

Congress Needs to Help Inventors Fight Patent Squatters

By Philip L. Marcus, Esq.

The American patent system has become distorted, protecting wealthy trespassers against individual inventors, and only Congress can fix it. Where patent law was since colonial times provided incentive for inventors and invention, it now provides incentives to ignore patents and use the technology.

To see part of what I mean, let's take an example from another field: rental real estate. If you own such a building, say an apartment or office building, and someone breaks in and squats, you can get a court to order the squatters out, as well as a judgment for the unpaid use value of the premises. It's quick, easy and certain. After all, the building is your private property.

Still, what if the court said, "Wait a minute. You are just an investor. You don't live in or have an office in the building. Maybe you shouldn't get the squatter thrown out. They should just pay you damages for squatting and I'll decide how much that is."

"But," you say, "it's my building. I should get to decide who lives there or has an office there, and how much rent they pay."

"Maybe not," says the judge. "After all, it would be a hassle for these squatters to have to move out. And you are just in it for the money. Forget the eviction order. Be satisfied with whatever you can get of their money."

You would be shocked. The story would get in the newspapers and on TV. Still, that is the current state of patent law.

In May 2006, the Supreme Court decided *eBay v. MercExchange* by 8-0. (The new Justice, Alito, had not read the briefs or heard oral argument, so he stayed out of the decision.)

For some time everyone practicing patent law assumed that if you could prove infringement on your patent, which is like squatting, you could easily get a court order that the infringer stop using the patented invention. After all, a patent is a form of property, one of few the Constitution itself recognizes. "Congress shall have 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." (Article I, section 8)

No longer. Now the patent owner also has to prove (a) the infringement will if continued cause him, her or it injuries that are irreparable; (b) that money damages won't compensate the injury; (c) that the balance of hardships with and without a court order ("injunction") favors the patent owner; and (d) that the public interest would not be harmed by an injunction. As the victim of infringement you still have to pass all four tests to get your court order.

Let's back up a minute and look at the economic reality of patents. Most inventors outside large corporations cannot afford to manufacture and market their invention. It takes more capital than they can possibly raise by tapping friends and relatives. Unless they have an obvious winner, venture capitalists will not touch a patent. "VC's" want an up and running business, pretty new and with potential, but not just a seed. A mere patent owner has only a seed.

What can an inventor do? Most likely they will try to license the patent out. This is true whether the invention is a physical consumer product, a software method, or a patented pharmaceutical. The inventor might license to a company already making and marketing similar products, which therefore has the factories, favorable reputation, sales organization and product distribution arrangements to be effective. Of course, there is no guarantee of promptly finding such an existing company. Therefore, like a developer that has constructed an apartment or office building and wishes to cash out, the inventor might license or sell the patent to a professional patent holder.

These professionals have gotten a bad name, given to them by the squatters they go after. They have been called "patent trolls." Of course, they call themselves something like "patent investors". Really, they are like the investors in apartment or office building, with one difference. Their squatters (patent infringers) are almost always big corporations.

eBay is of course a huge corporation with tons of money for litigation. MercExchange, the original plaintiff, was a small company owned by an electrical engineer named Thomas G. Woolston. He had once worked for the CIA but had later invented a web-retailing process he intended for selling travel on the web. When he could not break through against the big online travel sellers, he decided to make money off his patented process itself.

Woolston looked at the very successful eBay and noticed they were using his process ("buy it right now") So he sued eBay for infringing on his patented process, and the jury agreed. They awarded him substantial damages for past infringement, that is, for squatting on his patent without paying rent for it.

Therefore, he asked the judge also to order eBay to stop. The trial judge refused, but the federal appeals court that handles all patents (the "Federal Circuit") sided with Woolston and his MercExchange company, ordering an injunction be issued. So eBay appealed to the Supreme Court.

You would think the Supreme Court would protect this American capitalist visionary, but don't forget eBay's millions. The Court said Woolston could get an injunction if he could pass the four-part test above—all four tests. (By the way, because of the ineffective wording of section 283 of the patent law, they were probably technically right in their decision.)

What has happened since the May 2006 decision? What you might expect. A Federal Court in East Texas has decided *z4 Technologies v. Microsoft*. The court agreed the Microsoft XP operating system infringed on z4's patented process for software activation. A jury awarded damages for past infringement.

Still, the judge cited *eBay* and refused an injunction against future infringement. That means Microsoft can take all the time it pleases to remove the z4 component from XP, probably until it releases the Vista operating system to replace XP. It can continue to squat on z4's invention, and will eventually have to be sued for more damages.

This was not even a case of a mere patent investor. Z4 is itself in the market trying to sell against Microsoft with its actual product. Despite that, the judge said they will not lose profits, brand name recognition or market share. Say what? Not lose brand name recognition? You've heard of XP, but have you heard of z4 brand software activation technology? If you were a software company, would you go to z4 for activation technology to protect your product from

piracy? Would you even know of them? Yet their process is secretly buried in XP without recognition.

The decks were already stacked against small inventors by the large amount of money, several million dollars, needed to pursue an infringer. It is one reason patent investors sprang up. They have money, from private investment, to pick a fight with a well-heeled infringer. Now even they will hesitate.

Well, so what? Let's go beyond effects on individual inventors with the value of their inventions to lose. What about the public? How do they make out in the new regime of difficult-to-get injunctions?

Especially in software methods and algorithms, individual inventors can make important inventions. It does not take a huge lab, but rather a creative and intelligent brain. Small teams can also make a difference in biotechnology, unencumbered by "groupthink," bosses focused on immediate profits and the other limitations of big companies. The public will not benefit from these breakthroughs, because the individual and small inventors will say to themselves "why bother." Or "I cannot afford to take a year or two off my high tech, well-paying job to develop an invention that may never pay me a dime because of patent squatting."

America's economic power is based in large part on its inventions such as the cotton gin, telephone, telegraph, television, typewriter, phonograph, air brakes, George Eastman's low-price consumer camera, steam locomotive, electric bulbs, fountain pens and numerous others. They were all made by individual inventors. We need to maintain that innovative edge, and it is up to Congress to undo the damage the Supreme Court did, by altering the rules the Court enacted. Congress should rewrite section 283 to provide a strong presumption that patent infringement found by a jury entitles the plaintiff patent holder to an injunction.

The writer has bachelor's and master's degrees from MIT's Department of Electrical Engineering and Computer Science, and a J.D. from the University of Maryland Law School. He has been a member of the Maryland bar since 1973, spent twenty years in the computer industry, and currently focuses his practice on intellectual property. An abridged version of this article appeared in the Business Monthly, February 2007.