

Third Annual U of M Law School Patent Symposium

Non-Practicing Entities:

Abusive “Patent Trolls” or Free Enterprise Drivers of Innovation?



Agenda

8:00 a.m. – 8:30 a.m.	Registration and Continental Breakfast
8:30 a.m. – 8:40 a.m.	Welcome and Introductory Remarks
8:40 a.m. – 9:10 a.m.	Do Patent Assertion Entities Help or Hinder Innovation?
9:10 a.m. – 9:40 a.m.	Issues and Trends in State Actions Against NPEs
9:40 a.m. – 9:50 a.m.	Break
9:50 a.m. – 10:20 a.m.	Litigation When Sued by a Patent Assertion Entity
10:20 a.m. – 10:50 a.m.	Litigating Against NPEs – In-House Strategies
10:50 a.m. – 11:20 a.m.	Pending Legislation Aimed at NPEs
11:20 a.m. – 11:25 a.m.	Break
11:25 a.m. – 12:00 p.m.	Panel Discussion
12:00 p.m. – 1:00 p.m.	Lunch (Auerbach Commons)

<http://tech.co>

“Protect Innovation and Urge Congress to Pass Strong Patent Reforms”

. . . This legislation is *critical to protecting America's small businesses*, the backbone of our economy, who are *under attack from patent trolls*. [Patent trolls] launch often *unsubstantiated lawsuits* causing small businesses to spend thousands, sometimes millions, of dollars to settle these suits. *The damage these patent trolls do is staggering*, and they are diverting critical resources young companies need to thrive.

May 2, 2014 StarTribune

“The Proper Patent Troll Repellent Must Be Potent”

. . . There are trolls **threatening advancement of technology and innovation in Minnesota today**. . . [T]hey have one goal: to buy broad or vague patents and use them to threaten real businesses with **frivolous patent infringement lawsuits**. Trolls never intend to manufacture a product or service: They exist only to sue companies that do.

John Gray, Chief Technology Officer, Oracle's Minneapolis based Retail Global Business Unit.

<http://jurist.org>

“Patent Trolls as *Parasites*”

JURIST Guest Columnist Yaniv Heled of Georgia State University College of Law argues that patent trolls may be better understood when viewed as analogous to *biological parasites*, as both are naturally occurring phenomena that thrive by *siphoning resources from hosts*.

“This American Life” from WBEZ

“When Patents Attack”

July 22, 2011 Public Radio Broadcast

What's the Message?

- Patent Trolls are “Anti-Baby”
- Hard working entrepreneurs should not have to abide by patent laws
- C&D Letters are mean
- Only intentional “stealing” should create liability
- Inventors should be able to “veto” infringement lawsuits if they don't like how their technology is being used
- Patent Licensing by non-practicing entities is wrong

U.S. Constitution was the First to Include an “Intellectual Property Clause” Recognizing the Rights of Inventors:

“Congress shall have the Power to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”

Founding Fathers Pro Patent?

- Unique Population
 - Unlike the tenant farmers and laborers that made up the majority of England's class society, the vast majority of Americans were free-holding small farmers, merchants, shopkeepers, artisans and mechanics — the forerunners of today's middle class.

Founding Fathers Pro Patent?

- Certain histories contend the founders deliberately developed a patent system intended to “stimulate the inventive genius and entrepreneurial energy of the common man.”
- Initial patent fees were extremely reasonable and affordable to ordinary citizens (less than 1% of the rate in Britain.)

Founding Fathers Pro Patent?

- America's initial inventors came from humble beginnings (farmers, factory workers, merchants, mechanics, carpenters and other artisans.)
- Licensing allowed such inventors to commercialize their inventions with little or no capital.

Founding Fathers Pro Patent?

- Licensing was common in the early 1900's
- Patents were published and promoted in places like "Scientific American" to be purchased or licensed
- In 1894, American Bell Telephone Company's R&D department licensed 73 patents from outside inventors (developing only 12 inventions internally.)

<http://www.ipwatchdog.com/2010/06/01/was-thomas-edison-a-patent-troll>

**Do Patent Assertion Entities
Help or Hinder Innovation?
A Review of the Principal Arguments**

Thomas F. Cotter

Briggs and Morgan Professor of Law
University of Minnesota Law School

Introduction

- A preliminary note on terminology
 - NPE = nonpracticing entity
 - May include entities such as universities; individual inventors; firms such as Rambus, InterDigital, Qualcomm, and Tessera that engage in research and obtain patents but that make money from licensing rather than practicing those patents; and various types of patent aggregators or speculators.
 - PAEs = patent assertion entity
 - Some prefer the term PME (patent monetization entity) or PLEC (patent licensing and enforcement company).
 - PAEs may include patent aggregators and “privateers.”
 - Some commentators include other NPEs within the definition of PAE; others don’t.
 - PAE = polite term for “patent troll”?
 - For further discussion of various types of patent holding entities, see Raymond Millien, *Landscape 2013: Who Are the Players in the IP Marketplace?*, IPWATCHDOG, Jan. 23, 2013, available at <http://www.ipwatchdog.com/2013/01/23/ip-landscape/id=33356/>; Malte Köllner & Paul Weber, *Trolls and their consequences--an evolving IP ecosystem*, MITTEILUNGEN DER DEUTSCHEN PATENTANWÄLTE 106 (March 2014).

