

Could Courts Enable Cheaper Challenges To NPE Claims?



Law360, New York (October 29, 2015, 9:04 PM ET) -- When a company receives a demand for a licensing fee from a nonpracticing entity, it's often hard to justify the cost of defending a lawsuit compared with paying the fee. How might the judiciary enable defendants to challenge patent infringement claims for a more economically reasonable sum?

Jaime A. Siegel, Cerebral Assets LLC

Why should the judiciary step in for businesses to make prudent business decisions? And, why does it make a difference whether the licensing party is an NPE, a university, a solo inventor or an industrial behemoth? The issue is that for some reason there is a perception that if a licensor asks for an amount in five or six figures, the claim must be spurious. Believe it or not, sometimes the value of a patent license is legitimately at a five or six figure amount. This question really arises out of the truth that parties sometimes react to patent claims emotionally rather than as rational business people. Just like any legal claim, businesses must do an accurate risk assessment of any patent claim, regardless of what type of entity makes the claim. There is always a value at which it makes sense to seek a resolution — just like in any legal action — the parties just have to communicate to understand each other. Unfortunately, in my experience, which has been from every party involved, it is generally the emotional accused infringer that stands in the way of any early discussions to accurately understand the business risks. That said, one possible way that the judiciary could help parties to start communicating, and to understand those risks early, would be to require mandatory early mediation in the first 90-120 days.

Garrard R. Beeney, Sullivan & Cromwell LLP

The business model of threatening and filing litigation to force “cheap” settlements on questionable patents has plagued our patent system. While the “NPE” label — which would, e.g., include universities that invest in valuable research — may not be helpful, courts have and should employ tools to address the real problem: the assertion of “weak” patents in an effort only to drive a settlement that is less than the cost of litigation. In the appropriate cases, courts should:

- Limit discovery to early dispositive motions on validity and/or infringement, and consider the use of magistrates and special masters to hear such issues at an early date;
- Employ to its fullest extent Fed.R.Civ.P. 68, and award fees and costs against plaintiffs who reject settlement offers that are less than any ultimate judgment, and otherwise shift costs in frivolous litigation. Courts might announce at an

early stage at least a preliminary view that a case may be suitable for such a ruling;

- Enforce stringently the new pleading standards (effective Dec. 1), which eliminate Form 18, and decline leave to amend more frequently;
- Require early detailed disclosure of plaintiff's damage analysis so it may be challenged at an early date; and
- Insure that all appropriate parties are before the court so the real parties in interest can't stand behind an opaque vehicle.

The tools are available, and courts should be encouraged to employ them.

Steven Wong, The Home Depot Inc.

There are a number of ways the judiciary can enable defendants to challenge patent infringement claims more economically. The judiciary can take a more active role in managing discovery between the parties and in prohibiting abusive practices that drive cost. The judiciary can be more willing to dismiss meritless cases and cases based on dubious patents at the pleading stage or at summary judgment. To this end, the judiciary can adopt processes and local rules that put them in a position to resolve questions of infringement and validity at early trial stages, when possible. The judiciary can restrict blatant forum-shopping to ensure that a proper and fair venue has been selected. The judiciary can utilize 35 USC 285 and Rule 11 of the Federal Rules of Civil Procedure to a greater extent to curb abusive litigation practices.

Herbert D. Hart III, McAndrews Held & Malloy

There's no one-size-fits-all answer to this question, which presumes that the target refused the offer of a license and was then sued. It further assumes, quite wrongly, that all nonpracticing entities are created alike. As a matter of definition, the term nonpracticing entities sweeps widely, including a number of major manufacturing companies that develop and license technology not used in their ongoing operations, research universities, technology aggregators and individual researchers. But it also encompasses other patent owners who may have acquired patents and adopted litigation strategies designed not to move cases to trial, but to obtain quick settlements. A savvy district court judge will have a good sense from the very outset into which category the patent infringement plaintiff falls, and the judge can proactively manage the case to guard against harassment and to minimize unnecessary expenses of an infringement defendant. Of course, Congress — after many years of debate — provided another answer; namely, a post grant challenge of the patent(s) at the Patent Trial and Appeal Board. Litigating a PTAB trial isn't a trivial undertaking, however, and it may not be the best solution for every situation.

