

US Perspectives

In US, 2014 Promises Bad News For Patent Trolls And Trademark Owners *

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By [Steven Seidenberg](#) for Intellectual Property Watch

2013 was an awkward year in the United States for so-called “patent trolls.” These companies, whose primary business is monetising their patents through licensing and litigation, faced growing criticism from academics, business executives, and US government officials. 2014 could prove even worse for trolls: America’s Congress, courts and executive branch are now considering various measures that would make patent trolling more difficult. And those are just some of the major changes that are likely to roil the US IP system this year.

Stuck in partisan gridlock, the US Congress accomplished little in 2013. Because 2014 is an election year, the political infighting is expected to intensify. Nevertheless, the legislature could soon enact a law making it more difficult for patent trolls to bring infringement suits. The House overwhelmingly passed [H.R. 3309](#) last month, and a similar bill, [S. 1720](#), is before the Senate Judiciary Committee.

Both bills would prevent patent trolls (and other patentees) from hiding behind shell companies when they bring infringement suits. Both bills would outlaw trolls’ current practice of sending out letters that make vague allegations of infringement and then demand payment. Unless a demand letter specifies the alleged infringement, sending the letter would be deemed a “deceptive practice” under the bills and the sender could be sanctioned. Both bills also would effectively stop trolls (and other patentees) from going after consumers who purchased off-the-shelf products that supposedly infringe. If the products’ manufacturer gets involved in a patent infringement suit with the patentee, the suits against end-users are stayed.

The House bill goes further than the Senate bill in some important ways. For instance, it would “give prevailing parties [in patent suits] their attorneys fees almost as a matter of course, which would be a big change from what we have now,” noted William F. Abrams, a partner in the law firm of King & Spaulding.

But despite the differences between the Senate and House bills and the looming election-year politics, Congress will soon pass some strong anti-troll legislation, according to many observers. That’s because legislators on both sides of the aisle strongly want patent trolls to be curbed, viewing them as a threat to the country’s innovation and economy.

“This is a nonpartisan issue,” said Prof. Lee A. Hollaar of University of Utah’s School of Computing. “It makes legislators feel good that there is something they can work together on.” He expects the law to be passed before summer.

More Dangers for Trolls

The US Supreme Court could take a big bite out of patent trolls, depending on how the court rules in [*Alice Corporation v. CLS Bank*](#). Many patents asserted by trolls cover software and computer-implementation of software. In *Alice*, the court will decide whether such software-related inventions are patentable subject matter.

The ruling could have ramifications far beyond patent trolls. The USPTO has issued tens of thousands of software-related patents affecting a wide variety of industries, including consumer electronics, cars, and finance. All these patents could be in jeopardy.

“*Alice* is a very big case,” said Abrams. “Everyone is looking to see what the Supreme Court will do.”

In recent years, the US International Trade Commission has become an important venue for well-financed patent trolls. By bringing infringement complaints before this federal agency, trolls (and other patentees) can swiftly obtain orders prohibiting the import of any infringing product – even if the infringement covers only a tiny aspect of the product. The ability to stop imports, and thus sales in the US, gives trolls tremendous leverage when demanding high royalty payments from the product’s manufacturer. By just filing a complaint with the USITC, and thus threatening an import ban, trolls often can coerce businesses to pay up.

Last year, however, the USITC became less hospitable to trolls. The agency started a pilot project that seeks to end infringement complaints early in the administrative process, before an accused infringer has to engage in expensive discovery proceedings and well before the accused risks an adverse ruling on infringement. If the USITC thinks a complaint can be thrown out on a dispositive issue, the agency will focus solely on that issue and render a ruling on it within 100 days.

One such dispositive issue is the “domestic industry” requirement. To satisfy this requirement, an entity filing a patent infringement complaint with the USITC must have invested significant funds in exploiting the patent in the United States. A patentee can satisfy this requirement by manufacturing products in the US that practice the patent. It is also acceptable for a patentee to do significant research and development, engineering, or licensing activities in the US concerning the patent.

Patent trolls frequently fail to meet this requirement. “They often fall short, but sometimes they succeed on the basis of a domestic licensing program,” said James R. Batchelder, a partner in the law firm of Ropes & Gray.

The USITC’s pilot program thus allows the agency to dismiss many patent troll complaints at an early stage of the proceedings, “so an accused infringer doesn’t have to waste money on discovery or other issues,” Batchelder said.

