

# Subduing the troll

**Matthew C. Nielsen**, a partner at Marshall, Gerstein & Borun, explores strategies and cost-saving approaches in US patent litigation against non-practicing entities

In the last few years, US courts have made it more difficult for non-practicing entities (NPEs) to obtain excessive settlements and damages awards.<sup>1</sup> One might think that NPEs would now file fewer patent lawsuits.

Recent reports, however, suggest NPEs are no less litigious. There has been a general trend in the last few years of NPEs filing more suits, against more defendants,<sup>2</sup> and NPEs have won damages awards that more than double (on average) those obtained by practicing entities.<sup>3</sup>

It therefore remains important for defendants to know their potential options in defending against NPE suits. This article summarises a few new strategies and approaches that defendants may employ to mount effective defences against NPEs (and in patent suits in general), while potentially reducing litigation expenses.

## Motions to dismiss

Assuming an early settlement is unacceptable, one of the first considerations in NPE patent cases – as in most patent cases – is whether any claims for relief are ripe for resolution by a motion to dismiss at the initial pleadings stage of a case, without any need for discovery. It is now routine in patent cases to move to dismiss complaints under Rule 12(b)(6) of the Federal Rules of Civil Procedure for failure to set forth sufficient facts to state a plausible claim for relief (referred to as *Twombly/Iqbal* motions<sup>4</sup>). This includes when plaintiffs have failed to identify an accused device, or have alleged induced or contributory infringement but failed to plead sufficient facts regarding requisite acts or intent (such as pre-suit knowledge of an asserted patent). It also includes when plaintiffs have alleged multi-party infringement, but have failed to plead sufficient facts concerning a party's direction or control of another party, or have alleged wilful infringement but set forth only unsupported allegations of intent. These motions are often granted, in whole or in part. However, when courts dismiss an original complaint, the dismissals are typically without prejudice, and permit filing an amended complaint. Courts are more likely to dismiss a complaint with prejudice (prohibiting later assertion of the same patent(s) against the allegedly-infringing activity) only after an NPE has repeatedly tried but failed to sufficiently plead a claim for relief.

A related early consideration is whether to request dismissal for failure to state a claim where the claimed subject matter is invalid under 35 USC § 101 in the US patent statutes as patent ineligible. A few courts have declined to rule on § 101 issues at the pleadings stage of cases, finding it premature and requiring more consideration of claim construction and evidence than those courts preferred to undertake at that stage. But other courts have been willing to rule on § 101 issues at that stage, and have dismissed complaints with prejudice.<sup>5</sup>

## Early claim constructions and summary judgment motions

If motions to dismiss cannot lead to an early resolution, another consideration is whether NPEs' claims for relief are nevertheless amenable to early *Markman* claim constructions and summary

judgment motions. If successful, these can minimise litigation expenses and provide certainty for a business much faster than standard patent case schedules permit.

Courts are more willing to schedule early *Markman* and summary judgment proceedings if the issues are likely to be case dispositive, or will require fewer judicial resources than standard proceedings. For example, Judge Davis in the Eastern District of Texas agreed to an early "mini-Markman" and summary judgment hearing in a case where three claims terms appeared to be case dispositive for the overwhelming majority of over 100 defendants.<sup>6</sup> But he rejected a similar request in a separate case, where only a small fraction of over 100 defendants requested construction of nine terms, finding the workload comparable to a standard *Markman*, and unlikely to dispose of many claims for relief.<sup>7</sup> Magistrate Judge Love, also in the Eastern District, has a procedure for "decreas[ing] litigation costs for the parties" and "sharpen[ing] the court's focus on the dispositive or most important issues," which permits defendants to request early constructions of three "case dispositive" claim terms and related summary judgment.<sup>8</sup>

## Re-examination and stays of litigation

If dismissal or early summary judgment are not possible, and a defendant or joint defense group discovers invalidating prior art, defendants have the option of not only attempting to prove invalidity in court, but also requesting re-examination or review by the US Patent and Trademark Office (PTO). Re-examination can provide several benefits, including a forum where it is often less difficult to establish invalidity than in court, potentially avoiding or deferring litigation costs if litigation is stayed, and, if claims are substantively amended, potentially avoiding liability.

Until recently, defendants could request either *ex parte* or *inter partes* re-examinations. As the name suggests, parties requesting *ex parte* re-examination are not permitted to participate throughout re-examination, but, if claims emerge from the process, they are not estopped from later asserting an invalidity defence in litigation based on prior art that was raised or could have been raised before the PTO. As a practical matter, however, it can be difficult to later convince a jury that claims subject to at least two PTO examinations are nevertheless invalid. In comparison, parties requesting *inter partes* re-examination are permitted to participate throughout re-examination, and are stopped from later litigating invalidity based on any prior art that was raised or could have been raised in re-examination. Both *ex parte* and *inter partes* re-examinations have been limited to prior art patents and printed publications.

