

# Anti-Troll Litigation Reform: A Patent Litigator's Guide to 2013 Congressional Bills

*By Ognian V. Shentov and Kenneth S. Canfield<sup>1</sup>*

## I. Introduction

Patent law rarely makes the news, but the last few years have been a notable exception. In September 2011, after years of delay in Congress, the America Invents Act (AIA) became the first major overhaul of U.S. patent law in over 50 years.<sup>2</sup> Before the ink was dry on the new law, however, an array of companies and individuals began complaining that the AIA would do little to curb mushrooming patent litigation by entities that are solely in the business of licensing or enforcing patents.<sup>3</sup> Frequently referred to as nonpracticing entities (NPEs), patent-assertion entities (PAEs), or “patent trolls,” such entities<sup>4</sup> appear to have played a major role in the rapid increase in the number of defendants sued for patent infringement in recent years.<sup>5</sup> According to one estimate, in 2012, trolls brought 62% of all patent litigation and troll defendants comprised 59% of all patent litigation defendants.<sup>6</sup> While patent trolls frequently sue companies perceived to have deep pockets, they also pursue a much wider net of targets, including retailers and end users, for selling or using off-the-shelf products.<sup>7</sup> According to one study, troll activity costs defendants and licensees \$29 billion in direct costs (*e.g.*, costs for legal services and license fees, but not costs from the diversion of resources or loss of market share) in 2011.<sup>8</sup>

As a result, patent litigation became part of the regular news and, not surprisingly, patent trolls found themselves in the crosshairs of various congressional activities. Since the passage of the AIA, aside from management of the transition to the first-to-file system, virtually all efforts in the patent arena have been directed at curbing actual and perceived abuses of patent litigation, especially by trolls.

In this review, we provide some background and outline the main anti-troll initiatives, focusing on the Innovation Act (H.R. 3309) recently passed by the House of Representatives, and parallel efforts in the Senate, along with comments from various parties on the draft bills, in the hope that it can help patent practitioners navigate, and potentially shape, the new world of patent litigation in which we may soon have to operate.

## II. Background on the 2013 Sea of Legislative Activity Against Trolls

While patent trolls were on the radar during negotiations leading to the passage of the AIA, 2013 saw a significant increase in the number of bills designed to address abusive patent litigation, especially that brought by trolls. In the House, various representatives introduced: the Saving High-Tech Innovators from Egregious Legal Disputes (“SHIELD”) Act (H.R. 845, reintroduced February 27, 2013 from an earlier version presented in 2012), the End Anonymous Patents Act (H.R. 2024, introduced May 16, 2013), the Patent Litigation and Innovation Act (H.R. 2639, introduced July 10, 2013), the Stopping the Offensive Use of Patents (“STOP”) Act (H.R. 2766, introduced July 22, 2013), and two “discussion drafts” introduced by Rep. Robert Goodlatte, Chairman of the House Judiciary Committee (May 23, 2013 and September 23, 2013). These proposals culminated in the Innovation Act (H.R. 3309, introduced October 23, 2013, by Rep. Goodlatte). The Innovation Act, which incorporated various aspects of the earlier proposals, passed the House on December 5, 2013, by a vote of 325-91 with bipartisan support. As a result, the earlier proposals are likely moot at this point as far as the House legislation goes, so this review will generally focus on the Innovation Act.<sup>9</sup>

In the Senate, 2013 saw the Patent Quality Improvement Act of 2013 (S. 866, introduced May 6, 2013), Patent Abuse Reduction Act of 2013 (S. 1013, introduced May 22, 2013), Patent Litigation Integrity Act of 2013 (S. 1612, introduced October 30, 2013), and Patent Transparency and Improvements Act of 2013 (S. 1720, introduced November 18, 2013). The latter bill, introduced by Senator Patrick Leahy, appears to be most comprehensive and is gaining the most traction, so this review will use it as a primary reference for the legislative efforts in the Senate. On December 17, 2013, the Senate Judiciary Committee held a hearing entitled “Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse,” focusing on

aspects of H.R. 3309 and related Senate efforts to address the troll problem.<sup>10</sup> Following testimony from two panels of corporate executives and experts, the record of the hearing was left open to enable entry of additional questions and comments from committee members who were unable to attend, and included a suggestion that the full process may take months to complete.<sup>11</sup> As will be explained, S. 1720 generally takes a less aggressive approach than H.R. 3309.

The Obama administration supports patent reform to address abusive litigation and, in particular, patent trolls. In February 2013, the president commented that the AIA did not go far enough in addressing trolls.<sup>12</sup> In June 2013, the president directly addressed the issue, making various legislative recommendations and taking executive actions relating to patent reform.<sup>13</sup> On December 3, the administration issued a statement supporting the passage of H.R. 3309, which passed the House two days later.<sup>14</sup>

On the other side, prior to its passage, a group of House representatives submitted “Dissenting Views,” opposing H.R. 3309 as having been considered pursuant to a rushed and unfair process, excluding the single most important step of ending PTO fee diversion, while including a number of “one-sided changes” that limit the rights of all patent holders, not just trolls, and violating separation of powers by imposing mandates on the federal courts. The views of the House representatives and other critics of the legislative proposals will be discussed further below.

