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# *The Special Issues Arising from Disputes with NPEs*



Thomas L. Duston  
Partner

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## **Thomas L. Duston, Partner, IP Litigation.**

Tom is a hands-on trial lawyer who focuses on patent litigation on behalf of some of the most sophisticated companies in the United States. He has been lead counsel in more than 60 patent infringement matters in federal courts throughout the United States. Tom is praised for both his creativity and tenacity as a trial attorney, and for his ability to strategically position cases--enabling favorable dispositions through negotiation, dispositive motions, or parallel Patent Office proceedings.

Tom has represented Groupon, CDW, Newegg, T-Mobile, Charter Communications, Express LLC, GE Aviation, TRINOVA (now part of Eaton), Russell Athletic, Raytheon, Home Depot, Abbott Laboratories, Classified Ventures, as well as Zappos.com, among others.

The Leading Lawyers Network has named him a Leading Lawyer in IP Litigation and profiled him in its September 2014 edition of Leading Lawyers magazine. U.S. News and World Report has repeatedly listed him as among "The Best Lawyers in America" in the practice area of Litigation - Intellectual Property. Thompson Reuters has identified him as among the "Top 100" attorneys in Illinois, and repeatedly named him among its list of "Super Lawyers." American Lawyer Media (ALM) and Martindale-Hubbell selected him as a "Top Rated Lawyer in Intellectual Property." The World IP Handbook and Survey named him an "IP Star."

He has authored a number of articles in the areas of patent and trade secret litigation. He has been awarded a Martindale-Hubbell® AV Peer Review Rating™. Earlier in his career, Tom was named by the Law Bulletin Publishing Company as one of "Forty Illinois Attorneys Under 40 to Watch," a list of the State's most talented and well-regarded lawyers. A graduate of Columbia University (B.A. 1984), Tom received his J.D. in 1987 from University of California, Hastings College of the Law, where he was a member of the Moot Court Board and an instructor in the Moot Court Program. Tom externed as a staff attorney for the Ninth Circuit Court of Appeals.

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## The Special Issues Arising from Disputes with NPEs

### I. THE PROBLEM

Non-practicing entities (NPEs) are entities that own patents but do not practice them. While there are a number of types of entities that fall within that definition, this article is concerned with those NPEs that pursue a strategy of aggressive litigation to collect licensing revenues from alleged infringers.<sup>1</sup>

By some estimates, NPEs accounted for 63% of all patent cases filed in the United States in 2014.<sup>2</sup> While suits by practicing entities have remained relatively steady, suits by NPEs have exploded in recent years.<sup>3</sup> These NPEs take advantage of the fact that they are immune to counter-claims. They often pursue claims on patents having unclear scope and questionable validity.<sup>4</sup> In many cases, they do not bring these claims until industry participants have made irreversible investments in the accused technologies.<sup>5</sup> NPEs rely on the substantial costs of defending against their claims to extract sizable settlements from accused companies that cannot or will not assume these economically disproportionate costs.<sup>6</sup>

NPEs in particular are active in the area of software and eCommerce. By some estimates, 82% of defendants in NPE litigation are accused of infringing software-related patents.<sup>7</sup>

The median damage award in cases brought by NPEs is estimated to be more than four times that in cases involving practicing entities.<sup>8</sup>

### II. HELP IS ON THE WAY

A number of developments in recent years have strengthened the hands of those defending NPE lawsuits. Decisions by the District courts and the Federal Circuit have eliminated some of the more egregious damage theories pressed by NPEs.

Decisions tightening patent eligibility under Section 101 of the Patent Act have taken particular aim at patents on software and computer implemented inventions. As noted, these areas represent the bulk of NPE litigation activity. Further court decisions have increased the scrutiny of patent claims for both clarity and definiteness. Again, these developments target vulnerabilities in the patent system long exploited by NPEs.

Since a 2014 Supreme Court decision, courts have punished NPEs more regularly by awarding fees to companies accused frivolously of patent infringement.

Procedures established by the *America Invents Act* (AIA) have allowed companies accused of infringement to challenge patents in the Patent Office, shifting the dispute from costly District court litigation to a forum that carries a lower burden of proof and a trier of fact more willing to invalidate patents than juries traditionally have been.

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<sup>1</sup> See *Patent Assertion and U.S. Innovation*, Executive Office of the President (June 2013), at 2-6 (discussing the various types of "patent assertion" entities and their characteristics).

<sup>2</sup> *2014 NPE Litigation Report*, RPx Corporation, at 6. Of these cases, only 11% were brought by NPEs such as universities or inventors. The bulk of these cases were brought by patent assertion entities organized for the express purposes of pursuing claims against alleged infringers. *Id.*

<sup>3</sup> *Patent Assertion and U.S. Innovation*, *supra* at 5.

<sup>4</sup> *Id.* at 4.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 6.

<sup>7</sup> *Id.* at 5.

<sup>8</sup> *2015 Patent Litigation Study*, PriceWaterhouseCoopers LLP, at 4 (May 2015).

### III. THE DEMAND LETTER

#### A. To Respond or Not Respond?

Often a patent assertion letter and/or invitation to license will represent an accused infringer's first contact with an NPE. An accused infringer then must decide not only how, but whether, to respond. Whatever the decision, an accused infringer would be wise to issue a legal hold and conduct an investigation of the NPE's allegations as outlined below.

The oft-expressed concern is that responding to a patent assertion letter simply will serve to advance the respondent to the head of the line of those recipients of similar correspondence. If the NPE's campaign is broad—involving tens or hundreds of accused infringers—this concern may not be unjustified.

The decision whether to immediately respond to an NPE's initial communication is often informed by a number of factors. Who sent the letter? Is it from outside litigation counsel? Licensing counsel? In-house non-legal personnel? Does the correspondence threaten litigation or some other immediate action, or does it simply invite a licensing conversation?

Allegations that a party failed to respond to an NPE's communications have been deemed sufficient to state a cause of action for willful infringement.<sup>9</sup> Ultimately, however, willfulness will be determined on the basis of more than whether an accused infringer responded to an NPE's initial correspondence.<sup>10</sup> More emphasis is placed upon the reasonableness of the accused's investigation and the conclusions therefrom.

#### 1. State Statutes

In recent years, state legislatures have attempted to deal with the increase in threatening NPE letters by adopting legislation. Vermont passed the first state law that targeted bad-faith patent assertions. Since then, a total of 26 states have passed or proposed similar laws.<sup>11</sup>

The laws adopted or proposed in each of these 26 states seek in one way or another to define what constitutes patent assertions made in "bad faith."<sup>12</sup> The failure to provide the patent owner's name and address, the patent numbers for the asserted patents, and factual allegations concerning the specific areas in which a target's products, services and technology allegedly infringe the patent are almost uniformly treated as evidence of bad faith. Other common indicia include the failure to conduct an infringement analysis (69% of states), failure to provide requested information missing from the original demand letter (69%), unreasonable royalty amounts (65%) and prior abusive demand letters or meritless suits. Over half of the states (53%) include a catchall term for anything the court finds relevant.

<sup>9</sup> See *Telecommunication Systems, Inc. v. Sybase 365, Inc.*, No. 2:09cv387, D.I. 47 at 2 (E.D. Va. Nov. 17, 2009) (noting that allegations that accused infringer failed to respond to correspondence alleging infringement, or to take steps to avoid infringement, established a plausible claim that the accused acted with "objective recklessness" sufficient to state a claim for willful infringement).

<sup>10</sup> See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*overruling Underwater Devices, Inc. v. Morrison-Knudson Co.*, 717 F.2d 1380 (Fed. Cir. 1983)) (establishing two-step analysis: (1) patentee must show by clear and convincing evidence that infringer acted with "objectively high likelihood" that actions constituted infringement of valid patent; and, (2) that this likelihood was known or should have been known to the accused.)

<sup>11</sup> See, e.g., Ala. S.B. 121 (Act No. 2014-218); Colo. H.B. 15-1063; Fla. H.B. 439 (Ch. No. 2015-92); Ga. H.B. 809 (Act No. 513); Idaho S.B. 1354 (Sess. Law Ch. 277); Ill. S.B. 3405 (Act No. 297); Ind. H.B. 1102; Kan. S.B. 38; La. S.B. 255 (Act No. 297); Me. S.P. 654, Sec. 1. 14 MRSA c. 757 (Pub. Law No. 543); Md. S.B. 585 (Ch. 307, § 11-1601 to -1605); Mo. H.B. 1374 (RSMo Ch. 416.650-658); Mont. S.B. 39 (Ch. No. 186); N.H. S.B. 303 (Ch. No. 2014-197); N.C. H.B. 1032 (Sess. Law Num. 2014-110); N.D. H.B. 1163 (Ch. 51-36); Okla. H.B. 2837 (Ch. No. 305); Or. S.B. 1540 (Ch. 19, 2014 Laws); S.D. S.B. 143 (Sess. Law Ch. 192); Tenn. S.B. 1967 (Pub. Ch. 879); Tex. S.B. 1457; Utah H.B. 117 (Sess. Law Ch. 310); Vt. H.B. 299 (Act No. 0044); Vt. S.B. 7 (Act No. 0047); Va. H.B. 375 (Acts of Assemb. Ch. No. 810); Wash. S.B. 5059, H.B. 1092 (Ch. 108, 2015 Laws); Wis. S.B. 498 (Act No. 339).

<sup>12</sup> See generally Andrew Baluch & Jason Mock, *Survey of State Laws Against Bad-Faith Patent Assertion*, Bloomberg Law, (July 23, 2015, 10:00 a.m.), <http://www.bna.com/survey-state-laws-n17179894188/>.

To the extent these statutes describe permitted behavior, they identify the following as indicia of the “good faith” assertion of patent claims: providing descriptive information in the demand letter, performing an infringement analysis, seeking to negotiate, substantial investment in the use of the patent, previous good faith assertions, and the fact that the party asserting the patents is the inventor or original assignee, a university or a technology transfer office associated with a university.

