



IP CONNECTIONS

CANADIAN INTELLECTUAL PROPERTY & TECHNOLOGY LAW NEWSLETTER

On the lookout for patent trolls

The patent troll phenomenon endangers Canadian companies that do business in the United States.

We've all heard of trolls – hideous creatures who hide under bridges, waylaying unwary travellers with extortionate demands for a bridge-crossing toll. Surely trolls are mythical beasts, existing only in scary children's stories. But it seems that a species of this creature *does* exist in the real world – the so-called patent troll. And while this creature is said to live primarily in the United States, armed with patents possibly of questionable quality, it may nevertheless waylay unwary Canadian technology companies doing business in the United States, with extortionate demands for royalties, even on technologies that the Canadian companies believe they are free to use, buy, or sell to others.

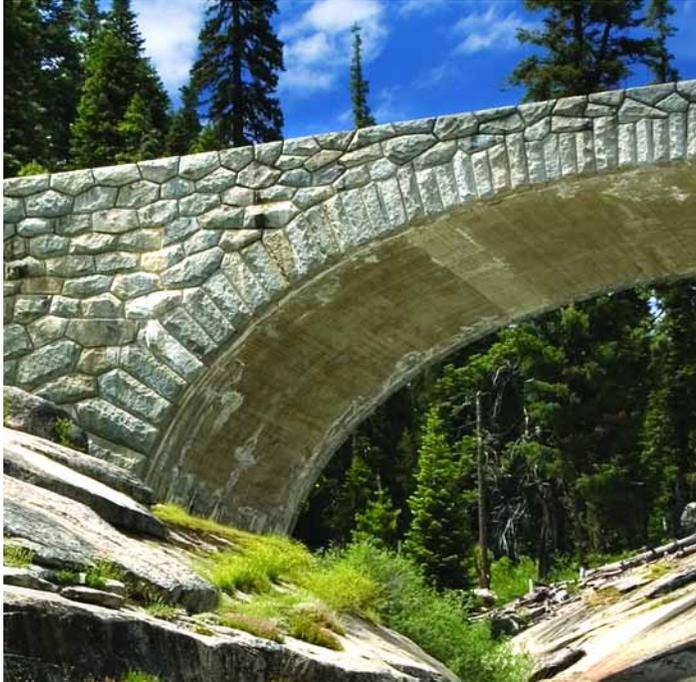
What is a patent troll? This term was first coined by an Intel attorney in 2001 to describe patent holders whose entire business model was based on bringing dubious patent infringement claims against other companies to extract exorbitant settlements. Of course, the legitimacy of a patent enforcement strategy is often in the eye of the beholder, and thus some commentators have advocated using a more neutral term to describe such plaintiffs, for example, “non-practicing entity” (NPE), “patent licensing company”, “patent enforcement company”, “patent dealer”, or “patent aggregator”. Nevertheless, the more

colourful moniker “patent troll” has stuck and has since been widely adopted in the intellectual property field to refer to stereotypical patent holders having one or more of the following characteristics:

- **No products or services of its own, making it easier to focus on litigation.** The troll's only real assets may be the patents used to demand licensing royalties from alleged infringers. Unlike an ordinary company, the troll does not find litigation to be disruptive to its primary business – litigation *is* its primary business. However, because it does not produce products or services, the patent troll is immune to counterclaims of patent infringement or unfair trade practices, allowing it to be more aggressive in asserting its patents than a competitor in the same industry. The patent troll has no need or desire to cross-license a defendant's technology. This reduces the defendant's leverage in negotiations. Yet the patent troll may gain tremendous leverage if it can plausibly threaten a court injunction to prevent the defendant from providing its technology in the marketplace. When Canadian company Research in Motion faced a U.S. patent infringement lawsuit with the possibility of its U.S. Blackberry services

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being shut down by an injunction, it was reportedly forced to settle the lawsuit for over \$600 million.

