

Until recently, common wisdom held that patents encourage innovation by providing inventors an incentive to invest the energy and capital required to develop new technology. In exchange for sharing the secrets of their invention with the public, inventors are generally granted a time-limited right to exclude others from making, using, or selling the invention. Although patents create numerous seemingly anti-competitive temporary monopolies, this has generally been viewed as fair compensation because, without disclosure of the new invention, others besides the inventor would not be able to benefit from the new technology or further advance the technology by improving upon or creating alternatives to the thing invented.

Over the past few years, however, there has been growing sentiment that patents imbue their owners with perhaps so much power that they may be stifling technology development. Indeed, the derogatory moniker “patent troll” is now regularly used to describe an entity which acquires patents not for the purpose of protecting a technology it intends to commercialize, but rather for the sole purpose of demanding royalties from companies that bring potentially infringing products or services to the marketplace. A widely publicized example of a patent troll case was the litigation between patent owner NTP, Inc. and BlackBerry™ communications device maker Research in Motion, Ltd. (“RIM”). By threatening to obtain a permanent injunction that would shut down further operation of the BlackBerry™ system by RIM and its millions of customers throughout the world, NTP was able to extract a staggering \$612.5 million settlement from RIM. While NTP’s victory had patent trolls rejoicing, it only reinforced the business community’s perspective that a patent owner’s traditional right to exclude is too powerful.

The reverberations of the NTP case did not go unnoticed by the U.S. Supreme Court. In *eBay, Inc. v. MercExchange, LLC*, decided in May 2006, the Court significantly diluted the patent troll threat by reversing a long-standing precedent of the Court of Appeals for the Federal Circuit, (the court that decides all patent appeals), that an injunction should automatically issue upon a finding of patent infringement. Rather than follow the Federal Circuit precedent, the Supreme Court decided that courts deciding patent cases should apply the factors utilized in other cases when determining whether to issue an injunction, namely:

THE PATENT TROLL THREAT IN THE WAKE OF EBAY, INC. V. MERCEXCHANGE, LLC



(1) that the patent owner 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.

Although the entire impact of *eBay* remains to be seen, patent trolls and other patent owners will be less heavily armed when negotiating with accused infringers. For example, without the ability to wield the threat of an *automatic* permanent injunction, NTP may not have been able to extract such a large settlement sum from RIM.

While *eBay* has reduced the patent troll risk to companies, it has certainly not eliminated it. To mitigate the risk of a future patent infringement suit, a prudent company looking to bring a new product or service to market would still be well-advised to seek the assistance of patent

counsel in conducting a freedom-to-operate search to identify issued patents and pending patent applications that may cover the new product or service. If favorable, the results of the search can give a company the peace of mind that the risk of a patent infringement suit is low. On the other hand, if the search is unfavorable, patent counsel may be able to suggest making certain “design around” changes to the product or service so as to minimize the risk that it might be viewed as infringing upon one or more of the discovered patents. Another option would be to attempt to neutralize any patent of concern, e.g., by finding prior art or technical problems that could be used to invalidate the patent. Still another step a company could take would be to attempt to acquire rights to the patents on favorable terms before the company’s product or service is introduced into the marketplace. ☞



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