While all of these statutes authorize the attorney general to sue for violations, most also create a private right for the recipient of the demand letter to sue. These statutes variously allow for recovery of actual damages, equitable relief, punitive damages, attorneys’ fees, and court costs. A summary of various aspects of this legislation is set out in the following chart:

Procedures	State
Attorney General Can Sue	All 26 States
Consumer Protection Division Can Sue	1 State: MD
Private Cause of Action	21 States: AL, GA, ID, IL, LA, ME, MD, MO, NH, NC, OK, OR, SD, TN, UT, VT, WI, FL, IN, MN, ND
Equitable Relief	17 States: AL, GA, ID, IL, ME, MD, NH, NC, OR, SD, TN, UT, VT, CO, FL, IN, ND
Actual Damages	21 States: AL, GA, ID, IL, LA, ME, MD, MO, NH, NC, OK, OR, SD, TN, UT, VT, WI, FL, IN, MN, TX
Allow Punitive/Exemplary Damages	19 States: AL, GA, ID, IL, ME, MD, NC, OK, OR, SD, TN, UT, VT, VA, WI, FL, IN, MN, TX
Limit Punitive/Exemplary Damages	12 States: AL, GA, ID, ME, MD, NC, OK, SD, TN, UT, VT, MN
Attorneys' Fees	23 States: AL, GA, ID, IL, LA, ME, MD, MO, NH, NC, OK, OR, SD, TN, UT, VT, VA, WI, CO, FL, IN, MN, TX
Court Costs	20 States: AL, GA, ID, IL, LA, ME, MD, MO, NH, NC, OK, OR, SD, TN, UT, VT, WI, CO, FL, TX
Bond Requirement	16 States: AL, GA, ID, ME, NH, NC, OK, SD, TN, UT, VT, WI, FL, IN, MN, ND
Statute of Limitations	2 States: ID, AL

These state legislative efforts to reign in abusive patent assertions have not been without challenge. A Nebraska federal judge recently held that the attorney general's cease-and-desist letter enforcing Nebraska's law was unconstitutional.<sup>13</sup>

## 2. Potential Indemnitors

The receipt of a patent assertion letter should prompt an investigation concerning whether the accused infringement is chargeable to a third party. If so, an accused infringer should promptly put that party on notice of the demand, and seek defense and indemnity.

Obligations to defend and indemnify are frequently disputed. In the absence of an express indemnity, an accused infringer often must rely on the provisions of the Uniform Commercial Code (UCC). Problems arise in such circumstances due to the disparate treatment of software under that Act (it is covered sale of goods or intellectual property license falling outside of its provisions).<sup>14</sup> This problem is acute particularly in connection with NPEs, given that so many of their allegations involve computer-implemented inventions.

The UCC implies certain warranties in any sale of goods.<sup>15</sup> If applicable, the UCC will imply a warranty against infringement. Under such a warranty, the buyer can generally recover the costs of defending and settling a "rightful claim" of patent infringement.

Courts have held, however, that this warranty applies only to the product at the time of its delivery. As such, the warranty may not extend to the use of the product or its combination with other components.<sup>16</sup> With software, this may render the warranty effectively meaningless.<sup>17</sup>

Express warranties often fare little better. The purchaser of an interactive voice response system found that the following, express warranty failed to afford it any coverage when sued by notorious NPE, Ronald Katz Technology Licensing LP:

InterVoice[] will indemnify, hold harmless and defend Customer at its own expense against any claim that any System or Software as provided by InterVoice[] ... infringes any United States copyright, patent or trade secret.

\* \* \*

InterVoice[] shall have no obligation with respect to any such claim of infringement based upon Customer's modification of any System or Software or their combination, operation or use with apparatus, data or computer programs not furnished by InterVoice[].<sup>18</sup>

<sup>13</sup> See *Activision TV v. Pinnacle Bancorp*, No. 8:13-cv-00215, D.I. 41 at14 (D. Neb. Sept. 30, 2013). The Federal District Court for the District of Vermont declined to address the enforceability of the Vermont statute on procedural grounds in *MPHJ Technology Investments, LLC v. Sorrell*, No. 2:14-cv-191, D.I. 42 at 20-21 (D. Vt. Jun. 3, 2015).

<sup>14</sup> See generally McJohn, S., *The GPL Meets the UCC: Does Free Software Come With a Warranty of No Infringement*, 15 J. of High Technology Law 1, 6-8 (2014) (discussing history of attempts to cover software transactions via the UCC). Compare *Gross v. Symantec Corp.*, No. C 12-00154, 2012 U.S. Dist. LEXIS 107356 (July 31, 2012) (denying motion to dismiss claims under California UCC, finding software in that case qualified as a "good" under the Act).

<sup>15</sup> U.C.C. § 2-312 (3).

<sup>16</sup> See, e.g., *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 718-19 (N.D. Tex. 1986), *Chemtron, Inc. v. Aqua Prods., Inc.*, 830 F. Supp. 314, 315 (E.D. Va. 1993).

<sup>17</sup> The other requirements of Section 2-312 generally do not present issues. First, the seller must first be a "merchant regularly dealing in goods of the kind." Second, the warranty is that the goods be free from a "rightful claim" of infringement. An outright finding of patent infringement is not required. *Cover v. Hydramatic Packing Co.*, 83 F.3d 1390, 1394 (Fed. Cir. 1996); see also *Sun Coast Merchandise Corp. v. Myron Corp.*, 393 N.J. Super. 55, 79 (N.J. Super. Ct. App. Div. 2007) (a rightful claim of infringement need only "cast a 'substantial shadow' on the buyer's ability to make use of the goods") and *Pacific Sunwear of California, Inc. v. Olaes Enterprises, Inc.*, 167 Cal. App. 4<sup>th</sup> 466, 482 (Cal. App. 4<sup>th</sup> 2008) (a rightful claim of infringement need not be litigated.)

<sup>18</sup> *American Family Life Assurance Co. v. Intervoice, Inc.*, No. 12-13210 (11<sup>th</sup> Cir. Mar. 27, 2014).

## B. Legal Hold

The failure to preserve evidence following receipt of a patent assertion letter risks more than mere discovery sanctions. NPEs often focus aggressively upon document preservation issues. In many instances, NPEs seek to distract the finder of fact from weaknesses in their infringement allegations, or the poor quality of their patents, through attempts to paint the accused infringer as a bad actor whose guilt should be assumed as a consequence of its failure to preserve every document and piece of information even marginally relevant to the litigation.

A recipient of a patent assertion letter from an NPE should take reasonable steps to preserve documents and information related to the allegations the NPE has sufficiently articulated.

Judge Shira Scheindlin of the United States District Court for the Southern District of New York is widely credited with authoring some of the leading decisions on the topic of the obligation to ensure that relevant information, including electronically stored information (“ESI”), is preserved.<sup>19</sup> The duty to preserve evidence attaches at the time that litigation is reasonably anticipated. A party and its counsel must act to preserve relevant information they are on notice is relevant.

To satisfy these obligations, the party should issue a legal hold to those individuals likely to have control over relevant information. The hold should provide recipients with sufficient information from which they may identify the documents and information to be preserved. A party also should take affirmative steps to preserve that information, including among other things, suspending routine document destruction procedures.<sup>20</sup>

## C. Investigation and Freedom-To-Operate Opinions

Many NPE suits involve software or computer implemented inventions in which the allegations necessarily are that the accused has indirectly infringed by inducing its customers or users to infringe, or by contributing to their infringement. Since at least 2006, lower courts have recognized that a defendant’s good faith belief of non-infringement will negate a charge of induced or contributory infringement.<sup>21</sup>

In *Global-Tech Appliances, Inc. v. SEB S.A.*,<sup>22</sup> the Supreme Court confirmed these holdings, observing that an induced infringement claim under 35 U.S.C. § 271(b) requires proof that the accused inducer had both: (1) knowledge of the asserted patent, and (2) knowledge that the third-party acts it had induced would infringe the asserted patent directly. The Court’s holding in *Global-Tech* is applicable to contributory infringement under § 271(c) as well, given that the Court’s observation in the opinion that both should require the same level of knowledge and intent.

Unlike a reasonable belief that conduct does not infringe, a belief in the invalidity of the asserted patents will not defeat a claim for indirect infringement. In *Commil USA LLC v. Cisco Systems, Inc.*,<sup>23</sup> the Supreme Court held that an accused inducer’s belief that an asserted patent is *invalid* is *not* a defense to induced patent infringement, and therefore the Court reversed an earlier Federal Circuit decision approving such an argument.

In cases where the NPE alleges indirect infringement, it is worthwhile to document the non-infringement analysis and opinions of competent counsel. Obviously, it is important that this investigation be sincere and that its conclusion not be preordained.<sup>24</sup>

<sup>19</sup> See *Zubulake v. UBS Warburg LLC* (“*Zubulake V*”), 229 F.R.D. 422 (S.D.N.Y. 2004)

<sup>20</sup> See generally Jack Halprin, *The Legal Hold Action Plan: Best Practices for Meeting the Preservation Obligation*, Association of Corporate Counsel (May 3, 2011), <http://www.acc.com/legalresources/quickcounsel/Preservation-Obligation-QC.cfm>.

<sup>21</sup> See, e.g., *DSU Med. Corp. v. JMS Co. Ltd.*, 471 F.3d 1293, 1307 (Fed. Cir. 2006) (*en banc*) (good faith belief of non-infringement negated required intent for inducement).

<sup>22</sup> 131 S. Ct. 2060 (2011).

<sup>23</sup> 135 S. Ct. 1920 (2015).

<sup>24</sup> An accused inducer who feared there was a “high probability” it was causing others to infringe and took “deliberate actions” to avoid confirming whether its fear of infringement was true, was held to have the necessary knowledge and intent for indirect infringement. See *Global-Tech Appliances*, 131 S. Ct. 2060 (2011). In *Global-Tech*, the accused manufacturer copied the design

## D. Declaratory Judgment

If the first contact with the NPE is a demand letter, an accused infringer should seriously consider the advantages of initiating litigation itself in a forum of its own choosing.

### 1. Case and Controversy requirement

The Declaratory Judgment Act provides that “in the case of actual controversy” a district court may declare the rights of a party seeking such a declaration. A court’s exercise of jurisdiction over such a claim, however, is discretionary.<sup>25</sup>

NPEs sometimes mask their accusations in non-accusatory language, inviting a licensing discussion or suggesting a party may be “interested” in certain of its patents. An express charge of infringement, however, is not required.<sup>26</sup> The totality of the circumstances need show only a reasonable apprehension of an intent to initiate litigation or the existence otherwise of an actual controversy.<sup>27</sup>

In finding the necessary controversy, courts have cited to letters sent to a party’s customers that were serious enough to cause demand to be made upon the party for indemnification.<sup>28</sup> Detailed “infringement analyses” shared during licensing negotiations establish a controversy of “sufficient immediacy and reality to warrant the issuance of declaratory judgment.”<sup>29</sup>

A party accused of infringement should beware of entering into confidentiality agreements that preclude its ability to seek declaratory judgment. At least one court has suggested the existence of a confidentiality agreement would preclude basing the necessary controversy upon detailed infringement contentions.<sup>30</sup>

### 2. Personal Jurisdiction

Personal jurisdiction requirements, however, can doom efforts to file a declaratory judgment action in a more hospitable forum. An accused infringer filing such an action preemptively in order to avoid defending in an unfavorable venue, may well find it difficult to secure personal jurisdiction over the NPE in the more favorable venue. Many NPEs are organized and headquartered in states and venues that defendants seek to avoid. With no or only limited contacts outside of those venues, obtaining personal jurisdiction in another venue over an NPE may present challenges. A declaratory judgment action brought in a more favorable venue may hold only long enough for the court to transfer the action to the venue the accused infringer sought to avoid.

