

The White House takes action to combat patent trolls

The Obama Administration issued five executive actions and seven legislative recommendations on 4 June to protect innovators from frivolous patent litigation by so-called patent trolls. Anthony J. Biller, Member of Coats and Bennett PLLC, shares his views on the situation.

When it comes to describing the impact of non-practicing entities on e-commerce, SAS General Counsel John Boswell does not mince words, "What they have been doing is nothing short of business terrorism"¹. To address this landscape, the Obama Administration issued five executive actions and seven legislative recommendations regarding patent litigation, specifically, what are referred to as 'Patent Assertion Entities' ('PAEs')², previously 'Non-Practicing Entities' ('NPEs') - Patent Trolls. The Administration said it was taking action to protect innovators from frivolous patent litigation. Most would agree that companies whose *raison d'être* is the purchasing of vague and broad software and/or internet method patents and who aggressively assert those patents in litigation are 'Trolls.' The Administration explained that the increase in patent lawsuits brought by PAEs in the past year, notwithstanding passage of the America Invents Act, motivated the latest actions. It is my opinion that, notwithstanding the number of suits, things are not as bad as they might appear and recent actions are more symbolic than substantive 'solutions.' The perception of a problem is quite real, with some estimating that PAEs are responsible for nearly half of patent lawsuits and that they are obtaining billions of dollars from

technology companies. According to the Administration, several large technology companies are spending more on patent litigation and defensive patent portfolios than they are on R&D.

If passed by Congress, the Administration's legislative recommendations would require patentees and applicants to disclose the 'Real Party-in-Interest,' by requiring that any party sending demand letters, filing an infringement suit or seeking PTO review of a patent, file updated ownership information, and enabling the PTO or district courts to impose sanctions for non-compliance. By ensuring that this information would have to be updated it would be easier to spot the troll earlier. This legislation would also permit more discretion in awarding fees to prevailing parties in patent cases, providing district courts with more discretion to award attorney's fees under 35 USC § 285 as a sanction for abusive court filings.

Another piece of proposed legislation would be to protect use by consumers and businesses by providing them with better legal protection against liability for a product being used off-the-shelf and solely for its intended use. An example of this would be a Wi-Fi patent-holding troll suing every hotel³ that offers internet, instead of suing big companies who are actually making the infringing hardware.

I do not believe the Administration's actions or recommendations would have a meaningful deterrent effect on PAE patent litigation. The bottom line for PAE litigation is money. The troll model is to obtain broad and vague technical patents, assert them against very large companies or a very large number of smaller companies, and pursue a settlement for less than the cost of

defence. For a very large company with potentially huge discovery costs in litigation, the cost of defence may be millions of dollars. The average cost of attorney fees alone in patent cases through trial approaches a million dollars for small cases. Trolls hire contingency fee attorneys, so comparatively the troll has little litigation expense.

To deter PAE litigation, we must address the economic incentives. Lowering the standard for an award of fees in patent cases would be a step in the right direction. Capping damages to a set fee or royalty per year and eliminating the possibility of obtaining injunctive relief for patent owners that do not make actual use of their asserted inventions might also make it easier to calculate risk and make meaningful offers of judgment. Once the patent owner started making use of the invention, the cap would be lifted.

To make for efficient royalties calculations, we could explore the PTO setting uniform licensing rates by technology area, akin to the compulsory licence rights⁴ in the Copyright Act. A party could be given a safe harbour to avail themselves of statutory rates within a certain period of being informed of infringement. We could also adopt a modified Federal Rule of Civil Procedure 68 approach, where if a party received an outcome less favourable than a previously offered judgment, the party would be required to pay attorneys fees and not just costs. Finally, requiring suits to be brought in the defendant's venue would reduce the cost of defending against frivolous suits. So long as patent trolling remains profitable, we'll have trolls.

But regardless of whether the Administration's recommendations are enacted, I think the troll problem is and will continue to abate. Proponents of

the Administration's announcement state that action is necessary given a surge in the number of PAEs lawsuits since implementation of the AIA⁵. This increase is misleading. The substantive provision of the AIA directed squarely at PAE litigation was a requirement that PAEs could not join multiple defendants to a single lawsuit unless their accused activity was related or in concert. Simply being accused of infringing the same patent is now insufficient. PAEs had been suing dozens of parties per lawsuit in the PAEs' forum of choice. After the AIA passed, PAEs have been forced to file a single lawsuit per party. Compare the number of parties sued by PAEs pre- and post-AIA, not the number of lawsuits. I suspect the number has decreased.

A few years ago, the Federal Circuit sent shock waves through the patent litigation community when it issued a *writ of mandamus* ordering a trial judge in the Eastern District of Texas to grant a motion for change of venue. In *re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008). A *writ of mandamus* for a change of venue was practically unheard of previously. Thereafter, the Federal Circuit issued a few more of the same writs.

Second, trial courts are taking a more aggressive stand against questionable patents. The Eastern District of Texas recently found a patent invalid at the pleadings stage. Again: a remarkable outcome. Faced with a dubious software patent, the defendant Rackspace Hosting moved to dismiss the complaint for failure to allege infringement of a patentable claim under 35 U.S.C. § 101. The plaintiff Uniloc asserted a software patent directed to a method for processing floating numbers. The court found that the patent effectively claimed an algorithm⁶.

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When the Eastern District of Texas grants Rule 12(b)(6) motions on patent validity, the tide is turning.

Third, the PTO could do more to provide alternatives for dealing with questionable patents. On 11 June, in *SAP America v. Versata Development Group*, the Patent Trial and Appeal Board ('PTAB') issued its first decision under one of the AIA's new review procedures and struck down claims directed to a computer-implemented business method as failing to meet the requirements of 35 U.S.C. § 101.

While the *Versata* holding is reassuring for those wanting to see efficient mechanisms for resolving overly broad patents, it was not a §102 or § 103 case based on a lack of novelty or obviousness, a more common and vexing problem for defendants § 101 defences. In §§ 102 and 103 challenges, patent owners are still allowed to amend their claims in PTAB proceedings. This allows them an opportunity to avoid the prior art while trying to keep language that could still ensnare the accused device or process. Of course, there is no such opportunity in federal court. The enquiry is binary: the claims as issued are either valid as issued or invalid. My firm lobbied the PTO during the AIA implementation phase to create the same up or down review approach to re-examination proceedings where the challenged patent is already in litigation. As explained by Justin Leonard, the Patent Office should prohibit a patent owner from amending patent claims that are currently being asserted against a defendant-petitioner⁷. With the patent owner barred from retroactively fixing validity issues with its already-asserted patent, a defendant would have greater motivation to institute post-grant review in order to invalidate asserted claims rather than reluctantly settling in the face of

high litigation costs.

Finally, district courts are increasingly sensitive to shielding companies from potential costs of time and money associated with discovery. PAEs often have practically no business operations and thus no electronic records. In contrast, international conglomerates with significant data operations may have electronic records archived around the world. District courts are increasingly hesitant to allow plaintiffs to impose substantial discovery costs on defendants because documents might be found in archives or remote databases. The Advisory Counsel to the Federal Circuit Court of Appeals (which has exclusive jurisdiction over patent appeals) recently issued a model order for discovery on electronically stored information⁸. That template gives significant protection against discovery excess regarding ESI.

The patent litigation system is slowly reforming. The Administration's recent announcement is another, small, step in that direction.

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2. <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>
3. <http://gizmodo.com/5846419/patent-troll-is-suing-small-hotels-and-coffee-shops-for-offering-wi-fi>
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