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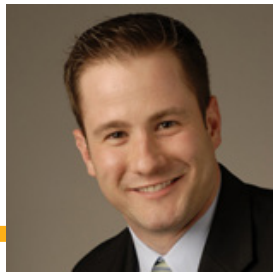

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October 31, 2014

The non-practicing entity: A troll by any other name?

Defining the patent troll is difficult but necessary for successful litigation reform

The growing number of reform bills languishing in, or rejected by, Congress may be a hint that the government is struggling like the rest of us to put a finger on the patent troll phenomenon. How do we define the scourge of the patent litigation bar that hides beneath a bridge it didn't build, extorting tolls from passersby? Though they may struggle to define these abusers, sponsors of these bills have the right idea. Very real advantages exist for patent troll plaintiffs. Trolls that do not make or sell anything do not fear infringement counterclaims, nor do they have many employees or documents, or a business to interrupt, that make costly and painful discovery a two-way street. These free-wheeling litigants are able to dive into lawsuits without the costs and risks that are so often the checks and balances of our legal system. The result is abusive patent litigation. But defining the abusers is challenging which, in turn, makes anti-troll legislation difficult.

The clever, and uncomplimentary, term "patent troll" has evolved into the more polite-sounding "non-practicing entity." In the abstract, a non-practicing entity is easily defined: an entity that has the right to sue for patent infringement but does not make, use or sell anything that embodies the patent, *i.e.*, the entity is not practicing the invention. That definition is not practical, though, if the goal is identifying patent litigation abusers. It's more complicated than that.

For example, a company with thousands of patents and hundreds of products may decide to assert the one patent it isn't practicing. A solo inventor sues after trying and failing to obtain funding to finish developing a product embodying her patent. A university, because of its not-for-profit nature, does not sell products although it invests millions of dollars in research. These are all, technically, non-practicing entities. But they may not be trolls abusing litigation. Maybe there's no concise way to define patent trolls and target anti-troll legislation without punishing the innocent, but some combination of the following factors might help Congress separate the exceptions from the rule. Regardless of Congress' willingness or ability to articulate these factors in legislation, the factors may help defendants figure out what type of plaintiffs they're dealing with and formulate strategies accordingly.

How many times has the patent changed hands and what are the details of those transactions?

Previously proposed laws would have required plaintiffs to identify patent "co-owners," "exclusive licensees," and those with "direct financial interest." This information, while helpful, is limited to the present. The real story may be in the past and hidden in provisions of the agreements. The number and identity of patent owners, by itself, does not confirm or deny a patent troll. Patents are property and can be freely bought and sold. Inventors and companies buy and sell patents all the time, and intra-corporate transactions in which one company developed the technology, but later transferred the corresponding patent to a second, subsidiary company, are common.

Often, though, patent trolls purchase patents at auctions, from third parties that were also not the original owners, or pass interests in patents among shell companies. New owners may even inherit obligations to pay collected royalties to non-owners, or flawed agreements may not provide a new owner with a right to recover for past damages. Some proposed legislation attempts to get to the bottom of this, not through litigation, but with a reporting requirement to the Patent Office "whenever a patent .. or any interest therein ... is conveyed."

Even this disclosure, though, while capturing the identity of the parties to the conveyance, seems to miss the all-important details of the conveyance that only the actual agreements would provide.

What is the plaintiff's corporate lineage?

Some proposed legislation requires that plaintiffs identify, "the ultimate parent entity ... or any successor." But such a disclosure does not contemplate the specific relationship and agreements between the parent and plaintiff or the terms by which the patent passed from parent to plaintiff. Through public records or, if unavailable, through discovery, a defendant may find out *all* entities that previously owned the patent, the particulars of how it wound up in the plaintiff's hands, and the relationship of the parent and plaintiff entities. Patent trolls are finding creative ways to hide these transaction documents through different agreements and shell companies, but careful research and diligent pursuit can pay off. Many patent trolls have corporate or other relationships to well-known patent holding giants like Acacia and Intellectual Ventures.

Has an inventor or original assignee maintained ownership in the patent all along?

Attempts at anti-troll legislation seek disclosure of patent ownership, but appear to limit the focus owners that exist at the time of the litigation. Proposed laws, for example, try to exempt solo inventors and universities from anti-troll provisions, but seem to be concerned with the identity of the plaintiff only at the time of the lawsuit. Patent trolls may work around this, creating the perception of the aggrieved solo inventor and avoiding this type of patent troll definition. Trolls might accomplish this by tracking down the inventor and engaging him as a consultant for an hourly fee, sometimes offering a small, partial ownership of the patent, recovery from the litigation, or all of the above, in exchange for cooperation. This may appear to the judge and jury as though, all along, the inventor is the plaintiff when that is not entirely correct.

Focus on whether the plaintiff's revenue is entirely (or primarily) patent licensing may be misplaced.

Licensing patents as a primary source of income is often thought to be a telltale sign of a patent troll. Authors of proposed bills like the Innovation Act have tried to capture this concept, requiring disclosures like, "a concise description of [the plaintiff's] primary business." Other proposals, such as the S.H.I.E.L.D. Act of 2013, attempt to exclude from anti-troll legislation those that can provide to the court "documentation ... of substantial investment ... in the exploitation of the patent through production or sale of an item."

But, in addition to being difficult to quantify, this factor is flawed when considered alone. An inventor or small company could have a primary revenue source based on licensing the patent without abusing litigation, maybe after investing significant efforts and funds in the early stages of trying, and failing, to produce a patent-embodying product. It is also possible that a plaintiff derives some small portion of revenue from other activities, though the revenue is otherwise skewed toward patent licensing because the other activities are in their infancy or being phased out. Maybe more troublesome, the patent troll could easily create some unrelated business for the sole purpose of demonstrating revenue aside from patent licensing and therefore side-step the patent troll label and the corresponding disadvantages of anti-troll legislation. All of this becomes even more difficult to quantify if the litigation in question is the first time the patent has been litigated, or the plaintiff entity has not existed for long. Revenue from patent licensing should be considered in context.

Lawmakers recognize patent troll litigation is a problem. Unfortunately there is no silver bullet just yet. An intimate understanding of the issues that arise in litigating against trolls is a first step toward defining the abusers in a way that makes meaningful and effective legislation possible. In the meantime, these are things every patent litigation defendant should consider.

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