Introduction

- Critics assert that PAEs:
 - Assert weak patents
 - Prey on small (and large) businesses
 - Raise the costs of doing business: “innovation tax”
 - Hinder innovation
 - Unlike practicing entities, need not worry about provoking a countersuit for infringement and have no interest in cross-licensing.
- Defenders claim:
 - Overall, PAEs perform a useful service of ensuring that inventors receive adequate compensation for their inventions.
 - Evidence that PAEs are harmful is weak.
 - Efforts to rein them in will have negative consequences.
- Proposed responses to PAEs that you will be hearing about later today include:
 - Executive orders and recommendations
 - USPTO rulemaking
 - Innovation Act (Goodlatte Bill) and its Senate counterpart
 - State anti-troll laws
- This presentation will focus on three issues:
 - Theoretical arguments for and against PAEs
 - Empirical evidence
 - Factors that contribute to PAEs’ disproportionate presence in the U.S.

PAEs: Theory

- As a general matter, economists view the licensing of intellectual property as a social good.
 - Many individuals and firms that invent are not in a position to practice their inventions themselves.
 - Their ability to license their inventions to others who *can* practice them makes it worthwhile for them to engage in inventive activity.
 - Efficient division of labor.
 - See, e.g., Roger D. Blair & Thomas F. Cotter, *An Economic Analysis of Damages Rules in Intellectual Property Law*, 39 WM. & MARY L. REV. 1585, 1629-31 (1998).
- Defenders of PAEs characterize PAEs as firms that assist inventors in licensing their inventions.
 - Absent PAEs, some inventors would lack the expertise to license their inventions for adequate compensation.
 - PAE activity enhances the return on invention and thus promotes the incentive to invent.
 - More generally, intermediaries/secondary markets are present in many fields, and often perform analogous (socially beneficial) functions in those fields.

PAEs: Theory

- While not disputing that licensing often is socially beneficial, critics of PAEs argue, among other things, the following:
 - There is a world of difference between traditional patent licensing, including licensing by NPEs such as universities, and PAEs' practice of buying up patents that are lying fallow and looking for someone to sue.
 - Just because intermediation/secondary market creation *can* be socially beneficial does not mean that it always *is*.
- From the public's standpoint, patents generate both benefits and costs.
 - Social benefits: encourage invention and disclosure
 - Social costs: transaction costs, monopoly costs, administrative costs
 - When patent rights are too weak the patent system does not generate enough social benefits;
 - but when patent rights are too strong the social costs can exceed the social benefits.
 - Stronger isn't always better; key is to find the right balance.
 - The question therefore is whether there is a market failure that PAEs are correcting; or are PAEs exploiting an opportunity that (from the public's standpoint) doesn't *need* to be exploited?

PAEs: Theory

- More speculatively, perhaps an underlying assumption of existing law is that a certain amount of infringement is never detected and/or rights are not enforced 100% of the time;
 - if so what happens when that assumption is no longer valid?
- On the other hand, maybe PAEs are more of a symptom of underlying problems in the patent system, rather than a cause of those problems?
 - Patents are property, but in contrast to our system for describing and recording real property, our system of patent “notice” is highly flawed.
 - Other problems with patentable subject matter, nonobviousness, disclosure, remedies?
 - You can’t defend yourself from an infringement claim without incurring enormous fees, uncertainty.
 - See, e.g., Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117 (2013).

PAEs: Empirical Evidence

- Both critics and defendants of PAEs agree that a large proportion of patent infringement actions are brought by PAEs.
- Different definitions and methodologies, however, result in widely differing estimates of what that proportion is.
- See, e.g.:
 - Colleen V. Chien, *Startups and Patent Trolls*, PATENTLY-O BLOG (Mar. 14, 2013), available at <http://patentlyo.com/patent/2013/03/chien-patent-trolls.html> (stating that, according to RPX Corp., “PAEs initiated 62% of all patent litigation” in 2012, although this number was higher than in 2011 in part due to the AIA’s new misjoinder rules; and that PAE defendants made up 59% of all patent litigation defendants in 2012, although the absolute number of PAE defendants fell by 25% from 2011).
 - Christopher Anthony Cotropia et al., *Unpacking Patent Assertion Entities (PAEs)*, at 34 (Nov. 10, 2013), available at <http://ssrn.com/abstract=2346381> (summarizing various findings, including the authors’ own finding that “Large Aggregators + Patent Holding Companies” accounted for 17.78% of filings in 2010 and 42.25% in 2012, but that the percentage of alleged infringers involved in PAE suits rose only from 31.59% to 36.75%).
 - GAO REPORT TO CONGRESSIONAL COMMITTEES, INTELLECTUAL PROPERTY: ASSESSING FACTORS THAT AFFECT PATENT INFRINGEMENT LITIGATION COULD HELP IMPROVE PATENT QUALITY 17 (Aug. 2013) (reporting that “PMEs and likely PMEs brought 17 percent of all lawsuits in 2007 and 24 percent in 2011,” a statistically insignificant difference, but that filings by operating companies fell from 76% to 59% over that period, a statistically significant drop).

