

EXPERT ANALYSIS

Will Pending Legislation or Court Sanctions Curb Frivolous Patent Litigation?

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In recent years, patent litigation has clogged courts, terrorized small companies, ransacked large companies' deep pockets and, some would say, wreaked havoc on our economy.¹

Most attribute this phenomenon to the relatively recent onslaught of cases filed by non-practicing entities and, more specifically, by a subset of NPEs sometimes referred to as "patent assertion entities," or patent trolls.²

These entities file seemingly frivolous cases and leverage the threat of steep litigation costs to extract nuisance settlements (the patent litigation version of a "strike suit"). Congress, the judiciary and even the president have entered the debate over how best to stem the tide of these nuisance cases.

PENDING LEGISLATION

One approach is proposed federal legislation that targets patent assertion entities specifically, such as the SHIELD³ Act (H.R. 845), which is a one-way fee-shifting statute that would force PAEs to put "skin in the game."

PAEs generally hire contingency fee counsel. So, for almost no up-front investment, they can file suit and impose staggering patent litigation costs on defendants, who typically pay their lawyers by the hour. The SHIELD Act would change that equation by forcing PAEs to pay the defendant's legal fees if they lose the case.

The act would allow a defendant to move for a threshold judgment declaring that the patentee falls outside the protected entity categories defined in the statute.⁴ If the court grants the motion, the stakes increase dramatically for the patentee. A patentee that ultimately loses the case must pay the defendant's attorney fees. To secure this obligation, the patentee must post a bond — in an amount that will cover a potentially multimillion-dollar defense tab.

The SHIELD Act would turn patent litigation into a high-stakes gamble that would discourage PAEs from asserting all but the strongest patents. Some say this legislation goes too far because it would discourage patentees from asserting legitimate claims, not just frivolous ones.

A patent lawsuit with a 70 percent chance of success is strong by most litigation standards. Yet, a patentee that asserts this suit still would bear a substantial risk, under the SHIELD Act, of a multimillion-dollar adverse fee award. Since it must post bond for the right to pursue its claim, the patentee cannot dodge a fee award by declaring bankruptcy.

Though the SHIELD Act immunizes inventors from its automatic fee-shifting provision, it nonetheless may affect inventors by reducing the resale value of their patents. By imposing additional litigation risks on downstream buyers, the act would discourage patent transfers and could potentially gut the resale market for patents.

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Some would argue that this result is desirable because PAEs live in the patent resale market. Others would argue that a devalued resale market would hurt non-litigious inventors who deserve a payday but prefer to let others worry about licensing and litigation.

Some criticize the SHIELD Act because it applies to entities that are not PAEs. For example, if Apple acquired a company and asserted a patent from that company against a competitor, it would be subject to fee shifting under the SHIELD Act if it did not produce or sell the claimed technology.

The SHIELD Act is not the only bill in Congress to address PAE litigation. Some of the other bills would raise the pleading requirements for patent infringement complaints, requiring the patentees to disclose their infringement allegations in greater detail up front.⁵ This sort of rule will not change the patent litigation game much. Many courts have adopted local patent rules that already require patentees to serve infringement contentions early in the case. Yet parties fight over exactly how detailed these contentions must be. Neither the local patent rules nor the proposed legislation provides a clear standard.

COURT SANCTIONS

Some commentators contend that new legislation is unnecessary because courts can curb frivolous PAE claims through existing sanctions rules. In a New York Times editorial, Chief Judge Randall Rader⁶ suggested that district court judges may curb the “troll problem” simply by applying sanctions available under Rule 11 of the Federal Rules of Civil Procedure or by awarding attorney fees under 35 U.S.C. § 285. But under the current rules, fee recovery is neither easy nor swift.

Section 285, as currently written, has limited value as a PAE repellent. First, the statute allows courts to award fees only to a “prevailing party.” In other words, you have to win the case before you can move for Section 285 fees. Once you win the case, you still have an uphill battle to recover fees, which the courts may award only in “exceptional” cases.

To establish that your case is exceptional, you must prove not only that your opponent’s position was objectively unreasonable, but also that your opponent acted in subjective bad faith.⁷

Section 285 does not deter “strike suit” PAEs with settlement demands that fall far below likely defense costs. In these cases, most defendants will settle without much fight, reasoning that their odds of recovering fees are slim. Even if they win, they probably will pay their lawyers far more than they would have paid the patentee had they settled before defense costs mounted. Except in rare cases where the PAE — early on — hands the defendant clear evidence of bad faith, the defendant assumes a big risk by litigating to the end.

Rule 11 is easier to prove than Section 285 because it does not require evidence of bad faith; it requires only that the offending party’s position is frivolous, *i.e.*, “objectively baseless.”

Rule 11 also has its limitations. To prove that that your opponent’s position is frivolous, you first must prove that it is wrong, which often is difficult to do before sinking fees into discovery and claim construction.

Defendants that cannot afford to fight on principle may find it hard to refuse a settlement demand that falls well below these fees. For court sanctions to work as a PAE repellent, courts must give defendants a shot at killing the claim before they are crushed by the weight of their legal bills.

What can litigants and judges do today to combat frivolous patent litigation?

