

## Change In Marking Statute Would Curtail Troll Litigation

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The sole motivation driving patent litigation brought by patent assertion entities, or so-called trolls, is money.[1] Unlike a manufacturing company, a PAE typically has no legitimate business need to exclude a competitor from the market for its invention (i.e., obtain an injunction), or to recover damages to compensate for lost profits or sunk research and development costs. This article proposes an initial framework for curtailing undesirable PAE behavior by implementing a relatively minor revision to 35 U.S.C. §287(a) (the “marking statute”). The revision would reduce the “pot of gold” a PAE can demand at the outset of a patent case as compensation for past damages.



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More broadly, however, this article asks the reader to consider why any patentee should be entitled to demand six years’ worth of presuit damages upon filing suit when the patentee has neither given the accused infringer actual notice of the patent, nor has properly marked its products to give infringers constructive notice of the patent. [2] Thus, as initial food for thought, the proposed revision limits damages for any patentee that fails to give actual notice or properly mark its products, including PAEs. Obviously, the scope of affected entities could be more narrowly tailored, as discussed below.

As currently enacted, §287(a) allows a PAE to demand as much as six years’ worth of presuit damages simply by filing its patent complaint.[3] PAEs use the threat of significant prefiling damages to extract higher settlements. In contrast, to be entitled to any damages before giving the infringer actual notice, a manufacturing patentee[4] must prove that it consistently and properly marked its products. Since it is an added burden to prove proper marking, the current statute, in effect, handicaps the manufacturing patentee, while providing a windfall to the PAE.

The proposed revision would reverse this (presumably unintended) imbalance so that:

- A PAE must give the accused infringer actual notice before being entitled to any presuit damages. Since PAEs often give little or no notice prior to filing their complaints, this can result in a significant deterrent to filing suit; while

- A manufacturing patentee would retain all of its current options to trigger damages by giving actual notice or by properly marking its products with the applicable patent number(s).

Why is a change to §287 timely? The cry for a congressional solution to PAE litigation continues to escalate and is a significant agenda item for this term.[5] To provide some perspective, the number of patent infringement suits filed by PAEs has risen dramatically, particularly over the last decade. In 2007, suits by PAEs accounted for 24.6 percent of patent lawsuits nationwide. By 2012, PAE suits accounted for 58.7 percent of patent lawsuits nationwide.[6] Many U.S. manufacturing companies consider these suits “hold-ups” because the PAE’s primary leverage is the threat of expensive and burdensome discovery.

A patent case can take two to three years to get to trial. Particularly relevant to this article, the PAE will likely not only demand presuit damages spanning six years back in time (with interest), but will also burden the accused infringer with demands for documents over that same time period. Often forensic specialists in e-discovery must be hired at significant expense to recover the information from obsolete and/or difficult-to-access archives so as to avoid charges of spoliation. The mere spectre of facing the added expense of document collection, review and production going back six years can drive a favorable settlement for a PAE. One report noted that patent litigation is typically 62 percent more expensive than other forms of civil litigation primarily due to the high costs of discovery.[7]

But the discovery burden is not symmetrical. The PAE will often have only a few boxes of relevant documents that it must produce at a relatively minimal cost. Faced with this imbalance, many accused infringers opt to pay tribute rather than deal with the expense and disruption of discovery. Numerous proposals for how to deter opportunistic PAE behavior have emerged, such as fee-shifting proposals. But a notable disadvantage of fee-shifting proposals is that the accused infringer will likely have to litigate for years, and prevail, before it can seek to recover its fees — an expensive and potentially risky proposition for most companies. This article proposes for open discussion a change to §287(a) that reduces a PAE’s leverage from the start of litigation, while preserving all the current statutory options for manufacturing patentees.

### **The Current “Marking Statute” Favors PAEs**

By way of background, a different statute, Section 35 U.S.C. §286, limits the damages period for patent infringement to a maximum of six years prior to the filing of the complaint. Title 35 U.S.C. §287(a) — the marking statute — is a further limitation on damages that states:

(a) Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word “patent” or the abbreviation “pat.,” together with the number of the patent, or by fixing thereon the word “patent” or the abbreviation “pat.” together with an address of a posting on the Internet, accessible to the public without charge for accessing the address, that associates the patented article with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event

damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

The first sentence of §287(a) instructs the manufacturing patentee on how to label, or “mark,” its products with the applicable patent number(s).[8] If done properly, marking triggers damages against an infringer, whether the infringer is actually aware of the patent or not. But the marking requirement is fundamentally a limitation on damages that currently only applies to manufacturing patentees. If the manufacturing patentee fails to mark its products, then the second and third sentences of §287(a) tell us that the manufacturing patentee’s only other means of triggering damages is to either (1) give actual notice to the accused infringer, or (2) file a complaint (another form of actual notice). For example, absent actual notice, if the manufacturing patentee only properly marked its products for the two years prior to filing suit, then that patentee can at best only pursue those two years’ worth of presuit damages.

