



Battle over Blackberry: Is the U.S. Patent System Out of Whack?

Published : March 16, 2006 in [Knowledge@Wharton](#)

On Friday, February 24, the long-running patent dispute between Research In Motion (RIM), which makes the popular BlackBerry wireless email and communications device, and NTP, a holding company, will finally have its day in court. That's when a federal judge in the Eastern District Court of Virginia will consider a possible injunction that could shut down BlackBerry service in the U.S. But more importantly, the ruling could shine light on a flawed patent system.



This is a single/personal use copy of Knowledge@Wharton. For multiple copies, custom reprints, e-prints, posters or plaques, please contact PARS International: reprints@parsiintl.com P. (212) 221-9595 x407.

While there are many moving parts in this five-year patent battle, the basic conflict is over NTP's contention that RIM's use of a wireless messaging network to deliver email infringes on patents that NTP owns. But the dispute raises other, more far-reaching questions, such as: Should Research In Motion have to pay a percentage of its sales to NTP, which may not have commercialized its patent anyway? Why has the battle gone on this long? Could RIM be shut down over a patent dispute even while the U.S. Patent and Trademark Office (USPTO) is re-evaluating several of the disputed patents? (Indeed, according to several news reports, the USPTO has already indicated that it eventually intends to reject all of NTP's claims.) And finally, can the U.S. patent system, which in 1977 permitted a patent for a "comb over" -- technically a "method of styling hair to cover partial baldness using only the hair on a person's head" -- keep up with technological innovation and a flood of patent requests? Does the patent system itself need a do-over?

"That's the central question," says Wharton professor [Eric Clemons](#). "The balance is between encouraging innovators and benefiting society. This debate has been around for hundreds of years, and it ebbs and flows. Ben Franklin opposed patents in any form, and obviously he was wrong. Innovation is encouraged if innovators are rewarded. But when patents are too easy to get, mini-innovations can either shut down real services or command enormous payments for, in essence, doing nothing."

Whether the RIM-NTP battle sparks a larger debate on patent law remains to be seen, and experts at Wharton and elsewhere are decidedly mixed on the case. But one thing is certain. NTP, whose only significant assets are its wireless email patents, has won its share of rulings, notably one in 2003 that instructed RIM to halt its sales of BlackBerry devices and services in the United States until NTP's patents run out in 2012. That ruling was stayed pending appeals. Meanwhile, RIM on February 9 announced a workaround plan, essentially a software fix that it claims would steer clear of NTP's disputed patents and that "provides a contingency for our customers and partners and a counterbalance to NTP's threats," according to Jim Balsillie, chairman and co-CEO of RIM. "This will hopefully lead to more reasonable negotiations since NTP risks losing all future royalties if the workaround is implemented." RIM maintains that the BlackBerry was created in 1999 independently of NTP's patents.

How this saga plays out will be closely watched. After all, more than three million U.S. blackberry users could see their service go dark if an injunction is issued. Even the federal government has noted that an injunction against RIM could be a public safety issue, although RIM has indicated that some customers (such as government and emergency workers) could be exempt from an injunction. Information technology departments, however, would face the headache of having to implement RIM's workaround. Meanwhile, the bigger issue for RIM, says Clemons, is that, in the long run, customers could migrate to other devices and services from such companies as Palm and Microsoft.

[Kevin Werbach](#), Wharton legal studies and business ethics professor, acknowledges the problems a BlackBerry outage could pose, especially to the financial services industry, but notes "if Wall Street can survive a transit strike, it can probably survive a BlackBerry shutdown."

What's unclear is the impact that the RIM-NTP battle is having on people's perceptions of patent law. [R. Polk Wagner](#), a law professor at the University of Pennsylvania, downplays the idea that the RIM and NTP dispute is a reflection of a faulty patent system. "This case doesn't give an indication one way or the other," he says. "RIM claims NTP's patents are invalid and that NTP hasn't made the technology. What's different here is that the parties are unwilling to settle on reasonable terms."

Patent Trolls

When experts at Wharton were asked about the RIM-NTP dispute, the phrase "patent troll" inevitably came up. A patent troll is a slang term for a company, or individual, that acquires vague or overly broad patents, and then waits for an invention to emerge that may infringe on these patents. From there, a lawsuit is launched. The game is to demand dollars in proportion to the strength of a potential lawsuit, says Clemons.