*Ex parte* and *inter partes* re-examination have been effective tools in getting claims cancelled or at least amended. Through 30 June 2012, 92% of all requests for *ex parte* re-examination have been granted, and 94% of all requests for *inter partes* re-examination have been granted. In subsequent re-examinations, all claims have been cancelled in 11% of *ex parte* re-examinations, and claims have been changed in 67% of *ex parte* re-examinations. *Inter partes* re-examinations have been even more lethal – for the same time period, all claims have been cancelled in 42% of *inter partes* re-examinations, and claims have been changed in

47% of *inter partes* re-examinations.<sup>9</sup>

Under recent amendments to the US patent statutes by the Leahy-Smith America Invents Act (AIA), *ex parte* re-examinations remain an option, albeit at a higher PTO fee, but *inter partes* re-examinations are no longer available. Instead, parties may request post-grant review of patents within the first nine months of a patent's issuance (on any ground of invalidity, but only for patents with effective dates of 16 March 2013 or later), or *inter partes* review after that time (limited to invalidity over prior art patents and printed publications).<sup>10</sup> Both proceedings give rise to estoppel against the requester for invalidity positions that were raised or could have been raised, and both permit requesters to participate throughout the proceedings.

It remains to be seen whether these new proceedings will be as effective in cancelling or amending claims as *ex parte* and prior *inter partes* re-examinations. No matter which proceeding is requested, there is a premium for defendants on trying to ensure that claims do not emerge from re-examination or review unscathed and seemingly stronger.

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When the PTO has agreed to re-examination, defendants have typically requested stays of related litigation. Courts have been more inclined to stay litigation when defendants request and the PTO grants re-examination shortly after an NPE sues. Some courts have also been more inclined to grant stays if the PTO proceedings are *inter partes* and defendants will consequently be estopped from re-litigating invalidity positions.

The US Court of Appeals for the Federal Circuit (the appellate court handling all patent appeals) has recently upheld a District Court judgment that claims that have not been proved invalid do not bar the PTO from later finding the same claims are unpatentable in re-examination (In re Baxter<sup>11</sup>). This gives defendants that have not earlier requested re-examination or review the option of later requesting *ex parte* re-examination as insurance if they ultimately lose in court (as mentioned earlier, post-grant review is unavailable when requested more than nine months after patent issuance, and *inter partes* review is unavailable when requested more than one year after litigation begins).

### **Limits on fact discovery and asserted patent claims**

Defendants in NPE cases might also consider requesting discovery limits, particularly of electronically stored information (ESI), of which defendants typically possess far more than NPEs. This has the potential to significantly reduce litigation costs and disruption to a defendant's business, and permit defendants to concentrate more on the merits of a case. With these in mind, and in response to the disproportionately high costs of electronic discovery in patent cases, the Federal Circuit Advisory Council has recently prepared a model order on e-discovery in patent cases. The model order notably limits, absent showing a specific need or good cause, types of ESI that are subject to discovery, and requests for production of email to five custodians per producing party

and five narrowly-tailored search terms per custodian.<sup>12</sup> District courts have taken notice, including the Eastern District of Texas, the District of Delaware, the Northern District of Illinois, and the Southern District of California, each of which has adopted or proposed similar limits.<sup>13</sup>

Defendants might similarly consider requesting limits on the number of patent claims an NPE is permitted to assert, particularly where NPEs assert excessive numbers of claims. Some courts have been willing to impose such limits, including where the number of claims in a case is so large as to make the case inefficient and unmanageable, or where a defendant has made a showing that certain claims are duplicative.<sup>14</sup>

### **Multi-defendant litigation**

Until recently, NPEs were allowed to sue multiple, unrelated parties in a single case. This was advantageous to NPEs because it minimised their litigation costs and discovery exposure, as well as the evidence and arguments that could be used against them on the merits. The AIA changed this by amending the US patent statutes to prohibit NPEs from suing unrelated defendants in a single action. Under 35 USC § 299, plaintiffs may now sue defendants in the same action only if a right to relief is asserted against defendants jointly or separately, or is with respect to or arises out of the same transaction, occurrence, or series of transactions or occurrences, and there are questions of fact common to all defendants. Plaintiffs may not sue unrelated defendants in the same case simply because each defendant is charged with infringing the same patent (except for generic pharmaceutical defendants). A court has recently applied § 299 to bar joinder in the same action of even a manufacturer and a reseller of the same product.<sup>15</sup>

In response to § 299, NPEs are now filing separate complaints against unrelated defendants in the same court. Some judges, faced with having to manage multiple serially-filed complaints asserting the same patent(s), have consolidated separate actions for pre-trial proceedings. However, defendants preferring a strength-in-numbers and cost-sharing approach to discovery, may be content with consolidation limited to pre-trial proceedings.

