

NPEs Are Undaunted By Recent Patent Reform

Law360, New York (March 26, 2013, 11:05 AM ET) -- Recent court decisions and legislative action have offered corporations hope of significant relief from the flood of patent suits filed by nonpracticing entities. The early returns, however, suggest that these measures have done little to deter the proliferation of the NPE business model.

In recent years, the courts have imposed significant restrictions on the scope of patent infringement remedies. For example, permanent injunctions are no longer granted as a matter of course and instead are generally only available to patent owners that actually compete in the market for patented goods. Likewise, damages can no longer be awarded based on the overall value of a product unless the patented feature is the basis for consumer demand. Still further, the standard for proving willful infringement has been raised, making it much more difficult to secure treble damages. The pendulum has clearly been swinging away from patent owners in terms of the relief that's available to remedy infringements.

Congress also has taken action, most notably with the recently enacted America Invents Act. While the AIA legislation did not go nearly as far as many had hoped, it did implement significant patent enforcement reforms, such as enhanced procedures for bringing administrative challenges to granted patents as an alternative to litigation. The AIA also made it far more difficult for a patent owner to file multidefendant infringement cases — a tactic that NPEs often used in an attempt to more efficiently extract settlements from a large pool of often unrelated targets.

These various judicial and legislative reforms would seem to work against NPEs. In practice, NPEs appear to be undaunted, and the NPE business model continues to proliferate at a rapid rate. The PatentFreedom organization recently identified nearly 650 NPEs, and the number of patent cases involving NPEs has more than doubled since 2011. Clearly, NPEs still find it worthwhile to obtain patents and pursue infringement claims, and there is nothing on the horizon that seems likely to change that.

Many observers have hoped that recent court actions and legislation would slow the flood of NPE-driven litigation — but the rising number of NPE-related cases suggests otherwise. According to data published by PatentFreedom, in the last 11 years, the number of patent lawsuits involving NPEs, has grown dramatically. In 2001, there were a paltry 144 lawsuits filed. That number inched up slowly over the years with 259 lawsuits in 2002, 236 in 2003, 237 in 2004, 381 in 2005, 391 in 2006, 520 in 2007, and 558 in 2008. The number of suits involving NPEs drops back slightly in 2009 to 545, but by 2010 the number increases to 622. By 2011, the number of lawsuits involving NPEs doubled to 1,217 and more than doubled again in 2012 to 2783.

In this environment, we're seeing more companies faced with patent-infringement claims resorting to post-grant review procedures at the U.S. Patent and Trademark Office, particularly when faced with NPE claims that often seek to extend a patent well beyond its original focus. If such a procedure is initiated relatively early in a litigation, a court may be willing to stay the case pending a final decision by the patent office, which could mean avoiding litigation costs entirely if the challenged patent is invalidated. Many companies are choosing to pursue ex parte re-examinations. These are relatively low-cost and carry little risk in terms of the challenger's ability to later assert prior art defenses in litigation, but the ex parte nature of the proceeding gives the patent owner an advantage. And, the statistics show that in a majority of ex parte re-examinations, the claims of the patent are either invalidated or have to be significantly amended. However, claims that survive the process may be stronger.

With the advent of the AIA, companies can also take advantage of a new inter partes review procedure (essentially a beefed-up version of the former inter partes re-examination). This is a more litigation-like procedure than re-examination, and therefore is generally more expensive, but it offers a more level playing field because the challenger participates in the proceeding, which is supposed to be completed within one year. However, there is risk involved. If the challenge is unsuccessful, the challenger will be prevented from asserting in litigation any prior art defense that was or could have been asserted before the patent office.

Overall, the "swing of the pendulum" means that organizations on both sides should take a step back and look at their options. Patent owners will want to be more judicious in asserting patents and look more closely at the potential recovery to see if it justifies the risk and disruption of litigation. On the defense side, accused infringers can be more aggressive because the risks are significantly lower, especially when facing an NPE, though gains may be offset somewhat by the rising cost of litigation. In any event, as the perseverance of NPEs shows, the challenges presented by patent-infringement litigation are not going to abate any time soon.

Inequitable Conduct: Tougher Standards

Although the legal pendulum may be swinging in favor of patent infringement defendants, there is at least one countervailing trend — increasing limitations on the inequitable conduct defense.

Not long ago, inequitable conduct was pled almost as a matter of course in patent litigation, with the defendant charging that the inventors or their attorneys had purposely withheld important information from the patent office during prosecution of the patent. But that began to change in 2009 with *Exergen v. Wal-Mart*, which imposed stringent pleading requirements for inequitable conduct claims. There has been a series of Federal Circuit decisions tightening the standards not only for pleading inequitable conduct, but also for actually proving it. These cases include those in which the Federal Circuit said the defense required proof that the patent applicant both knew of material information and deliberately decided to withhold it.

The type of smoking-gun evidence the courts are demanding is rarely found. It's gotten much more difficult to get in the door with an inequitable conduct defense — and once in the door, it requires substantial effort and strong supporting evidence to prevail.

Cases to Watch

In the coming months, decisions expected in the following patent litigation cases will clear up some uncertainty:

- *Federal Trade Commission v. Watson Pharmaceuticals*: The U.S. Supreme Court is reviewing the legality of “reverse payment” settlements, in which an incumbent firm agrees to pay a potential competitor to stay out of the market in connection with settlement of a patent infringement suit.
- *Ninestar v. U.S. International Trade Commission*: The Supreme Court is expected to address the issue of “international exhaustion,” which deals with whether the authorized sale of a patented item outside the U.S. terminates all patent rights to that item, so that a subsequent resale in the U.S. is not actionable as an infringement.
- *CLS Bank v. Alice Corp.*: In early 2013, the Federal Circuit will take up the question of whether Alice Corp.’s computerized trading platform is patent-eligible. The case is expected to clear up much of the uncertainty surrounding the patenting of software.

No Industry Is Immune From NPE Litigations

While headlines often focus on high-tech patent disputes, NPEs are actually targeting companies across a range of industries, including retail, media and consumer products. The statistics published by PatentFreedom regarding operating company counterparties in NPE patent litigation clearly indicate that no industry is immune. The retail industry experiences the most NPE litigation with 3,355 cases, followed closely by the media/telecom industry with 2,726 and the computer software and hardware industries with 2,612 and 2,357 cases respectively. Financial services (1,767 cases), automotive and transport (1,645 cases), consumer products (1,103 cases), and the semiconductor space (905) have also witnessed a significant amount of NPE litigation. While not completely impervious to NPE litigation, the industrial manufacturing sector has seen 717 cases while health care and pharmaceuticals has seen 651 and the energy/utilities space has seen 550. There are still more than 1,758 NPE litigations that cannot be characterized by any of these categories.

--By Mark Supko, Crowell & Moring LLP

Mark Supko chairs Crowell & Moring's intellectual property group in Washington, D.C.

This article was adapted from Crowell & Moring's recently published "Litigation Forecast 2013."

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