

The Limited Monopoly™

Patent Misuse – A New Defense Against Patent Abuse?

by John Hammond, PE and Robert Gunderman, PE

The Property Right – a Review

Regular readers of this column will recall that a patent is a property right¹ – the right to exclude others from making, using, or selling an invention as described in the claim(s) of the patent. Infringement of the patent² occurs when a third party does one or more of those actions with respect to one of the four classes of patentable subject matter (composition of matter, article of manufacture, apparatus, or method) that is covered by at least one claim in the patent.

In that situation, in order to obtain value from the patent, the patent owner (“patentee”) must proactively assert the patent. The USPTO is not responsible for enforcing patents and pursuing infringers. There is no government “patent police” station where an infringement complaint can be filed and the infringer brought to justice. Infringement is a civil matter, and is adjudicated in a court of law.

Infringement Defenses

If it comes to that, i.e., an infringement lawsuit is filed, the alleged infringer (the defendant) will certainly assert one or more defenses. (If the defendant lacks at least some basis for defense, the matter will likely be settled out of court, and never reach a judge or jury.) The common defenses³ against an infringement complaint are non-infringement, invalidity, and unenforceability.

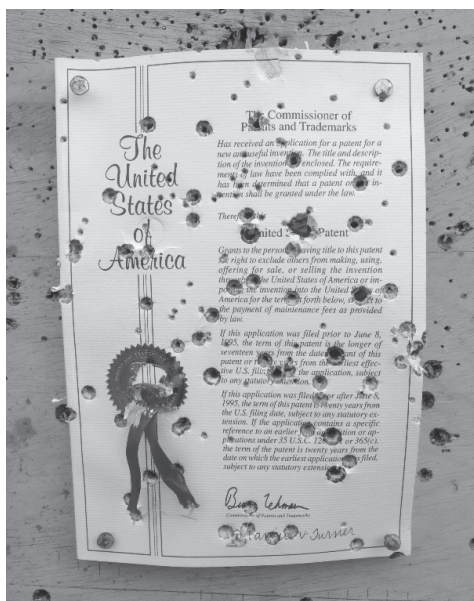
In asserting these defenses, the basic arguments typically used are as follows: infringement is not occurring, the patent is invalid because it does not meet the statutory requirements for patentability, and the patent is unenforceable due to inequitable conduct by a party involved in preparation or prosecution of the patent application. Of course, there are many specific aspects in asserting these defenses; a discussion of those is better left to a future column.

The Patent Misuse Defense³

An additional affirmative defense is patent misuse. In arguing patent misuse, the defendant must show that a patentee has broadened the scope or term of the asserted patent in a manner that harms competition. Broadening the scope of a patent would be an act where the patentee asserts the patent to extend beyond what it would otherwise cover. Broadening the term of the patent would include the patentee asserting protection of the patent or demanding some other benefit beyond the expiration date of the patent.

More specifically, the following acts have been found by the courts to be patent misuse by a patentee:

"Our patent system is supposed to provide protection not only to large corporations, but also to small businesses and individual inventors. They deserve the opportunity to benefit economically from their patented inventions."



- Requiring a licensee of a patent to buy other products as a condition of obtaining the license.
- Attempting to collect royalties on a patent license after the patent has expired.
- Demanding that a licensee pay a portion of revenue from the sale of products not covered by the licensed patent, as well as from the sale of those products covered by the patent.
- Filing a patent infringement lawsuit that is objectively baseless, i.e. a suit that could not reasonably be expected to be successful on the merits.

The above list notwithstanding, the opportunity for a defendant to use a patent misuse affirmative defense is limited by statute. According to 35 U.S.C. § 271(d), if a patentee requires a licensee to obtain an additional license on another patented product or purchase another product, it is not patent misuse unless “the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.” Additionally, an act by a patentee to sue a third party who makes products that could be used to infringe the patent is also not patent misuse.

If a Court finds that patent misuse has occurred, it can be cured by terminating the action that is held to be misuse. In other words, if the patentee ceases the action held to be misuse, the patent again becomes enforceable. (This is in contrast to a finding of inequitable conduct, in which case the patent is held permanently unenforceable.)

The Patent Abuse Defense?

The recent actions and press coverage of “patent assertion entities” (PAEs), also known pejoratively as “patent trolls,” have caused demands for legislation that expands the definition of patent misuse. PAEs are business entities that obtain ownership of patents, and then assert them against companies that they allege to be infringing the

patents. A PAE that practices a business model that only involves acquiring a portfolio of patents in a given technology area and “monetizing” it through licensing or patent litigation, rather than manufacturing a product covered by the patents, is also often referred to as a “non-practicing entity” (NPE).