According to the Federal Circuit, “[s]tandards of fairness demand that [the patent owner] be insulated from personal jurisdiction in a distant foreign forum when its only contacts with that forum were efforts to give proper notice of its patent rights.”<sup>31</sup> As a consequence, personal jurisdiction often cannot be premised solely on the fact that the NPE directed patent assertion correspondence to the alleged infringer in the forum.

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of the patent owner’s commercial products. The manufacturer retained an attorney to provide a patent clearance opinion, but failed to advise him that it had copied the design. The attorney conducted a patent search which did not uncover the patent owner’s patents, and thereafter issued a clearance opinion. The Supreme Court affirmed the judgment of indirect infringement against the manufacturer. *See id.* at 2064.

<sup>25</sup> *See Arrowhead Indus. Water v. Ecolochem*, 846 F.2d 731, 735 n.6 (Fed. Cir. 1988).

<sup>26</sup> *See Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 888 (Fed. Cir. 1992).

<sup>27</sup> *Id.* at 889.

<sup>28</sup> *See, e.g., Arrowhead, supra*, at 737.

<sup>29</sup> *See SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1382 (Fed. Cir. 2007).

<sup>30</sup> *Id.* at 1375 n.1 (observing that the patentee only demanded that its communications be subject to Rule 408 of the Federal Rules of Evidence, which did not prohibit their admission in support of declaratory judgment jurisdiction, but suggesting that the patentee could have avoided the risk of its communications being so used by means of a confidentiality agreement.)

<sup>31</sup> *See Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.* 148 F.3d 1355, 1361 (Fed. Cir. 1998); *see also Breckenridge Pharmaceutical, Inc. v. Metabolite Laboratories*, 444 F.3d 1356, 1363 (Fed. Cir. 2006) (“personal jurisdiction may not be exercised constitutionally when the defendant’s contact with the forum state is limited to cease and desist letters.”)

The Federal Circuit has observed that the constitutional requirements of “fair play and substantial justice afford a patentee sufficient latitude to inform others of its patent rights without subjecting itself to jurisdiction in a foreign forum.”<sup>32</sup> To support specific jurisdiction, a plaintiff must point to some additional activity in the forum--and not merely any activity; it must be specifically related to the enforcement of the patents-in-suit.<sup>33</sup>

The existence of an exclusive licensee in the forum has been deemed sufficient additional activity in the forum to establish specific personal jurisdiction.<sup>34</sup> Unfortunately, few, if any, NPEs would meet this requirement. Non-exclusive licensees in the forums are not sufficient to establish personal jurisdiction.<sup>35</sup>

An alleged infringer, under appropriate circumstances, may maintain a declaratory judgment action against an NPE who has initiated prior litigation in the forum on the patent-in-suit, even where that previous action was directed against another party.<sup>36</sup> However, for most NPEs who confine their activity to one or a small number of venues deemed favorable to such patent owners, this avenue offers little assistance to the alleged infringer seeking greener pastures.

### 3. Implications for *Inter Partes* Review

If a declaratory judgment is sought, care should be taken to restrict the declaration sought to a declaration of non-infringement. Seeking a declaration that the asserted patents are invalid has consequences for the availability of *Inter Partes* Review (IPR). Section § 315(a)(1) of Title 35 bars institution of an IPR if, before the date on which a petition for the review is filed, a petitioner or real party-in-interest filed a civil action challenging the validity of a claim of the patent.<sup>37</sup> This bar does not apply where the declaratory sought is confined to non-infringement.<sup>38</sup>

An accused infringer may still raise validity issues in the District court proceeding without compromising its rights to pursue an IPR in one of two ways. It may wait to do so in reply to counter-claims brought by the patent owner in response to its declaratory judgment action. The statutory bar under Section § 315(a)(1) does not apply to a petitioner who alleges invalidity as an affirmative defense in answer to the patent owner’s allegations of infringement.<sup>39</sup>

Alternatively, an declaratory judgment plaintiff may seek a declaration of invalidity provided it files its IPR petition on the same day as its declaratory judgment action.<sup>40</sup>

## IV. THE LAWSUIT

### A. Venue and Motions to Transfer

Not all venues are created equal. Whether warranted or not, certain venues have gained a reputation as more favorable to NPEs, and less so to defendants sued by them. If the volume of suits brought in various jurisdictions is

<sup>32</sup> See *Red Wing Shoe*, 148 F.3d at 1360-61 (three warning letters sent to the plaintiff in the forum legally insufficient to permit exercise of personal jurisdiction).

<sup>33</sup> See *Avocent v. Aten Int’l Co.*, 552 F.3d 1324, 1334 (Fed. Cir. 2008) (holding that declaratory judgment action does not “arise out of” patentee’s sales of patented products in forum).

<sup>34</sup> See, e.g., *Avocent*, 552 F.3d at 1334-35 (an exclusive license with forum resident which carries a continuing obligation to enforce patent can constitute sufficient additional activity “related to” declaratory judgment action).

<sup>35</sup> See, e.g., *Autogenomics, Inc. v. Oxford Gene Tech., Ltd.*, 2008 U.S. Dist. LEXIS 111756 at \*8 (C.D. Cal. Jan. 17, 2008) (rejecting assertions that non-exclusive licenses between the patentee and ten residents of the forum, California, justified the exercise of personal jurisdiction); *Red Wing Shoe*, 148 F.3d at 1361 (the existence of 34 non-exclusive licensees, even “to the extent any of them may be considered [forum] residents,” were insufficient to justify personal jurisdiction.).

<sup>36</sup> See *Avocent*, 552 F.3d at 1334-35 (citing *Viam Corp. v. Iowa Export-Import Trading Co.*, 84 F.3d 424, 430 (Fed. Cir. 1996)).

<sup>37</sup> 325 U.S.C. § 315(a)(1).

<sup>38</sup> See, e.g., *Ariosa Diagnostics v. Isis Innovation Ltd.*, IPR2012-00022, Paper No. 20 at 7 (P.T.A.B. February 12, 2013).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.* at 7-8

indicative, then NPEs apparently believe that venues such as the Eastern District of Texas offer them advantages not found in others.<sup>41</sup> Whether to challenge venue often is the first decision of a defendant sued by an NPE.

Instances of true improper venue are rare. The statute governing venue in patent infringement suits expansively defines venue to include any district in which the defendant “resides.”<sup>42</sup> The residence of a defendant corporation is defined to include any district in which such defendant is subject to the court’s personal jurisdiction.<sup>43</sup> A defendant seeking transfer must generally convince a court that such transfer would be in the “interests of justice” for the convenience of the parties and/or the witnesses.<sup>44</sup>

Before enactment of the *America Invents Act* (AIA), NPEs routinely named numerous, unrelated companies as defendants in a single suit. Defendants seeking transfer found themselves in the difficult position of having first to convince a district court to sever them from suits naming numerous co-defendants, and then, once severed, to transfer the suit against them to another district. Not infrequently, a court has relied upon the fact that the suit against the remaining defendants would remain pending before it to reject a request to transform a single case in one district into multiple cases in more than one.<sup>45</sup>

The AIA put an end to the era of single lawsuits naming numerous, unrelated defendants. Pursuant to Section 299 of that Act, multiple defendants may be named in a single suit only if the claim “aris[es] out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process.”<sup>46</sup> Section 299 was passed in answer to district courts that had adopted an expansive reading of Rule 20 of the Federal Rules of Civil Procedure, permitting joinder in a single suit of multiple defendants based upon nothing more than allegations that each had infringed the same patent.

Following passage of the AIA, NPEs were forced to file multiple lawsuits against individual defendants.<sup>47</sup> This development, in turn, increased the ability of individual defendants to seek transfer of their suits from venues deemed inhospitable, to those considered more favorable.

Transfer of venue is governed by 28 USC § 1404(a), which looks to “the convenience of parties and witnesses” and mandates transfer in “the interest of justice.” The most significant factor in the decision whether or not to transfer is the location of the witnesses.<sup>48</sup> Courts will consider the plaintiff’s choice of venue, but that choice is given less weight if it is not the plaintiff’s home venue (*i.e.* its principal place of business).<sup>49</sup> A district court’s concurrent litigation involving the same patent is a relevant consideration, if the court’s experience is not tenuous and the cases are co-pending.<sup>50</sup>

Transfer motions are governed by regional circuit law rather than that of the Federal Circuit. Due to the heavy volume of NPE cases in the Eastern District of Texas, Fifth Circuit law plays an outsized role in transfer decisions. In an important decision interpreting Fifth Circuit law, the Federal Circuit declared that a party seeking transfer must

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<sup>41</sup> The Eastern District of Texas reportedly accounted for nearly half (48%) of all suits filed by NPEs in 2014. *2014 NPE Litigation Report*, RPx Corporation, at 21. The Eastern District of Texas also reportedly shared with the Middle District of Florida the highest overall NPE success rate (55%) among the fifteen most active districts. *2015 Patent Litigation Study*, PriceWaterhouseCoopers LLP, at 15 (May 2015).

<sup>42</sup> 28 U.S.C. §1400(b).

<sup>43</sup> 28 U.S.C. §1391(c) (2).

<sup>44</sup> 28 U.S.C. §1404(a).

<sup>45</sup> See, e.g., *EOLAS Technologies, Inc. v. Adobe Systems, Inc.*, 6:09-cv-446, D.I. 424 at 10 and 13 (E.D. Tex. Sept. 28, 2010) (relying upon presence of Texas defendants to reject request of non-Texas defendants to transfer case to Northern California).

<sup>46</sup> 35 U.S.C. § 299.

<sup>47</sup> See, e.g., *Digitech Image Techs., LLC v. Agfaphoto Holding GmbH*, 2012 U.S. Dist. Lexis 142034 (C.D. Cal. Oct. 1, 2012).

<sup>48</sup> See, e.g., *In re Nintendo of Am., Inc.*, 756 F.3d 1363, 1366 (Fed. Cir. 2014) (transfer allowed when there was a “stark contrast” in the convenience of the two venues and the transferee venue was closer to the witnesses and records); *In re Link\_A\_Media Devices Corp.*, 662 F.3d 1221, 1223 (Fed. Cir. 2011) (transfer allowed when plaintiff was not at home in the original venue and the transferee venue was more convenient for the witnesses and closer to the records).

<sup>49</sup> See *Link\_A\_Media*, 662 F.3d at 1223; but see *In re Barnes & Noble, Inc.*, 743 F.3d 1381, 1385 (Fed. Cir. 2014) (transfer denied when plaintiff was at home in original venue, even though transferee venue would be closer to defendant’s witnesses and records).