While § 299 should at least guarantee that unrelated defendants get separate trials, the full impact of the statute remains to be seen, including whether it makes it easier to have cases transferred to jurisdictions considered more defendant-friendly.

### **Venue**

Until only a few years ago, courts such as the Eastern District of Texas rarely transferred patent cases. A line of recent Federal Circuit decision dramatically changed that.<sup>16</sup> Motions to transfer are now commonly granted, with less weight given to an NPE's choice of forum.

If an NPE files multiple complaints asserting the same patent(s) in multiple jurisdictions, and particularly if a defendant finds itself in a jurisdiction with a high win rate for patent owners, the defendant might request consolidation with other cases through multidistrict litigation (MDL). This has a benefit similar to transfer by temporarily forcing an NPE out of its preferred forum. However, MDL consolidation is only for discovery and pre-trial proceedings, and unless resolved earlier, each consolidated case will ultimately be transferred back to its original court for trial.

### **Attorneys' fees and sanctions**

Section 285 of the US patent statutes provides for recovery of attorneys' fees in "exceptional cases," which can include failures to conduct adequate pre-suit investigations, litigation misconduct, and inequitable conduct before the PTO. Exceptional cases must be shown by clear and convincing evidence. Rule 11 of the Federal Rules of Civil Procedure provides for sanctions against parties that present claims, defences, and other legal contentions not legally warranted or factually supported.

It is typically very difficult to recover attorneys' fees under § 285 or Rule 11. A few recent decisions, however, have awarded attorneys' fees and imposed sanctions. In *Eon-Net v Flagstar Bancorp*, the Federal Circuit affirmed a district court's award of over \$489,000 in attorneys' fees and \$141,000 in sanctions against an NPE and its attorney for litigation misconduct and filing a baseless infringement action in bad faith.<sup>17</sup> The district court found that the NPE's case had "indicia of extortion" because it was one of many nearly identical complaints filed against over 100 defendants, and the NPE followed each complaint with a demand for a quick settlement at a price far lower than the cost to defend the litigation.<sup>18</sup>

However, other recent decisions have vacated awards of attorneys' fees, and demonstrate that while NPEs may have exposure to having to pay defendants' attorneys' fees, defendants should still not expect to receive such awards.<sup>19</sup>

A related approach that has been effective is sending an NPE a "safe harbour" letter explaining why the NPE cannot maintain its lawsuit in good faith, and that, if the NPE fails to withdraw its case, the safe harbour letter will be used as evidence to show that the NPE maintained its suit in bad faith and should be ordered to pay attorneys' fees. This had led to NPEs withdrawing claims and agreeing to settle cases on terms more favourable than the NPEs earlier demanded.

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#### Footnotes

1. *Eg, eBay Inc v MercExchange, LLC*, 547 U.S. 388 (2006) (permanent injunctions do not automatically issue following judgments of infringement, and instead require proof of, among other things, irreparable harm and inadequacy of money damages); *Uniloc USA, Inc v Microsoft Corp*, 632 F.3d 1292 (Fed. Cir. 2011) (evidence relying on the 25% rule of thumb for calculating a reasonable royalty is inadmissible); *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (tightening standard required to prove willful infringement, which can serve as a basis for enhanced damages); *Lucent Technologies, Inc v Gateway, Inc*, 580 F.3d 1301 (Fed. Cir. 2009) (vacating US \$357m damages award based on improper application of entire market value rule).
2. Jeruss, *et al.*, "The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation," 11 *Duke Law & Technology Review* 357, 381 (2012).
3. PricewaterhouseCoopers 2012 Patent Litigation Study: Patent litigation trends as the 'America Invents Act becomes law, at 7.
4. *Bell Atlantic Corp v Twombly*, 550 U.S. 544 (2007); *Ashcroft v Iqbal*, 556 U.S. 662 (2009).

