Loser Pays Patent Litigation: An Unnecessary Provision

Walter B. Welsh
St. Onge Steward Johnston & Reens LLC
Stamford, Connecticut

Congress is again taking aim at patent trolls with a bill intended to curb alleged patent litigation abuses. House Judiciary Committee Chairman Rep. Bob Goodlatte (R-VA) introduced the bill, officially The Innovation Act, in 2013. A version of the bill passed the House in a 325-91 vote in December, and it is currently before the Senate Judiciary Committee where action has been postponed four times in the past three weeks. The Committee is currently split along party lines regarding a key provision that would require a loser to pay the prevailing party's attorney's fees in most patent litigations. This provision might appear to have value in discouraging frivolous litigation by patent trolls, but there are other ways to discourage such litigation without damaging the rights of legitimate patent owners.

Patent trolls are the latest flash point in the national patent dialogue. The press and politicians, perhaps encouraged by support from Silicon Valley, have recently focused on the purported threat posed by patent trolls, patent owners that assert dubious infringement claims to force early settlements under the threat of expensive and protracted litigation. Patent trolls are a small subset of patent owners that own patent rights but do not actually practice their inventions. These owners, referred to as non-practicing entities, have always existed in the U.S. patent system and include solo inventors, small companies, research and development companies, universities, and large technology companies.

Regardless of how one perceives the threat posed by patent trolls, the proposed "loser pays" provision negatively and unnecessarily affects all patent holders by making it more expensive and difficult to enforce legitimate patent claims. The negative effects of the proposed fee shifting provision are most acutely felt by solo inventors and small technology companies that rely on patent protection to even the playing field against established companies and by research institutions that typically seek to license their inventions instead of practicing them.

The bill does include several common sense provisions that Congress should enact because the provisions have been tested and will not negatively impact legitimate patent owners. For example, one provision heightens the pleading standard in patent cases, requiring patent holders to specifically identify asserted claims and infringing products. Congress should adopt this provision

because existing Supreme Court precedent arguably requires it and because courts with patent heavy dockets already have similar requirements. The U.S. Court for the District of Connecticut recently adopted optional patent rules that have similar early disclosure requirements, even though the number of patent cases filed in Connecticut has slightly declined over the past ten years.

Another provision that should be adopted requires a plaintiff suing for infringement to disclose the underlying party that would benefit from the litigation. Although corporate disclosure obligations are required in Federal practice and such information is usually discoverable, some patent trolls have recently employed opaque shell structures to obscure the real party in interest. A disclosure requirement makes sense because it is fair and will provide a transparent understanding of the incentives underlying patent litigation. More importantly the proposed disclosure requirement would have minimal negative effects on legitimate patent owners regardless of whether or not they practice their inventions.

The loser pays provision, by far the most debated of the bill, would require a losing party to pay the prevailing party's attorney's fees. Currently each party pays its own attorney's fees regardless of the outcome unless some heightened threshold is met, for example willful infringement or an objectively baseless suit. These current provisions are more than sufficient to deter frivolous lawsuits and encourage alleged infringers to defend themselves in court. Requiring the loser to pay in more cases would certainly curb some frivolous lawsuits, but at the expense of further devaluing legitimate patent rights held by practicing and non practicing entities alike.

Solo inventors, startups, and small companies would feel the effect of a loser pays system most acutely. It would make them essentially powerless to assert their patent rights against established corporations. In the past ten years, patent rights have come under attack to such an extent that in some circumstances it is more profitable for a defendant to continue infringing while simultaneously engaging the patent holder in year after year of expensive patent litigation rather than settling the suit and taking a license. Until recently an infringement judgment almost always led to an injunction, thereby incentivizing settlement. The Supreme Court changed this rule in 2006 and now district courts rarely issue post-judgment injunctions, thereby discouraging settlement. The courts have also heightened the standard for proving willful infringement, making it more difficult to obtain an award of treble damages. The America Invents Act, passed in 2011, created a new administrative review that allows accused infringers to stay an infringement litigation and challenge the validity of an asserted patent in a costly administrative proceeding at the USPTO.

The proposed loser pays provision will affect all U.S. companies, not just patent abusers, by further accelerating the trend of making it more costly and more time consuming for patent holders to enforce their rights, while simultaneously incentivizing continued infringement. There may well be a patent abuse problem, but the proposed fee shifting provision imposes too high a cost on legitimate patent holders, especially considering that more focused tools for curbing frivolous claims already exist or could be enacted. The U.S. patent system has fostered innovation for more than two hundred years and has become increasingly important in today's economy. The small threat posed by patent trolls should not serve as a justification for enactment of a provision that damages the U.S. patent system and benefits bigger businesses to the detriment of the larger economy.

Walter B. Welsh practices patent and trademark law at St. Onge Steward Johnston & Reens in Stamford, Connecticut. His email address is wwelsh@ssjr.com.