Another notable critic of the legislative litigation reform proposals is Chief Judge Randall Rader of the Court of Appeals for the Federal Circuit. While he acknowledges that abusive litigation is an issue, he has expressed his belief that the problem(s) should and can be solved by the judiciary. For example, in a speech to the bench in the Eastern District of Texas, Chief Judge Rader stated, “[O]ur patent law confidence crisis and litigation abuse are related in another way: they share the same preferred remedy, namely JUDICIAL CORRECTION.”<sup>15</sup> In particular, he offered three ways in which the judiciary could address abuse: liberal use of summary judgment, fee reversal, and litigation-expense reforms (*e.g.*, narrowing litigable issues at an early stage of proceedings).<sup>16</sup>

Various legal conferences and associations also oppose legislative reform, at least as appearing in H.R. 3309.<sup>17</sup> For example, on November 8, 2013, the Section of Intellectual Property of the American Bar Association adopted resolutions critical of several provisions in H.R. 3309.<sup>18</sup> On December 13, 2013, the President of the New York Intellectual Property Law Association wrote a letter to the Chairman of the Senate Judiciary Committee, Senator Patrick Leahy, expressing the Association’s position that “Congress should engage in a more extended public comment period

in order to obtain a full airing of the potential impact of the legislation on the stakeholders in the patent system.”<sup>19</sup>

The following section provides highlights of the litigation reform proposals, along with the main pro and con arguments raised to this point.

### **III. Legislative Proposals for Dealing With Patent Trolls**

The various bills, proposals, and calls for legislation to stem abusive litigation practices address aspects of patent litigation ranging from pre-suit demand letters to the shifting of fees, as well as post-grant validity procedures in the U.S. Patent and Trademark Office (PTO). For ease of reference, this section follows the chronological events in a typical patent law suit and highlights the main items in H.R. 3309 and other legislative proposals. In particular, we discuss: pre-suit demand letters, heightened pleading requirements for claims of infringement, real-party-in-interest (RPI) and other disclosure requirements, stays of litigation against end users, limitations on discovery, fee shifting, and post-grant validity challenges in the PTO.

#### **A. Demand Letters**

One issue that has received a lot of attention recently is the widespread sending of letters by trolls alleging patent infringement and demanding payments in order to avoid litigation. The Senate committee on Commerce, Science & Transportation held a hearing on demand letters in November<sup>20</sup> and at least two states (Vermont and Nebraska) have taken independent action on this front.<sup>21</sup> The concern is that these demand letters are often evasive, are dispatched without the sender having performed a sufficient investigation, and target small businesses who simply purchased off-the-shelf technology, with the goal of extorting a series of quick settlements at rates less than the cost of litigation.

#### **Summary of Provisions**

H.R. 3309 first provides that it is the “sense of Congress that it is an abuse of the patent system and against public policy for a party to send out purposely evasive demand letters to end users” and suggests (without imposing specific requirements) the basic information demand letters should include.<sup>22</sup> The bill further provides that any actions or litigation that stem from purposely evasive demand letters to end users “should be considered a fraudulent or deceptive practice and an exceptional circumstance when considering whether the litigation is abusive.”<sup>23</sup> In addition, H.R. 3309 provides that a patentee seeking to establish willful infringement cannot rely on evidence of pre-suit notification of infringement unless the notification includes certain details.<sup>24</sup> Finally, it provides for a study on the extent

to which bad-faith demand letters have a “negative impact on the marketplace.”<sup>25</sup> While the administration supports H.R. 3309, it noted a desire for more legislation regarding demand letters.<sup>26</sup>

The Demand Letter Transparency Act, H.R. 3540 (*see* note 9), attacks the use of demand letters more aggressively. First, it imposes disclosure requirements to the PTO on any entity that sends at least 20 demand letters during a 365-day period.<sup>27</sup> Second, it imposes strict requirements on the content of letters.<sup>28</sup> A patentee who violates the requirements risks having its patent voided unless it pays a fee.<sup>29</sup> The bill also provides for Federal Trade Commission (FTC) enforcement of violations.<sup>30</sup> It is unclear at this point whether H.R. 3540 will get any traction.

S. 1720 makes widespread sending of false or misleading demand letters punishable by the FTC as an “unfair or deceptive act or practice” within the meaning of Section 5(a)(1) of the FTC Act (15 U.S.C. § 45(a)(1)).<sup>31</sup> It does not contain an equivalent provision to H.R. 3309’s pre-suit-notification section.

## B. Heightened Requirements for Pleading Patent Infringement

The heightened requirements for pleading infringement are intended to combat the perception that patent-infringement actions are too easy to file and to preemptively remove meritless cases from the system by imposing strict upfront requirements on allegations of patent infringement. They also address perceived unfairness to defendants accused of infringing based on vague and uninformative complaints.<sup>32</sup>

### Summary of Provisions

H.R. 3309 Section 3, entitled “Patent Infringement Actions,” includes significantly expanded pleading requirements for filing a patent infringement action compared to virtually any other type of civil case. Unless the information is not reasonably accessible, newly proposed 35 U.S.C. § 281A requires a party alleging infringement to include in the initial complaint: (1) an identification of each allegedly infringed patent, (2) an identification of each claim alleged to be infringed, (3) the identity of each allegedly infringing product or process, including names and model numbers if known, and (4) a theory of how each accused product or service infringes each asserted claim.<sup>33</sup> For claims of indirect infringement, proposed Section 281A further requires (5) a description of the acts of the alleged indirect infringer that contribute to or are inducing the direct infringement.<sup>34</sup>