<sup>50</sup> See *Link\_A\_Media*, 662 F.3d at 1224.

establish that the transferee venue sought is “clearly” more convenient than the venue selected by the patentee. However, the transferee forum need not be *far more* convenient before transfer must be ordered.<sup>51</sup>

The Federal Circuit has been compelled on numerous occasions to intervene in transfer decision. The Federal Circuit has granted writs of mandamus in several cases in which it viewed the district court’s decision to deny transfer as an abuse of its discretion.<sup>52</sup>

## B. Multi-District Litigation

As noted above, passage of the AIA has changed the venue landscape. Suits by NPEs on the same patent or patents are now more frequently spread among two or more venues. In some instances, concurrent suits on the same patents in multiple districts result from successful motions by certain defendants to change venue.<sup>53</sup> In other instances, this result stems from deliberate decisions of the NPE itself. Faced with the requirement of filing separate suits against individual defendants, some NPEs select for certain defendants venues they deem less than optimal for the simple reason that they fear the defendants might succeed in arguing for transfer from the jurisdiction the NPE might most prefer. Rather than face an unpredictable transfer to a venue it would not have selected, the NPE settles on its next best option.

Litigation in multiple districts has prompted a modest increase in requests to the Panel on Multi-District Litigation for centralization of pretrial proceedings in a single district—commonly referred to as MDL proceedings.<sup>54</sup> Defendants and NPEs alike have sought such centralization. For defendants facing suit in venues viewed as less defendant-friendly, MDL proceedings offer the opportunity—at least for pretrial proceedings such as claim construction and, more importantly, summary judgment—to escape a less hospitable venue.<sup>55</sup> For NPEs forced to file in multiple venue, MDL proceedings can reduce the costs of prosecuting such cases, while minimizing the exposure to conflicting and potentially unfavorable rulings on issues such as claim construction, infringement or validity.<sup>56</sup>

“Transfer under Section 1407 does not require a complete identity or even a majority of common factual or legal issues as a prerequisite to transfer.”<sup>57</sup> Centralization under Section 1407 may be ordered to prevent inconsistent pretrial rulings, especially with respect to claim construction.<sup>58</sup> Centralization has been ordered where common invalidity issues appear key to resolution of the action. In such cases, the benefits of centralization include the avoidance of duplicative discovery and inconvenience to plaintiffs and to witnesses.<sup>59</sup>

The commonality of fact issues across actions must predominate over those that do not overlap, and the transfer must promote convenience and efficiency.<sup>60</sup> The party seeking a transfer bears the burden of establishing that centralization is warranted.<sup>61</sup>

<sup>51</sup> See *In re Toyota Motor Corp.*, 747 F.3d 1338, 1341 (Fed. Cir. 2014).

<sup>52</sup> See *In re Toyota*, *supra*; see also *In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011); *In re Nintendo, Ltd.*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Genentech Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); and *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

<sup>53</sup> See, e.g., *Geotag, Inc. v. Classified Ventures, LLC*, No. 2:11-cv-00426, D.I. 103 (E.D. Tex. Jan. 1, 2013)(granting motion to transfer action against one defendant to Northern Illinois, despite existence of over 100 other cases against over 400 other defendants pending in the Eastern District of Texas.)

<sup>54</sup> See Shen, D., *Consequences of AIA Joinder Provision*, 29 Berkeley Technology Law Journal 545, 567 (2014).

<sup>55</sup> See, e.g., *In re Unified Messaging Solutions LLC Patent Litig.*, 883 F. Supp. 2d 1340 (J.P.M.L. 2012) (granting centralization of sixteen actions involving over twenty defendants in the Northern District of Illinois and denying patentee’s request that they be centralized in the Eastern District of Texas where early filed actions were pending).

<sup>56</sup> See, e.g., *In re Bear Creek Technologies, Inc. Patent Litig.*, 858 F. Supp. 2d 1375, 1380 (J.P.M.L. 2012)(granting NPE’s petition to centralize its multiple infringement actions).

<sup>57</sup> See *In re Katz Interactive Call Processing Patent Litig.*, 481 F. Supp.

2d 1353, 1355 (J.P.M.L. 2007) (ordering centralization of 25 actions despite opposer’s argument “that unique questions of fact relating to each defendant’s allegedly infringing system will predominate over common factual questions”); see also *In re Acacia Media Techs. Corp. Patent Litig.*, 360 F. Supp. 2d 1377, 1379 (J.P.M.L. 2005) (ordering centralization of 20 actions notwithstanding “differences in the products and services of the parties involved”).

<sup>58</sup> See *In re Columbia Univ. Patent Litig.*, 313 F. Supp. 2d 1383, 1385 (J.P.M.L. 2004)

<sup>59</sup> See *In re Molinaro/Catanzaro Patent Litig.*, 380 F. Supp. 794, 795 (J.P.M.L. 1974).

<sup>60</sup> See 28 U.S.C. § 1407(a); *In re Pharmacy Benefit Plan Admins. Pricing Litig.*, 206 F. Supp. 2d 1362, 1363 (J.P.M.L. 2002).

There is a risk that centralization will disadvantage certain defendants. For example, the MDL Panel may centralize proceedings in an inconvenient or less favorable venue for certain defendants. Defendants may also object that centralization prejudices their ability to advance defenses specific to them. As least one decision has noted these concerns in denying centralization:

Even if several actions were to proceed to claims construction, the diversity of defendants' businesses may hinder the alleged infringers' ability to adopt common positions regarding the interpretation of common claims of the various patents, which thereby diminishes some of the potential efficiencies created by centralization.<sup>62</sup>

The existence of alternatives to managing multi-district litigation also can prompt denial of a request to centralize cases.<sup>63</sup>

The timing of a request to centralize also is important. Centralization is more likely if each of the cases to be centralized is in its early stages.<sup>64</sup> In contrast, disparity with respect to the stages of the cases sought to be consolidated can suggest that centralization will undercut efficiency, rather than promote it.<sup>65</sup>

### C. Customer Suit Exception

NPEs sometimes pursue claims against users of equipment rather than the manufacturer. In doing so, NPEs seek to recover greater revenues per unit than would be available otherwise were they to pursue the manufacturer directly. Suing the manufacturer could exhaust the patentee's rights against downstream purchasers. In one of the more notorious of these instances, Innovatio IP Ventures sought license fees between \$2,300 and \$5,000 from coffee shops, motels and other retailers for use of wireless internet routers. After manufacturers of the routers, such as Cisco, intervened, a settlement limited Innovatio's recovery to approximately 3.2 cents per router.<sup>66</sup>

Defendants who find themselves in this situation would be wise to obtain a stay of their suits in favor of actions involving the manufacturer—even where the action involving the manufacturer is not the first filed suit. Courts have broad discretion in to stay suits.<sup>67</sup> The “general rule” is to stay patent infringement cases against customers pending the outcome of litigation involving the manufacturers of the accused products.<sup>68</sup> Courts base this practice on the established belief that manufacturers are the “true defendant[s]” in a customer infringement suit.<sup>69</sup>

Courts have found it “impracticable” and “unwise” to try infringement cases against customers when liability depends on a finding of infringement as to the manufacturers' products.<sup>70</sup> A key factor is whether resolution of the major

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<sup>61</sup> *In re Cable Tie Patent Litig.*, 487 F. Supp. 1351, 1353 (J.P.M.L. 1980).

<sup>62</sup> *In re ArrivalStar S.A. Fleet Mgmt. Systems Patent Litig.*, 802 F. Supp. 2d 1378, 1379 (J.P.M.L. 2011) (denying centralization of eighteen actions involving allegations of infringement or invalidity of one or more of sixteen patents in a common family of patents).

<sup>63</sup> See *In re Plastic Injection Molding Mfg. Process Patent Litig.*, 706 F. Supp. 2d 1376, 1377 (J.P.M.L. 2010) (denying consolidation and stating that “[a]lthough all actions share one or more factual questions relating to the validity of [the patent-in-suit], the parties can continue to avail themselves of alternatives to Section 1407 transfer to minimize whatever possibilities there are of duplicative discovery or inconsistent pretrial rulings”).

<sup>64</sup> See *In re Unified Messaging Solutions LLC Patent Litig.*, 883 F. Supp. 2d at 1342 (noting that the Panel has found centralization appropriate even where several actions are in more advanced stages).

<sup>65</sup> But see also *In re Rembrandt Techs., LP Patent Litig.*, 493 F. Supp. 2d 1367, 1370 (J.P.M.L. 2007) (ordering centralization even after claim construction of several common patents in the first-filed action).

<sup>66</sup> Joe Mullin, *Wi-Fi 'patent troll' will only get 3.2 cents per router from Cisco*, Ars Technica (Feb. 6, 2014), <http://arstechnica.com/tech-policy/2014/02/cisco-strikes-deal-to-pay-wi-fi-patent-troll-3-2-cents-per-router/>.

<sup>67</sup> See *Landis v. North American Co.*, 299 U.S. 248, 254 (1936).

<sup>68</sup> David F. Herr, *Annotated Manual for Complex Litigation* § 33.23 (4th ed. 2009).

<sup>69</sup> See *Katz v. Lear Siegler, Inc.*, 909 F.2d 1459 (Fed. Cir. 1990) (affirming stay of customer suit because prosecution of issues in customer suit would be advanced if patentee successful in manufacturers suit, and may well be mooted if patentee was unsuccessful).

<sup>70</sup> See, e.g., *Honeywell Int'l Inc. v. Audiovox Commc'n Corp.*, 2005 U.S. Dist. LEXIS 22933 at \*9-11 (D. Del. May 18, 2005) (“[D]ealing with the manufacturers first is the fairest and most efficient way to proceed.”).

issues in the suit against the manufacturer, including infringement and patent validity, will resolve or advance the prosecution or resolution of these issues in the customer suits.<sup>71</sup>

#### D. Joint Defense Groups

There is strength in numbers. However, joint defense groups involving numerous co-defendants often demand compromises. NPEs often select defendants with an eye towards assembling competitors who may be unwilling to cooperate fully with one another, or disparate businesses that will be unable to support unified positions with respect to issues such as claim interpretation or non-infringement. Counsel must exercise care that strategic and tactical decisions not default to the lowest common denominator—potentially prejudicing the defense counsel would otherwise mount.

Joint defense groups offer the greatest benefit in connection with costly tasks such as the development of prior art invalidity defenses, development of expert testimony on issues common to the defendants, and briefing on shared topics such as claim construction and certain summary judgment motions. It is important, however, to anticipate the consequences should one or more defendants exit the group by reason of settlements or otherwise.<sup>72</sup>

The “common interest doctrine” generally allows a member of these groups to work together and share privileged information (typically via counsel) against common adversaries without waiving the attorney-client privilege or attorney work-product immunity. The doctrine applies differently in different jurisdictions, and counsel must be mindful of those differences. Existence of a common legal interest privilege does not require complete unity of interests and may apply even where the parties’ interests are adverse in substantial respects.<sup>73</sup>

A written agreement is not a prerequisite, but reaching a written agreement early on (before sensitive communications are exchanged) is highly advisable.<sup>74</sup> For example, a written agreement permits the parties explicitly to address concerns should a former co-defendant effectively “switch sides” as a result of a settlement agreement that gives that former co-defendant an interest in future recoveries.<sup>75</sup>

Such an agreement also should address concerns that the actions of one defendant in petitioning for *inter partes* review not be imputed to its co-defendants for purposes of the estoppels that attach to any final written decision on such petitions. The estoppels set forth in Section § 315(e) of Title 35 extend not only to the petitioner, but also to other “real parties in interest” and those deemed “in privity” with the petitioner.