John A. Dragseth, Fish & Richardson PC

Congress and courts have already done a number of things to help accused infringers, from loosening the standards for filing a declaratory judgment action (*3M Co. v. Avery Dennison Corp.*) to making various post-grant challenges available. The best that district courts can do is to let accused infringers file dispositive motions on certain issues without requiring extensive discovery. The problem that courts have, however, is that many patent suits have merit, and those cases should not be short-circuited. A fair balance can be reached where the accused infringer is clear with the disposition it desires and is concise in its briefing — if it cannot do that, the court should let the case proceed.

Jeff Van Hoosear, Knobbe Martens Olson & Bear LLP

Courts can require plaintiffs to select no more than 10 representative patent claims per patent infringement suit regardless of the number of patents being asserted. It is impractical to try a case to a jury on more than 10 claims and expect the jury to understand and retain the nuanced differences between the dozens of claims and the different product features that correspond to the respective asserted claim elements. Courts can also limit discovery by reducing the number of depositions and interrogatories allowed in a case. In most patent cases, each party only needs a few fact depositions. Another measure that would save significant costs is to require the plaintiff to produce all relevant documents early in the case as an affirmative duty, rather than requiring the defendant to press for discovery via document requests. As so much time and money is spent gathering the relevant discovery, and fighting about what usually ends up being produced, there could be significant savings in time and costs by eliminating unnecessary discovery battles.

Robert M. Barrett, K&L Gates LLP

Unfortunately there probably is little the judiciary can do and more the lawmakers must do. Some type of modified English rule system to address the concerns expressed during the recent patent reform discussions may prove to be the solution for some NPE litigation. In the alternative, improving the efficacy of Rule 68 to insure that if an offer of judgment is refused that is greater than the ultimate judgment obtained, the plaintiff will be liable for the full amount of attorney fees and costs incurred after the offer was rejected, may be effective to rein in some NPEs. But, even such legislation will not prevent the patent “greenmail” situations where the patent owner is seeking a token payment that is sometimes less than the cost of drafting an answer. From the judiciary standpoint, the best they can presently do is to push for early Markman hearings, decide summary judgment motions as soon as possible, and more liberally award attorney fees under 35 U.S.C. § 285 pursuant to the Supreme Court’s recent guidelines.

Barry S. Goldsmith, Miles & Stockbridge PC

One potential solution is to create two tiers of courts for patent infringement claims — call it a senior court and a junior court. The senior court would have a large amount of minimum potential damages required to establish jurisdiction, such as \$1 million. There should be a gatekeeper that would quickly be able to rule as to whether the minimum damages can be reached. Therefore, if the accused infringer is a coffee shop, or a Chinese handset maker, for example, with total sales in the U.S. less than \$5 million, and with revenue that is largely unrelated to the patented technology, the gatekeeper can quickly determine that no judge or jury would award greater than \$1 million. This solution should not be seen as an unfair deterrent to a legitimate patent holder, as that patent holder would have to spend many times the \$1 million anyhow to legitimately enforce the patent in the senior court. As for the junior court, this would have to somehow resemble a small claims court where very little resources are needed to determine an outcome. Maybe that is unrealistic and will only result in rough justice, but considering the relatively miniscule amount of potential damages at stake it is entirely appropriate.

Mark Duell, Honda Patents & Technologies North America LLC

First, the judiciary can make sure that defendants are not being sued in a court in which they do not belong due to either jurisdictional or venue issues. Courts need to thoughtfully consider venue issues in a timely manner. The costs of being in an improper venue can accrue quickly. The judiciary should not treat venue as a favor to the local chamber of commerce. Second, the judiciary can move to make the Twiqbal pleading standards applicable to patent cases to narrow issues from the outset. Not only would this help the courts efficiently deal with the issues, it helps plaintiffs and defendants efficiently analyze their own cases. Third, the judiciary can be more receptive to early motions requesting findings of non-

infringement and invalidity. If a patent is invalid, do not make defendants wait for a ruling or jump through procedural hoops to get a ruling. Timeliness and fewer procedural barriers lead to reduced costs for defendants. Finally, the judiciary can assert its relatively new freedom to award attorney fees in more cases involving harassing NPEs. If a lawsuit is inappropriate, do not hesitate to make the defendant whole, or at least as much so as the court is permitted.