PAEs: Empirical Evidence

- Sara Jeruss et al., *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 DUKE TECH. L. REV. 358 (2012) (reporting that PME initiated 40% of all patent infringement actions in 2011, up from 22% five years earlier, based on a random sample of 100 actions filed each year from 2007-11); Robin Feldman et al., *The AIA 500 Expanded: The Effects of Patent Monetization Entities*, at 7 (Apr. 9, 2013), available at <http://ssrn.com/abstract=2247195> (in a follow-up study, reporting that PMEs initiated 58.7% of all such actions in 2012).
- Fiona Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions* (July 2, 2013), available at <http://ssrn.com/abstract=2288911> (reporting that “[s]o far in 2013, 70% of the defendants in patent cases have been sued by NPEs”).
- See also Lex Machina’s *2013 Patent Litigation Year in Review*, available at http://pages.lexmachina.com/2013ReviewLandingPage.html?mkt_tok=3RkMMJWWfF9wsRonuq7JZKXonjHpfsX56%2BwIX6C3IMI%2F0ER3fOvrPUfGjI4HStQ%2FcOedCQkZHblFnVwBQq2mVLoNrqwF:
 - “Not surprisingly, all ten plaintiffs that filed the most new patent cases in 2013 are patent monetization entities (PMEs). Melvino/ArrivalStar, Wyncomm and Thermolife each filed more than 100 cases. But seven of the ten plaintiffs with the most patents asserted in open cases are operating companies, including Ericsson, Finisar, Motorola Mobility, Apple, Philips and Pfizer. . . .
 - “PMEs ArrivalStar and Melvino jointly asserted six of the ten most frequently asserted patents, all involving systems for monitoring or tracking vehicle status, travel or proximity.”

PAEs: Empirical Evidence

- Critics argue that PAE suits are often weak.
 - See, e.g., John Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677 (2011) (finding that repeat patent plaintiffs—“those who sue eight or more times on the same patents”—“overwhelmingly” lose when they go to trial, rather than settle).
 - See also PRICEWATERHOUSECOOPERS, 2013 PATENT LITIGATION STUDY 12 (reporting that “[b]etween 2007 and 2012, the practicing entity overall success rate outpaced that for NPEs by approximately 12%”).
 - But see Jonathan Ashtor et al., *Patents at Issue: The Data Behind the Patent Troll Debate*, 21 GEORGE MASON L. REV. ___ (forthcoming 2014) (reporting that, based on a study of “all awards granted for findings of patent infringement in U.S. District Courts between the years 1995-2011,” “PAEs won 28% (45 out of 160) of the cases they brought and all other plaintiffs won 32% (509 out of 1,591) of their cases”).
 - Cf. Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. 457 (2012) (reporting, based on a study of “the ten most litigious NPEs,” that “the available information implies that NPE patent quality is not drastically lower than other litigated patents,” but that “[t]he same cannot be said for litigation quality; trolls almost never won infringement judgments”).
 - See also Lex Machina, *supra* (“4,917 patents were at issue in all cases filed during 2013. Of these, 3,032, or 61%, had not been litigated in the past 10 years.”)

PAEs: Empirical Evidence

- Critics also argue that individual inventors and small firms do not reap much of the benefit of PAEs.
 - See James E. Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 388, 410-11 (2014) (asserting that, at most, 20% of defendants' payments to NPEs go to patentees);
 - Chien, *supra* (stating that 55% of unique PAE defendants make \$10 million or less);
 - Risch, *supra*, at 461 (“the evidence does not support a theory that NPEs incentivize investment by providing a market for patents,” although they do “provide a better way for individual inventors to enforce their patents than bringing lawsuits themselves”);
 - *But see* David L. Schwartz & Jay P. Kesan, *Essay: Analyzing the Role of Non-Practicing Entities in the Patent System*, 99 CORNELL L. REV. 426, 443 (2014) (faulting Bessen & Meurer's estimate above).
- Some evidence that startups and VCs do not view PAEs in a positive light:
 - See Colleen V. Chien, *Startups and Patent Trolls* (Sept. 2012), available at <http://ssrn.com/abstract=2146251> (reporting results of a survey of tech company startups on the impact of litigation on their companies);
 - Robin Feldman, *Patent Demands & Startup Companies: The View from the Venture Capital Community* (Oct. 28, 2013), available at <http://ssrn.com/abstract=2346338> (reporting that 72% of venture capitalists surveyed viewed PAEs as a negative for the startup community, based on “results of a study conducted on the topic of patent demands against venture-backed startups” comprising “responses from more than 200 venture capitalists and their portfolio companies”).

PAEs: Empirical Evidence

- Moreover, some economists argue that PAEs cost the economy billions of dollars.
 - See Bessen & Meurer, *supra* (estimating that the direct costs of NPE patent assertions which include “the cost of outside legal services, licensing fees, and other costs incurred in response to NPE-litigation risk,” totaled \$29 billion in 2011,” based on “a unique survey of firms targeted by NPE patent assertions”).
 - See also James Bessen et al., *The Private and Social Costs of Patent Trolls*, REGULATION, Winter 2011-12, at 26 (estimating the average annual cost from 2006-10, including such indirect costs as opportunity costs, at over \$80 billion, based on event studies of stock market reactions to the filing of an NPE suit).
 - *But see* Schwartz & Kesan, *supra* (faulting the Bessen & Meurer estimate on several grounds, including the proprietary nature of the data and the characterization of transfers from defendants to PAEs as social costs);
 - Glynn S. Lunney, Jr., *On the Continuing Misuse of Event Studies: The Example of Bessen and Meurer*, 16 J. INTELL. PROP. 35 (2008) (arguing against Bessen and Meurer’s use of stock market event studies in their 2008 book *Patent Failure* as accurate measures of the costs of patent litigation).
- Some also argue that PAEs are not a new phenomenon; and that the number of patents per capita and the number of lawsuits per patent is consistent with historic trends dating back to the nineteenth century.
 - See, e.g., B. Zorina Khan, *Trolls and Other Patent Inventions: Economic History and the Patent Controversy in the Twenty-First Century*, 21 GEO. MASON L. REV. ___ (forthcoming 2014).

PAEs: What Factors Favor or Undermine Them?

