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PATENT REFORM: IT'S ALIVE!

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When Senator Patrick Leahy (D-Vt.) announced on May 21 that he was pulling patent reform off the agenda of the Senate Judiciary Committee, commentators were quick to pass judgment: "Patent reform is dead." These reform efforts were meant to address the growing concern over patent assertion entities (PAEs) or non-practicing entities (NPEs), better known by the more pejorative nickname, "patent trolls." However, some hope remains for the ongoing legislative effort to solve PAE litigation issues. Patent reform may have been tabled in the Senate Judiciary Committee, but two patent reform bills are still alive in Congress. Both bills aim to prevent abusive practices by targeting illegitimate patent demand letters.

Background to Demand Letter Reform Legislation

PAEs acquire patents, but do not actually use them in any products or services. Instead, they pursue potential patent infringers and demand licensing fees by sending patent demand letters. These demand letters tend to contain vague or misleading language, but threaten recipients with costly infringement litigation if the licenses are not paid. PAEs often send out demand letters by the thousands, without making a genuine inquiry into the merits for each targeted individual.

Much of the public attention surrounding PAEs stems from high-profile litigation against well-known Silicon Valley corporations. In March, a [Texas jury ordered Google to pay \\$85 million to SimpleAir](#), a PAE, for infringing network messaging and data transmission patents. SimpleAir had also filed suit against other tech companies like Apple, Microsoft, Motorola, and Samsung.

At the same time, these abusive tactics are especially effective against small companies and individuals. Lacking the immediate legal resources to evaluate the validity of the infringement claims, smaller entities are forced to pay the licensing fees in order to avoid an even more expensive lawsuit.

Recently Halted Patent Reform Bills in the Senate

Although reports on the demise of patent reform may have been exaggerated, it is fair to note that similar legislative efforts have fallen short in the recent past. On December 5, 2013, the House passed the Innovation Act ([H.R. 3309](#)), a comprehensive bill intended to combat abusive behavior by PAEs. Among other things, the bill would have raised the standards for pleading patent infringement, and imposed disclosure requirements regarding the identification of the patent claims asserted, the accused methods or acts, and the party alleging infringement. Additionally, the bill included discovery cost-shifting and fee-shifting provisions.

The Patent Transparency and Improvements Act ([S. 1720](#)) was introduced on November 11, 2013, and proceeded through the Senate almost contemporaneously, albeit at a slower pace. The Senate bill lacked the provisions regarding the heightened pleading requirement, cost-shifting, and fee-shifting, and was generally considered to be a stripped-down version of the Innovation Act. However, there were other bills in the Senate to cover those provisions in the event of S. 1720's passage.

The key differences between the bills proved fatal, as attempts to reconcile the variance between them failed. Although the bills were meant to protect against NPE abuse, some allege they carried an unintended potential to harm legitimate infringement enforcement, particularly by individual inventors and universities. The bills would have applied to all infringement enforcement, and thus came under criticism for their perceived over-breadth. Markup sessions to bridge the gap between the two bills were postponed five times, eventually ending when the Judiciary Committee removed patent reform from the agenda altogether. With the imminent return of members of Congress to their states and districts to concentrate on reelection, action on this legislation is considered unlikely.

Draft Legislation to Address Demand Letter Abuse

In contrast to the reform proposed by the Innovation Act and the Patent Transparency and Improvements Act, the draft bills currently circulating through Congress are tailored to combat one specific facet of PAE abuse – patent demand letters. In the Senate, Senator Claire McCaskill (D-Mo.) introduced the Transparency in Assertion of Patents Act (**S. 2049**). Because this bill is in the Senate Commerce Committee, Congress may examine it separately from its recently shelved counterparts in the Judiciary Committee. The main provision empowers the Federal Trade Commission to promulgate rules requiring demand letters to contain certain minimal disclosures. These include, among other things:

- a detailed description of each patent and each claim that is allegedly infringed;
- a detailed description of the product or service that allegedly infringes each claim;
- contact information and the identity of the person with the right to enforce the patent; and
- current instances of reexamination or post-grant review of each patent, including any determination of the invalidity of the patent or its claims.

A violation of the proposed Act would also constitute an unfair or deceptive act or practice under the Federal Trade Commission Act, allowing state attorneys general to enforce the terms of the Act under the *parens patriae* doctrine. Damages would be calculated by multiplying the number of separate violations by an amount no greater than \$16,000. The proposed bill was referred to the Committee on Commerce, Science, and Transportation on February 26, 2014 but has **not yet been acted upon**, likely out of deference to the Senate Judiciary Committee's **halted discussions**.

Meanwhile in the House, Representative Lee Terry (R-Neb.) has introduced **draft legislation** to enhance federal and state enforcement of fraudulent patent demand letters. This proposed bill contains detailed disclosure requirements for demand letters, to provide greater transparency for recipients. It would also define bad-faith sending of a demand letter, marking it as an unfair or deceptive act or practice under the FTC Act. Representative Terry's bill would empower the FTC to regulate demand letters and to seek civil penalties for a violation. While the legislation would preempt state laws regarding patent demand letters (currently active in nine states), it would still allow state attorneys general to enforce the terms of the bill under the *parens patriae* doctrine.

The draft bill was **reviewed** by the House Subcommittee on Commerce, Manufacturing, and Trade at a May 22 hearing. The Subcommittee heard from a panel of government and private sector witnesses who provided suggestions on how to improve the draft, while identifying the areas of disagreement. There was some concern that the disclosure requirement might be considered "compelled speech," thus creating First Amendment issues. Some witnesses criticized the bill's wording on the specific types of activities that would allow the FTC to bring actions against PEAs and the class of protected recipients. The concern was that if a so-called patent troll activity was not explicitly listed, or if the demand letter recipient did not fall under the list of protected recipients, then there could be no relief. This inevitably raised the counter-argument that broadening the bill would harm legitimate patent enforcement activity and damage innovation.

Representative Terry indicated to reporters after the hearing that he hoped to resolve these issues and formally introduce an **improved bill** by the end of June. For the bill to pass this year, markup would likely need to occur before the August recess. Although comprehensive patent reform has suffered its share of setbacks in Congress, important work continues on the subject of PAE demand letters.