Gary A. Rosen, Law Offices of Gary A. Rosen PC

The premise of today's question is a perfect example of what New York Times columnist Joe Nocera has called "the Patent Troll Smokescreen." "What if, in the name of cracking down on trolls," Nocera asks, "Congress passes an anti-troll law that winds up having huge negative consequences for legitimate inventors? What if a series of Supreme Court rulings make matters worse, putting onerous burdens on inventors while making it easier for big companies to steal unlicensed innovations?" In the decade since the Supreme Court first took judicial notice of patent trolls, we have witnessed a steady stream of rulings and statutes meant to "level the playing field": weakening the injunctive remedy, lowering the bar for proving obviousness and indefiniteness, facilitating fee-shifting, creating potent new avenues of post-grant review in the U.S. Patent and Trademark Office, encouraging threshold *Alice* dismissals, heightening pleading standards. We can only begin now to start evaluating the results. As many years of tort reforms and securities law reforms have shown, nuisance lawsuits will never be eliminated entirely, and we risk throwing out the baby with the bathwater if we go too far. Perhaps, as Nocera wrote last Sunday, "the pendulum needs to start swinging in the other direction."

Kenneth R. Adamo, Kirkland & Ellis LLP

An out-of-the-box approach regarding help from the judiciary: Get yourself into one of the United States District Courts (a demand letter is usually enough to support a declaratory judgment for noninfringement these days, although you have to be transfer-sensitive), preferably which participates in the Patent Pilot Litigation Program, *but* has available the full panoply of alternative dispute resolution proceedings that many districts implemented by local rule in response to the Civil Justice Reform Act of 1990, *and*, hopefully, is stay-friendly when you file an inter partes review in the USPTO (e.g., Northern District of California). (If you didn't file DJ for invalidity, you won't block ability to file an IPR, and you'll have a year to do so after letter-writer counterclaims for infringement and you raise invalidity as an affirmative defense). Then, you get in front of the judge ASAP and try to get either an early neutral evaluation (or equivalent), or a summary jury trial / summary bench trial (e.g., Northern District of Ohio). These may be done quickly, hopefully with minimal discovery cost (especially after Dec. 1, 2015, when Federal Rule of Civil Procedure 26 is going to be changed to tighten down on over-broad discovery), and you can get infringement and / or invalidity addressed rapidly. The IPR option may then be used when / if appropriate (albeit that's not something the judiciary does), coupled with a stay motion. These ADR proceedings won't bind, but they usually have a salutary effect on an overly aggressive patent assertion entity licensor (and, maybe, result in information available for injection into the IPR proceedings. Cf. 35 USC 301(a)(2)).

Richard Baker, New England Intellectual Property LLC

First of all, the judiciary must treat all plaintiffs and defendants, inventors and accused infringers fairly, without a prejudice based on the business model of the entity. A Fortune 50 party should not be treated any differently than a patent assertion entity. Judicial predictability, wise consistent decisions, and prompt, efficient case management allows the parties to effectively analyze the merits of this and other cases. With judicial predictability, most cases can be resolved between the parties, with only the close cases proceeding to trial. Judicial willingness to award treble damages and attorney fees for cases that

are not close will encourage early discussions between the parties and an early resolution of the dispute. Court-required mediation between the management of the parties, early in the case, would also help the decision makers of the parties to assess the merits of the case before significant costs are expended. Ultimately, any actions to reduce litigation costs and to encourage settlement are the best steps that judiciary can assure settlements at an economically reasonable sum.