- So far, PAEs appear to much less present, though certainly not absent, in other countries.
- According to one observer:
 - The exact extent of “trolling” in Europe is unknown. Certainly, the practice has not played the prominent role that is [sic] has in the US. On the other hand, several patent funds have purchased several thousands of patents, and the first court actions by “trolls” are pending in Europe. The weaker presence of “trolls” is presumably due to the fact that the patent system in Europe deviates from the US system in several crucial points. In Europe, (i) court proceedings are much less costly, (ii) cost allocation favours the winning party, (iii) damage awards are not excessive, (iv) most courts have sought a careful balance between the rights of the parties and have not followed a blind pro-patent posture, (v) injunctions are not issued automatically, and (vi) the quality of patent examination has been considerably better than in the US, despite some weakening. However, one should not assume that the European system is “troll-proof.”
 - DIETMAR HARHOFF, CHALLENGES AFFECTING THE USE AND ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS 8 (Strategic Advisory Board for Intellectual Property Policy, Research Paper 2009) (prepared for the Forum on the Economic Value of Intellectual Property), available at <http://www.ipo.gov.uk/ipresearch-challenges-200905.pdf>.
- *Contra* Harhoff, however, on a percentage basis injunctions are awarded much more frequently in Europe than in the U.S. post-*eBay*.
- See also Christian Helmers et al., *Is There a Patent Troll Problem in the UK?*, 24 FORDHAM INTELL. PROP. MEDIA & ENTER. L.J. 509 (2014) (finding “little support for many common explanations for Europe’s relative scarcity of NPE activity,” such as fewer high-tech or software patents, and pointing to “fee-shifting as a key reason for the U.K.’s immunity to NPEs”);
- Stefania Fusco, *Markets and Patent Enforcement: A Comparative Investigation of Non-Practicing Entities in the US and Europe*, 20 MICH. TELECOMM. & TECH. L. REV. ___ (forthcoming 2014) (arguing that “NPEs are the inevitable ‘by-product’ of the successful development of certain industries”).
- Will the EU’s future Unified Patent Court make Europe a haven for trolls?



Litigation When Sued by a Patent Assertion Entity

Karen McDaniel,
Briggs and Morgan, P.A.

Who are These “Trolls” We Hear About in the News?

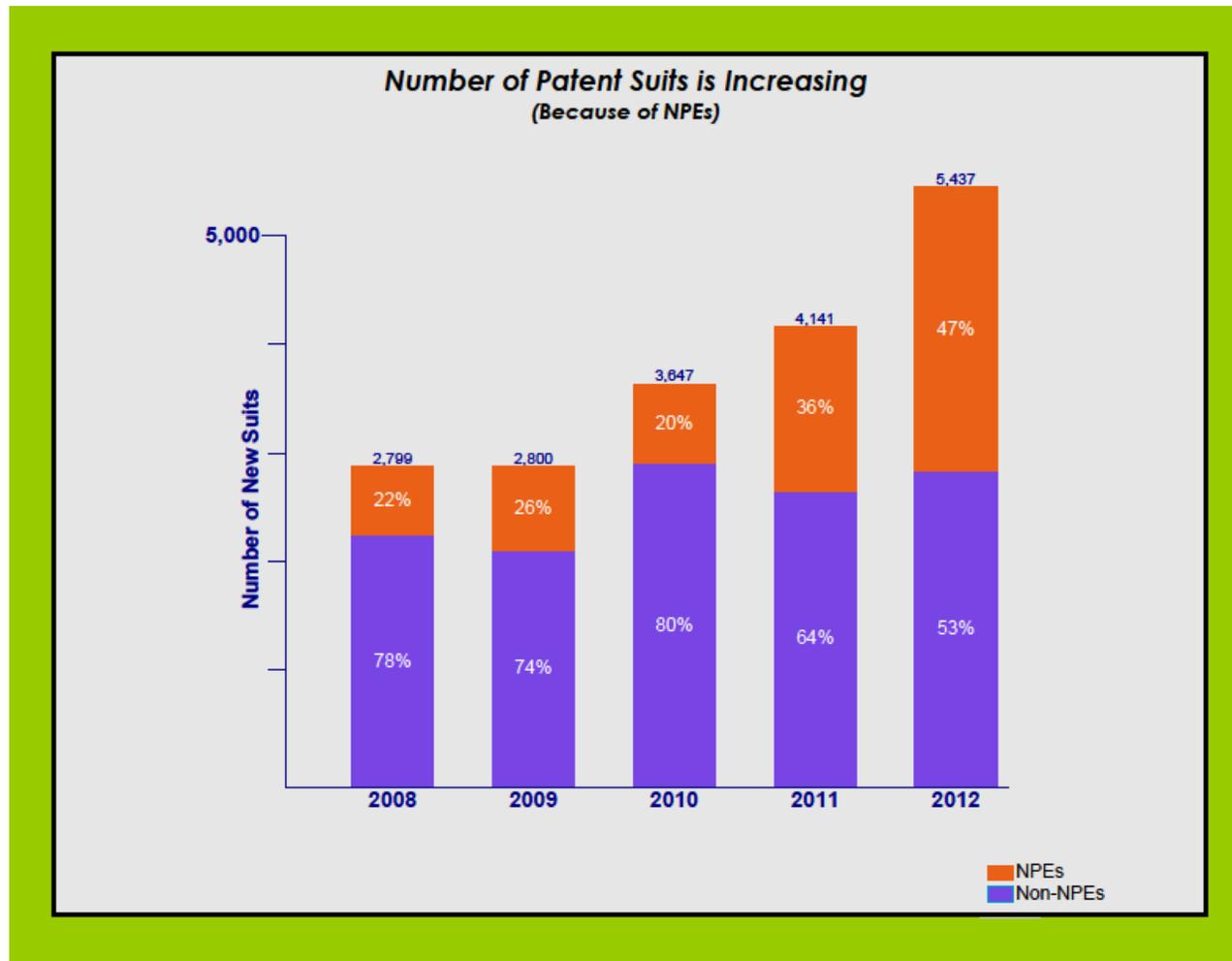
- Do not produce a product under the patent
- Enforce patents as a means to make revenue
- These are the categories:
 - NPEs (Non-Practicing Entities)
 - Own patents they don't practice. *E.g.*, a university or an individual inventor
 - PAEs (Patent Assertion Entities)
 - NPEs whose business model is asserting patents
 - This group is sometimes referred to pejoratively as “trolls”
 - Patent Aggregators
 - NPEs who generate revenues by collecting patents
 - Offensively to assert and defensively for others to buy in defense
 - Many other types of organizations; new forms being created all the time



