



Patent Trolls

*Even those who make
and sell nothing are
devising new ways
to make money from
U.S. patent laws.*

By Kirk Teska

If you want to address something, as the first step, you have to define the thing. Take patent trolls, for instance. Much maligned, they have never been clearly defined and thus can be difficult to handle. Meanwhile, opportunistic new species of this interesting creature keep popping up.

The earliest trolls were first called “submariners.” The typical profile was someone who had numerous patent filings for futuristic ideas (futuristic at the time, anyway), who didn’t actually manufacture or sell anything, and who purposefully delayed letting the patents issue (often for twenty years or more) until the marketplace had fully embraced the technology mentioned in the patent filings. Then these submariners surfaced, allowed their patents to issue, and sued or threatened to sue many of the businesses in an entire

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industry (for example, wafer production or barcode technologies) often seeking a small percentage of a large company's entire yearly revenue.

A change in the patent laws put an end to these submariners: patents, beginning in 1995, now have a life of twenty years from the date of the application (instead of seventeen years from issuance of the patent) meaning the submarining tactic of keeping a patent application pending eats up the life of any resulting patent.

Trolls subsequently came to mean, in many cases, companies which existed only to own broad patents for an idea (for example, the ability to receive e-mail on a wire-

less device) and which then aggressively sued the biggest players in the industry surrounding that idea.

Proposed legislation that would thwart these trolls has, to date, not made it into law probably because it's difficult to outlaw patent trolling if you cannot adequately define it. Under some definitions, the legendary independent inventor toiling in his garage could be a troll. Under other definitions, well-known productive companies could sometimes be deemed trolls—for example if they sue over a patent which covers a product the company doesn't currently sell.

Where Congress has failed, though, the courts have limited, in some ways, certain aspects of patent trolling. That has certainly not stopped all of the conventional trolls, however, nor has it affected the proliferation of new, somewhat unconventional trolls.

Recently, for example, the first patent marking troll made its appearance. Often, this troll isn't even an inventor of any kind. Patent attorney marking trolls, for example, prey on mistakes made by companies when their products are incorrectly marked with patent numbers.

The customary practice when a new gizmo is engineered is to put "patent pending" on it and later, when a patent is won, to begin marking the gizmo with the patent number. Patent marking trolls seek the recovery of a \$500 fine for every gizmo sold with a "wrong" patent number. The wrong number scenarios include the situation where a patent naturally expires after its full term (or expires even earlier in the case where certain government required patent maintenance fees are not paid) and yet the now expired patent number remains on a product. Or, a patent could change or even be adjudicated invalid. Still another scenario is when the gizmo itself changes to the extent that it no longer has any of the features covered by the patent.

A fine of \$500 for every falsely marked gizmo could far outweigh the profits made on the gizmo. How did this sad state of affairs come to be? It's a little complicated.

Under one section of the patent statute, if a competitor produces an infringing product which violates a patent marked on a product, the competitor is deemed to be "on notice" of the patent and, if found guilty of patent infringement, will have to pay damages for all sales of infringing products from the date the patented products were marked. Remarkably, this is true even if the competitor never saw the product, the patent marking on it, or the patent. This is a strong incentive to mark a patented product with a patent number.

Conversely, if you sell a patented product and don't mark it with your patent number and I copy the product and violate the patent, I don't have to pay damages for sales I make before you actually notify me about the patent, by sending me a letter, for example.

Since patent infringement lawsuits cost millions, they are usually not brought unless the infringer has a lot of sales revenue and was "on notice" for all or most of the



When sued over patent marking, Solo was able to prove that it had no intent to deceive.

sales. And so, patented products typically have a patent number or two on them.

What happens, though, if a company falsely marks its products with a patent number in an attempt to scare people away from copying the product? In our system of laws where fairness is at least a goal, you would expect such acts are illegal. They are: another section of the patent statute makes companies liable for up to a \$500 fine per false patent marking offense. The \$500 is split evenly between the U.S. government and the person who brings the charge of false marking.

So far, so good, but think about it: Would a rational person sue if the maximum total recovery was \$250? No, and as a result the false patent marking statute historically wasn't used much.

That all changed when the U.S. Court of Appeals for the Federal Circuit determined, in a case between competitors, that the statute actually means a \$500 fine on a per-article basis rather than a \$500 fine based on a decision to falsely mark a product.

