



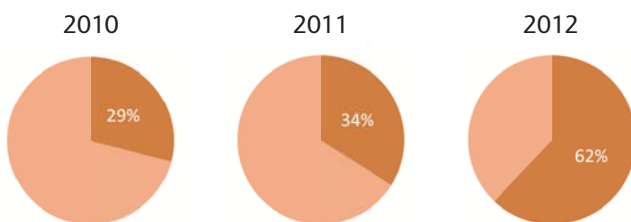
Patent Troll Legislation: Oregon State Courts Curb Abuse of Patent Laws by NPEs

By Julianne R. Davis, Counsel to the Firm, Lane Powell PC

Patent trolls, or more politely, Non-Practicing Entities (NPEs), are firms that collect “license” fees on patent rights by threatening lawsuits. Rarely do NPEs make any products, provide any services or operate any systems utilized by the companies that they threaten. The modus operandi of most NPEs is to send cease-and-desist letters containing vague accusations of infringement of one or more patents and then offer to settle for a one-time, paid-up license for a fraction of the cost of defending a lawsuit. The asserted patents are often broadly worded and of questionable validity. This scenario makes it difficult and expensive for the company receiving the cease-and-desist letter to effectively evaluate the merits of claims leveled by NPEs. Not surprisingly, most accused companies, however begrudgingly, agree to pay the license fee.

There is no dispute that NPEs are a drain on the economy. A recent White House study estimates that patent defendants pay approximately \$29 billion per year in damages and settlements. NPEs have long been the scourge of high-tech firms, financial and banking institutions, and Fortune 500 companies. However, in recent years, NPEs have taken their game to Main Street, hitting start-ups and small companies that may offer free Wi-Fi or utilize other Internet-related services. This move has prompted a number of states to consider legislation aimed at curbing what many consider to be an abuse of the patent laws. The state-based legislation centers on “bad faith” patent infringement assertions as violating existing consumer-protection laws, and they target vaguely worded cease-and-desist letters.

Patent trolls are responsible for an increasing portion of patent lawsuits



Source: Chien 2013, using data from RPX Corporation

These new laws allow NPEs that send these types of letters to be sued in state court. A total of 27 states have considered such bills and to date, 10 have adopted anti-troll laws. In general, the state bills allow state courts to consider a variety of factors in deciding what a “bad faith” assertion is. For example, if the patent owner has done little or nothing to actually investigate the accused infringer’s activities, then they are more likely to be considered as operating in bad faith. However, if the patent owner has actually filed a federal lawsuit, there is almost nothing a state can do to interrupt that process. Indeed, successfully enforcing the patent in a federal lawsuit oftentimes can weigh

against a finding of bad faith. It is important to note that states have limited power to regulate NPEs, as patents are granted by the federal government, and federal statutes provide the legal framework for the enforcement of patent rights.

Oregon is one of the 10 states to have enacted an anti-troll statute. Oregon’s law, which was signed into law by the governor on March 3, prohibits a person or its affiliate from communicating a patent-infringement demand if it alleges, asserts or claims in bad faith that the recipient has infringed or contributed to infringing a patent or rights that the patentee, assignee or licensee has under patent. The statute permits prosecuting attorneys (state Department of Justice and the attorney general) to make findings regarding whether the accusing entity has acted in bad faith. The prosecuting attorneys may also serve investigative demands or take enforcement actions under the Unlawful Trade Practices Act related to bad-faith demands. In addition, the law prescribes criteria for findings of bad-faith and good-faith claims, requiring prosecuting attorneys to tell the accused if a claim was made in bad faith within 10 days and only permits recipients to sue for damages once a finding has been made that a claim was made in bad faith. Lastly, the law further requires the attorney general to issue implementing regulations.

Until quite recently, the U.S. Congress was considering a measure known as the Innovation Act (The Act). The Act had won bipartisan support and endorsements from a wide-ranging spectrum of companies and service organizations, and President **Barack Obama** had signaled that he would sign the bill if it passed both houses. The Act would have sought to limit patent trolling by imposing a loser-pays system on patent lawsuits. Unfortunately, after the measure passed the U.S. House of Representatives but before the Senate could vote on it, Sen. **Patrick Leahy**, the sponsor of the bill, withdrew it from the floor. Some speculate that a recent decision from the U.S. Supreme Court significantly loosening the standard for recovery of attorneys’ fees in patent lawsuits by the prevailing party, may have played a role in Leahy’s decision to withdraw the bill. In addition to the Act, President Obama has signed five separate Executive Orders aimed at addressing the NPE problem, but the effect of these Orders has yet to be felt in the marketplace.

In any event, government officials at both the state and federal levels are now energized to address the problem in a number of different ways. The problem is far from solved, and close watch should be kept on legislative actions and court decisions implementing the Supreme Court’s recent decision regarding recovery of fees by prevailing parties in patent lawsuits. ■

Julianne R. Davis is counsel to the firm at Lane Powell, where she focuses her practice exclusively on intellectual property matters, with an emphasis on litigation and strategic counseling. Her experience spans all aspects of IP matters, including utility patents and models, design patents and trademarks. She can be reached at (503) 778-2118 or davisj@lanepowell.com.