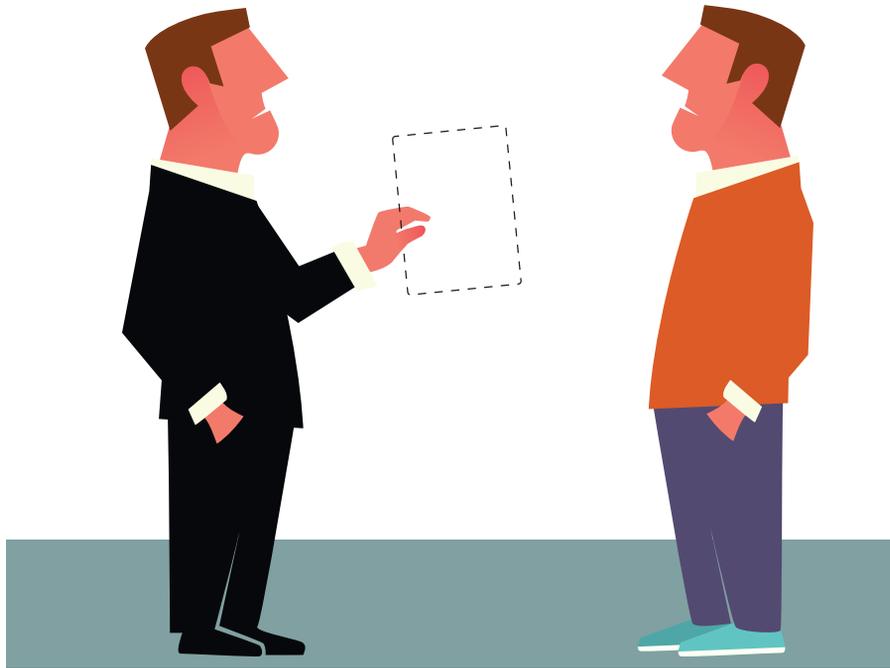


Today's GENERAL COUNSEL

Claims Without Merit are the Problem, Not Trolls

By Marla R. Butler



At a Google+ Fireside Hangout discussion last year, President Obama jumped on the patent troll bandwagon. “They don’t actually produce anything themselves,” he said, “they’re just trying to essentially leverage and hijack somebody else’s idea, and see if they can extort some money out of them.”

The President’s words imply that enforcement of a patent by a person or entity that is not actually producing a product, or by a patent owner who is not the inventor, is -- or should be -- illegal. But neither is illegal, and in all the legislation that has been circulated through Congress there has been no serious effort to make such enforcement illegal.

The President’s input on this topic misses the point and risks distracting from the real problem. The current statutory framework is very deliberate in granting to inventors the right to transfer a patent, and in granting the transferee the right to enforce that patent. Not only does the Patent Act not preclude the purchaser of a patent from enforcing it, it explicitly gives the purchaser that right. And nothing in the Patent Act limits the right of enforcement to operating companies.

The right of a purchaser to enforce a patent is as important to the original patentee as it is to the purchaser. The story of Nortel Networks provides an excellent example. Nortel was a Canadian telecom company with roots in the manufacture of telephones in the 1800s. At its peak, it dominated the Toronto Stock Exchange. In the early 2000s, however, its stock plummeted and the company spiraled into irrelevance. Among its last remaining assets were 6000-plus patents and patent applications for inventions. Nortel sold those patents, and the right to enforce them, to what is now Rockstar Consortium, a non-practicing entity. This consortium, which consists of Apple, RIM, Ericsson, Microsoft and Sony, outbid Google and paid Nortel \$4.5 billion for these assets. That’s \$4.5 billion to Nortel’s creditors and shareholders.

Rockstar paid for the right to enforce the patents through licensing or litigation, and has started enforcing them. Last autumn it filed suit against Google, a significant competitor to all members of the consortium. The benefit to Rockstar is obvious: It hopes to earn, through

its enforcement measures, multiples of its investment, and it hopes to squeeze that money from its competitors.

The benefit to Nortel should also be obvious: While its patents and applications helped Nortel protect its innovation when it was an operating company, those assets allowed Nortel to get significant value after the innovation ceased. It had a responsibility to maximize the value of its assets, and that value existed because the purchaser of its patents -- a company that does not “actually produce anything themselves” -- has a right to enforce them.

CLAIMS THAT LACK MERIT ARE A PROBLEM

There are activities that can poison our patent system. Mass mailing of letters threatening to sue where no serious infringement analysis has been done and where there is no intention to sue is one example. This type of activity unnecessarily and unfairly terrifies small businesses, and diverts resources from more productive work in major companies. This tactic works because, if the demand for payment is low enough, it is often easier and safer for the recipient of the threat to just pay it.