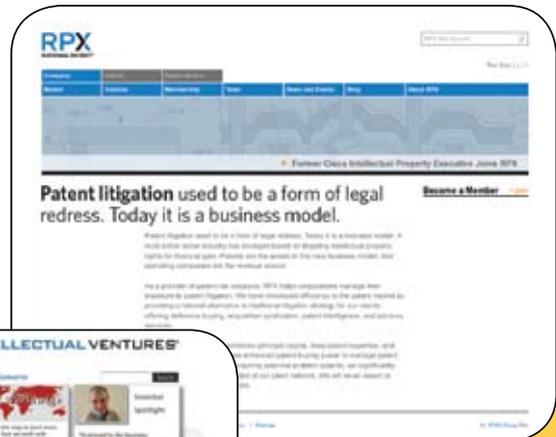
You can now see where this is headed. If I find a lot, say millions, of identical products which are marked incorrectly, we are talking some real money. I'll pick some kind of disposable product like, say, those plastic lids on coffee and soda drinks provided at Starbucks and other establishments. That is exactly what a patent attorney did when he sued Solo for false marking in a case where a \$500 fine per article could total almost the U.S.'s national debt.

Others too saw the potential for big recoveries—by some accounts, hundreds of false patent marking cases have been filed. And it's not just low-tech disposable products that are targets. High tech companies like 3M, Pfizer, Medtronic, and Cisco currently face false marking lawsuits.

Based on the ruling in the Solo case, though, these companies have at least a little ammunition with which to defend themselves.

In the Solo case, Solo did once have patents covering the lids. To provide the notice which would enable it to recover damages for any infringement of the patents, Solo made it so the molds marked the relevant patent numbers on the lids at the time of manufacture. The problem was the molds lasted longer than the patents. When the patents expired, all later lids produced by the molds and containing the patent numbers were falsely marked.

Even so, the court noted the false marking statute requires false marking with an "intent to deceive the public." In the case, Solo successfully proved that it had no intent to deceive because the company, as individual molds wore out, replaced them with new molds lacking the expired patent numbers—a practice which was blessed by Solo's attorneys. As a result, Solo never had to



PATENT CENTRAL:
Intellectual Ventures owns a store of intellectual property and has filed suits. RPX was formed to avoid IP lawsuits.

pay any fine. Another defense is that the statute allows an individual judge to award less than the \$500 upper limit per false marking offense.

Congress too is taking notice of the situation: A bill (S.515) has now been proposed which would require a false marking claimant to prove economic injury to the claimant. If this bill becomes law, most patent marking trolls couldn't file false marking actions.

So far, there is no report of anyone coming away from any of these lawsuits a millionaire, but it could happen were it proven a given company actually meant to deceive people into believing a product was patented when it wasn't.

The new troll is the über troll. Funded to the tune of \$5 billion and armed with 30,000 patents and patent applications, Intellectual Ventures LLC located in Bellevue, Wash., urges high tech companies to become customers of the company lest they find themselves defendants in patent litigation lawsuits. IV, formed in 2000 by ex Microsoft CTO Nathan Myhrvold, spent its first 10 years building a huge patent portfolio. Some originated from inventions conceived by IV personnel; others were purchased. Verizon and Cisco reportedly paid hundreds of millions of dollars to IV. But recently, when a few targeted companies balked at licensing IV's patents, IV promptly sued them.

A byproduct of the über troll are companies like RPX Corp., which is paid by other companies to buy up potentially threatening patents a troll could use against them. RPX, which declined to be comment for this article, promises to never litigate the patents in its portfolio. Annual memberships are available and differ in price from tens of thousands to millions of dollars based on the

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subscribing company's operating income. These "Troll Shields" might fill in the gap between a Congress which might not act and court cases which only slightly impede various kinds of trolling.

The problem is even if a company doesn't mismark its products, and even if it pays into both Intellectual Ventures and RPX, there's still nothing to stop some other "regular" troll from alleging a patent violation.

Consider a new startup desiring to design, manufac-

ture, and sell a new smart phone. There are likely numerous patents that would have to be traversed or licensed in order to sell the smart phone without liability given its many subsystems: processors and other chips, camera and GPS technology, software, and the like. IV calls this intellectual property a company needs an "invention gap" and IV says it can fill the gap (but will not disclose its deal terms).

So, the startup signs on as an IV customer and, for good measure, becomes a member of RPX. But, what if a patent owner owns a patent violated by the new smart phone and what if that patent is not in either IV's or RPX's portfolio? In such a case, the startup's membership in RPX and the fact the start-up is a customer of IV is unavailing. IV says it can still help with the defense using IV's portfolio but that won't necessarily work if the patent owner is a troll: trolls don't care about patents you have (or have access to) because trolls don't manufacture or sell anything which could infringe a patent.

So, paying into IV and/or RPX is not the same as an insurance policy. And, even with the "help" of IV and RPX, history proves new and improved breeds of trolls will inevitably emerge. ■



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