In addition to the above infringement-related requirements, proposed § 281A also requires a description of other information about the plaintiff and the asserted patent(s), including the plaintiff’s authority to assert each

listed patent, a description of the principal business of the party alleging infringement, a list of each complaint filed asserting infringement of any of the patents in suit, and a description of certain licensing commitments, including those through a standard-setting body.<sup>35</sup>

When the above-required information is not disclosed in the complaint, H.R. 3309 further requires an explanation of why the information was not readily accessible along with a description of efforts to access the information. It also expressly permits the court to allow the filing of confidential information under seal and exempts Hatch-Waxman ANDA suits (where a brand-name drug manufacturer sues a generic drug manufacturer after the latter files an Abbreviated New Drug Application (ANDA)) from the expanded pleading requirements.<sup>36</sup>

The heightened pleading requirements were not part of the original May 20, 2013 Goodlatte discussion draft. But the majority of the requirements were part of Senator John Cornyn’s roughly contemporaneous (May 22, 2013) Senate bill, S. 1013, which, with some changes, was included in Rep. Goodlatte’s second discussion draft (Sep. 6, 2013) and then in the final H.R. 3309 Innovation Act.

S. 1720 has no corresponding provisions, making it possible that a compromise may be reached, such as the Intellectual Property Owners’ (IPO’s) proposal to require the identification of at least one claim alleged to be infringed in each patent, a statement explaining such infringement in the accused product, and a statement addressing any alleged indirect infringement.<sup>37</sup>

### Criticisms

The Report from the Committee on the Judiciary on the Innovation Act includes several criticisms directed at the heightened pleading requirements in H.R. 3309.<sup>38</sup> The principal criticisms are that such requirements (1) will work an unfairness against patent holders across the board as they “go well beyond this concept of fair notice of the basis for the allegation of infringement and well beyond the requirements of Rule 11 of the Federal Rules of Civil Procedure”; (2) are drafted in a one-sided manner because “a small inventor will be required to provide detailed information in their complaint, however, an alleged infringer does not bear the same burden to explain with specificity to that inventor why they believe they have not infringed the patent or why they believe the patent is invalid”; (3) will prolong litigation as opposed to shortening it, because the requirements may foster further litigation “over whether the patent owner has met the heightened pleading standard or had reasonable access to the required information if they admittedly did not comply”; and (4) are unnecessary as the issue is already being dealt with by the courts in the aftermath of the Supreme Court’s decisions in *Bell Atlantic Corp. v. Twombly*<sup>39</sup> and



*Ashcroft v. Iqbal*.<sup>40</sup> Another consideration is that the Judicial Conference of the United States has issued a request for comments to its proposed amendments to Federal Rules of Civil Procedure, including revision of forms and discovery and that, in essence, Congress is unnecessarily meddling in procedural matters that are better left for the courts to decide.

### C. Disclosure of Real Party in Interest

Another criticism of patent troll litigants is that the plaintiffs are often shell companies set up to hide connections with larger trolls or, in the case of patent privateering, shell companies set up by practicing entities trying to go after their competitors while keeping their true identities hidden and themselves immune from countersuit.<sup>41</sup>

#### Summary of Provisions

To address this issue, H.R. 3309 provides that, upon filing of an infringement complaint, a plaintiff must identify assignees, entities with any right to sublicense or enforce the patents, and anyone else other than the plaintiff known to have a financial interest in the patents, and the ultimate parents of such entities.<sup>42</sup> Hatch-Waxman ANDA cases are not subject to the disclosure requirements.<sup>43</sup>

S. 1720 has a similar litigation-disclosure provision, but imposes an additional duty on an assignee to disclose its ultimate parent entity to the PTO during prosecution and the life of patent.<sup>44</sup>

The House representatives who submitted dissenting views support transparency of ownership and requiring litigants in patent litigation to disclose the real parties in interest in the asserted patents.<sup>45</sup>

### D. Stays of Litigation Against End Users

Over recent years, there has been a trend of trolls suing retailers or end users (often small businesses) of technology rather than, or in addition to, manufacturers.<sup>46</sup> Oftentimes, these targets are simply reselling or using off-the-shelf products as they are intended to be used.

#### Summary of Provisions

H.R. 3309 addresses this trend by providing that a court “shall” grant a motion to stay the portion of an action against a customer related to infringement of a patent if the manufacturer and customer consent in writing, the manufacturer is a party to an action involving the same patents relating to the product/process forming the basis of the allegation against the customer, the customer agrees to be bound by any common issues decided by the action involving the manufacturer, and the motion is filed during the time provided.<sup>47</sup> The court may, upon motion, decide not to bind the customer if the covered manufacturer agrees to a consent

judgment or fails to appeal if doing so would “unreasonably prejudice and be manifestly unjust.”<sup>48</sup> Hatch-Waxman ANDA cases are not subject to the stay provisions.<sup>49</sup>

The House representatives who submitted dissenting views support a customer-stay provision.<sup>50</sup> S. 1720 has a similar provision.<sup>51</sup>