For those parties not inclined to join a co-defendant’s petition for IPR, it is important that they avoid the appearance that they have exercised any control over the petition. In the absence of real control over the filing of the petition, mere participation in a common-interest group to develop strategy, defenses and claim construction positions “is very unlikely to create a real party in interest” who would be subject to the same estoppel as the petitioner.<sup>76</sup>

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<sup>71</sup> See *Katz*, 909 F.2d at 1463.

<sup>72</sup> See, e.g., *QPSX Devs. 5 Pty Ltd. v. Nortel Networks, Inc.*, 2008 WL 728201, at \*3 (E.D. Tex. Mar. 18, 2008) (“Nortel made a litigation decision to not retain an expert to offer a non-infringement opinion, rather it chose to rely on the testimony of Lucent’s expert. Once Lucent settled the case, Nortel’s litigation strategy left it without a retained expert to testify on its behalf.”)

<sup>73</sup> See, e.g., *Callwave Communications, LLC v. Wavemarket, Inc.*, 2015 U.S. Dist. LEXIS 22374 (N.D. Cal. Feb. 23, 2015) (disagreements between accused infringer and its purported indemnitor did not prevent application of common legal interest exception to waiver of attorney-client privilege); see also *Am. Eagle Outfitters, Inc. v. Payless ShoeSource, Inc.*, 2009 U.S. Dist. LEXIS 3781, at \*3-4 (E.D.N.Y. Jan. 21, 2009).

<sup>74</sup> See *United States v. Weissman*, 195 F.3d 96, 99-100 (2d Cir. 1999) (rejecting arguments that an express common legal interest agreement was reached, or that one could be implied).

<sup>75</sup> Compare *Rembrandt Vision Techs., L.P. v. CIBA Vision Corp.*, No. 2:05-CV-491, D.I 316 at 16 (E.D. Tex. Jan. 3, 2008) (Amended Joint Final Pre-trial Order noted concerns that “[A settlement agreement reached with co-defendant Bausch & Lomb (“B&L”)] will effectively cause B&L to switch sides in this litigation – from being CIBA’s codefendant (and sharing privileged defense strategies with CIBA under a common interest agreement) to pursuing an injunction against CIBA under the Chang patent.”).

<sup>76</sup> See, e.g., *Petroleum Geo-Servs. Inc. v. WesternGeco LLC*, IPR2014-00687, Paper 33 at 16 (P.T.A.B. Dec. 15, 2014) (holding petitioner and non-party’s shared interest in invalidating patent at issue, “collaborat[ion] together, and invo[ca]tion of the common interest privilege with respect to sharing potentially invalidating prior art references” was insufficient to render non-party a real party in interest); see also *JPMorgan Chase & Co. v. Maxim Integrated Products, Inc.*, CBM2014-00179, Paper No. 11 at 13 (P.T.A.B.

## E. Protective Orders

NPEs often have continuing applications pending in the Patent Office that are related to patents on which they have brought suit. It is important that discovery not become a vehicle with which NPEs shape those pending applications to better target accused infringers in later cases. In addition, because it is possible to amend claims in IPR and CBM proceedings, it is equally important that discovery not be employed to craft such claims. Prosecution bars are intended to guard against the use of confidential information obtained in litigation to add or amend the claims of a related patent or patent application.

Generally speaking “[A] party seeking imposition of a patent prosecution bar must show that the information designated to trigger the bar, the scope of activities prohibited by the bar, the duration of the bar, and the subject matter covered by the bar reasonably reflect the risk presented by the disclosure of proprietary competitive information.”<sup>77</sup> The risk of inadvertent disclosure rests on “the extent to which counsel is involved in ‘competitive decision making’ with its client.”<sup>78</sup>

Protective orders preventing litigation counsel from participating in the prosecution of litigation-related patents have become the norm.<sup>79</sup> In the absence of express prohibitions that include IPR and CBM proceedings, however, language that limits involvement in “prosecution” may be insufficient to cover such proceedings.<sup>80</sup>

## F. Early Dispositive Motions: Motions to Dismiss / Judgment on the Pleadings / Summary Judgment

### 1. Section 101

Section 101 motions represent perhaps the single most significant development in recent years in defending against NPE litigation. Section 101 defines the subject matter eligible for patent protection. The statute provides that one “can obtain a patent for any new and useful process, machine, manufacture, or composition of matter[.]”<sup>81</sup> Section 101 “contains an important implicit exception.”<sup>82</sup> The following are deemed ineligible for patenting: (1) laws of nature; (2) natural phenomena, and (3) abstract ideas.<sup>83</sup>

Section 101 is a “threshold test.”<sup>84</sup> Patent eligibility under Section 101 is a question of law.<sup>85</sup> As such, it is appropriate for disposition at the pleading stage.<sup>86</sup> Claim construction is not necessary prior to determining patent eligibility under Section 101.<sup>87</sup>

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February 20, 2015) and *Intellectual Ventures II LLC v. US Bancorp et al.*, No. 13 Civ. 2071, D.I. 77 at 20 n.13 (D. Minn. August 7, 2014) (rejecting plaintiff’s attempt to tag a non-petitioner defendant, who participated in a joint defense group with the petitioner including and used the same counsel, as a real party-in-interest subject to estoppel).

<sup>77</sup> See *In re Deutsche Bank Trust Co. Americas*, 605 F.3d 1373, 1381 (Fed. Cir. 2010).

<sup>78</sup> *Id.* at 1378 (quoting *US. Steel Corp. v. United States*, 730 F.2d 1465, 1468 (Fed. Cir. 1984)).

<sup>79</sup> See, e.g., *Versata Software, Inc. v. Callidus Software Inc.*, 2014 U.S. Dist. LEXIS 40469 (D. Del. Mar. 12, 2014) (Robinson, J.) (“[T]he Federal Circuit has recognized that ‘strategically amending or surrendering claim scope during prosecution’ can implicate competitive decision-making...thus giving rise to a risk of inadvertent use of confidential information learned in litigation.”); *Affinity Labs of Texas, LLC v. Samsung Electronics Co., Ltd.*, 2013 U.S. Dist. LEXIS 188485 (E.D. Tex. Nov. 18, 2013) (Clark, J.) (limited prosecution bar restricting counsel who was privy to source code).

<sup>80</sup> See *Google Inc. v. Jongerious Panoramic Techs., LLC*, IPR2013-00191, Paper No. 50 (P.T.A.B. Feb. 13, 2014) (PTAB rejects attempt by patent owner to extend prosecution bar from district court protective order to IPR proceeding); *Endo Pharmaceuticals Inc. v. Actavis, Inc.*, 2014 WL 3950900 at \*2 (S.D.N.Y. Aug. 13, 2014) (noting that language of protective orders barred prosecution, but not participation in IPR).

<sup>81</sup> 35 U.S.C. §101.

<sup>82</sup> *Alice Corp. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014).

<sup>83</sup> *Id.*

<sup>84</sup> *Bilski v. Kappos*, 561 U.S. 593, 602 (2010)

<sup>85</sup> *In re BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litig.*, 774 F.3d 755, 759 (Fed. Cir. 2014)

<sup>86</sup> See, e.g., *Ultramercial, Inc. v. Hulu, Inc.*, 772 F.3d 709, 711-12 (Fed. Cir. 2014) (affirming dismissal of patent claims for a method of monetizing and distributing copyrighted products over the Internet on a 12(b)(6) motion); *Content Extraction & Transmission LLC v. Wells Fargo Bank, Nat’l Assoc.*, 776 F.3d 1343, 1351 (Fed. Cir. 2014) (affirming 12(b)(6) dismissal of patent claims over a method

The Supreme Court has distinguished between patents that claim the “buildin[g] block[s]’ of human ingenuity and those that integrate the building blocks into something more,” emphasizing a concern that patentability of the former “would risk disproportionately tying up the use of the underlying ideas,” preempting a field of study and inhibiting further discovery.<sup>88</sup> To be patent-eligible, a claim must include limitations that prevent it from “preempt[ing] use of [an] approach in all fields, and . . . effectively grant a monopoly over an abstract idea.”<sup>89</sup> Allowing the “monopolization” of “the basic tools of scientific and technological work” will otherwise “tend to impede innovation more than it would tend to promote it,” thereby thwarting the primary object of the patent laws.<sup>90</sup>

The bulk of NPE suits concern patents on computer-implemented inventions. These patents are particularly susceptible to early Section 101 challenges. The Court “has unequivocally repudiated the overly expansive approach to patent eligibility that followed in the wake of” the Federal Circuit’s decision in *State Street Bank*.<sup>91</sup> Adding a “computer aided” limitation to a claim covering an abstract concept without more is insufficient to render the claim patent eligible.<sup>92</sup>

The Supreme Court has defined a two-part test to determine whether a patent is invalid for claiming ineligible subject matter. First, this Court must “determine whether the claims at issue are directed to a patent-ineligible concept,” such as an abstract idea. The goal of this step is to identify the “basic concept,” or “heart” of the claims.<sup>93</sup>

If the claims are directed to an abstract idea, the Court must then consider the elements of each claim at issue, both individually and as an ordered combination, to determine whether they “transform the nature of the claim into a patent-eligible application” through an “inventive concept.”<sup>94</sup> The goal of this two-step inquiry is to ensure that the patent “amounts to significantly more” than a patent on the ineligible concept itself.<sup>95</sup> And, “[t]hose ‘additional features’ must be more than ‘well-understood, routine, conventional activity.’”<sup>96</sup>

Methods that can be performed mentally, or which are the equivalent of human mental work, consistently have been held patent ineligible.<sup>97</sup> However, the category of patent-ineligible abstract ideas is not limited to methods that can be performed in the human mind. Even those that require use of a computer have been deemed ineligible.<sup>98</sup>

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of recognizing and storing data); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1351 (Fed. Cir. 2014) (affirming District court’s granting of motion for judgment on the pleadings that the asserted claims covered ineligible subject matter under Section 101); *Gametek LLC v. Zynga, Inc.*, No. CV 13-2546 RS, 2014 WL 1665090, at \*7 (N.D. Cal. Apr. 25, 2014) (granting motion for judgment on the pleadings under Section 101). *But see Nomadix, Inc. v. Hospitality Core Servs. LLC*, 2015 WL 1525537, \*2 (C.D. Cal. April 3, 2015) (declining to consider motion to dismiss under Section 101 prior to claim construction).