5. *Eg, OIP Technologies, Inc v Amazon.com, Inc*, No. 12-1233, 2012 WL 3985118 (N.D. Cal. September 11, 2012) (dismissing complaint with prejudice on § 101 grounds).
6. *Parallel Networks, LLC v Abercrombie & Fitch*, No. 6-10-cv-111, 2011 WL 3609292 (E.D. Tex. August 12, 2011), *aff'd*, --- F.3d --- (Fed. Cir. Jan. 16, 2013).
7. *Wordcheck Tech, LLC v Alt-N Technologies, Ltd*, No. 6:10-cv-457, 2012 WL 975725 (E.D. Tex. January 11, 2012).
8. [http://www.txed.uscourts.gov/cgi-bin/view\\_document.cgi?document=21674](http://www.txed.uscourts.gov/cgi-bin/view_document.cgi?document=21674)
9. [http://www.uspto.gov/patents/stats/EP\\_quarterly\\_report\\_June\\_30\\_2012.pdf](http://www.uspto.gov/patents/stats/EP_quarterly_report_June_30_2012.pdf); [http://www.uspto.gov/patents/stats/IP\\_quarterly\\_report\\_June\\_30\\_2012.pdf](http://www.uspto.gov/patents/stats/IP_quarterly_report_June_30_2012.pdf)
10. Under a "Technical Corrections" Act that became law on 14 January, 2013, a requester need not wait nine months after issuance before requesting *inter partes* review of reissue patents or patent claims with effective filing dates before 16 March, 2013.
11. *In re Baxter Int'l, Inc*, 678 F.3d 1357 (Fed. Cir. 2012).
12. [http://www.ca9.uscourts.gov/images/stories/announcements/Ediscovery\\_Model\\_Order.pdf](http://www.ca9.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf)
13. <http://www.txed.uscourts.gov/page1.shtml?location=rules>; <http://www.ded.uscourts.gov/sites/default/files/Chambers/SLR/Misc/Ediscovery.pdf>; [http://www.ilnd.uscourts.gov/home/\\_assets/\\_documents/Rules/LPR12.pdf](http://www.ilnd.uscourts.gov/home/_assets/_documents/Rules/LPR12.pdf); and [http://www.casd.uscourts.gov/uploads/Rules/General%20Orders/GO\\_621.pdf](http://www.casd.uscourts.gov/uploads/Rules/General%20Orders/GO_621.pdf).
14. *Eg, Stamps.com Inc v Endicia, Inc*, No. 2010-1328, 2011 WL 2417044 (Fed. Cir. June 15, 2011) (unpublished); *In re Katz Interactive Call Processing Patent Litigation*, 639 F.3d 1303 (Fed. Cir. 2011); *Oasis Research, LLC v Adrive, LLC*, No. 4:10-cv-435, 2011 WL 7272473 (E.D. Tex. September 13, 2011).
15. *Digitech Image Technologies, LLC v Agfaphoto Holding GmbH*, No. 8-12-cv-1153, 2012 WL 4513805 (C.D. Cal. October 1, 2012); but see *Omega Patents, LLC v Skypatrol, LLC*, No. 1:11-cv-24201, 2012 WL 2339320 (S.D. Fla. June 19, 2012) (denying motion to sever where defendant reconfigures, modifies, and rebrands product sold by co-defendant, and uses information provided by co-defendant).
16. *Eg, In re Link\_A Media Devices Corp*, 662 F.3d 1221 (Fed. Cir. 2011); *In re Hoffmann-La Roche Inc*, 587 F.3d 1333 (Fed. Cir. 2009).
17. *Eon-Net LP v Flagstar Bancorp*, 653 F.3d 1314 (Fed. Cir. 2011).
18. See also *Raylon, LLC v Complus Data Innovations, Inc*, 700 F.3d 1361 (Fed. Cir. 2012) (frivolous claim construction position required reversal of district court decision that there was no Rule 11 violation); *MarcTec, LLC v Johnson & Johnson*, 664 F.3d 907 (Fed. Cir. 2012) (affirming award of over US \$3.8m in attorneys' fees and over \$800,000 in expert fees against a plaintiff for engaging in litigation misconduct and maintaining a baseless infringement action in bad faith).

19. *Eg, Highmark, Inc v Allcare Health Management Systems, Inc*, 687 F.3d 1300 (Fed. Cir. 2012) (affirming exceptional case finding where certain claims were asserted in bad faith, and reversing finding where others were not); *Old Reliable Wholesale, Inc v Cornell Corp*, 635 F.3d 539 (Fed. Cir. 2011) (vacating award of attorneys' fees); *iLOR, LLC v Google, Inc*, 631 F.3d 1372 (Fed. Cir. 2011) (same).

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