### Criticisms

Chief Judge Rader notes that “public trust in the patent system has been corroded by mass customer litigation” relating to off-the-shelf technology and agrees that this harm can be addressed by, in appropriate cases, having the manufacturer litigate the case rather than “scores of customers.”<sup>52</sup> Regarding the need for legislation, however, he submits that “[c]ourts already have the mechanisms to address this via stays of customer suits, transfers, and intervention.”<sup>53</sup>

Former Director of the PTO David Kappos also feels that a customer-stay provision is good policy.<sup>54</sup> However, he believes that “a number of improvements” are needed “to ensure against abuse and unintended consequences.”<sup>55</sup> First, he believes that the stay provision reaches too many parties, applying to all parties in the product channel downstream of the first component part maker, not only “mere retailers” or “mere end users.” Second, he believes further work is needed to specify the level of commonality needed between claims against the manufacturer and customer. Third, he argues that further effort is needed to avoid creating a “donut hole” where the covered customer is the direct infringer and the upstream manufacturer is an indirect infringer, thereby putting the patentee in the “catch-22” of having to prove direct infringement as a prerequisite to indirect infringement, without having access to the information needed to make out a case of direct infringement. Finally, he believes that “the devil’s in the details” and there is a need for a more “deliberative process.”

### E. Proposals Relating to Discovery Burdens and Costs

Discovery in patent litigation can be burdensome and expensive.<sup>56</sup> The set of provisions related to discovery burdens and costs are intended to reduce such costs and address an asymmetry in the discovery obligations of the parties in a patent troll case, as the burden and cost of discovery typically falls disproportionately on defendants. Several observers have noted that a typical defendant has to collect, review, and produce early in the case massive amounts of information, which effort front-loads the associated expenses, while a typical patent troll has few documents to produce, creating a cost imbalance often used to force smaller companies into settlement regardless of the actual merits of the case.<sup>57</sup>

## Summary of Provisions

H.R. 3309 Section 3(d), entitled “Discovery Limits,” includes specific limits on discovery in a patent infringement case designed to reduce the upfront cost of defending a case.<sup>58</sup> Section 6, entitled “Procedures and Practices to Implement Recommendations of the Judicial Conference,” further directs the Judicial Conference of the United States to develop rules and procedures to address asymmetries in discovery burdens and costs in patent cases.

Specifically, Section 3(d)(1) of the Innovation Act introduces new 35 U.S.C. § 299A, which limits discovery prior to the claim construction ruling to information necessary to construe claims or resolve motions.<sup>59</sup> This limit does not apply in cases where it is necessary to prevent “manifest injustice,” in actions seeking a preliminary injunction based on competitive harm, or if parties voluntarily consent in a signed stipulation to be excluded.<sup>60</sup> Also, a court “shall” expand discovery limits before the claim construction ruling where, under federal law (such as that relating to Hatch-Waxman ANDA cases), resolution within a specified period of time affects rights of a party with respect to a patent “as necessary to ensure timely resolution of the action.”<sup>61</sup> S. 1720 does not contain an equivalent provision.

Section 6 of the Innovation Act requires the Judicial Conference of the United States to develop rules on payment and prerequisites for document discovery in addition to core documentary evidence with the express purpose of addressing asymmetries in discovery burdens and costs in a patent action.<sup>62</sup> In addition, H.R. 3309 includes specific proposals the Judicial Conference should consider on discovery of (a) core documentary evidence, (b) electronic communication, (c) additional document discovery, as well as (d) discovery sequence and scope.<sup>63</sup> Further, the Judicial Conference is required to study the efficacy of rules and procedures for the first four years after implementation and is authorized to make modifications following this study; modifications during the first four years after implementation are authorized “to prevent a manifest injustice, the imposition of a requirement the costs of which clearly outweigh its benefits, or a result that could not reasonably have been intended by” Congress.<sup>64</sup>

## Criticisms

There is strong opposition to this provision. The main point that critics of the pre-claim-construction discovery limitations make is that the provision will delay litigation and lead to *greater* expenses for most parties, because the legislation creates “opportunities for systematic delays

in patent litigation by inviting piecemeal discovery and adjudication that would push back a determination of patent infringement liability until much later in the case.”<sup>65</sup> In essence, critics argue that the proposed solution, which may be effective in certain troll litigations, when applied to all patent cases, will unnecessarily delay trial until postponed discovery is completed, and thus “further delay the resolution of patent litigation.”<sup>66</sup> In addition, critics argue that the cost of discovery can be more properly dealt with by the courts, which are actively seeking a “balance between the value of discovery and its costs,” citing in support the Federal Circuit Advisory Council’s Model Order Limiting E-Discovery.<sup>67</sup>

## F. Fee Shifting

Fee shifting is perhaps the most significant and controversial provision in H.R. 3309. It attempts to root out the financial incentives for patent trolls to file suit, especially cases having questionable merit (such as those brought to coerce a settlement at less than the cost of a litigation defense), by creating a default rule that the loser pays the other side’s attorney fees. Proponents of the provision hope that this will allow defendants who cannot afford litigation to fight frivolous claims instead of giving in.