<sup>87</sup> See, e.g., *Bancorp Servs., LLC v. Sun Life Assur. Co. of Canada (U.S.)*, 687 F.3d 1266, 1273 (Fed. Cir. 2012) (“[W]e perceive no flaw in the notion that claim construction is not an inviolable prerequisite to a validity determination under § 101.”); *Cogent Medicine, Inc., v. Elsevier Inc.*, Nos. C-13-4479-RMW, 2014 WL 4966326, at \*3 (N.D. Cal. Sept. 30, 2014) (same).

<sup>88</sup> See *Alice*, 134 S. Ct. at 2354 (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294, 1303 (2012)).

<sup>89</sup> *Bilski*, 561 U.S. at 612.

<sup>90</sup> *Alice*, 134 S. Ct. at 2354 (quoting *Mayo*, 132 S. Ct. at 1293).

<sup>91</sup> *Ultramercial*, 772 F.3d at 720 (Mayer, J., concurring).

<sup>92</sup> See *Dealertrack v. Huber*, 674 F.3d 1315, 1333 (Fed. Cir. 2012)

<sup>93</sup> *Alice*, 134 S. Ct. at 2355-56 (holding the claims at issue were “drawn to the concept of intermediated settlement”). See also *Content Extraction*, 776 F.3d at 1347 (reducing claim elements to the “basic concept of data recognition and storage”); *Ultramercial*, 772 F.3d at 714-15 (determining “heart” of patent-in-suit was abstract idea); *DealerTrack, Inc. v. Huber*, 674 F.3d 1315, 1333 (Fed. Cir. 2012) (finding claim explained “basic concept” that was abstract).

<sup>94</sup> *Alice*, 134 S. Ct. at 2355 (internal quotation marks omitted).

<sup>95</sup> *Mayo*, 132 S. Ct. at 1294.

<sup>96</sup> *Ultramercial*, 772 F.3d at 715 (quoting *Mayo*, 132 S. Ct. at 1298).

<sup>97</sup> See, e.g., *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1371 (Fed. Cir. 2011) 73 (invalidating claim that “extended to any method of detecting credit card fraud based upon information relating to past transactions”); *Compression Tech. Solutions LLC v. EMC Corp.*, 2013 WL 2368039, at \*5 (N.D. Cal. May 29, 2013) (“A claim that merely requires using a ‘computer to execute an algorithm that can be performed entirely in the human mind’ or using pencil and paper is impermissibly abstract.”) (quoting *CyberSource*, 654 F.3d at 1375); *Planet Bingo, LLC v. VKGS LLC*, 576 Fed App’x 1005, 1007 (Fed. Cir. 2014) (“The district court correctly concluded that managing the game of bingo ‘consists solely of mental steps which can be carried out by a human using pen and paper.’”).

<sup>98</sup> See, e.g., *Content Extraction*, 776 F.3d 1343 at 1347 (Claims drawn to (1) collecting data, (2) computerized recognition of certain data, and (3) storing that data in computer memory were abstract despite argument that a human could not accomplish these steps without a computer); *Cyberfone Systems, LLC v. CNN Interactive Group, Inc.*, 558 Fed. Appx. 988, 992 (Fed. Cir. 2014) (non-

Limiting an abstract concept to a particular field will not serve to render it patentable. Thus, the abstract concept of hedging risk was not patentable even where expressly limited to commodity and energy markets.<sup>99</sup> Limiting use of a claimed systems to the “insurance industry” likewise was not sufficient.<sup>100</sup>

Nor can “the prohibition against patenting abstract ideas . . . be circumvented by attempting to limit use . . . to a particular technological environment . . .”<sup>101</sup> The use of a general purpose computer to facilitate a process does not sufficiently transform an abstract concept into one that is patent eligible.<sup>102</sup> Claims that recite nothing more than statements of “well-understood, routine, conventional” functions of a computer do not provide the necessary inventive concept.<sup>103</sup> “Given the ubiquity of computers, . . . wholly generic computer implementation is not generally the sort of ‘additional featur[e]’ that provides any ‘practical assurance that the process is more than a drafting effort designed to monopolize the [abstract idea] itself.’”<sup>104</sup>

Nor does recitation of conventional computer components render a claim patent-eligible. The combination of an “insurance transaction database,” “a task library database,” a “client component,” and a “server component” having an “event processor,” a “task engine,” and a “task assistant” was deemed patent-ineligible. The Federal Circuit concluded that the abstract idea at “the heart” of this claimed system was “generating tasks [based on] rules . . . to be completed upon the occurrence of an event,” and these various components failed to add “meaningful restrictions.”<sup>105</sup> This result cannot be avoided merely by employing idiosyncratic names to identify what are actually generic computer structures.<sup>106</sup> The courts also do not draw distinctions between claims directed to abstract methods, and those that are framed as claimed systems or computer-readable media.<sup>107</sup>

“For the role of a computer in a computer-implemented invention to be deemed meaningful in the context of this analysis, it must involve more than performance of ‘well-understood, routine, [and] conventional activities previously known to the industry.’”<sup>108</sup> While the Federal Circuit rarely has found any such heightened computer involvement, it did do so in *DDR Holdings, L.P. v. Hotels.com, L.P.*<sup>109</sup>--a decision that has provided a rare glimmer of hope for NPEs.

In *DDR Holdings*, the Federal Circuit found patentable claims directed to a method of mimicking the look and feel of an another website, so as to present the impression that a user has navigated away from an originating website when, in reality, the user has remained on that site. The Federal Circuit concluded that the claims were “rooted in computer technology”:

[T]hese claims stand apart because they do not merely recite the performance of some business practice known from the pre-Internet world along with the requirement to perform it on the Internet. Instead, the claimed solution is

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precedential) (method of categorical data storage unpatentably abstract despite impossibility that human could perform without aid of recited equipment).

<sup>99</sup> See *Bilski v. Kappos*, 130 S. Ct. 3218, 3231 (2010).

<sup>100</sup> See *Accenture Global Services v. Guidewire Software*, 728 F.3d 1336, 1345 (Fed. Cir. 2013).

<sup>101</sup> *Bilski*, 130 S. Ct. at 3230.

<sup>102</sup> See *Alice Corp.*, 132 S. Ct. at 2357

<sup>103</sup> See *Alice*, 134 S. Ct. at 2359-60 (dismissing recitals concerning obtaining of data, adjusting accounts, and issuing automated instructions).

<sup>104</sup> *Id.* at 2358 (quoting *Mayo*, 132 S. Ct. at 1297).

<sup>105</sup> See *Accenture*, 728 F. 3d at 1344-46; see also *Alice*, 134 S. Ct. at 2360 (“nearly every computer will include a communications controller and data storage unit . . . , [a]s a result, none of the hardware recited by the system claims offers a meaningful limitation . . .”) (internal quotations omitted).

<sup>106</sup> See *Hewlett Packard Co. v. ServiceNow, Inc.*, 2015 WL 1133244, at \*7, \*9 (N.D. Cal. Mar. 10, 2015) (holding that the terms “container definition node” and “derived container” were “nothing more than a data structure containing information for accessing the information repository hierarchically and a data structure for using that information”); see also *Jericho Sys. Corp. v. Axiomatics, Inc.*, 2015 WL 2165931 (N.D. Tex. May 7, 2015), at \*4 (holding that while the “wording of the claim appears to present a complex method that uses attributes, rules, connectors, classifications, and remote data sources,” the claim nevertheless involved nothing more than the abstract idea).

<sup>107</sup> See, e.g., *Accenture*, 728 F. 3d at 1343-44 (“System and method claim contain only minor differences in terminology but require performance of the same basis process” and therefore “rise or fall together.”); *Bancorp*, 687 F. 3d at 1277 (proper to treat system claims as equivalent of method claims for patent eligibility purposes).

<sup>108</sup> *Content Extraction*, 776 F.3d 1343 at 1347-1348 (quoting *Alice*, 134 S. Ct. at 2359).

<sup>109</sup> 773 F.3d 1245 (Fed. Cir. 2014).

necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks. . . . In short, the claimed solution amounts to an inventive concept for resolving this particular Internet-centric problem, rendering the claims patent-eligible.<sup>110</sup>

The decision in *DDR Holdings* has been applied in a minority of cases, such as in *California Institute of Technology v. Hughes Communications, Inc.*,<sup>111</sup> where the Court upheld two patents relating to the concept of “encoding and decoding data for error correction.” The Court found that “Caltech’s patents improve a computer’s functionality by applying concepts unique to computing.”<sup>112</sup>

## 2. Indefiniteness

Claim construction generally occurs early in a case. Briefing on claim construction routinely includes requests for summary judgment that the claims are indefinite and, therefore, invalid. Dispositive motions seeking summary judgment on other grounds must often wait for the close of fact discovery.

Section 112 of the Patent Act requires that the claims “particularly point out and distinctly claim” that which the inventor regards as his invention.<sup>113</sup> This provision is the source of the *indefiniteness* defense.

In 2014 the Supreme Court handed defendants additional ammunition with which to combat NPE cases. In *Nautilus, Inc. v. Biosig Instrument, Inc.*,<sup>114</sup> The Court rejected the standard earlier established by the Federal Circuit for determining if a claim was indefinite.

The Federal Circuit had declared that claims were sufficiently definite if they were not “insolubly ambiguous” and were “amendable to construction.” The Supreme Court rejected this standard, instead holding that a claim is indefinite if fails to inform those of skill in the art about the scope of the invention “with reasonable certainty.”<sup>115</sup>

In the wake of the Supreme Court’s decision in *Nautilus*, various courts have declared invalid what they concede may have survived under the prior test for indefiniteness.<sup>116</sup> Claims that employ terms of approximation or degree have been subject to particular scrutiny under this new standard.<sup>117</sup> The patents advanced by NPEs frequently suffer from these defects.

More recently, the Federal Circuit tightened the requirements for so-called “functional claiming.” Patents asserted by NPEs frequently include claims having elements expressed in functional language. These elements are often given broad constructions.

Generally, the scope of an invention claimed in terms of a means or step for performing a specified function that does not also recite structures, materials or acts necessary for that performance, is limited to only those structures, materials or acts (and their equivalents) that are sufficiently described in the patent’s specification.<sup>118</sup> These types of claims are referred to as “means-plus-function” claims.

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<sup>110</sup> *Id.* at 1257–59.

<sup>111</sup> 2014 U.S. Dist. LEXIS 156763 (C.D. Cal. Nov. 3, 2014).

<sup>112</sup> *Caltech, id.* at \*61; *see also Trading Technologies, Inc. v. CQG, Inc.*, 2015 WL 774655 (N.D. Ill. Feb. 24, 2015) (improvements to electronic trading display were patent eligible.)