Why We Care – Impact of PAEs

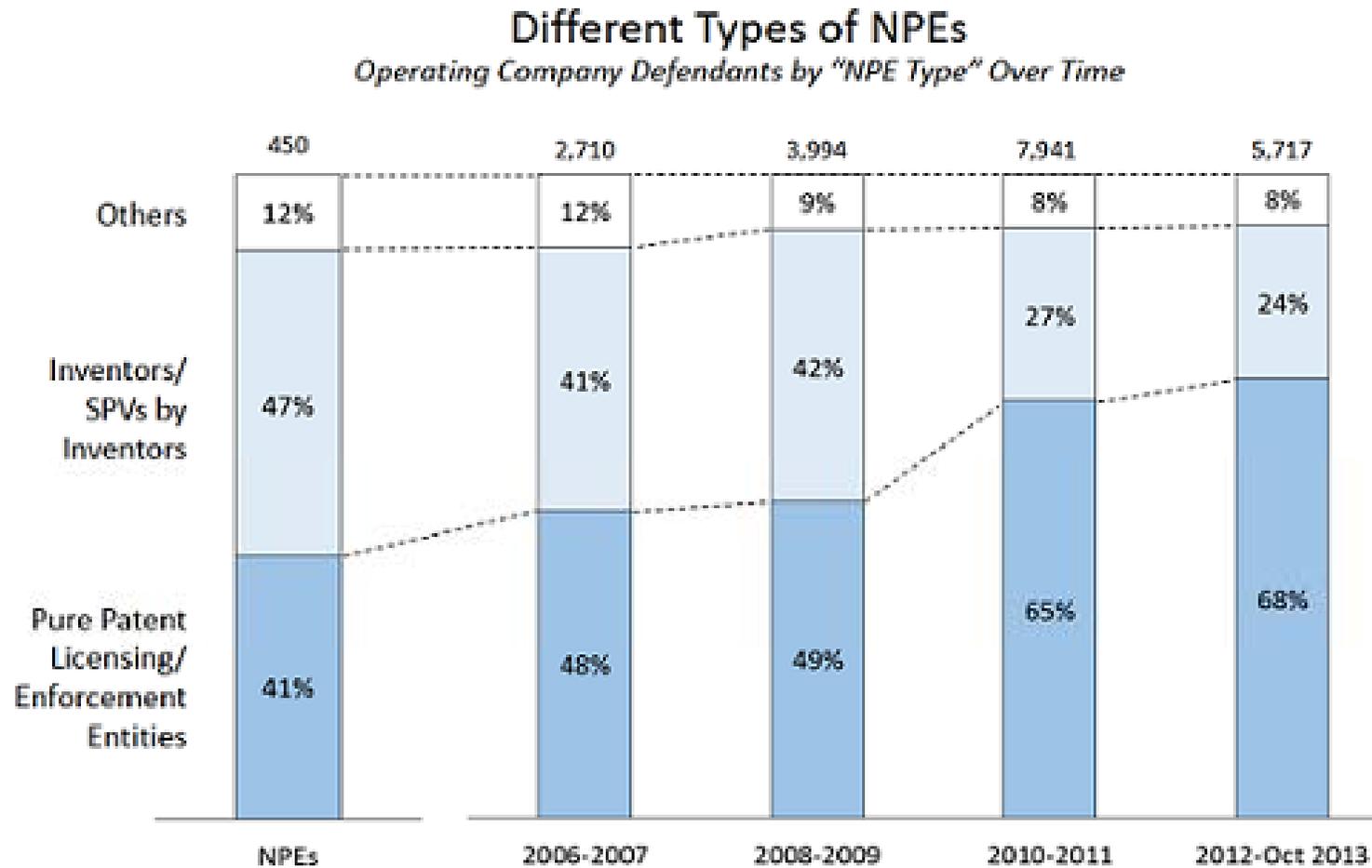
- Impact of PAEs on Patent Litigation
 - Patent Litigation - \$3 billion expected spend in 2014
 - Fees and defense costs, not damages
 - Litigation by PAEs is the largest growth segment
 - Litigation in general about 40% of a typical corporate legal budget (the biggest slice)
 - A larger percentage of these litigation budgets are going toward defending suits brought by PAEs

Patent Litigation Filing Trends



Compiled by and used with permission of Matt Blackburn of Locke Lord LLP

Which Types of NPEs Are Bringing Suit?



