

Daily Journal

www.dailyjournal.com

THURSDAY, MAY 15, 2014

No easy solution for patent troll issue

By Dion M. Bregman, Corey Houmand, and Jacob Minne

If you think that the current patent reform debate is binary, think again. It's not quite as simple as grotesque "patent trolls" hijacking the court system to extort money from clean-cut captains of industry. There is a complex, and not always clear, relationship between the primary stakeholders in the patent reform debate and their competing interests.

Start with this settled fact: Our patent system is as old as the country itself. Pre-revolutionary colonies issued patents to encourage their local inventors, and the U.S. Constitution gave Congress the enumerated power "to promote the Progress of Science and useful Arts" through a nationally uniform patent system. That patent system is the bedrock upon which American innovation and capitalism have been built. Our robust technology, biotechnology and pharmaceutical industries, among others, would not exist — much less excel — without the legal protections afforded by their intellectual property.

That said, the patent system has always had its fair share of problems, which for the most part Congress and the judiciary have remedied. For example, in the 1990s, Jerome Lemelson extracted over \$1 billion in royalties using so-called submarine patents. These were applications filed in secret in the 1950s and '60s that did not surface until the patents were issued decades later when they were used to attack countless unsuspecting industries. To eliminate this problem, Congress changed the term of patent protection to 20 years from the date of filing as opposed to the longer of 20 years from the date of filing or 17 years from date of issue, and required most patent applications to be published 18 months after filing. Another example of a flaw in the patent system was the false patent marking statute that allowed a flood of over 500 false patent marking lawsuits to be filed in a single year, including at least one lawsuit alleging statutory damages of over \$10 trillion. In response to this problem, Congress all but eliminated false patent marking lawsuits through its passage of the America Invents Act (AIA) in 2011.

More recently, however, the patent system has been under attack from all sides. Big business, all three branches of government, the U.S. Patent and Trademark Office, and the public at large are all de-

manding patent reform to address "patent trolls" and the "vast number of frivolous patent lawsuits" they have filed. As explained by Chief Judge Randall Rader of the U.S. Court of Appeals for the Federal Circuit, in a New York Times op-ed he co-authored last year, patent trolls "typically buy up a slew of patents, then sue anyone and everyone who might be using or selling the claimed inventions." Patent trolls make their money "by threatening companies with expensive lawsuits and then using that cudgel, rather than the merits of a case, to extract a financial settlement."

The difficulty is stopping the abusive practices of one type of nonpracticing entity ... while still encouraging the legitimate enforcement efforts of the other NPEs — a problem to which no simple solution exists.

So at first blush, solving the current problem appears simple: eliminate abusive, expensive, and meritless litigation brought about by patent trolls. But therein lies the rub. Who or what is a patent troll? The consensus is to define patent trolls by their less offensive name, nonpracticing entities, or NPEs, which are businesses that do not practice the patents they own and typically do not have any business other than licensing and suing others that allegedly use their patents. As patent trolls do not make, use, sell or import into the U.S., any products or services, they are immune from counter attacks by defendants using their own patents. The trouble is that this definition also includes universities, hospitals, research institutions, nonprofit organizations and even the hallowed garage inventor, all of which excel at innovation. Therefore, the difficulty is stopping the abusive practices of one type of nonpracticing entity (which will continue to be referred to below as "patent trolls"), while still encouraging the legitimate enforcement efforts of the other NPEs — a problem to which no simple solution exists.

The other major stakeholder, big business, often has competing interests that are not always aligned with one another. Some businesses that are fighting patent trolls still rely on enforcing their own IP to recoup their investments in research and development and remain competitive. Other businesses do not have, or do not enforce, their own IP, and would be hap-

py to exterminate trolls by weakening or even eliminating the patent system. Still other businesses care about IP, but only as a deterrent to stave off large-scale litigation with their competitors. There are also those businesses in a death spiral that generate revenue by either selling their IP to patent trolls or transferring their IP to patent trolls in exchange for less than a controlling stake, thereby allowing the original business to have plausible deniability when the trolls sue the original business' vendors, partners and customers.

There appears to be a growing consensus among stakeholders that while the patent system as a whole is good and should not be abandoned, some reform is necessary. What cannot be agreed upon, however, is how to reform the system or who should do it. In fact, all three branches of government are tripping over each other in applying their fixes to the patent system.

One of the first major reforms was the AIA, which Congress enacted almost three years ago. The AIA was the most sweeping reform to patent law since the U.S. Patent Act of 1952. The full effects of the AIA have yet to be felt as patents continue to be prosecuted and litigated under the new statutory regime. More recently, Congress introduced no less than 12 patent reform bills in response to the outcry regarding patent trolls. The additional reforms in these pending bills include heightened pleading standards for plaintiffs, limited discovery and cost-shifting provisions, along with lower standards of proof for the prevailing party to recover attorney fees, among others.

The judiciary has also implemented a variety of reforms. Within the last few years, the U.S. Supreme Court and the Federal Circuit have lowered the bar for declaratory judgment jurisdiction, made injunctive relief more difficult to obtain, increased their scrutiny over monetary damage awards, lowered the standards for invalidating a patent as obvious, and lowered the fee-shifting standards under the current statute. This past term, the Supreme Court granted certiorari on five patent cases, including cases addressing patentable subject matter and the indefiniteness standard, and appears poised to make it easier for defendants to prove the invalidity of a patent under both of these grounds.

President Barack Obama, meanwhile, introduced a series of executive actions

for patent reform that include provisions for greater transparency in the reporting of patent ownership, and provisions for improving the clarity of patents by requiring glossaries in patent specifications.

Finally, the administrative judges at the Patent Office are pursuing their own reform efforts. The judges have been aggressively invalidating patents through the post-grant review procedures introduced by the AIA — so much so that Rader has likened them to "death squads" during an American Intellectual Property Law Association meeting late last year.

As one can see from all of this competing activity, there is no quick fix or one-size-fits-all solution to the patent troll problem. Unlike the prior reforms that reined in trillion dollar lawsuits or addressed a handful of submarine patents, the current debate asks wide-ranging questions that are more central to our patent system: Which inventions should be patentable? How do you discourage meritless patent litigation while still encouraging the legitimate enforcement of a party's patents? And, which institution is best-suited to bring about reforms that will maintain the patent system's historical role in innovation and economic growth?

Answering these questions involves a complex balancing act among the various stakeholders in our patent system and the various reform efforts already achieved or currently underway. And should further reform be implemented, care must be taken to avoid introducing any uncertainty regarding the strength and enforceability of patents upon which so much of America's innovation and economy rely for their continued success. The fact that no side seems happy with the status quo may be an indication that we are actually closer to balancing the competing interests of patentees and business than many believe.

Dion M. Bregman is a partner in Morgan, Lewis & Bockius LLP's Intellectual Property Practice and serves as the hiring partner for the firm's Palo Alto office. He can be reached at dbregman@morganlewis.com.

Corey Houmand and **Jacob Minne** are associates in Morgan, Lewis & Bockius LLP's Intellectual Property Practice resident in Palo Alto. They can be reached at choumand@morganlewis.com and jminne@morganlewis.com.