T. Spence Chubb, Law Office of T. Spence Chubb

Federal judges are being handed a tool of considerable heft with which to combat spurious patent allegations with the implementation of the Federal Rules amendments on Dec. 1, 2015. Freed of the yoke of Form 18, judges will be able to give plaintiffs' allegations more rigorous scrutiny with an eye to distinguishing between those with substance and those without. Defendants' motions to dismiss patent complaints will likely become more commonplace. Without Form 18, judges will have a blank slate allowing them to experiment with all manner of cost-effective solutions to the problems of unsubstantiated allegations. Since it may take time for universal pleading standards to become established, in practice we can expect a wide variety of district court reactions, from minimalist to activist. The hope is that enough judges take the initiative to cull out weak claims that announce themselves by plaintiffs' reliance on old style notice complaints. The public would be well-served if judges, when permitting a plaintiff to amend its complaint, would also use their discretion to offer a blueprint of the types of facts that the plaintiff can be expected to provide to satisfy the judge that both its prefiling inquiry and notice to the defendant are adequate.

Aaron Cooper, Covington & Burling LLP

The question puts forth one of two objectives the system should seek to achieve: (1) ensure a company that has been wrongly accused of infringement can avoid economically inefficient litigation costs; and (2) ensure a company that holds a valid patent can enforce its rights efficiently if an infringer will not agree to take a license. Both sides of the equation are important. And the best way to achieve more efficient results for everyone is by improving the quality of patents issued. When both the patent owner and the potential licensee know the metes and bounds of the property right, there will be far fewer unwarranted licensing demands and a better opportunity for inventors to license their technology. The work Director Michelle Lee and the PTO continue to do on the patent quality initiative, in combination with the additional tools provided by the Leahy-Smith America Invents Act, will help address this issue and improve the situation for accused infringers and patent owners. In the meantime, the courts should look to reinvigorate the patent misuse doctrine in limited cases to deter clearly inappropriate infringement allegations.

John C. Jarosz, Analysis Group Inc.

Though the judiciary is not and should not be alone in addressing problems that arise from overzealous and unjustified nonpracticing entities, there are at least three ways in which courts could respond to the rising concern. In fact, those methods can be used to effectively streamline all forms of patent litigation. First, the judiciary could demand heightened pleading requirements including, where possible, requiring a fairly detailed description of what infringes and how. Second, when courts undertake claims construction investigations, they could limit discovery to information necessary to that ruling only, unless the parties agree to be excluded from those limitations. Third, courts can order and enforce early mediation, particularly as it relates to damages issues. The potential for earlier resolution of patent matters than has occurred in the past may rebalance the playing field.

D. Bartley Eppenauer, Shook Hardy & Bacon LLP

In my view, no new procedures are warranted to deal with NPEs and demand letters. Inter partes reviews are exploding and post grant reviews are coming online, all of which are less expensive than litigation. State attorneys general are involved as well and that can become problematic if states take differing and conflicting approaches to NPE demand letter regulation. Further, district courts are kicking cases out very early on Section 101 invalidity grounds, which is itself concerning if this trend continues to broadly sweep in more software technology-focused patents (as opposed to business method or e-commerce patents). Unfortunately, with regard to small companies and other SMEs that face problems with NPE demand letters, it's unlikely that any solution will be effective, since the amounts that NPEs are trying to extract are so low that vigorous litigation defense is not a sensible option. That being said, the big cost driver in these cases seems to be discovery, so more active management of (and stricter limits on) discovery is one possible answer. More aggressive fee-shifting would likely help as well.

Hiroyuki Hagiwara, Ropes & Gray LLP

Staying the district court case pending inter partes review or covered business methods petition is one of the best currently available judicial options to allow parties to sort out infringement claims in a more economical manner. Another effective early and more economical resolution is to take up an early summary judgment motion when feasible. These options would still cost an accused infringer legal fees. There is no magic bullet to shoot down all infringement claims expeditiously and economically particularly when the demand is of nuisance value. Employing these options would likely cost more than a nuisance value demand and is not always justifiable. Hence, the frustration.