- **Buying up and asserting patents of broad scope but dubious validity.** It is widely acknowledged that the Patent Office sometimes conducts an examination of poor quality or overlooks the best prior art, and consequently issues patents with excessively broad claims. Under U.S. law, an issued patent is presumed to be valid, although this presumption is rebuttable by evidence. The rationale underlying the presumption is the supposed special expertise of the Patent Office to examine and approve patent claims. While the U.S. Supreme Court questioned the strength of this rationale in its recent decision in *KSR International Co. v. Teleflex Inc.*, as a practical matter, once a patent has issued it can be difficult to convince a judge or jury that the Patent Office was mistaken in its finding of patentability. Therefore, trolls may have a sympathetic audience, even when they assert patents with excessively broad claims. Sometimes the asserted patents are vague or ambiguous as to their scope of protection, allowing the patent troll to make outlandish claims about what kind of technologies are covered by the patent. While defendants have the opportunity to make technical arguments about the asserted patent's inapplicability or invalidity in Court, there is a risk that the force of these arguments
- may be lost on a judge or jury who are not technically trained.
- **Filing patent infringement suits in certain judicial jurisdictions that are believed to be biased in favor of patent holders.** Trolls are known to sue defendants in plaintiff-friendly jurisdictions to obtain a tactical advantage, even though the defendants (and even the trolls themselves) have no real connection to that jurisdiction. To take one example, the Eastern District of Texas is a jurisdiction much beloved by trolls due to the unrelenting pace of its docket in patent cases, its reluctance to grant summary judgments to dismiss dubious lawsuits, and its sympathetic and generous juries that have a track record of awarding tens and even hundreds of millions of dollars in damages to plaintiffs. Jury awards, especially in plaintiff-friendly jurisdictions, can be way out of proportion to the economic contribution that the patented invention makes to the infringing product as a whole. If the defendant is found to have willfully infringed the patent, up to *treble* damages may be awarded under U.S. law. The risks for defendants are considerable, and thus so is the pressure to settle out of court.
- **Suing large numbers of defendants simultaneously to more easily collect multiple settlements.** An internet blogger called Patent Troll Tracker (<http://trolltracker.blogspot.com>) has pointed out a remarkable case in the Northern District of Georgia in which an alleged patent troll has sued 108 defendants simultaneously. Troll Tracker also reports that another alleged troll has sued around 400 defendants over the last few years, but has only ever taken one case to trial. Why? Patent litigation is extremely expensive, and many defendants – even those whose cases appear to be strong from a legal standpoint – may prefer instead to settle a suit out of court for far less than the cost of defending themselves in court, a settlement that the troll is only too eager to offer. While the above two cases may arguably be extreme examples of the troll phenomenon, these kinds of news reports have given rise to the perception that certain patent holders are suing large numbers of defendants for infringement simply as a strategy for forcing multiple out-of-court settlements, even though many of the cases arguably lack merit.

- **Engaging in other questionable tactics.** Certain trolls have spread out their portfolio of patents among dozens of different patent holding companies or shell corporations which then become the plaintiffs in legal actions, thereby disguising their affiliation with the parent troll and so avoiding scrutiny of their tactics. Patent trolls have also been accused of suing defendants without having given them proper notice that they are considered to be infringing. Various other complaints have also been made against trolls, including bullying and harassment tactics.

The backlash against Patent Trolls (“patent reform”; etc.). This phenomenon has given rise to vigorous debate and calls for patent reform, especially in the United States where most of the troll activity appears to take place.

In *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), the U.S. Supreme Court weakened one of the most powerful weapons in the patent troll’s arsenal: the injunction. Prior to this case, a patent holder could almost always obtain a permanent injunction enjoining the defendant from practicing the invention if infringement was proved, regardless of whether the patent holder was itself practicing the invention. This gave the patent holder tremendous negotiating leverage. However, in the *eBay* case, apparently influenced by the fact that MercExchange did not actually produce or practice its invention, the Supreme Court held that an injunction should not automatically issue based on a finding of patent infringement. Instead, the court should weigh the four equitable factors that are traditionally used to determine whether an injunction should issue. While an injunction is not precluded for a non-practicing entity (*i.e.*, a patent holder who does not actually produce or practice its invention), it is no longer an assumed success as before. Many commentators have remarked that the *eBay* case appears to be a judicial reaction to patent trolls.