He suggests that RIM could have settled with NTP many times. In fact, the two parties announced a \$450 million settlement in March 2005, but the deal unraveled a few months later. Meanwhile, NTP secured patent licensing deals with RIM rivals Nokia in June 2004, Good Technology in March 2005 and Visto in December 2005. By refusing to settle with NTP early on, RIM "may have simply guessed wrong too many times," says Clemons. "Settling now will be expensive." The patent troll issue is one of the main problems with the current system, Clemons adds. "Regardless of the merits of the NTP-RIM case, we are all now very aware of the power of a patent even in the hands of someone who never intended to do anything with it except wait for someone to make it operational and then sue."

Wagner doesn't buy the patent troll argument. "NTP has every right to enforce its patent," says Wagner. "If the patent was so terrible, the courts would have claimed it invalid. But at every stage, it's been upheld." In that context, NTP isn't a patent troll, a term he says rings hollow because "one person's patent troll is another's freedom fighter." Is NTP, he asks, really any different from companies like IBM, Intel and Texas Instruments that hold a large number of patents and enforce them from time to time?

David Callahan, a partner at Chicago law firm Kirkland & Ellis, suggests the problem with the patent troll label is that it is thrown around loosely. In fact, anyone being sued over a patent issue claims the opponent is a patent troll. "There are simply more individuals asserting their patent rights and investing money in lawsuits," says Callahan, who in 2004, successfully defended Amazon against IPXL Holdings, which sought \$50 million in damages and argued that Amazon's 1-Click checkout infringed on its patent for an electronic fund transaction system.

Beyond the obvious needs of the patent office for more examiners, more specialized skills and greater access to public knowledge, fixing problems like patent trolls and murky lawsuits gets increasingly more complicated, says Werbach. "Some bad patents are being granted, and some companies are taking advantage of legal uncertainty to essentially impose a tax on innovation by threatening patent litigation. Yet not all companies that seek to enforce patents -- even those that acquire the patents from the original inventors -- are 'patent trolls.' Patents mean different things in different industries. For example, pharmaceutical and semiconductor companies use patents in radically different ways, even though both depend on them."

Electronic Searches

Regardless of what happens with RIM and NTP, patent disputes won't be going away any time soon, says [Thomas Y. Lee](#), Wharton operations and information management professor. The biggest reason: "Our

system is based on 'first to invent' instead of 'first to file,' and in information technology that can be problematic." Another reason for more disputes: It's easy to scan patents and find potential conflicts, Lee adds. "If you went back in history, the patent system hasn't changed. What has changed is the fact that you can now do electronic searches. The data was always out there, but now you can sift through it. That changes the dynamics." And given the fact that a patent was issued almost 30 years ago as a way to prevent potential conflict over the decidedly non-tech comb-over, it shouldn't come as any surprise that more complicated technological advances can get bogged down in disputes.

"Patents were originally developed to make information more broadly available and to spur development," says Kendall Whitehouse, senior director of information technology at Wharton. "An obvious example: It takes many years or even decades to develop, test and bring to market medicinal drugs, which can then be easily cloned by other companies. Patent protection gives pharmaceutical companies the incentive to develop new drugs, which is a good thing. But when someone has a simple idea or a basic insight -- which would have likely come along any way -- I'm not so sure it's good to allow it to be controlled by one person or company, whether it's a method for hiding your balding scalp or Amazon's one-click purchase scheme. You have to wonder: How is the world a better place by granting patent rights on ideas such as these? Is this spurring innovation or retarding it?"

Callahan, however, says that worries about patent law's effect on innovation are mostly an academic concern. Why? For now, there's no evidence that innovation is being choked by an overtaxed patent system. To truly hurt innovation, the patent system would have to be dramatically changed -- and that's unlikely. "Innovation will suffer when the rewards for intellectual property are reduced," says Callahan. "But there's still a strong profit motive to innovate. As long as you can get paid for making a better mousetrap, people will make them."