Counterintuitively, however, a PAE is under no such constraint — the rationale being that since a PAE makes nothing, it has no product to mark and is therefore relieved from any marking requirement.[9] Consequently, simply by filing its complaint, the PAE can demand six years’ worth of presuit damages, and will use that as a basis for demanding both technical and financial discovery for the entire statutory maximum of six years back in time. The mere threat of such burdensome discovery gives the PAE enormous (and some would say unjustified) leverage in extracting a higher settlement from accused infringers.

### **The Proposed Revision to the Marking Statute**

This article proposes the following amendment to the second sentence of §287(a):

(a) ... In the event of failure to mark [that no product is so marked], no damages shall be recovered by the [any] patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.[10]

There are several advantages to the proposed revision to §287(a). First, it avoids a manufacturing company from being blindsided by a PAE suit that puts as much as six years’ worth of past sales/revenue at risk; not to mention prejudgment interest and the concomitant expense and disruption of having to locate, extract, review and produce up to six years’ worth of presuit technical and financial documents from often moribund archives and multiple repositories.

Second, many PAEs purchase and assert patents that have either already expired or are at end of life, presumably because they are cheaper to acquire. For these patents, the PAE’s return on investment depends entirely on the ability to pursue pre-suit damages. Cutting off all pre-notification or pre-suit damages should significantly reduce, if not eliminate, such suits.

Third, all of the current post-filing damages and remedies remain available to all patentees.

Fourth, the proposal reduces the PAE’s leverage at the start of a case. This is in contrast to fee-shifting provisions where the accused infringer must litigate to some dispositive event such as summary judgment or trial before it can realize the benefits of fee-shifting.

Finally, unlike other legislative proposals that mandate how district courts handle patent cases (e.g., mandatory early claim construction hearings, etc.), this proposal does not impinge on the prerogatives of the judiciary to maintain flexibility and manage its own dockets as best suits the particular case. A modification to §287(a) is clearly within the legislative wheelhouse.

The main trade-off, of course, is that in exchange for fewer and/or less costly PAE suits, operating companies that do not themselves mark or give actual notice before filing suit would likewise have to forego pre-suit damages (the goose-gander proposition). Alternatively, a narrower revision to the marking statute could require that only categorically defined entities (e.g., PAEs) must give actual notice to trigger damages, while others may be excluded.[11] As always, the devil is in the details; but the main thrust of this proposal is that the marking statute is a potential vehicle for reform.

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[1] Here “PAE” refers to an entity whose entire business model is simply to acquire and assert patents.

[2] *Amsted Indus. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 185-188 (Fed. Cir. 1994) (defining actual notice); e.g., a marking such as “Covered by U.S. Patent No. X” is said to provide constructive notice.

[3] This assumes, of course, that the patent issued more than six years prior and the PAE has either asserted direct infringement or knowledge of the patent as far back as six years.

[4] Here a “manufacturing patentee” means a patentee that uses its patented invention in its own product(s). There is currently an exception when only method claims are asserted.

[5] E.g., Davis, Ryan, Patent Troll Crackdown Gets New Life in Congress (February 05, 2015), IP Law360.

[6] Feldman, Robin and Ewing, Thomas and Jeruss, Sara, The AIA 500 Expanded: The Effects of Patent Monetization Entities (April 9, 2013), UC Hastings Research Paper No. 45, at 9, 54, and 73. Available at SSRN: <http://ssrn.com/abstract=2247195>.

[7] Address of Former Chief Judge Rader at the Eastern District of Texas Judicial Conference: The State of Patent Litigation (Sept. 27, 2011) available at <http://patentlyo.com/media/docs/2011/09/raderstateofpatentlit.pdf>.

[8] The body of law addressing what constitutes proper marking (including licensees, etc.) is not addressed here.

[9] *Wine R. Appliance Co. v. Enter. R. Equip. Co.*, 297 U.S. 387, 398 (1936). The other common justification that a non-manufacturing entity gave constructive notice to the world merely by virtue of its

patent issuing, is specious and highly questionable.

[10] Strike throughs are deleted; language in brackets is added.

[11] For example, legislative proposals such as H.R. 845 targeted undesirable behavior, but excluded universities. Although, like PAEs, universities typically do not manufacture their own inventions, unlike the prototypical PAE, they typically do engage in significant R&D. Moreover, one report concludes that universities have brought only an insignificant percentage of patent suits (i.e., less than 0.5%). See fn.7 at 59-60.

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