Lawmakers Shine Bright Spotlight on 'Patent Trolls'

▶ Patent trolls have become the target of federal legislation and a new law in Vermont, which allows that state's attorney general to bring suit against patentees that assert infringement claims in bad faith.

By Peter Nieves and Jonathan Whitcomb

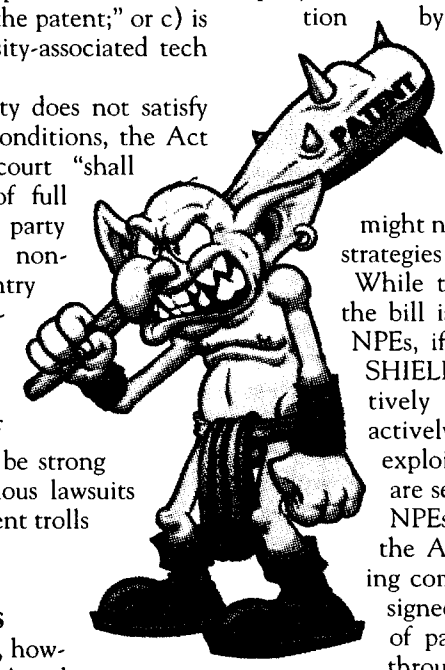
The overly aggressive bullying tactics of so-called patent trolls have backfired, resulting in the legislative spotlight that is now shining squarely on them, while they would much rather remain in dark places.

The Patent Act was introduced to assist in bringing new technologies to the public and advance technology in the United States. Patent holders enjoy the right to stop others from making, using selling, and importing protected technology into the U.S. Traditionally, patent holders held patents associated with a technology or service provided by the company owning the patent. Over time, this has changed, resulting in patents being owned by non-practicing entities (NPEs). Due to the overly aggressive, pro-litigation approach threatened by many NPEs to acquire early settlement and NPEs not bringing new technology into the United States, NPEs have acquired a poor reputation, resulting in the nickname "patent trolls."

The Saving High-tech Innovators from Egregious Legal Disputes (SHIELD) Act was reintroduced in February 2013, with the intent to protect American technology companies from frivolous patent lawsuits initiated by patent trolls. Supporters of the SHIELD Act say it is intended to place the financial burden on patent trolls that purchase patents only for purposes of using the judicial system to "extort" a quick patent litigation settlement, due to a patent infringement defense often costing in excess of $1 million dollars in attorney fees. Such settlements typically include either a large cash settlement or a license requiring a long-term royalty.

If adopted, the SHIELD Act would allow "a party asserting invalidity or non-infringement" in "an action involving the validity or infringement of a patent" to file a motion with the court asking for a determination regarding whether the adverse party either: a) is an inventor or original assignee of the patent; b) has made "substantial investment... in the exploitation of the patent through production or sale of an item covered by the patent;" or c) is a university or university-associated tech transfer organization.

If the adverse party does not satisfy at least one of these conditions, the Act mandates that the court "shall award the recovery of full costs to any prevailing party asserting invalidity or non-infringement" upon entry of final judgment, unless "exceptional circumstances made an award unjust." The aggressive terms of the Act are argued to be strong enough to deter frivolous lawsuits from being filed by patent trolls



The Cost of Fighting Trolls

It should be noted, however, that the SHIELD Act also presents a number of potential concerns As drafted, the bill not only declaws the patent troll, but also may devalue patents and patent portfolios of more "legitimate" patent holders and NPEs. The bill effectively lumps many patentees who use patents as a commodity, in with patent trolls

Unlike in certain countries, there is no affirmative requirement to exploit a patented invention in the United States In fact, under current U.S. patent law, it is not considered patent misuse to enforce rights to a patent, in good faith, irrespective of any use or non-use by the owner. However, the Act may make it impossible for some patentees who do not exploit their inventions to protect their patents.

Many countries have compulsory licensing, where a non-exploiting patentee must license the invention to parties who will exploit the invention. In the United States, however, there is no such requirement for a patentee to practice the invention. Indeed, a patent holder may choose to benefit from the invention either by practicing or not practicing the invention.

Under the Act, for example, a company could not protect its market position by purchasing patents for a related and competing technology to suppress the competition. While this is not a common patent strategy, it is an example of how the Act might negatively impact business strategies of legitimate patentees.

While the expressed purpose of the bill is to reduce litigation by NPEs, if enacted as worded, the SHIELD Act may also negatively impact many inventors actively trying to commercially exploit their inventions. There are several classes of non-troll NPEs that may be harmed by the Act, such as patent holding companies, non-original assignees (for example, owners of patent portfolios acquired through corporate acquisitions), solo inventors who choose to assign inventions rather than developing them, R&D organizations that license their technology instead of developing in-house, and the inheritor of a patent.