What will happen to the pilot program this year? “It will be interesting to see if this program is expanded. I think it should be applied, to the extent possible, to every case where compliance with the domestic industry requirement is challenged,” Batchelder said.

Copyright Concerns

The past 50 years have seen the United States repeatedly strengthen its copyright protections. That trend could continue in 2014, as the US pushes for the completion of two new multilateral agreements, the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP). The former seeks to lower trade barriers between the US and EU. The latter seeks to lower trade barriers among 12 countries touching the Pacific Ocean, including Japan, Singapore, Canada, Australia, Chile, and the United States.

Details of the negotiations are being kept from the public, but leaks indicate that both agreements would significantly strengthen the rights of IP owners – particularly copyright owners. For instance, the US is pushing for the TPP to ban the importation of grey market goods without the authorisation of copyright owners. That would alter existing US law in favour of copyright owners.

President Barack Obama strongly supports these proposed treaties, and Congress is contemplating legislation that would allow for fast-track approval of these treaties. However, various groups, including online rights activists, are lining up against these treaties. 2014 is likely to reveal the final terms of these treaties and whether the US will adopt them.

Copyright experts this year also will be keeping an eye on an important infringement suit brought by TV broadcasters against Aereo, Inc. Aereo allows its customers to watch content from broadcast channels whenever they want. Each customer is assigned a tiny TV antenna, which receives broadcast signals. The broadcast can then be streamed live to the customer over the internet or streamed later via the DVR service provided individually to each customer by Aereo.

The courts have split over the legality of Aereo's activities. The Second Circuit Court of Appeals and a federal district court in Massachusetts declared that Aereo's service does not infringe broadcasters' copyrights, but a district court in Washington, DC ruled against another firm, FilmOn, that offered the same service as Aereo. In order to resolve the judicial split over this issue, the US Supreme Court has [agreed](#) to review the decision of the Second Circuit.

"If Aereo wins, it can be disruptive to established industries," said James M. Burger, a partner in the law firm of Thompson Coburn LLP. "Aereo would allow cord cutting. It would let anyone who gets an internet connection to get over-the-air TV. The losers would be cable companies, satellite TV, and broadcasters."

Trademark Morass

For trademark owners in the US, life is likely to become messier in 2014. Hundreds of new top level domain names (TLDs) are scheduled to go online – including .house, .solar, .technology, and .shoes. Trademark owners will need to figure out how to respond. Many experts warn that trademark owners must purchase a host of domain names in a wide variety of the new TLDs just to prevent cybersquatting. Other experts are more sanguine, asserting that trademark owners can save their money and stick with the domain names they already own in existing TLDs.

"The most important thing for most clients is .com. For educational institutions it is edu. Who is going to go around looking in other TLDs?" said Roberta Jacobs-Meadway, a partner in the law firm of Eckert Seamans. She adds, "People navigate to sites using Google. They don't search by typing in domain names, certainly not by typing in a business' name and something other than .com." For most trademark owners, she concludes, buying domains in the new TLDs "is just a suck on finances."

The coming year is likely to bring more conflicting decisions about dilution law, because the courts can't agree on how the owner of a famous mark can prove that the distinctive nature of its mark has been blurred or tarnished by another. "The decisions are all over the lot. Even if you go to same court, you are likely to get different results from different panels," said Jacobs-Meadway.

Moreover, many experts question whether dilution law is applicable in a large number of these suits, because the mark's owner is suing a competitor. "Originally, dilution law was intended to apply in those rare cases when similar names were used on noncompeting goods," Jacobs-Meadway said. "If two products are essentially the same, the question that resonates with courts and people is: Why isn't this just trademark infringement? If you can't establish infringement, why should you get a remedy

under dilution law?”

In short, the confusion – and conflicting decisions – on dilution seem likely to continue increasing this year.

So, too, will the confusion over another aspect of trademark law: damages. Some courts assert that in order to obtain a monetary remedy for trademark infringement, the mark’s owner must prove that the infringer acted wilfully. The infringer must have knowingly disregarded the trademark owner’s rights and intended to take advantage of the mark’s goodwill. Other courts apply a much lower threshold for damages, requiring only that the infringement was not accidental – that the infringer knew it was using something akin to an existing mark.

Thanks to this conflict within and between circuits, trademark owners can’t know when they are entitled to monetary relief. The coming year thus will see “more litigation, more uncertainty” over this issue, said Jacobs-Meadway.

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