The issue with the patent office isn't necessarily that it cannot handle high-technology patents, adds Werbach, but that it is "is being completely overwhelmed" as companies and individuals file for more and more patents. To cut down on filings, he suggests that the USPTO rein in the expansion of software and business method patents and make the application process more stringent. In the meantime, patent applications keep piling up. On February 14, the patent office announced its seven millionth patent. It took 75 years to go from the first patent to one million. It took eight years to go from five million patents to six million, and it took only six more years to reach seven million.

On January 3, the USPTO announced that it would limit claims and streamline processes as well as the reinvestigation of previously reviewed patents. The USPTO estimates that a third of the 355,000 new patent applications in 2004 were previously reviewed patents that had been refiled with "only limited changes to the claims or, sometimes, with the same claims that the USPTO had previously rejected."

In its statement, the USPTO also noted that it has faced "enormous increases in the number of patent applications filed each year," but its resources haven't kept up, making it "much more difficult to provide reliable, consistent and prompt patentability decisions. Delay in granting a patent can slow new products coming to market, and issuing patents for inventions that are not novel and non-obvious can impede competition and economic growth." Jon Dudas, Under Secretary of Commerce for Intellectual Property and director of the U.S. Patent and Trademark Office, said in the January 3 statement that "better quality applications mean better examination. We need more focus throughout and closure to the examination process."

Callahan, for his part, suggests that the USPTO is heading in the right direction if it adds better trained examiners to ferret out overly vague patents and make the number of applications more manageable.

In the meantime, the groundswell of patents means disputes can get circular quickly, according to Lee. For instance, was RIM's BlackBerry infringing on a patent or did it just have a good idea? "Both sides have compelling arguments. Would NTP's patent have been commercialized without RIM? You can flip this around quickly." What it gets down to is that the patent system poses an innovation conundrum, says

Wharton legal studies and business ethics professor [Dan Hunter](#). Legally, patents are perfectly clear, "but the patent system doesn't support the 21st century business model."

One element clearly missing from the U.S. patent system is a meaningful measure of patent quality. Wagner, however, is setting out to remedy that situation. He is doing research on creating a "quick and dirty way to see which patents meet standards and which do not." This quantifiable rating system would give companies a score that they could use to see how useful a patent would be for an invention. Some obvious factors would be looking at whether a patent is novel, and whether it creates a technique in a non-obvious way. Other factors include questioning whether a patent creates a leap ahead in technology, and analyzing the depth of detail provided by the patent applicant. "The idea is to use reasonable data and weight factors to get a ranking," says Wagner.

Wagner notes that his rating system wouldn't be used in litigation, but could enhance efficiency in the patent system. If such a rating system had been in place a decade ago, RIM could have foreseen an NTP dispute on the horizon. RIM could have "looked at patents and asked, 'Are these worth worrying about?' We don't want companies to make mistakes figuring out which patents are and aren't good when they are investing their money." Although this scoring system would come in handy, Wagner says he's just starting the research on what will be a "multiyear, ongoing project."

Time to Settle

The RIM and NTP patent dispute is magnified by the positions of the two companies in negotiations. RIM has everything to lose -- its service and customers -- while NTP on the surface has nothing to lose. If it can enforce its patent, it will get a big payday. If it loses, NTP is in the same position it is today. "The threat to shut down BlackBerry is NTP's best leverage, but on the other hand, NTP cuts off its own licensing revenue stream if it kills BlackBerry's golden goose," says Werbach. "NTP wants RIM to make piles of money [as long as] it's under an arrangement where NTPt gets a significant chunk of it."

Given the positions of both RIM and NTP, the experts agree that the two parties should, and probably will, settle. While it's natural for RIM to want to keep all of its business earnings, NTP won't get anything if it shuts down RIM. No one wins. Another reason the two parties will most likely settle is that whatever the courts rule, appeals are likely to drag the bickering out for years. Whatever happens on February 24, it would be three years before anything becomes final, says Wagner. "At the end of the day, these two parties have to settle. And since they have almost settled before, the judge is going to put the spurs in them" to do that.

This is a single/personal use copy of Knowledge@Wharton. For multiple copies, custom reprints, e-prints, posters or plaques, please contact PARS International: reprints@parsintl.com P. (212) 221-9595 x407.