First, defendants should identify the best ways to short-circuit the patentee’s claim. Defenses that require fact findings, expert testimony or extensive claim construction are poor candidates⁸; defenses that can be framed as purely legal issues are good ones because they can be asserted early on, at lower cost.⁹

A court may be persuaded to address an early defense motion before the *Markman* claim construction hearing¹⁰ even if the legal theory requires it to construe some terms. If you have a

clear-cut, non-infringement argument that relies upon irrefutable facts, ask the court to construe the pivotal term(s) and to stay discovery in the meantime.

Second, courts should resist the urge to sit back and simply let the case run its course. They should provide defendants with some procedural leeway that allows them to assert a “rifle shot” defense in a threshold dispositive motion. If the motion requires some discovery, they can limit the discovery to that narrow issue to keep costs down.

If the defendant prevails, the lawsuit will end before defense costs eclipse the settlement value. If the defendant’s rifle shot fails to shoot down the claim, that claim almost certainly is not objectively baseless and the case can proceed, as it should.

To avoid potential prejudice to the patentee, the court could impose some sort of quid pro quo to offset the additional cost and delay of an unsuccessful early, “rifle shot” motion. For example, the court may refuse to entertain any additional dispositive motions before concluding discovery and claim construction.

Finally, judges should consider adopting or amending local patent rules to require the patentee to disclose the basis for its “Rule 11 pre-filing due diligence” in the initial infringement contentions. To encourage the patentee to show all its cards, the rule could apply a “raise it or lose it” component.

The rule could bar a patentee from defending against a Rule 11 motion with infringement theories that it failed to disclose in its infringement contentions. This approach would help expose frivolous cases early. If the lawsuit is baseless, the defendant will have something to push back against; it does not have to attack a moving target of shifting infringement theories.

This approach would not prejudice the patentee, which is required to perform pre-filing due diligence anyway. Likewise, under current law, a later-discovered infringement theory will not save a patentee who had no good-faith basis for its lawsuit when it filed its complaint.¹¹ At the same time, a patentee that had a good-faith basis for filing the lawsuit could — where appropriate — amend its contentions to add later-discovered infringement theories that arise during discovery.

These suggestions will not rid the courts of all the ills arising from irresponsible patent litigation, but they can help the system filter out truly frivolous (*i.e.*, sanctionable) claims — whether filed by PAEs or others.

NOTES

¹ According to a Boston University study, patent troll suits cost American technology companies over \$29 billion in 2011 alone. James E. Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, CORNELL L. REV. (June 28, 2012), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210.

² Commentators disagree over perceived distinctions among an “NPE,” a “PAE” and a “patent troll.” In this article, we use the term NPE to refer to any patentee (including a research university, for example) that does not practice its invention commercially. We use the term PAE to refer to those NPEs that exist primarily to license and enforce patents.

³ “SHIELD” is an acronym for “Saving High-Tech Innovators from Egregious Legal Disputes.”

⁴ The SHIELD Act does not impose fee-shifting, for example, upon patentees that practice the claimed technology or upon certain types of NPEs, such as inventors, universities, etc.

⁵ See, *e.g.*, the Innovation Act H.R. 3309), the Patent Abuse Reduction Act (S. 1013) and the Patent Litigation and Innovation Act (H.R. 2639).

⁶ Rader is the chief judge in the U.S. Court of Appeals for the Federal Circuit, which decides appeals in all patent cases. Randall R. Rader, Colleen V. Chien & David Hrick, *Make Patent Trolls Pay in Court*, N.Y. TIMES, June 4, 2013.

⁷ See *Brooks Furniture Mfg. v. Dutailier Int’l*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). In *Octane Fitness LLC v. Icon Health & Fitness Inc.*, No. 12-1184 (U.S.), a patent case now pending before the Supreme Court on a sanctions issue, Octane Fitness as well as various *amici* have encouraged the Supreme Court to strike the subjective prong of the Section 285 test. See *e.g.*, Brief of *Amici Curiae* Electronic Frontier Foundation,

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Application Developers Alliance, Engine Advocacy, and Public Knowledge in support of petitioner, 2013 WL 6512960 (Dec. 9, 2013).

⁸ If you cannot frame a defense as a purely legal issue, you most likely will not be able to knock out the case before discovery. Moreover, if the patentee's infringement assertion is not clearly wrong on its face, it also is unlikely to lead to sanctions unless the patentee commits some sort of litigation misconduct.

⁹ Some defendants, for example, have asserted Section 101/112 invalidity claims in a threshold Rule 12 motion. See *OIP Techs. v. Amazon.com Inc.*, No. C-12-1233, 2012 WL 5020385 (N.D. Cal. 2012) (granting a motion to dismiss based upon an argument that the patent claims failed to address patent-eligible subject matter under Section 101).

¹⁰ *Markman v. Westview Instruments*, 517 U.S. 370 (1996).

¹¹ See *Judin v. United States*, 110 F.3d 780, 784-85 (Fed. Cir. 1997) ("Because Rule 11 is not about after-the-fact investigation, [plaintiff's] violation of Rule 11 was not cured by the fact that, after filing the complaint, [he] consulted with an expert and was able to make 'colorable' arguments in response to a motion for summary judgment of noninfringement.").



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