*Excludes ** 6% operating companies sued by 29% uncategorized NPEs*

PATENTFREEDOM

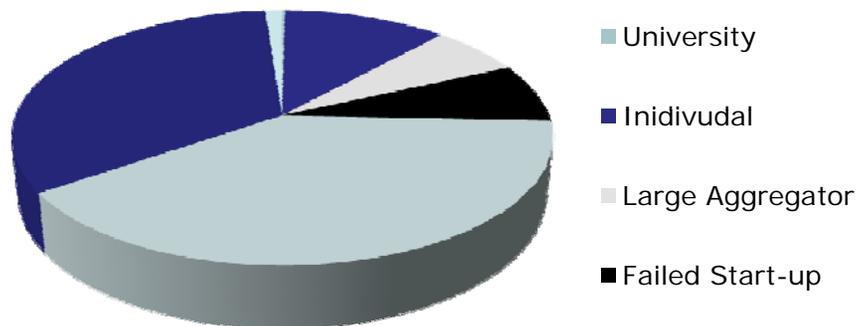
Trends in PAE Suits

- Rep. Peter DeFazio (D. Ore.), sponsor of the SHIELD Act, says academic estimates show businesses paid \$29 billion to PAEs in 2011 alone
- 90% of PAE suits are settled out of court
- PAEs win in court only 24% of the time
- Cost of defense forces settlements

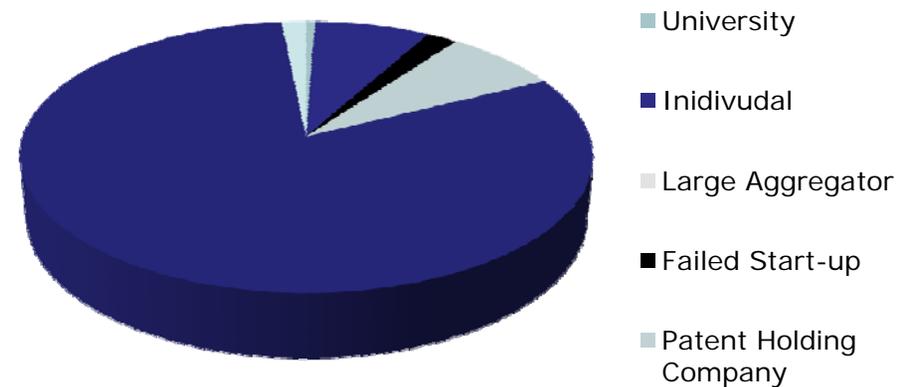
» Source: San Francisco Chronicle, March 8, 2013

Which Industries Are PAEs Most Impacting?

Computers & Communication



Drugs and Medical



Data from Cotropia, Kesan & Schwartz, *Patent Assertion Entities (PAEs) Under the Microscope: An Empirical Investigation of Patents Holders as Litigations*, University of Illinois, November 10, 2013.

PAE litigation is happening against
the backdrop of a sea change in
patent law



AIA – America Invents Act (Sept. 2012)

- Established new procedures for review of patent validity – IPR and PGR
 - Mini trials within the Patent Office (PTAB), conducted by patent judges
 - Petition to have patent claims reviewed against prior art to see if the claims are valid (not disclosed in the prior art)
 - Estoppel in court likely applies (don't expect a "do over" in court)
 - Claims are amended, canceled, or left intact
 - Procedure is statutorily mandated to be expeditious
 - About 18 months to complete

AIA – America Invents Act (Sept. 2012)

- AIA also forced suits to be instituted and litigated separately (a plaintiff can no longer sue a large group of companies in one lawsuit based on common technology)
 - Positive development for companies targeted by PAEs. Increases litigation transaction costs for the PAEs
 - However, makes it less viable for target companies to create common defense groups and share certain costs
 - PAEs must now institute and maintain suits separately against targets

Effect of AIA on Patent Litigation in General

- Heavy use of PTAB to review validity of claims
 - PTAB being called the “busiest jurisdiction in the country”
 - 1100 AIA petitions as of spring, 2014 (first 18 months)
 - Double the anticipated amount
 - 180 new PTAB patent judges have been hired
- District Courts are Standing Down
 - About 70% of district courts have granted stays pending IPR
- Bifurcates issues
 - Validity first, infringement second
 - Lower standard on invalidity
 - Infringement if and only if surviving claims read on product
 - Potentially large savings for industry
 - \$000's vs. \$MM's in resolution costs

Tactics and Practical Solutions

- When sued by a PAE, what tactics can a company employ to best protect itself?
 - Understand the nature of the particular PAE
 - Their history, motivations, funding
 - Understand how you fit into the PAEs “bigger picture”
 - Don’t just pay the toll – take each case as it comes
 - Early case assessment - quickly seek to understand the PAEs case and determine how to defend against it
 - Determine ways to disrupt the PAE’s business model:
Get to the merits
 - Searching for prior art is quick and inexpensive
 - Consider new PTAB proceedings (IPR/PGR)
 - Seek early Markman hearing to get claims construed (limit discovery)
 - Consider early summary judgment options



Tactics and Practical Solutions (continued)

- Force specificity of infringement case: Claims asserted and products
- Consider other tactics
 - Offer of Judgment under Fed. R. Civ. P. 68(d)
 - If offer is not accepted and judgment is lower than offer, then offeree must pay costs incurred after the offer was made
 - Seek to fee-shift in appropriate cases (Supreme Court just made this a lot easier)
- Always bear in mind pressure points and settlement opportunities
- Consider the message beyond this particular case
 - This PAE is assessing you and other PAEs are watching
- Staff case in such a way that you can afford the fight if you choose to fight