Similarly, the pending *Patent Reform Act of 2007* is a piece of U.S. legislation that appears to be at least partially in reaction to patent trolls. On September 7, 2007, the House of Representatives passed H.R. 1908, and an amended form of the legislation has been under consideration by the U.S. Senate as S. 1145. The proposed provisions in S. 1145 would affect the ability of patent trolls to arbitrarily choose plaintiff-friendly jurisdictions for their lawsuits, allow courts to reduce royalties so that they relate only to the claimed invention’s

specific contribution over the prior art, and permit third parties to submit prior art prior to issuance and also to initiate post-grant review proceedings within certain time limits, to cancel the claims of a newly issued patent as unpatentable. Due to opposition to some provisions in the *Patent Reform Act*, the progress of the legislation in the Senate is currently stalled.

How to fight back against the big, bad trolls.

Canadian companies that do business in the United States can take some practical steps to avoid being waylaid by a patent troll.

- **Beware of the friendly “Would you like to take a license?” letter.** Patent trolls sometimes start by sending a company an innocuous letter offering to license their patents for a particular technology that the company is involved in. The letter identifies one or more specific patents owned by the troll. However, because the letter contains no overt threats, it is often ignored – perhaps even thrown away. This is a mistake. The next letter may well be notice of a lawsuit, launched in the troll’s favorite jurisdiction. The purpose of the original letter was to put the defendant on notice that they are infringing without alarming anyone. (Otherwise, the defendant could initiate a preemptive strike, for example, by seeking a declaratory judgment – *in a jurisdiction favorable to the defendant* – that the patent in question was invalid or not infringed.) Moreover, having given notice to the defendant, the troll is now in a better position to argue later that its patents are being *willfully* infringed by the defendant – a claim which, if successful, could lead up to *treble* damages being awarded.
- **Get prompt legal advice.** Whether receiving a friendly licensing offer or a more threatening demand letter, it is essential to obtain appropriate legal advice promptly. With such advice, it should become clearer whether the patents cited pose a credible threat. The risk of liability for infringement or an adverse injunction being granted should be carefully evaluated. In some cases, it may be advisable to obtain a formal legal opinion from U.S. counsel that the defendant does not infringe the patent and/or that the patent in question is invalid. Obtaining such an opinion may help the defendant later avoid treble damages for willful infringement. In addition to the specific patents asserted,



it is worth investigating whether the patent troll may have any other patents or pending applications that may pose a danger. At this stage, the activities and track record of the patent troll should also be researched (e.g., has the patent troll been involved in any other litigation? What kind of tactics has this patent troll used with other defendants or in other cases?).

- **Consider your options and take action quickly.** If the patents cited by the troll appear to pose a credible threat, it is time to take action.
 - *Control risk.* It is important to take some basic steps to evaluate and reduce risk. As stated above, non-infringement and invalidity opinions may be sought to avoid a claim for willful infringement. In addition, steps should be taken to preserve evidence (e.g., documents, files, emails) to avoid later being charged with spoliation of evidence. Agreements with suppliers and buyers should be reviewed to consider whether another party may provide (or require) an indemnity, or may even bear some responsibility for the alleged infringement. Finally, insurance contracts should be considered.
 - *Attack the validity of the patent.* It may be advisable to have a professional invalidity search conducted to search for prior technology that may prove that the asserted patent should never have been granted. If such prior technology is found, one option is to initiate a reexamination of the patent in question. This involves arguing before the Patent Office that the claims of the patent do not comply with legal requirements and should never have been issued. A second option, as mentioned above, is to request a declaratory judgment (DJ) of invalidity of the patent or of non-infringement by applying to a competent court in a favorable jurisdiction of the defendant's choosing.
 - *Obtain a declaration of non-infringement.* A DJ action can also be used to obtain a declaration of non-infringement. In general, a preemptive strike in the form of a DJ action provides the best chance of



overcoming an asserted patent in the context of litigation. (If the patent troll initiates litigation first, its chances may be improved.)

