

Protecting Your Business from Patent Trolls

Jeremy D. Lindsley, Bryant, Lewis & Lindsley, P.A.

Patents have long been recognized as a vital tool for incentivizing research and development and protecting the rights of inventors.

It is generally accepted that an inventor should have exclusive rights, for a limited time, to control and profit from the production or use of an object, process or method created. Therefore, federal law allows inventors to patent objects, processes or methods, and provides patent holders the means to enforce their patent claims against infringers. However, as with any enforcement mechanism, patent enforcement practices may be abused.

In recent years, various entities claiming rights to patents (or to enforce the rights of others) have increasingly and broadly targeted businesses and individuals with questionable claims of patent infringement and threats of litigation. Many believe that these entities, known as non-practicing entities (NPEs) or “patent trolls,” are abusing the patent laws and are harmful to business development and growth.

Generally, NPEs are companies or individuals that enforce patent rights by collecting licensing fees for the use of patents or obtaining cash settlements for infringement claims. Some NPEs own patent rights outright, having purchased the rights from someone else. The less scrupulous NPEs actively troll the internet, social media, and other outlets to seek out possible patent infringement activity. Then, through the use of demand letters (sometimes sent by law firms specializing in collection work), these NPEs demand cash payments to settle possible infringement claims, and threaten lawsuits if the recipient does not pay up. Many persons or businesses receiving the demand letters accede to the demands, even if no real patent infringement has occurred.

There are at least two reasons that non-infringing businesses and individuals give in to these demands:

First, patent laws are complex, and violations carry significant penalties including lost profits, court costs, attorneys’ fees, and treble damages in cases of willful infringement. Second, in many cases, it is simply less expensive to pay the fees than to engage in lengthy and costly litigation. While large corporations are not immune from the tactics of NPEs, small businesses and individuals are more vulnerable.

Abusive patent infringement practices have intensified in recent years, in part because of the lack of any significant penalties for making threats of litigation or initiating litigation under questionable circumstances. Historically, unscrupulous NPEs have had little to no risk making demands upon and collecting fees from non-infringing parties. This is changing.

On the national level, in 2011 Congress enacted the *America Invents Act (AIA)*, to update some of the patent laws to make it easier to determine who has the right to claim patent rights, to challenge those claims of rights, and to determine if those rights have been infringed. However, the 2011 legislation did not include provisions aimed at preventing abusive patent infringement claims. Although the House of Representatives passed a bill aimed specifically at the activities of patent trolls, efforts in the U.S. Senate failed recently when Senate Judiciary Committee Chairman Patrick Leahy (D-VT) withdrew similar proposed legislation. At present, it is unclear when, if ever, the Senate will reconsider this legislation.

Efforts to regulate patent trolling have been more successful at the state level. Several states have passed laws aimed at protecting businesses from abusive patent claims. **While North Carolina is not yet among those states that have passed these reforms, proposed legislation is currently making its way through the General Assembly.** On June 4, 2014, the N.C. House of Representatives unanimously passed HB1032, known as the “*Abusive Patent Assertions Act.*” The N.C. Senate has incorporated the House bill into SB648 which awaits further action in that body.

Jeremy D. Lindsley, Partner Bryant, Lewis & Lindsley, P.A.;
919-688- 6341; jeremy.lindsley@bll-nclaw.com Jeremy’s practice
includes litigation and support services to business throughout the
Triangle area.



BRYANT, LEWIS & LINDSLEY, P.A.

The proposed law would add a new Article to Chapter 75 of the North Carolina General Statutes dealing with monopolies, trusts and consumer protection, and it would make unlawful any bad-faith assertion of patent infringement. The law would provide that a court may find the existence of a bad-faith assertion through consideration of several factors including whether:

1. The demand does not contain:
 - a. the patent application number or patent number;
 - b. the name and address of the patent owner or assignee;
 - c. factual allegations concerning the specific areas in which the alleged infringer's product, services and technology infringe the patent;
 - d. an explanation of why the person making the assertion has standing if the U.S. Patent and Trademark Office does not identify the person asserting the patent as the owner.
2. Prior to sending the demand, the asserting person failed to conduct an analysis comparing the claims in the patent to the alleged infringer's products, services or technology;
3. The person demands payment of a licensing fee or response within an unreasonably short period of time;
4. The claim or assertion is meritless, and the person knew or should have known that that it was meritless;
5. The claim is deceptive.

Upon a determination that a claim was made in bad-faith, the person defending against the infringement claim may be entitled to one or more of the following remedies:

- Equitable relief;
- Monetary damages;
- Costs and fees, including attorneys' fees;
- Exemplary damages equal to \$50,000.00 or three times the total of damages, costs, and fees, whichever is higher.

Individuals and businesses have several options after receiving a patent infringement demand letter, including:

Responding in a timely manner via certified or registered mail. Failing to respond may cause the demanding party to file suit against the business and make the matter harder to resolve. Also, doing nothing carries significant risk because if the claim is proven, the business may be subject to exemplary damages.

Demanding written proof of the ownership of asserted patent rights, the patent number, and a detailed description of the alleged infringement. One should be suspicious of any entity that is unable or unwilling to provide this information.

Finding out if the claimed patent is valid, expired or subject to cancellation by checking public records.

Negotiating a settlement. If this is done, one should be sure to get written confirmation of the terms of any settlement agreement and to obtain a signed settlement agreement and release from the person asserting the claim.

Making a complaint to the North Carolina Attorney General's Office if it is believed that the letter is deceptive, predatory or in bad faith.

Consulting with a lawyer about these and other options that may be available.