Lessons Learned in Defending Suits Brought by PAEs

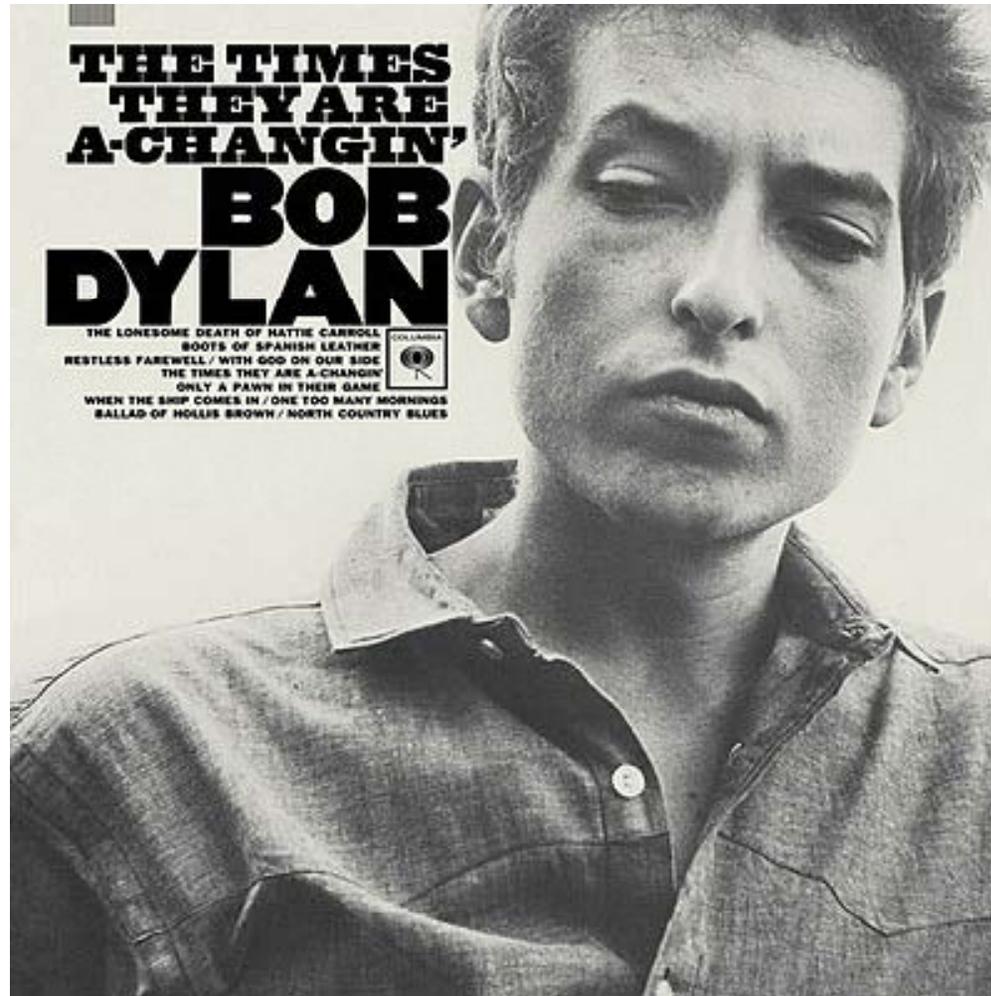
- Take a Close Look at Standing
 - Consider whether the plaintiff has standing
 - Plaintiff has acquired rights in patent
 - Did plaintiff do all the right things around ownership/control of the patent to be able to assert an infringement case?
- Get the best venue
 - Should be able to get suit moved to your home turf
- PAEs more amenable than traditional litigants to procedural mechanisms that reduce resolution costs

Lessons Learned in Defending Suits Brought by PAEs

- PTAB proceeding can put pressure on a PAE
- To the PAE, it's math, not merits
 - The PAE thinks and talks spreadsheet
 - The PAE loves to skip to the end and talk "damages" and case value
 - The PAE does not like to talk merits
 - The PAE is banking on the fact that due to cost of defense and distraction factors, you might easier pay a "highly discounted" amount
 - "Discounts" for "early" settlement are skin off the PAE's teeth
 - In industries with high sales volume, high margins – easy for numbers to add up and for PAE to offer "discounts"



Conclusion





“You Can’t Tell the Players Without a Program!”

Pending Legislation Aimed at NPEs

Michael M. Lafeber
Briggs and Morgan, P.A.

No Less Than Twelve (12) Bills Introduced to Address Perceived Problems with and Abuses by NPEs

- Innovation Act (H.R. 3309)
- Patent Transparency and Improvements Act (S. 1720)
- Patent Quality Improvement Act (S. 866)
- Patent Abuse Reduction Act (S. 1013)
- Patent Litigation Integrity Act (S. 1612)
- Transparency in Assertion of Patents Act (S. 2049)
- Demand Letter Transparency Act (H.R. 3540)
- Innovation Protection Act (H.R. 3309)
- Patent Litigation and Innovation Act (H.R. 2639)
- SHIELD Act (H.R. 845)
- Stopping the Offensive Use of Patents Act (STOP Act) (H.R. 2766)
- End Anonymous Patents Act (H.R. 2024)

Four (4) Main Areas Targeted

- Preventing abusive litigation tactics
- Protecting end-users
- Broadening the Transitional “Covered Business Method” Post Grant Review Program
- Providing transparency

“The Innovation Act of 2013” (Rep. Goodlatte)

- Distinguished from other reform proposals on the basis that:
 - It “target[s] abusive behavior rather than specific entities”
 - Does not attempt to eliminate valid patent litigation but rather “prevent[] individuals from taking advantage of gaps in the system to engage in ‘litigation extortion’”

Innovation Act Highlights: Heightened Pleading

- Identification of each patent and each claim allegedly infringed
- Explanation as to where each element of each claim is found in each “accused instrumentality”
- Whether each element is infringed literally or under the doctrine of equivalents

Innovation Act: Heightened Pleading (Cont.)