## Summary of Provisions

H.R. 3309 has two sections directed to fee shifting: Section 3(b) entitled “Fees and Other Expenses” and Section 3(c) on “Joinder of Interested Parties.” Section 3(b) provides that reasonable fees and other expenses “shall” be awarded to the prevailing party “unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstances (such as severe economic hardship to a named inventor) make such an award unjust.”<sup>68</sup> Furthermore, if the losing party is unable to pay, Section 3(c) allows the court to make the judgment recoverable against a joined “interested party,” defined as the assignee of the patent(s) in issue; a party having the right, including contingent right, to enforce or sublicense a patent; or a party having a direct financial interest in the patent, including a right to any part of a damages award.<sup>69</sup> A party asserting a claim of patent infringement who later on its own (*e.g.*, not as part of a joint stipulated dismissal pursuant to a settlement) extends a covenant not to sue is deemed the “non-prevailing party.”<sup>70</sup> Similarly worded fee-shifting provisions are found in Senator Orrin Hatch’s S. 1612 and Senator Cornyn’s S. 1013, but not in Senator Leahy’s S. 1720.

## Criticisms

There are numerous criticisms of Section 3(b), generally asserting that the fee-shifting requirement (1) will favor wealthy corporate parties over individual inventors, (2) is drafted in an over-broad manner to apply beyond patent infringement actions, (3) deprives courts of discretion, and (4) is unnecessary because the issue is under consideration by the federal courts.<sup>71</sup>

The first concern is perhaps most significant in that critics allege it appears *always* to favor the party having greater financial resources and thus could chill potential meritorious claims.<sup>72</sup> Or, citing from a submission by the American Association for Justice, “A ‘loser pays’ provision will deter patent holders from pursuing meritorious patent infringement claims and protects institutional defendants with enormous resources who can use the risk of fee shifting to force inventors into accepting unfair settlements or dismissing their legitimate claims.”<sup>73</sup> Critics further claim that shifting the burden to the losing party will require courts to examine the justification for litigation positions in each and every case and distort the right of every American to have his or her “day in court.”<sup>74</sup> Critics also claim that the provision is overly broad, as it would apply to any civil action in which any party asserts a claim for relief arising under any act of Congress relating to patents, apparently sweeping in over 25 statutes containing patent-law clauses.<sup>75</sup>

Critics further assert that the provision as written may deprive courts of discretion.<sup>76</sup> In addition, critics say that the provision is unnecessary because both the Supreme Court and the Federal Circuit are preparing to rule on litigation concerning the phrase “exceptional cases” in the context of the fee-shifting provision of 35 U.S.C. § 285.<sup>77</sup>

Critics attack the joinder provision in Section 3(c) as being drafted in a one-way manner that benefits alleged deep-pocketed infringers, because small companies, startups, and independent inventors would not be similarly protected when they prevail as plaintiffs against defendant infringers that hide their assets, file for bankruptcy, or otherwise evade payment of fee awards.<sup>78</sup> According to the dissenting House representatives, this provision also raises constitutional concerns because it creates standing for parties that would otherwise not have it (*i.e.*, a defendant may join a third party at the end of the case for purposes of fee shifting, but the third party had no standing to assert or defend itself during the course of the legal proceedings).

## G. Provisions Relating to Post-Grant Validity Challenges

In the short time since they became available pursuant to the AIA, post-grant validity challenges, such as *inter partes* review (IPR), post-grant review (PGR), and covered

business method (CBM) review proceedings, have become quite popular.<sup>79</sup> Their appeal is due in part to the rather attractive pricing (at least compared with the cost of district court litigation) and the opportunity to present a case in an adversarial proceeding before Administrative Patent Judges (APJs), who because of their skill and training are expected to be more likely than a typical jury to decide patent disputes on their merits. The present set of proposals is intended to build on the success of such proceedings.

H.R. 3309 Section 9 changes post-grant validity challenges in two principal ways. First, it requires the Patent Trial and Appeal Board (PTAB) to apply the district court claim construction standard in PGR and IPR rather than the PTO’s normal “broadest reasonable interpretation” standard.<sup>80</sup> The PTAB is expected to consider adopting any previously entered district court construction, although it is not required to do so.<sup>81</sup> The change in the claim construction standard does not apply in CBM review proceedings.<sup>82</sup> S. 1720 also provides for changes in the claim construction standard.<sup>83</sup>

Second, Section 9 changes the estoppel provisions for PGR to apply only to arguments actually raised as opposed to also applying to arguments that “reasonably could have been raised.”<sup>84</sup> S. 1720 also makes this change.<sup>85</sup>

A third proposal, relating to the expansion of CBM review proceedings, did not make it into H.R. 3309. As proposed by Senator Charles Schumer in the Patent Quality Improvement Act, CBM review would be expanded to apply to essentially any business method patent (including software patents) and would become permanent.<sup>86</sup> The proposed CBM review expansion has strong proponents and detractors.<sup>87</sup> H.R. 3309 does require a study on the volume and quality of business method patents.<sup>88</sup>

