

Patent reform still pending

By: Bernadette Starzee June 18, 2014

The federal government has become increasingly interested in reducing frivolous lawsuits brought by so-called “patent trolls,” but there’s little agreement in Washington about how to do it.

In May, Senate Judiciary Committee Chairman Patrick Leahy, D-Vermont, announced he was pulling legislation that he’d proposed that would stymie non-practicing entities that don’t invent products, but buy existing patents with the sole purpose of suing others for infringement.

Suits brought by patent trolls tripled from 2010 to 2012, growing from 29 to 62 percent of all patent-infringement cases, according to the 2013 [Patent Assertion and U.S. Innovation Report](#) released by the White House. Leahy’s Patent Transparency and Improvements Act sought to promote greater transparency around patent ownership and allow for fee-shifting, in which the loser pays the prevailing party’s legal fees in some infringement cases deemed to be without merit.

Similar legislation passed in the House of Representatives last December, amid growing concern over the aggressive tactics of non-practicing entities.

“Instead of going after manufacturers and resellers, patent trolls were suing end users, such as restaurants using a software package, knowing that small businesses often look to settle rather than paying to fight in court,” said Raymond Farrell, a partner at Melville intellectual property law firm Carter, DeLuca, Farrell & Schmidt. “Many of the small businesses complained to their Congressmen, and there was a lot of media attention. The House rapidly drafted legislation and pushed it through without analyzing what the full impact would be.”

But the “kneejerk reaction” in the House prompted an uproar from various stakeholders, which slowed the Senate down and made lawmakers “consider that broad sweeping legislation would be devastating to legitimate entities,” Farrell said.

The fee-shifting provision was a key stumbling block, with opponents expressing concern that the prospect of paying the other side’s legal fees would prevent universities – which develop patents and license them to outside companies – and many companies from bringing legitimate lawsuits to protect their businesses.

“It creates uncertainty for people who are acting in good faith,” said **Seth Weinfeld**, a patent attorney at Garden City law firm **Scully Scott Murphy & Presser**. “It adds another layer of risk.”

Paying the other side’s fees is less of an issue for patent trolls because, in many cases, their objective is to settle out of court, **Weinfeld** noted.

“Their business model is to collect a small amount of damages from a large number of people and not go to trial,” he said, noting that for the fee-shifting provision to work as intended, there has to be a judgment.

Another issue, **Weinfeld** added, is that for the prevailing party to collect legal fees from a non-practicing entity, the entity has to have enough funding. The most egregious offenders structure their businesses in a way that would make it difficult for prevailing parties to go after the fees, he said.

But while trial lawyer, university and intellectual property-owner associations applauded the decision to shelf the Senate bill until key issues could be resolved, retail, financial services and technology groups were vocal in their disappointment.

“We feel that something should have been passed to improve the patent process,” said Peter Goldsmith, president of Mineola-based software and technology trade organization LISTnet. “At least more discussion should have gone on.”

Though patent reform efforts have stalled for now on the legislative front, recent rulings in two U.S. Supreme Court cases could help curb the uptick in abusive patent litigation.

Decisions in *Octane Fitness vs. ICON Health & Fitness Inc.* and *Highmark vs. Allcare Health Management System Inc.* gave District Court judges [more flexibility in awarding attorney fees](#) to prevailing parties in patent suits.

Ronald Baron, a founding partner at Syosset intellectual property law firm Hoffmann & Baron, suggested additional solutions include enacting a screening procedure to allow courts to determine earlier if there’s a reasonable case of infringement.

“When patents are asserted indiscriminately, many times the claims don’t cover the accused process or product,” he said, adding that “enabling the judiciary to look at the merits of patent-infringement accusations sooner rather than later” would be helpful in many cases.

However, Baron acknowledged the plaintiff doesn’t always have sufficient information to put together a thorough claim-infringement analysis during this pre-discovery phase.

Baron also suggested New York State legislation that demand letters, in which patent-holders accuse parties of infringement, contain a reasonable explanation of how the accused product infringes the claim, and that the letter identify the real person of interest – such as the non-practicing entity – rather than just the attorney. Nine states have enacted legislation on this issue, Baron said.