- How the terms of each claim correspond to the functionality of the accused instrument
- For indirect infringement a description of the *direct* infringement and a description of acts allegedly inducing or contributing thereto
- A description of the “right” of the party to assert infringement

Innovation Act: Heightened Pleading (Cont.)

- A description of the principal business of the party alleging infringement
- A list of all infringement complaints involving the same patent(s)

Innovation Act: Joinder

- Allows joinder of an “interested party” where a defendant shows the plaintiff has no substantial interest in the patent other than asserting it in litigation

Innovation Act: Joinder

- What is an “Interested Party”?
- Defined to include:
 - Assignees of the patent
 - Persons with a right to enforce or sublicense the patent
 - Persons with a direct financial interest in the patent, including attorneys and law firms representing the plaintiff

Innovation Act: Attorneys Fees

- Attorneys Fees to the Prevailing Party
- The court “shall” award reasonable fees and other expenses to the “prevailing party” unless the position of the non-prevailing party was “substantially justified” or “special circumstances make an award unjust”

Innovation Act: Attorneys Fees

- Recall the joinder provisions and the *broad* definition of “interested party”
- The bill expressly allows prevailing defendants to collect fee awards from non-plaintiffs having a substantial interest in the patent-at-issue

Innovation Act: Limitations on Discovery

- Only limited discovery allowed prior to claim construction
- Discovery limited to matters relevant to interpreting the claims

Innovation Act: Changes to AIA Post Grant Review

- Limits PGR estoppel
 - AIA's new Post Grant Review creates estoppel for "any ground that the petitioner raised or reasonably could have raised. . ."
 - Innovation Act seeks to narrow such estoppel to grounds actually raised (promotes use of PGR by limiting estoppel concerns)

Innovation Act: “End User” Litigation Stayed

- An action against a customer may be stayed if the customer agrees to be bound by the results of a suit against the manufacturer

Innovation Act: Claim Construction Standards

- Seeks to change PTO's longstanding practice of applying the "broadest possible" claim construction in review proceedings
- PTO to "constru[e] each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent"

Patent Transparency and Improvements Act (Sen. Leahy)

- Transparency
- “End User” Litigation Stayed
- Regulation of “Demand Letters”
- Harmonized “Claim Construction” Standards

PTIA: Transparency

- Plaintiffs required to disclose any and all persons that have a financial interest in the controversy or a party to the proceedings, or that have an interest that could be affected by the outcome of the proceedings
- What is a “financial interest”?

PTIA: Transparency

- “Financial Interest”?
- Bill refers to judicial disqualification rules which define “financial interest” as:
 - “[O]wnership of a legal or equitable interest, however small, or a relationship as director, advisor, or other active participant in the affairs of a party”
 - Excludes passive ownership through a mutual or common investment fund

PTIA: Transparency

- Broadened patent assignment disclosure requirements
- When “all substantial rights in an issued patent” have been assigned, the name of the assignee and the ultimate parent entity of the assignee would need to be recorded with the Office within three months

PTIA: Transparency

- What does "all substantial rights" mean?
- "[R]esults in a change to the ultimate parent entity"
- A party asserting infringement "may not recover increased damages under section 284 or attorney fees under section 285 with respect to infringing activities taking place during any period of non-compliance. . ."

PTIA: “End User” Litigation Stayed

- Allows for stay of litigation against customer if manufacturer has also been sued

PTIA: “End User” Litigation Stayed

- Manufacturer and customer must consent in writing
- Customer must agree to be bound
- The motion must be filed early
- The stay can be lifted if a major issue in the customer action will not be resolved or the stay will unreasonably prejudice a party
- Estoppel effect waived if manufacturer allows consent judgment or fails to prosecute

PTIA: Regulation of “Demand Letters”

- FTC authorized to consider demand letter an “unfair or deceptive act or practice.”
 - Patent holder must “engage in the widespread sending of written communications” that “falsely threaten that administrative or judicial relief will be sought if compensation is not paid or the infringement issue is not otherwise resolved.”
 - Demand letter “lacks a reasonable basis in fact or law” or the content “is likely to materially mislead a reasonable recipient.”

PTIA: Regulation of “Demand Letters”

- “Falsely threaten”?
 - Applicable anytime a lawsuit is not ultimately filed?
 - How do you prove patent holder never had any “intention” of filing suit?

PTIA: Claim Construction Standards

- Harmonizes District Court and PTO claim construction standards

“Best of the Rest” Patent Quality Improvement Act

- Broadens the AIA’s “Covered Business Method” review program to include patents claiming a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of *any enterprise, product, or service*.

Patent Abuse Reduction Act

- Producing party covers the cost of producing “core documentary evidence”
- Requesting party pays for everything else
- Discovery bifurcated. Claim construction goes first.

Patent Litigation Integrity Act & SHIELD Act

- Patent owner required to post a bond to cover attorney fees
- Patent Litigation Integrity Act exempts companies that:
 - develop products; or
 - license their patent to a company that develops products

Demand Letter Transparency Act

- Creates national database of demand letters
- Demand letters must be submitted to database (<20 letters exempt)
- Mandatory content requirement for demand letters

Innovation Protection Act

- Ends practice of Congress diverting USPTO fees to the general fund

“Careful What You Wish For” Department

“If lawmakers care about the underlying facts and the sanctity of the system, which has made possible incredible innovation in this country, they wouldn’t just start making vast changes to the patent system.”

George Mason Law Professor Adam Mossoff (noting the lack of any reliable objective studies or data showing the effects of NPEs on consumers and patent holders)



Thank You!

Feel free to contact me with any
follow-up questions.

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