the Patent Act and courts are of no help because for the most part, the cases settle prior to trial. Nonetheless, there are a few contractual strategies to, if not eliminate the troll, then at least shift the risk of a downstream defendant from having to pay the troll's patent license. The first is to have an agreement with the producer of any invention that contains an indemnity provision to pay all costs and damages if the buyer ever is sued for patent infringement. Along with this indemnification provision, it also is advisable to have provisions in the agreement with the producer that state in the event of a notice of patent infringement, the producer will either modify the invention so that it is no longer infringing the patent or pay the patent license fees. Unfortunately, these provisions depend entirely on the credit worthiness of the producer of the invention. If the producer of the invention does not have the money to pay for defending the lawsuit or paying the patent license, then these contract provisions will be of no value.

Alternatively, the producer of the invention and any downstream defendants can buy patent infringement defense insurance, which covers the costs of patent litigation or securing the patent license up to the limit of the policy. At one time patent infringement defense insurance was considered too expensive to be worth it. With the advent of the troll, however, new intellectual property insurance companies have sprung up that offer creative options to try to control the high cost of coverage. ***MT***

Eric J. von Vorys is an intellectual property and corporate law attorney with Shulman, Rogers, Gandal, Pordy & Ecker, P.A.