This exemplifies the difficulty in effectively defining a patent troll in a piece of legislation. If the net is cast wide enough to capture all patent trolls, many other patentees may be inadvertently burdened. If the net is cast too narrowly, many patent trolls can continue using patents to extort cash settlements and license fees from organizations that choose not to litigate a frivolous charge of patent infringement. The core of the difficulty is that a troll cannot easily be identified by the manner in which he obtained the patent, or whether he exploits the patent or not. If not properly addressed in the wording of the Act, the "value" of patent portfolios for thousands of legitimate patentees may suffer.

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or to allege that a board's policies and procedures generally violate due process. However, an applicant cannot use a declaratory judgment action as a substitute for a RSA 677:4 or 677:15 appeal of a land use board decision under which he would lack standing.

The elements of standing should not be confused with the merits of the claim for relief. In evaluating standing, the focus is on "whether the party suffered a legal injury against which the law was designed to protect," as written in the court's 2008 decision in *Libertarian Party of N.H. v. Sec'y of State*. A right to seek relief is different from a determination that relief is appropriate. By focusing on the *Weeks* standard, attorneys can make forceful, effective arguments as to whether standing exists.

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If yes, was it a public disclosure or a private disclosure?

If private, was there non-disclosure agreement in place? If not, you may be in trouble. File a patent as soon as possible.

If public, it needs to be "same subject matter" to avoid being used as prior art against you, and it needs to be within one year of filing a patent.

If it is a product: Beware. If you do not have a patent on file, someone else (a junior inventor) could come along and file a patent on the concept.

If no, you may want to disclose and/or file to preserve your rights. Disclosing may hinder your ability to patent the invention, but it will also hinder anyone else's ability to patent it. If you disclose, don't leave anything on the table.

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otherwise, the appeal will likely be dismissed. If the appeal is to the superior court, the court may hear the case on its merits, if it determines, "pursuant to applicable legal or equitable principles... the taxpayer is entitled to consideration on the merits of its application," according to the 2012 decision in Henderson Holdings at Sugar Hill v. Town of Sugar Hill.

Other Considerations

Full discovery is permitted in both venues, but only 15 interrogatories are permitted at the BTLA, whereas 25 are permitted in superior court under the PAD rules.

At the BTLA, municipalities sometimes handle hearings without the assistance of counsel or without an appraisal. In those cases, the town or city assessor will defend his or her value. In a superior court appeal, the municipality will have an attorney and most likely will hire an appraiser.

An appeal may be filed any time after the municipality denies an abatement request. If a taxpayer has not received an answer by July 1, the abatement request is considered denied under RSA 76:16, II, and an appeal may be filed.

Does a taxpayer need to continue paying taxes while an abatement request is pending? New Hampshire does not require a taxpayer to pay his or her taxes to request abatement. However, paying taxes is advisable, because the town will assess 12 percent interest on delinquent taxes, while a taxpayer is entitled to collect only 6 percent on abated taxes.

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Entities and individuals that do business in China, either by selling or sourcing products, should be aware of the advantage of promptly registering their trademarks in China, including in Chinese characters. Ideally, this should be undertaken before products are sold or manufactured in China.

If is it discovered that a trademark has already been registered by a third party, steps to obtain the cancellation of that registration, to the extent available, should be considered. Until the law is reformed to quell the abusive practices of trademark trolls in China, the best offense remains a good defense.

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Trolls in the Headlines

Regardless of the current language in the Act, its reintroduction shows that the bullying tactics used by patent trolls have clearly backfired.

Not only have patent trolls become the target of federal legislation, but just in May 2013, the Governor of Vermont signed state legislation amending the state's consumer protection laws to allow Vermont's attorney general to bring suit against patentees that assert patent infringement claims against a Vermont business or resident in bad faith.

This is the first time that a state has taken a stand on this kind of issue, the rationale being that the frivolous law suits aggressively pursued against Vermont small businesses were resulting in the small businesses having to pay large settlement amounts, or even close their doors, due to an inability to afford defending a frivolous patent litigation claim.

Patent trolls are even in the spotlight of the White House. On June 4, the Obama Administration announced that executive actions and legislative recommendations were being proposed, targeting non-operating entities that invest in patents.

The hope is that this legislative backlash against patent trolls is not overencompassing, resulting in a detrimental effect on other patentees. In either case, it seems to be a little late for patent trolls to escape the legislative spotlight.

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nation of the federal court proceedings.

Of course, that's strong medicine that could be avoided from the outset, by adherence to the ideal that New Hampshire attorneys have the responsibility and privilege of advancing litigation in a common sense, expeditious, and courteous fashion – even when the financial stakes of litigation are on the line. Such ideals of collegiality and mutual respect, without brinksmanship, still have value in New Hampshire, as reflected, for example, in the NHBA's Litigation Guidelines and repeated admonitions from the US District Court's judges to follow local practices scrupulously, whether lead or local counsel.

The next time you and your client have a patent litigation case to file, or are faced with a case pending in another district that might warrant transfer to another venue, consider the District of New Hampshire. It's my hope and expectation that you'll be glad you did.

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