- *Consider joining forces.* The strategy of suing multiple defendants to exact multiple settlements can be used against the troll. While the cost of any individual company defending itself may be quite high, it may be possible to reach an agreement with other defendants to share information and resources against the troll.
- *Consider designing around.* If the patented technology is not critical and would be easy to circumvent, you may consider modifying your product to avoid infringement. However, legal advice should be sought to avoid the possibility of willful infringement.
- *Consider settling.* As unappealing as it might sound, sometimes an early and confidential settlement can allow the defendant to get better terms. However, experience also suggests that if a defendant first conducts a validity search and comes to the negotiation table armed with a well-organized collection of impeaching prior art, the troll may be willing to settle for a nominal amount in exchange for the defendant refraining from launching a potentially devastating reexamination request.

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Parody and the law: when is it OK to poke fun?

In today's era of pervasive technology, parodies are everywhere. YouTube is a prime example – the site is littered with video parodies of all kinds. For example, a video parody of the James Blunt song “You're Beautiful”, titled “She Was Beautiful...I Swear”, has received over two million hits.

What makes a parody controversial, in the intellectual property sense, is that in order to have a successful parody, enough of the original work must be taken so that the original is recognizable. This copying has obvious implications in both the trade-mark and copyright fields.

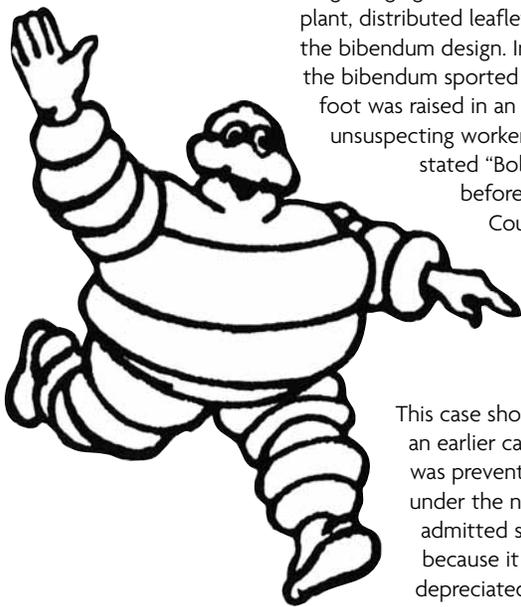
Trade-mark law. Under trade-mark law, infringement of a trade-mark by a parody mark is difficult to prove. Consumers are normally aware that the parody is a “spoof” of the original and source confusion is therefore unlikely. As a result, trade-mark owners often attempt to rely on the dilution provision of the *Trade-marks Act* claiming that the parody has depreciated the goodwill in the original trade-mark. It is clear, however, that dilution does not occur unless the parody mark is used commercially.

Take for example a case involving the tire company Michelin and its “bibendum” design (a.k.a. the Michelin Man, or a “beaming marshmallow-like rotund figure composed of tires”), a registered copyright and trade-mark. The defendants, attempting to become bargaining agents for employees at a Michelin plant, distributed leaflets to workers displaying the bibendum design. In the leaflets, although the bibendum sported his famous smile, his foot was raised in an attempt to crush an unsuspecting worker while a coworker

stated “Bob, you better move before he squashes you”. The

Court held that because the trade-mark was not used in a commercial sense, dilution could not have occurred.

This case should be contrasted with an earlier case where a company was prevented from selling water under the name “Pierre Eh!” (an admitted spoof on Pierre Trudeau) because it was confusing with and depreciated the goodwill in the PERRIER trade-mark.