## IV. Conclusion

There seems to be a consensus that certain bad actors, primarily those commonly referred to as patent trolls, are abusing the U.S. patent litigation system by diverting significant costs and other company resources to the defense of patent infringement actions that are often meritless. There is also growing consensus that something has to be done to minimize such abuses, and the recent anti-troll bills along with the steps already taken by the courts are making progress in this regard. As outlined above, debates concerning the right approach to the troll problem reach a spectrum of issues ranging from pre-litigation demand letters to enhanced pleading requirements at the start of litigation to fee-shifting provisions at the end of litigation, and the use of PTO validity review proceedings in addition to standard district court litigation. The debates have also raised important questions about the respective roles of



Congress and the federal judiciary in addressing abuse patent litigation, as exemplified by the opinions of Chief Judge Rader. Clearly, dealing with the reform of something as complex as patent litigation requires a lot of thoughtful analysis and attention. As suggested in the December 17, 2013 Senate Judiciary hearing on the patent troll problem, debates concerning this problem may take months, along with additional briefings, sessions and hearings, intended to arrive at narrowly tailored solutions that minimize the risk of unintended consequences for the whole ecosystem of innovation.<sup>89</sup> We hope that the highlights of the ongoing debate in this review give readers better understanding of the issues, allow them formulate their own opinions, and, perhaps, prompt them to provide input to their legislative representatives.

#### (Endnotes)

1



Ognian Shentov is a partner in the New York office of Jones Day and is a member of the New York Intellectual Property Law Association's Patent Litigation Committee. His practice focuses on intellectual property litigation, portfolio management, and counseling for companies in the United States and abroad. He can be contacted at [ovshentov@jonesday.com](mailto:ovshentov@jonesday.com). Ken Canfield is an associate in Jones Day's New York office and is also a member of the New York Intellectual Property Law Association's Patent Litigation Committee. His practice focuses on intellectual property litigation and counseling for companies in the United States and abroad. He can be contacted at [kcanfield@jonesday.com](mailto:kcanfield@jonesday.com). Any opinions expressed in this article are solely those of the authors and do not necessarily reflect the opinions or views of any of their clients or the Jones Day law firm.

<sup>2</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>3</sup> See Brian T. Yeh, *An Overview of the "Patent Trolls" Debate*, Congressional Research Service, CRS 7-5700, Summary (Aug. 20, 2012) ("[T]he AIA contains relatively few provisions that arguably might impact PAEs, apparently because of lively debate over what, if anything, should be done about them."); Julie Samuels, *Patent Reform Legislation Set to Become Law, But Will Make Few Meaningful Changes*, Electronic Frontier Foundation, <https://www.eff.org/deeplinks/2011/09/patent-reform-legislation-set-become-law-will-make> (Sep. 6, 2011).

<sup>4</sup> As pointed out by Brian Yeh, "[t]here is no consensus on a less-loaded synonym for 'patent troll' as it is most commonly understood." Yeh, *supra* note 3 at 4 n.27. While "PAE" and "NPE" are both used, they have differing meanings that do not completely align with the connotation

of "patent troll." See *id.* For simplicity, however, in this review we use the terms "PAE," "NPE," "patent troll," and "troll" interchangeably.

<sup>5</sup> U.S. Gov't Accountability Office, GAO-13-465, Report to Congressional Committees, *Intellectual Property: Assessing Factors that Affect Patent Infringement Could Help Improve Patent Quality*, Summary (Aug. 2013) ("GAO's detailed analysis of a representative sample of 500 lawsuits from 2007 to 2011 shows that the number of overall defendants in patent infringement lawsuits increased by about 129 percent over this period. These data also show that companies that make products brought most of the lawsuits and that nonpracticing entities (NPE) brought about a fifth of all lawsuits.")

<sup>6</sup> Colleen Chien, *Patent Trolls by the Numbers*, SSRN-id2233041 (Mar. 2013), available at <http://ssrn.com/abstract=2233041>.

<sup>7</sup> See *infra* § III.D.

<sup>8</sup> Yeh, *supra* note 3, at 2, 8 (citing James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, Boston Univ. School of Law, Law and Economics Research Paper No. 12-34 (Jun. 28, 2012)), available at [http://www.bu.edu/law/faculty/scholarship/workingpapers/documents/BessenJ\\_MeurerM062512rev062812.pdf](http://www.bu.edu/law/faculty/scholarship/workingpapers/documents/BessenJ_MeurerM062512rev062812.pdf); Bessen at 2, 4.

<sup>9</sup> The Demand Letter Transparency Act of 2013 (H.R. 3540, introduced November 19, 2013), proposed after the Innovation Act, may still receive consideration as it addresses the demand-letter issue in greater detail than the Innovation Act. See *infra* § III.A.

<sup>10</sup> <http://www.judiciary.senate.gov/hearings/hearing.cfm?id=32caee8082f9297f0e7df6280b03ff1f>.

<sup>11</sup> *Id.*, closing comments by Senator Christopher Coons, audio recording starting at 3:19:51.

<sup>12</sup> Ali Sternburg, *Obama Acknowledges Patent Troll Problem* [w/ Transcript] (Feb. 14, 2013), <http://www.patentprogress.org/2013/02/14/obama-acknowledges-patent-troll-problem-w-transcript/>.

<sup>13</sup> *FACT SHEET: White House Task Force on High-Tech Patent Issues* (June 4, 2013), available at <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>; see also *Patent Assertion and U.S. Innovation*, Executive Office of the President (June 2013), available at [http://www.whitehouse.gov/sites/default/files/docs/patent\\_report.pdf](http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf).