Communicating false information to potential licensors is another activity that needs to be addressed. One example is telling targets that a patent is valid and enforceable, when that patent has been invalidated in a judicial or patent office proceeding. Another is misrepresenting the number or identity of parties that have already taken a license.

Finally, knowingly filing a lawsuit that is without merit against a company that has insufficient resources to fight, and where the patent owner knows the company will likely just pay the patentee to escape financial ruin, is conduct that warrants redress.

Importantly, none of the conduct described here is necessarily limited to non-practicing entities. This is conduct that should be prohibited no matter its origin.

STATES TAKING ACTION

Individual states have started to look for ways to protect individuals and small

businesses from baseless assertions of patent infringement. In 2013 the Vermont legislature made it illegal to “make a bad faith assertion of patent infringement.”

While the language of the bill focuses largely on the content of demand letters, it also appears to have application to lawsuits that are filed in bad faith (which could raise federal preemption issues). The act allows for equitable relief, damages, costs and attorney’s fees, as well as “exemplary damages in an amount equal to \$50,000 or three times the total of damages, costs, and fees, whichever is greater.” (Vermont has also sued a patent owner under its existing Consumer Protection Act, alleging in the complaint that the patent owner has engaged in unfair and deceptive acts by sending a series of letters to many small businesses and non-profit organizations in Vermont.)

In January 2014, Nebraska’s attorney general introduced an almost identical piece of legislation, the Nebraska Patent Abuse Prevention Act. Like the Vermont statute, the Nebraska legislation would make it illegal to make a bad faith assertion of patent infringement. It would also amend Nebraska’s Deceptive Trade Practices Act by adding a section to the Act that provides that “[a] person engages in a deceptive trade practice when, in the course of his or her business, vocation, or occupation, he or she . . . [v]iolates any provision of the Nebraska Patent Abuse Prevention Act.”

Permissible remedies for violation of the Deceptive Trade Practices Act include injunctive relief and costs. Attorney’s fees can be awarded if a groundless action is brought or if the violating party “willfully engaged in the trade practice knowing it to be deceptive.”

Attorneys general and legislatures in other states are also taking action. Bills similar to Vermont’s and Nebraska’s are pending in Pennsylvania and Oregon. Minnesota’s Attorney General reached a deal with a patent owner (the same one

sued by the state of Vermont) in August 2013, under which the patent owner agreed not to communicate with residents of Minnesota in connection with alleged patent infringement unless first obtaining written permission from the Minnesota attorney general. New York’s attorney general reached a similar agreement with the same entity, while also providing the opportunity for already existing licensees to void their license agreements and receive a refund of license payments made.

Because state action in this context could raise federal preemption issues, state attorneys general are asking the United States Congress to include in federal legislation provisions that affirm state authority to address demand letters under state consumer protection laws.

By addressing the problem under the deceptive trade practices umbrella, Vermont and Nebraska are more properly focused on the real problem -- reckless and deceptive assertions of infringement and demands for payment. It is important to note, however, that the statute in Vermont and the bill in Nebraska are not perfect. Both provide that a patentee’s status as inventor, original assignee or institution of higher education is evidence that an assertion has not been made in bad faith. This effectively lowers the burden of proving that a purchaser has acted in bad faith, whether that purchaser is an entity whose sole purpose is patent enforcement or a technology company with thousands of employees. In addressing issues of patent abuse, the focus should be on the conduct, not the identity, of the patentee.

Much of the outrage expressed in the “patent troll” conversation relates to the filing of lawsuits against businesses that are simply employing technology that the businesses are not responsible for developing, but that is widely used, often out of necessity, e.g., WiFi technology that uses the IEEE 802.11 standard. Under Section 271 of the Patent Act, “use” of a patented technology constitutes an infringement.

But infringement in such a situation should not result in liability falling on the coffee shop owner who provides WiFi for the coffee shop’s patrons.

The version of the Innovation Act currently pending in Congress includes an exception which would allow a manufacturer of a technology to intervene in a suit against its customer, and would give the court the ability to stay the customer action while the manufacturer defends the lawsuit. Under this provision, assuming it becomes law, the coffee shop owner may be able to let her Internet provider fight this battle for her.

But this provision would simply codify an option already available to federal courts. Federal courts have inherent authority to manage their dockets, including by staying pending actions when appropriate. If lawsuits are pending against a manufacturer and its customers A through Z, staying the customer suits would remove 26 suits from court dockets and allow determinations of infringement and validity to be made more efficiently. Resolution of the action against the manufacturer would also allow the manufacturer and customers to more efficiently address indemnification issues.

The first step in addressing the ills of our patent system has to be proper identification of the problem. Only then can we identify solutions that remedy the ills without weakening the foundation of that system. ■



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