Of course, if the public cannot determine the difference between the parody and the original trade-mark, trade-mark infringement may occur. In the U.S., the registration of the domain www.peta.org, used to direct Internet users to a web site called “People Eating Tasty Animals,” was not considered a parody of the trade-mark PETA owned by the well-known organization People for the Ethical Treatment of Animals, because users entering the URL www.peta.org into a browser would be unaware of the parody.

Copyright law. Under copyright law, the topic of parody is often discussed in relation to music. Weird Al Yankovic has, for example, made a career out of creating witty renditions of famous songs. The official Weird Al Yankovic website indicates that “while the law supports his ability to parody without permission”, Weird Al does obtain permission from the original songwriters. It appears that in the U.S. at least, Al is right: the law does support the ability to parody without permission.

This was tested in a U.S. case involving the music group 2 Live Crew and the owner of the Roy Orbison song “Pretty Woman”. 2 Live Crew was unable to obtain the consent of the owner to sell a parody of the Pretty Woman song. Unfazed, 2 Live Crew released the song containing lyrics such as “two timin’ woman now I know the baby ain’t mine” and was sued for copyright infringement. It was ultimately held that the song could be perceived as a criticism (apparently relating to the naiveté of the original version that ignored the ugliness of street life), and therefore the parody exception to copyright infringement applied.

Canadian courts appear to have less of a sense of humour when it comes to a parody of material that is the subject of copyright. In fact, the courts have specifically held that parody does not fall under the infringement exception in the *Copyright Act* because it is not considered criticism, prompting some to question whether Parliament should create an exception under the *Act*.

Parodies will undoubtedly continue to proliferate on YouTube and other popular Internet sites. Few people are aware of the potential implications of a parody, and it is clear, particularly in terms of copyright, that parody is no laughing matter.

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Helping the environment through patent pledging

The green movement has become a powerful force. This interest in our planet is now being extended to the sharing of patented technology.

On January 14, 2008, an IBM-led group of major companies, in collaboration with the World Business Council for Sustainable Development (WBCSD), launched the Eco-Patent Commons, an initiative to create a collection of patents for inventions that protect the environment. The patents will be pledged by companies and other patent holders and made free to use by anyone.

Through the Eco-Patent Commons, companies, entrepreneurs and researchers have access to patents that can be freely used to protect or improve the environment by developing and implementing environmentally beneficial technologies and processes without fear of being sued for infringement of these patents. Also, those facing a particular environmental challenge may connect with others having already successfully met that challenge.

Patents pledged to the Eco-Patent Commons are for inventions that provide environmental benefits, such as energy conservation or efficiency, pollution prevention, use of environmentally-friendly materials or substances, and recycling ability enhancement. The environmental benefits may be a direct purpose of the patented invention, such as a technology to treat polluted water or reduce gas emissions, or may be a less direct result, such as a manufacturing or business process that leads to reduced waste generation or fuel consumption.

Thirty-one patents have initially been pledged to the Eco-Patent Commons, including 27 patents from IBM and four patents from Sony, Nokia and Pitney Bowes, which have joined IBM in launching this initiative. The initially-pledged patents cover, among others, a process for treating noxious or polluting gases, a corrugated packing insert that can be used instead of conventional packaging foam, and a method for recycling old cell phones into new electronic devices such as clocks, calculators, and remote controls. The founders of the Eco-Patent Commons expect that the number of pledged patents will grow over time as more businesses access the pledged patents to implement environmentally-beneficial solutions and as the virtue in participating in the Commons becomes more widely known.

Any patent holder can pledge one or more patents to join the Eco-Patent Commons. Pledgers are free to choose which patents they



wish to pledge, as long as the patents are for inventions providing environmental benefits and are classified in certain patent classifications. While companies will typically not pledge environmentally-beneficial patents that represent key assets for their core businesses, they may pledge patents that provide environmental benefits but are not commercially important to them.