<sup>14</sup> Statement of Administrative Policy on H.R. 3309 (Dec. 3, 2013), available at [http://www.whitehouse.gov/sites/default/files/omb/legislative/sap/113/saphr3309r\\_20131203.pdf](http://www.whitehouse.gov/sites/default/files/omb/legislative/sap/113/saphr3309r_20131203.pdf).

<sup>15</sup> Chief Judge Randall R. Rader, Federal Circuit, Address to Bar/Bench of the E.D. Tex.: *Patent Law and Litigation Abuse*, at 7 (Nov. 1, 2013), transcript available at <http://www.fedcirbar.org/olc/filelib/LVFC/cpages/9008/Library/Rader%202013%20ED%20Tex%20BB%20Speech.pdf>.

<sup>16</sup> See generally *id.*

<sup>17</sup> See Report together with Dissenting Views and Additional Views to accompany H.R. 3309, at 93-94 (Dec. 2, 2013) [hereinafter "Report"] (noting concerns expressed by the Federal Judicial Conference, the American Bar Association, the American Intellectual Property Law Association, and others).

<sup>18</sup> American Bar Association, Section of Intellectual Property Law, 2013 Fall Counsel Meeting, Innovation Act Task Force Resolutions and Reports, Nov. 8, 2013.

<sup>19</sup> See <https://nyipla.org/images/nyipla/Documents/Commentary/H.R.3309theInnovationAct121313.pdf>, at 1.

<sup>20</sup> Hearing on "Demand Letters and Consumer Protection: Examining Deceptive Practices by Patent Assertion Entities" (Nov. 7, 2013), available at [http://www.commerce.senate.gov/public/index.cfm?p=Hearings&ContentRecord\\_id=8d56ac21-3494-451e-85ad-6ff36888a167&ContentType\\_id=14f995b9-dfa5-407a-9d35-56cc7152a7ed&Group\\_id=b06c39af-e033-4cba-9221-de668ca1978a&MonthDisplay=11&YearDisplay=2013](http://www.commerce.senate.gov/public/index.cfm?p=Hearings&ContentRecord_id=8d56ac21-3494-451e-85ad-6ff36888a167&ContentType_id=14f995b9-dfa5-407a-9d35-56cc7152a7ed&Group_id=b06c39af-e033-4cba-9221-de668ca1978a&MonthDisplay=11&YearDisplay=2013).

<sup>21</sup> Vermont Act 44 (H. 299); *State of Vermont v. MPHJ Tech. Investments, LLC*, No. 282-S-13; Cease and desist letter from the Jon Bruning, State of Nebraska Office of the Attorney General to Farney Daniels LLP (July 18, 2013).

<sup>22</sup> H.R. 3309 § 3(e) (“Demand letters sent should, at the least, include basic information about the patent in question, what is being infringed, and how it is being infringed.”).

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* § 3(f) provides that when seeking to establish willful infringement, a claimant may not rely on pre-suit notification, unless this notification “identifies with particularity the asserted patent, identifies the product or process accused, identifies the ultimate parent entity of the claimant, and explains with particularity, to the extent possible following a reasonable investigation or inquiry, how the product or process infringes one or more claims of the patent.”

<sup>25</sup> *Id.* § 8(e).

<sup>26</sup> Statement of Administrative Policy, *supra* note 14.

<sup>27</sup> H.R. 3540 § 2.

<sup>28</sup> *Id.* § 3.

<sup>29</sup> *Id.* § 4(c).

<sup>30</sup> *Id.* § 5.

<sup>31</sup> S. 1720 § 5.

<sup>32</sup> Report, *supra* note 17, at 22-23.

<sup>33</sup> H.R. 3309 § 3(a)(1), proposed 35 U.S.C. §§ 281A(a)(1)-(5).

<sup>34</sup> *Id.* § 3(a)(1), proposed 35 U.S.C. § 281A(a)(6).

<sup>35</sup> *Id.* § 3(a)(1), proposed 35 U.S.C. §§ 281A(a)(7)-(10).

<sup>36</sup> *Id.* § 3(a)(1), proposed 35 U.S.C. §§ 281A(b)-(d).

<sup>37</sup> See IPO Positions on Bills/Recommendations Directed at Abusive Patent Litigation, available at <http://www.ipo.org/wp-content/uploads/2013/11/Patent-Litigation-Bills-Quick-Overview-3309-Passed-by-House.pdf>.

<sup>38</sup> Report, *supra* note 17, at 105-07.

<sup>39</sup> 550 U.S. 544 (2007).

<sup>40</sup> 556 U.S. 662 (2009).

<sup>41</sup> See Report, *supra* note 17, at 24-26.

<sup>42</sup> H.R. 3309 § 4.

<sup>43</sup> H.R. 3309 § 4(a), proposed 35 U.S.C. § 290(b)(2).

<sup>44</sup> S. 1720 § 3.

<sup>45</sup> Report, *supra* note 17, at 95.

<sup>46</sup> See Chien, *supra* note 6 (noting that, according to one analysis, in 2012, NPEs sued more non-tech companies than tech companies); Rader, *supra* note 15, at 13-14.

<sup>47</sup> H.R. 3309 § 5(a).