<sup>113</sup> 35 U.S.C. §112(b).

<sup>114</sup> 134 S. Ct 2120 (2014).

<sup>115</sup> 134 S. Ct. at 2129-30 (“It cannot be sufficient that a court can ascribe some meaning to a patent’s claims . . .”)

<sup>116</sup> *See, e.g., Loyalty Conversion Systems Corp. v. American Airlines, Inc.*, No. 2:13-cv-00655, D.I. 125 at (E.D. Tex. Sept. 9, 2014)(Bryson, J.) (noting that under the pre-*Nautilus* the court might have been inclined to attempt to resolve the incoherency of the claim language, but concludes that under the new test, the claim did not inform persons of skill in the art with “reasonable certainty.”)

<sup>117</sup> *See, e.g., Abdou v. Alphatec Spine, Inc.*, No. 12-cv-1804, D.I. 111 at 16-17 (S.D. Cal. Nov. 19, 2014)(noting that claim limitations had “some meaning” and were not “insolubly ambiguous,” but were nevertheless invalid under the *Nautilus* standard because nothing in the claims or specification instruct what the positions, relationships or proximity must be to accurately target the site).

<sup>118</sup> 35 U.S.C. §112(f).

Prior to the Federal Circuits *en banc* decision in *Williamson v. Citrix*,<sup>119</sup> the Federal Circuit applied a *strong*, rebuttable presumption that claims that failed to use the formulation “means for” or “step for” were not to be limited to the examples provided in the specification. NPEs relied upon the strength of this presumption to avoid narrow claim constructions that were faithful to the specification’s description of the invention, and to obtain expansive construction that broadened the scope of the claims to encompass subject matter not contemplated by the inventor.

In *Williamson v. Citrix*, the Federal Circuit reversed itself, declaring that the presumption would no longer be deemed a *strong* one, “not readily overcome.” Previous to *Williamson*, the Federal Circuit was unwilling to apply the requirements of Section 112(f) to a claim that did not employ the term “means” without a showing that the limitation was essentially “devoid of anything that can be construed as structure.”<sup>120</sup>

In *Williamson*, the Federal Circuit announced that any claim that did not “recite sufficiently definite structure” or recited function “without reciting sufficient structure for performing that function” would be limited to the structures, materials and acts described in the specification.<sup>121</sup>

### G. Section 285 And Octane Fitness

The ground beneath NPEs has shifted in further ways. In 2014, the United States Supreme Court decided *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*<sup>122</sup> In *Octane Fitness*, the Supreme Court established a new, more generous standard for the award of attorneys’ fees against patent plaintiffs.

Overruling prior precedents that had set a high bar for the recovery of attorneys’ fees by accused infringers, the Supreme Court lowered the burden of proof required to establish that a case is exceptional. Whereas previously clear and convincing evidence was required before a court would impose fees, following *Octane* a party seeking fees need only establish that the case is exceptional by a preponderance of the evidence.<sup>123</sup>

Further, the Supreme Court offered more generous guidance on what constitutes an “exceptional” case”:

An “exceptional” case is simply one that stands out from others with respect to the substantive strength of a party’s litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is “exceptional” in the case-by-case exercise of their discretion, considering the totality of the circumstances.<sup>124</sup>

The results have been dramatic. Since the Court’s ruling in *Octane*, commentators have noted a significant uptick in the frequency of fee awards. One commentator suggests that in the first year following the Supreme Court’s decision, District courts awarded fees to prevailing parties in 43% of the cases in which such fees were sought. This reportedly compares to a success rate of only 13% in the twelve months prior to the ruling in *Octane*, and a historical average of about 20% on such motions.<sup>125</sup>

The Supreme Court in *Octane* suggested it was appropriate to consider a number of factors in deciding whether or not to award fees. The Supreme Court offered the following list of possible factors: frivolousness, motivation, objective reasonableness, and the need in particular circumstances to advance considerations of compensation and deterrence. The Supreme Court emphasized that this list was “nonexclusive.”<sup>126</sup>

<sup>119</sup> No. 2013-1130, D.I. 99 (Fed. Cir. Jun. 16, 2015).

<sup>120</sup> *Id.* at 15 (quoting *Flo Healthcare Solutions, LLC v. Kappos*, 697 F.3d 1367, 1374 (Fed. Cir. 2012)).

<sup>121</sup> *Id.* at 16.

<sup>122</sup> 134 S. Ct. 1749 (2014).

<sup>123</sup> *Id.* at 1758.

<sup>124</sup> *Id.* at 1756.

<sup>125</sup> Jiam, H., *Fee-Shifting and Octane: An Empirical Approach Toward Understanding “Exceptional,”* 30 Berkeley Tech L.J. 1 (forthcoming July 2015).

<sup>126</sup> *Id.* at 1756 n.6.

An award of fees may also be based upon the manner in which the NPE litigates its claims. While mere contentiousness is often insufficient,<sup>127</sup> litigation misconduct and improper motives may be enough to prompt these sanctions.<sup>128</sup>

Since *Octane*, courts have examined the adequacy of the prefiling investigation in judging the reasonableness of an NPE's claims. The absence of evidence of a prefiling investigation has merited a fee award.<sup>129</sup> So too has a prefiling investigation deemed inadequate.<sup>130</sup> For example, a court has cited the failure to conduct tests on the accused product as a factor in awarding fees.<sup>131</sup>

Courts have been somewhat more reluctant, however, to fault a plaintiff for even strained litigation positions.<sup>132</sup> Courts are more likely to do so where at an early stage the accused infringer has brought to the NPE's attention the defects in its claims.<sup>133</sup> Nevertheless, courts have not hesitated to sanction NPEs for arguments they considered to fall below a minimum threshold. So, for example, in *Technology Innovations, LLC v. Amazon.com, Inc.*, Judge Robinson of the Federal District Court for the District of Delaware observed:

Reasonable minds can differ as to claim construction positions and losing constructions can nevertheless be non-frivolous. But, there is a threshold below which a claim construction is "so unreasonable that no reasonable litigant could believe it would succeed," and thus warrants Rule 11 sanctions.<sup>134</sup>

Some courts have singled out NPEs for particular criticism. At least one court has observed that "the need for the deterrent impact" is greater where the case involves a "patent troll."<sup>135</sup> Several courts have viewed a pattern of seeking nuisance value suits as grounds for an award of fees.<sup>136</sup> For example, in *Chalumeau Power Systems LLC v. Alcatel-Lucent*, the court awarded fees, stating:

Chalumeau filed a frivolous lawsuit with the sole purpose of extorting a settlement fee. When it realized that was not going to happen, it dropped the case. Chalumeau's entire litigation strategy was devoted to stringing out the case in the hopes that Alcatel would incur fees while Chalumeau would not.<sup>137</sup>

Additionally, in awarding fees, courts have relied upon the "boilerplate nature" of a NPE's complaints against multiple defendants, the fact that substantially similar lawsuits were filed within a short period of time, and that the NPE's suit

<sup>127</sup> See, e.g., *Lending Tree, LLC v. Zillow, Inc.*, No. 10-cv-00439, D.I. 64 at 21 (Oct. 9, 2014) (plaintiff was not deemed uniquely aggressive and failures to comply with various orders were addressed in connection with those individual disputes).

<sup>128</sup> See, e.g., *Intellect Wireless, Inc. v. HTC Corp.*, No. 09 C 2945, D.I. 343 at 10-11 (N.D. Ill. Jan. 8, 2015) (awarding sanctions against counsel based upon findings that counsel that counsel was aware of false statements made by inventor to PTO but nevertheless chose to file and prosecute case).

<sup>129</sup> *Lumen View Tech., LLC v. Findthebest.com, Inc.*, No. 13-cv-03599, D.I. 83 at 13 n.2 (S.D.N.Y. May 30, 2014).

<sup>130</sup> *Precision Links, Inc. v. USA Products Group, Inc.*, No. 08-cv-00576, D.I. 131 (W.D.N.C. Jun. 24, 2014) (affirming award of fees where prefiling investigation failed to reveal that product was sold with instructions required to support claim of indirect infringement); *Lending Tree, supra* at 64 (failed to review communications that would have established defendant had dispositive laches and estoppel defenses).

<sup>131</sup> See *Yufa v. TSI, Inc.*, No. 09-cv-01315, D.I. 198 at 4-5 (N.D. Cal. Aug. 14, 2014).

<sup>132</sup> See, e.g., *Thermolife Intern'l LLC v. Better Body Sports LLC*, No. 12-cv-09229, D.I. 278 at 5 (Oct. 10, 2014) (noting that even had plaintiff's claim construction position been entirely erroneous, or had it known that the prior art was invalidating, plaintiff still could have asserted in good faith arguments that the prior art did not constitute a publication).

<sup>133</sup> *Lumen View Tech.*, *supra* at 13-14 (accused infringer advised plaintiff of lack of infringement by telephone and letter at the outset of the litigation).

<sup>134</sup> No. 11-690, D.I. 146 at 23 (D. Del. July 23, 2014)(quoting *Raylon, LLC v. Complus Data Innovations, Inc.*, 700 F.3d 1361, 1368 (Fed. Cir. 2012)).

<sup>135</sup> *Small v. Implant Direct Mfg., LLC*, No. 06-cv-00683, D.I. 363 at 7 (S.D.N.Y. Oct. 23, 2014); *but see IPVX Patent Holdings, Inc. v. Voxernet, LLC*, No. 13-cv-01708, D.I. 181 at 55 n.3 (N.D. Cal. Nov. 6, 2014) (an active NPE is not "automatically the villain").

<sup>136</sup> *Summit Data Systems, LLC v. EMC Corp.*, No. 10-cv-00749, D.I. 260 at 7-8 (D. Del. Sept. 25, 2014); *see also Eon-Net LP v. Flagstar Bancorp.*, 653 F.3d 1314, 1327-28 (Fed. Cir. 2011) (affirming award of fees where NPE sought to extract settlements less than ten percent the costs of defense). *But see Macrosolve, Inc. v. Antenna Software, Inc.*, No. 11-cv-00287, D.I. 573 at 5 (E.D. Tex. Oct. 16, 2014) (multiple settlements below costs of defense do not alone show bad faith) and *EON Corp. IP Holdings LLC v. FLO TV, Inc.*, No. 10-cv-00812, D.I. 936 at 4 (D. Del. May 27, 2014) (noting that is cannot be the case that a party must drop a suit if costs of defense exceed costs of recovery).

<sup>137</sup> *Chalumeau Power Systems LLC v. Alcatel-Lucent*, No. 11-cv-01175 D.I. 1878 at 3-4 (D. Del. Sept. 12, 2014)

was accompanied by threats of “full-scale litigation,” “protracted discovery,” and escalation of the NPE’s settlement demands in response to each pleading or motion filed by the accused infringer.<sup>138</sup>

## H. Damages

There is considerable distance still to travel in bringing reason and predictability to the subject of patent damages, but a number of encouraging developments have eliminated some of the most egregious theories advanced by NPEs.