Pledgers of patents to the Eco-Patent Commons benefit from global recognition for contributing to protection of the environment through their pledge. Also, pledgers may identify and connect with companies having common interests to establish new collaborative development efforts. Furthermore, in contrast to dedicating patents to the public, the Eco-Patent Commons allows a pledger, under some circumstances, to enforce a defensive termination clause and assert a pledged patent against a party asserting its own patent against the pledger. In other words, pledgers do not entirely relinquish their ability to assert the pledged patents, but rather retain this ability by way of a contractual defensive termination provision that can be invoked under certain conditions.

Companies, researchers and others may consult the list of patents pledged to the Eco-Patent Commons on the WBCSD's website to see whether they can benefit from using some of the patented inventions. However, caution should be exercised to ensure that implementation or use of a pledged patent's technology, product or process does not inadvertently result in infringement of other patents not pledged to the Eco-Patent Commons. For example, a company implementing a patented waste water

treatment process which is the subject of a pledged patent should ensure that filtering or other equipment designed to implement the patented process does not violate patent rights that could be asserted against the company. Such potential patent infringement issues may be addressed by conducting a “freedom-to-operate” (FTO – also known as “market clearance”) analysis to assess whether implementation or use of a particular technology, product or process is likely to infringe third-party patent rights.

Those interested in joining the Eco-Patent Commons may: contact any representative of

the Eco-Patent Commons identified on the WBCSD’s website to express their interest; and examine their patent portfolio to identify one or more patents that provide environmental benefits and that may have greater value if made freely usable by the public. As it grows and becomes more widely known, it is hoped that the Eco-Patent Commons will achieve its objective of enabling us to use patents to protect our most important asset of all – our planet.

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Recent developments in brief

Leave sought to review ringtone case.

In January of 2008, the Federal Court of Appeal issued a decision whereby the authority of the Society of Composers, Authors and Music Publishers of Canada (SOCAN) to collect royalties from wireless carriers on the transmission of ringtones was affirmed. The transmission of ringtones to cell phone owners in response to orders was considered to be a communication of a musical work “to the public by telecommunication”, and thus qualified as a circumstance where SOCAN could collect a royalty. However, the Canadian Wireless Telecommunications Association is asking the Supreme Court of Canada to review the decision on the basis that the transmission of material covered by copyright is not the same as copying or reproducing the material, and should not be a situation where a royalty applies. Word as to whether the Supreme Court will agree to review the case is awaited as technology continues to expand the boundaries of copyright law and outstrip the capacity of current copyright legislation to provide guidance in situations that arise.

Wikitravel travels back to print.

Launched by Montreal residents Evan Prodromou and Michele Ann Jenkins in 2003, Wikitravel adheres to the same user-content formula as Wikipedia and has similarly met with huge success, with over 30,000 online travel guides now available and over 10,000 enthusiastic contributors each week. The Wikitravel founders have now established Wikitravel Press, which provides a book version of the Wikitravel on-line content that can be purchased on the internet. Borrowing from another successful Canadian, Wikitravel Press uses print-on-demand technology supplied by Lulu.com, a U.S. site developed by Robert Young (who is also owner of the Hamilton Tiger-Cats). Seen as more user friendly than the online information, the books are delivered within a few days of order and are revised monthly. While this move could be seen as a backward step from the advantages of online content, it is actually a clever application of new technology applied to improve a centuries old and much-loved form of communication.



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Smart & Biggar/Fetherstonhaugh is pleased to announce that the firms have been named both Trade-mark Prosecution Firm of the Year and Trade-mark Contentious Firm of the Year for 2008 by U.K. publication *Managing Intellectual Property* magazine (MIP). Smart & Biggar/Fetherstonhaugh is the first to be awarded this honour in Canada in two of MIP's five categories recognizing excellence in the field of Canadian intellectual property law.

With approximately 100 professionals in four offices, Smart & Biggar is Canada's largest firm practising exclusively in intellectual property and technology law. Related to the patent and trade-mark agency firm Fetherstonhaugh through common partners, offices, and personnel, we have been leaders in our field for over a century.

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