Robert Stoll, Drinker Biddle & Reath LLP

Whether an author of a demand letter is a nonpracticing entity or a well-known manufacturing company is not the critical question. Instead we should be looking to prevent unfair or deceptive practices by any sender of a demand letter. While the question is about judicial power, the judiciary may need some help from the legislative branch on the issue of problematic demand letters. Right now we have patchwork of state legislation with varied requirements that are making it difficult for everyone to be familiar with all of the different regimes. We need narrowly crafted legislation that will prevent unbridled harassment of unsophisticated targets while still permitting holders of valid patents to assert their patents against infringers. Legislation should prevent and penalize those who misrepresent their rights, seek excessive compensation or fail to disclose important information. And those who knowingly send out deceptive letters and continue a pattern of abuse should be treated harshly. But we should also permit affirmative defenses for those who legitimately believe that their innovative patents are being infringed and send demand letters to begin the process to offer a license or to initiate a lawsuit.

Mark L. Hogge, Dentons

The question begins with the premise that the type of NPE that sues (or threatens to) 50-plus companies settles for amounts that are small enough so there is no real motivation for the companies to defend the suits. What's needed is a meaningful way for defendants to attack these cases economically at the outset, and with a mechanism to recoup their losses (or more) if they succeed. For that to happen, the judiciary would need to establish a "fast track" or a single issue motion for summary judgment procedure at the start of the case(s) — before discovery takes place and real expenses mount — coupled with the threat of attorney fees if the suit is meritless. Also, it should put in place a mandatory disclosure by defendants on how the accused instrumentality functions. The disclosure should be limited but sufficient for an infringement analysis. It should be noted that just because a patent is owned by an NPE does not automatically taint the patent.

Dr. Scott Kamholz, Foley Hoag LLP

The whole point of the AIA post-grant proceeding was to solve this problem. The PTAB has demonstrated that it can resolve patentability disputes fairly and quickly with a minimum of discovery churn. Eliminating the discovery means that an IPR is roughly one-tenth the cost of regular patent litigation. That still may be higher than the typical licensing fee from a nonpracticing entity. But an IPR can have a deterrent effect, both on the asserting NPE from launching further attacks, as well as on other NPEs who might choose to pass on targeting a company that has shown a willingness to file IPRs. In the long run, a single IPR might be more cost-effective than a draining series of settlements. District judges might take a page from the IPR playbook and bifurcate with validity first on a strictly limited scope of discovery. The recent trend of entertaining motions for judgment on the pleadings on the basis of Section 101 invalidity is a good example of this. A more globally applicable course is for the defendant to file an IPR very soon after the civil action is commenced (or before, if it can) and obtain a stay.

Mark A. Klapow, Crowell & Moring LLP

The patent troll problem is already in decline by virtue of more rigorous examination procedures at the PTO, the PTAB process established by the America Invents Act, and active judicial management of patent infringement cases, including more frequent transfers and stays. There is room for improvement of course, but the judiciary's real challenge going forward in this landscape is to grapple with the collateral damage of efforts to curb the patent troll problem that may devalue legitimate patent rights and thereby reduce the incentive to innovate that is at the heart of our economy. The problem of "patent holdout" — i.e., strategic lawsuits brought by standard essential patent users to avoid or delay paying royalties owed to innovators that built the standard — is troubling. In appropriate cases, the judiciary should (1) continue to permit and enforce injunctions against unwilling SEP licensees and (2) require SEP users who bring suit to enter licenses on the terms offered if held compliant with the standard (or, if not, as set by the court) and consider payment of some measure of royalties during user-initiated litigation.