Many of those who are advocating for patent law reform are opposed to the notion that a patentee that owns a patent but does not manufacture any product covered by the patent should be able to derive economic benefit from it. However, there is nothing in the current statutes that requires that a patentee must be engaged in manufacturing the invention claimed in the patent in order to assert the right to exclude others from doing so. Moreover, Article I, Section 8 of the United States Constitution states that Congress shall have the power... “To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” It does not say “manufacturers,” or “inventors who manufacture.”

It is important to keep in mind that our patent system is supposed to provide protection not only to large corporations, but also to small businesses and individual inventors. They deserve the opportunity to benefit economically from their patented inventions, regardless of whether or not they have the means to start up and operate a manufacturing plant to produce them. Any attempt to amend the patent statutes to require a patentee to manufacture a product covered by its patent should be viewed with great skepticism.

On the other hand, there is no question that some PAEs have engaged in baseless lawsuits, and that the practice has been growing. They operate on the premise that because patent litigation is so expensive, even in an infringement lawsuit that is baseless and would likely get dismissed, they can likely extract a royalty payment from a target company that is an acceptable profit to them, while being less than the cost the target company would spend to get to the point of dismissal in court. Additionally, in recent years, the range of target companies has broadened significantly to include not only manufacturers of patented products, but also the end users, such as small and large retailers and service providers. It can reasonably be said that some PAEs engage in a form of patent misuse.

New Laws on the Horizon

In response to the growing base of those affected, Congress is currently addressing this issue. On December 5, 2013, the House of Representatives passed H.R. 3309⁴, the “Innovation Act.” The Bill has now been referred to the Senate Judiciary Committee, and has a fair chance of being enacted in at least some form in 2014. Among the reforms contained in H.R. 3309 are the following:

- Requiring greater specificity in infringement lawsuits, including an identification of each claim of each patent that is allegedly infringed, and for each claim identified, “an identification of each accused process, machine, manufacture, or composition of matter... alleged to infringe the claim,” and for each of these accused “instrumentalities,” “where each element of each claim identified... is found within the accused instrumentality.”
- Greater transparency of ownership of the asserted patent, including the requirement that the plaintiff discloses the names of all parties who have a financial interest in the patent litigation.
- Protection of end users of the alleged infringing product. This provides relief to end users, particularly small businesses being sued in

addition to the manufacturers of products that they use. The Court may be granted a stay of the action against them until the overall case between the plaintiff and the alleged infringing manufacturer is resolved.

- Delay of the discovery phase of patent litigation. Currently, the discovery phase, in which a defendant must provide thousands of pages of e-mails and other relevant documents, occurs relatively early in the proceedings. Delay of discovery will reduce the early litigation costs, thus motivating defendants to fight rather than simply pay up and settle out of court.

- “Loser pays.” The Court can award “reasonable fees and other expenses incurred by that party in connection with a civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents.” This may well be the greatest disincentive to file an infringement lawsuit that does not have substantial merit.

A Balancing Act

In the debate over this new round of patent law reform, large corporations have generally been in favor of H.R.3309. Interestingly though, a few large corporations are hedging their bets by forming their own NPEs. For example, Rockstar Consortium Inc., formed in 2011, is owned by numerous companies including Apple, Microsoft, Research in Motion, EMC, Ericsson, and Sony. RCI acquired more than 4000 patents from Nortel in its bankruptcy proceedings, and is now enforcing them. RCI has sued Google, Samsung, HTC, LG Electronics, as well as other companies.

Large corporations that are not playing both sides would much prefer legislation that prevents the “patent trolls” from blocking the manufacturing and sales bridges they want to cross without paying a toll. Although they don’t say so, they would also like to be able to ignore the small startup company with innovative patented technology, and enter a new market without being concerned with any annoying patents. We hope that does not become a consequence of passage of H.R.3309. We shall see in 2014 and beyond.

1. See “[The Limited Monopoly](#)” December 2005.
2. See also “[The Limited Monopoly](#)” April 2008.
3. See also “Patent Misuse, Exploring the Basics,” Gene Quinn, IPWatchdog®, <http://www.ipwatchdog.com/2011/11/18/patent-misuse-exploring-the-basics/>
4. See <https://www.govtrack.us/congress/bills/113/hr3309/text>

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