<sup>48</sup> *Id.*

<sup>49</sup> *Id.* § 5(a), proposed 35 U.S.C. § 296(d).

<sup>50</sup> Report, *supra* note 17, at 95.

<sup>51</sup> S. 1720 § 4.

<sup>52</sup> Rader, *supra* note 15, at 13-14.

<sup>53</sup> *Id.* at 14.

<sup>54</sup> Statement of David J. Kappos before the Committee on the Judiciary of the House on H.R. 3309, at 6 (Oct. 29, 2013), available at <http://judiciary.house.gov/hearings/113th/10292013/Kappos%20Testimony.pdf>.

<sup>55</sup> *Id.* at 7.

<sup>56</sup> Report, *supra* note 17, at 31-33.

<sup>57</sup> See *id.*

<sup>58</sup> H.R. 3309 § 3(d).

<sup>59</sup> *Id.* § 3(d)(1) proposed 35 U.S.C. §§ 299A. Several Congressional hearings include statements to the effect that in many cases “claim construction can and often is determinative of the issue of infringement,” and that, accordingly, limits on pre-claim-construction discovery “may help prevent wasted effort by either eliminating the need for discovery entirely (where, for example, the court’s claim construction order effectively

resolves the case), or at minimum by focusing the parties on truly relevant discovery.” Report, *supra* note 17, at 24 & n.24.

<sup>60</sup> *Id.* § 3(d)(1), proposed 35 U.S.C. §§ 299A(b)(3)-(4) and (c).

<sup>61</sup> *Id.* § 3(d)(1), proposed 35 U.S.C. § 299A(b)(1).

<sup>62</sup> H.R. 3309 § 6(a)(1).

<sup>63</sup> *Id.* §§ 6(a)(2)(A)-(D).

<sup>64</sup> *Id.* §§ 6(a)(5)(A)-(B).

<sup>65</sup> Report, *supra* note 17, at 110 (citing Letter from James C. Greenwood, President and CEO of the Biotechnology Industry Organization to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 14, 2013)).

<sup>66</sup> American Bar Association Section of Intellectual Property Law, 2013 Fall Council Meeting, Innovation Act Task Force Resolutions and Report, at 24; see also Report, *supra* note 17, at 110.

<sup>67</sup> Federal Circuit Advisory Council’s Model Order Limiting E-Discovery, available at [http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery\\_Model\\_Order.pdf](http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf).

<sup>68</sup> H.R. 3309 § 3(b)(1), proposed 35 U.S.C. § 285(a).

<sup>69</sup> *Id.* § 3(c), proposed 35 U.S.C. § 299(d)(4).

<sup>70</sup> *Id.* § 3(b)(1), proposed 35 U.S.C. § 285(c).

<sup>71</sup> Report, *supra* note 17, at 107.

<sup>72</sup> *Id.*

<sup>73</sup> *Id.* (citing Letter from Linda Lipsen, CEO of The American Association for Justice, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013)).

<sup>74</sup> *Id.* at 108.

<sup>75</sup> *Id.*

<sup>76</sup> Kappos, *supra* note 54, at 4.

<sup>77</sup> Report, *supra* note 17, at 109; *Highmark v. Allcare Health Management*, No. 12-1163 (*cert. granted*); *Octane Fitness v. Icon Health & Fitness Inc.*, No. 12-1184 (*cert. granted*); *Kilopass Tech., Inc. v. Sidense Corp.*, No. 2013-1193, 2013 WL 6800885 (Fed. Cir. Dec. 26, 2013). 35 U.S.C. 285 provides “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

<sup>78</sup> Report, *supra* note 17, at 109.

<sup>79</sup> According to DocketNavigator, from September 16, 2012 until November 30, 2013, there have been 731 IPR petitions, 1 PGR petition (PGR proceedings apply only to patents having claims with effective filing dates after March 16, 2013), and 96 CBM review petitions.

<sup>80</sup> H.R. 3309 § 9(b).

<sup>81</sup> *Id.*

<sup>82</sup> Report, *supra* note 17, at 38-40.

<sup>83</sup> S. 1720 § 7(b).

<sup>84</sup> H.R. 3309 § 9(a).

<sup>85</sup> S. 1720 § 7(a).

<sup>86</sup> S. 866. The current provision is due to expire September 16, 2020, at which time petitions will no longer be accepted.

<sup>87</sup> E.g., Letter from Amazon, Google, and other companies to Senators and Representatives (July 30, 2013), available at <http://www.scribd.com/doc/157106550/Patent-troll-letter> (in favor of expanded CBM); Letter from various inventors, technologists, and entrepreneurs (Nov. 19, 2013), available at [https://www.eff.org/files/2013/11/20/inventors\\_letter\\_support\\_patent\\_reform.pdf](https://www.eff.org/files/2013/11/20/inventors_letter_support_patent_reform.pdf) (in favor); Letter from IBM, Microsoft, and other companies to various Senators and Representatives (Sep. 19, 2013), available at <http://www.bsa.org/~media/Files/Policy/Patents/JointCBMLetter091913> (opposing).

<sup>88</sup> H.R. 3309 § 8(f).

<sup>89</sup> December 17, 2013 Senate Judiciary hearing, *supra* note 10.