Larry W. McFarland, Kilpatrick Townsend & Stockton LLP

The judiciary can make patent litigation more economically reasonable in several ways, especially in meritless suits. First, fee-shifting under 35 U.S.C. § 285 can be a powerful tool after the Supreme Court's decision in *Octane*. Fee-shifting has the potential to eliminate the cost of defending against meritless suits and the added benefit of deterrence. However, these benefits only accrue when courts award fees and award them consistently. While *Octane* made it easier to award fees, it provided little guidance on when to do so. This has led to inconsistent outcomes and may promote forum-shopping. The judiciary can intervene to provide this much needed guidance, with the goal of deterring meritless suits. Second, courts should decide matters on the pleadings whenever possible. For example, courts have been increasingly willing to determine eligibility under 35 U.S.C. § 101 on the pleadings, especially after *Alice*. Such determinations can short-circuit the expensive patent litigation process, including the burdensome and, in NPE cases, largely one-sided discovery process. Finally, judges can give teeth to the "new" pleading standards that will take effect Dec. 1. Granting motions to dismiss can curtail the use of "mail-merged" complaints against numerous defendants and ensure adequate presuit investigation.

Michael P. Sandonato, Fitzpatrick Cella Harper & Scinto

One thing that the judiciary could do is become more amenable to dismissing complaints or rendering judgment on the pleadings when there are clear substantive deficiencies in the asserted patent. We have started to see some of this with failures to claim patent-eligible subject matter under Section 101,

especially since the Supreme Court's decision in *Alice v CLS Bank*. Since the Section 101 question is one of law and since the determination often can be made based upon what is within the four corners of the patent, the issue can be decided on the pleadings. The judiciary conceivably could extend this trend to other challenges to the patent, such as for example indefiniteness challenges under Section 112, which in certain instances also can be decided based solely on what that patent says. Beyond that, the new enhanced pleadings standard that will go into effect in December may well provide other opportunities for adjudication on the pleadings. No matter what the grounds, being able to challenge the patent early on, before the more costly stages of the lawsuit commence, would go a long way toward solving the litigation hold-up problem associated with nonpracticing entities who demand licensing fees for patents of dubious value.

Mark Scarsi, Milbank Tweed Hadley & McCloy LLP

Two concrete steps the judiciary could take to lower patent litigation defense costs, and thus drive down economically wasteful nuisance value settlements, are increasing the occurrence of fee awards for defendants and severely limiting discovery on defendants accused of infringement based on their use technology purchased from third parties. The recent evolution of attorneys' fees case law (*Octane Fitness*, *Highmark* and their progeny), in theory, makes it easier for a company to defend against frivolous lawsuits initiated by nonpracticing entities as they are more likely to recover fees incurred in the defense. In practice, however, the state of law may still be too uncertain or the threshold for recovering attorneys' fees too high to assure companies that they can defend without great cost. If the judiciary makes a more regular practice of awarding fees, we would expect to see a decline in nuisance-value based suits. One of the key drivers of litigation costs is discovery. Much of the discovery demand in nonpracticing entity cases, however, is wasteful, because the defendant often is a purchaser of the accused technology as opposed to a developer. If the judiciary severely limits discovery in these cases, litigation costs should decline substantially.

David L. Suter, Harness Dickey & Pierce PLC

It would seem the courts have already taken actions that affect the economic analysis regarding assertions of patent infringement. The Supreme Court's decision in *Octane Fitness* regarding fee-shifting certainly increases the risks for plaintiffs. The court's decisions regarding patent utility also strengthen the hands of accused infringers in many cases. The judiciary may also lessen the costs of litigation by better controlling the discovery process, and staying litigation in favor of the relatively less expensive Patent Office inter partes review proceedings. However, none of these "reforms" will result in an inexpensive way to resolve claims, short of establishing a special judicial or administrative process for addressing infringement as well as patent validity. And even then, it's hard to envision a truly inexpensive process that allows a reasonable level of fact gathering and hearing, as evidenced by the current IPR process (which, for costs and fees easily exceeding \$200,000 in many cases, doesn't even address all potential invalidity issues, much less infringement). Thus, while the courts may take action to limit the expense of litigation, the cost of defense will always be a factor in evaluating patent assertions. And maybe that is simply the cost of a patent system that benefits all innovators.

Looking for more insight from IP Law360's Voices of the Bar? Read the panel's insight into deep Federal Circuit divides in patent cases.

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