The Federal Circuit has rejected a variety of unexamined “rules-of-thumb” that previously found widespread application. In *Uniloc USA Inc., v. Microsoft Corp.*,<sup>139</sup> the Federal Circuit sounded the death knell for the so-called “25 percent rule” for determining reasonable royalty damages for patent infringement. Under that rule, experts testifying on behalf of NPEs had advanced the opinion that, as a starting point, hypothetical licensees would agree to pay 25% of its profits towards the use of a patented invention—this figure to be then adjusted upwards or downwards based upon factors specific to the dispute at hand. More recently, the Federal Circuit has rejected the “Nash Bargaining Solution”—a pseudo-economic doctrine that had arisen to replace the rejected 25 percent rule.<sup>140</sup> That doctrine posited that once the incremental benefits of the use of the invention were determined, rational hypothetical negotiators would simply agree to split those benefits equally.

The Federal Circuit also has rendered a number of decisions reinforcing its precedents that any reasonable royalty must be tied specifically to only those components of larger systems that allegedly incorporate the patented features. In *Lucent Technologies, Inc. v. Gateway, Inc.*, the court made clear that damages must be apportioned so that they were limited to the value attributable to the accused device’s patented features, and to ensure that any value attributable to unpatented features was excluded.<sup>141</sup> The Federal Circuit has repeatedly made clear since that the “entire market value” of a device or system may be used in only rare instances as the basis of a damages award.<sup>142</sup> For much of the NPE litigation involving software and computer implemented inventions, this line of decisions is of great significance.

## V. PTAB ALTERNATIVES

### A. Overview

*Inter Partes* and Covered Business Method Review proceedings were included in the reforms passed by Congress in 2011 known generally as the *America Invents Act* (Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011)). These reforms followed many years of debate concerning the high cost of patent litigation and the absence of an efficient means to raise, at an early stage, questions regarding the validity of litigated patents.<sup>143</sup> The election to adopt an adversarial Patent Office procedure to resolve such disputes was influenced by views that the Patent Office was “a particularly appropriate venue for making validity determinations in a cost-effective and technically sophisticated environment.”<sup>144</sup>

<sup>138</sup> *Lumen View Tech, supra*, at 6 and 14.

<sup>139</sup> 632 F.3d 1292 (Fed. Cir. 2011)

<sup>140</sup> See *VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308, 1329, 1333-34 (Fed. Cir. 2014) (instructing apportionment at a level even more granular than the smallest salable patent-practicing unit where that unit included material non-patented features having no relation to the patented feature, and rejecting the Nash Bargaining Solution as a suitable approach for reasonable royalty damages)

<sup>141</sup> 580 F.3d 1301, 1337 (Fed. Cir. 2009)

<sup>142</sup> *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (directing use of the smallest salable patent-practicing unit as the base in determining the royalty, but recognizing a narrow “entire market value” exception the component covered by the patent was “the basis for customer demand” of the overall product)

<sup>143</sup> See, e.g., *Patent Quality Improvement: Post-Grant Opposition: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 108th Cong. (2004) at 29 (statement of Michael Kirk, Executive Director, AIPLA) (noting that while validity challenges were available in litigation, costs to defend routinely ranged as high as \$4 Million).

<sup>144</sup> See *Perspective on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 109th Cong. 77 (2005) at 51 (statement of Q. Todd Dickinson, Vice President and Chief Intellectual Property Counsel, General Electric Co., and former USPTO Director).

## B. *Inter Partes* Review

*Inter partes* review became available on September 16, 2012. Under Section 314(a) of Title 35, to institute an IPR proceeding, the petitioner must show that there is a reasonable likelihood that at least one claim of the patent is invalid.

The PTAB has instituted original *inter partes* review, in over sixty-seven percent (67%) of the petitions it has considered.<sup>145</sup> Given the heightened standard for initiating such reviews, this statistic has been seen by some as an indictment of the initial patent examination process.

Statistics on the outcome of these reviews are even more telling. As of June 30, 2015, in those proceedings in which *inter partes* review was instituted and reached final written decision, only fifteen percent (15%) concluded with the PTAB finding all challenged claims patentable.<sup>146</sup> In sixty-seven percent (67%) of the proceedings that reached final decision, all challenged claims were canceled.<sup>147</sup> In another eighteen percent (18%) at least some of the challenged claims failed to survive.<sup>148</sup>

IPR proceedings are not a panacea, however. Not all grounds of invalidity can be advanced in *inter partes* review. Challenges are limited to invalidity arguments that the claims are premised upon printed publications and prior art patents.<sup>149</sup> The petitioner cannot previously have filed an action challenging the validity of a claim of the patent.<sup>150</sup> A counterclaim alleging invalidity, however, does not constitute the “filing of a civil action.”<sup>151</sup>

In addition, pursuing an IPR has consequences for the defenses that might be available in parallel or later litigation. If a petition for *inter partes* review results in a final written decision, the petitioner and real party-in-interest or any party in privity with them may not assert in a civil action that a claim is invalid “on any ground that the petitioner raised or reasonably could have raised” during that *inter partes* review.<sup>152</sup> In addition, a party may not file a petition seeking IPR more than one year after it, or any of these other related parties, has been served with a complaint alleging infringement.<sup>153</sup>

## C. Covered Business Method Review Lawsuit

The AIA also established a “transitional program” under which “covered business methods” may be subject to review before a panel of three administrative law judges of the PTAB. Currently, the proceedings will be available until September 15, 2020.<sup>154</sup>

Covered Business Method (CBM) reviews have advantages over IPRs. They are not limited to invalidity arguments grounded on printed prior art.<sup>155</sup> Of particular importance to combatting NPEs, CBMs may be grounded on arguments that the claims cover subject matter that is not patent eligible under Section 101.<sup>156</sup>

In addition, CBM reviews carry a lesser estoppel compared to their sibling IPRs. A petitioner will be estopped from raising grounds actually decided in the CBM but not from later raising grounds that merely could have been raised.

<sup>145</sup> See *Patent Trial and Appeal Board Statistics* <http://www.uspto.gov/sites/default/files/documents/2015-06-30%20PTAB.pdf> at 7 (U.S. Patent Office June 2015) (reporting on number of institutions granted and denied in Fiscal Year 2015). In 2014, the institution rate was even higher (74%). *Id.*

<sup>146</sup> See *Patent Trial and Appeal Board Statistics*, *supra* at 9.

<sup>147</sup> *Id.*

<sup>148</sup> *Id.*

<sup>149</sup> 35 U.S.C. 311(b) (“A petitioner in an *inter partes* review may request to cancel as unpatentable 1 or more claims of a patent . . . only on the basis of prior art consisting of patents or printed publications.”)

<sup>150</sup> 35 U.S.C. §315(a)(1).

<sup>151</sup> 35 U.S.C. §315(a)(3).

<sup>152</sup> 35 U.S.C. §315(e)(2).

<sup>153</sup> 35 U.S.C. §315(b).

<sup>154</sup> See 37 C.F.R. 42.300(d).

<sup>155</sup> See 37 C.F.R. 42.304(b)(2).

<sup>156</sup> See *SAP America, Inc. v. Versata Development Group, Inc.*, CBM2012-00001, Paper 36 at 32-36 (P.T.A.B. Jan. 9, 2013).

CBM petitions are limited to patents directed to those that “claim[] a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service . . . .”<sup>157</sup> A patent need have only one claim directed to a covered business method to be eligible for review.<sup>158</sup>

The AIA’s legislative history demonstrates that “financial product or service” should be “interpreted broadly,” encompassing patents “claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity.”<sup>159</sup> The Board has “not interpret[ed] the statute as requiring the literal recitation of the terms financial products or services,” rather the “term financial is an adjective that simply means relating to monetary matters.”<sup>160</sup> “At its most basic, a financial product is an agreement between two parties stipulating movements of money or other consideration now or in the future,” and encompasses “patents [that] apply to administration of business transactions.”<sup>161</sup> “[P]atents subject to covered business method patent review are anticipated to be typically classifiable in Class 705.”<sup>162</sup> Class 705 concerns data processing in the “financial, business practice, management, or cost/price determination” fields. NPE litigation often involves patents falling within this classification.

Patent claims that are directed to a “technological invention” are exempt from CBM review. The test for “technological invention” considers “whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.”<sup>163</sup> Both prongs must be met for the exception to apply.<sup>164</sup>

A patent is not drawn to a technological invention merely by (a) employing claim-drafting techniques reciting known technologies, such as computer hardware, software, networks, and devices; (b) reciting use of a prior art technology to accomplish a process or method, even if that process or method is novel and non-obvious; or (c) by combining prior art structures to achieve the normal, expected, or predictable result of that combination.<sup>165</sup>

## D. Motions to Stay

The benefits of post-grant review are not limited to a potentially more favorable venue and a lower burden of proof. Invariably, accused infringers seek to suspend the litigation in favor of the PTAB proceedings, thus avoiding the expense of litigation and depriving the NPE of an opportunity to press for trial and a damages award before the PTAB has had sufficient time to complete its work.

A decision to stay litigation lies within the sound discretion of the court and represents an exercise of “the power inherent in every court to control the disposition of the causes on its own docket with economy of time and effort for

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<sup>157</sup> AIA § 18(d)(1).

<sup>158</sup> See Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention; Final Rule, 77 Fed. Reg. 48,734, 48,736 (Aug. 14, 2012) (Comment 8).

<sup>159</sup> 77 Fed. Reg. 48734, 48735 (Aug. 14, 2012).

<sup>160</sup> *SAP America, Inc.*, *supra*, at 23.

<sup>161</sup> *Id.* (quoting 157 Cong. Rec. 55432 (daily ed. Sept. 8 2011) (statement of Sen. Schumer)).

<sup>162</sup> 77 Fed. Reg. at 48739.

<sup>163</sup> 37 C.F.R. § 42.301(b).

<sup>164</sup> See *OPower, Inc. v. Cleantech Business Solutions, LLC*, CBM2014-00155, Paper 10 at 11 (Jan. 12, 2015).

<sup>165</sup> See Office Trial Practice Guide, 77 Fed. Reg. 48,756, 48,764 (Aug. 14, 2012); see also *TD Ameritrade Holding Corp. v. Trading Tech. Intern'l, Inc.*, CBM2014-00137, Paper 19 at 12 (Dec. 2, 2014) (properly characterized, the problem solved was the non-technical: that of a commodities trader having to read display of prices and enter an order before the price changed.); *eBay, Inc. v. Advanced Auctions LLC*, CBM2014-00047, Paper 15 at 12 (June 25, 2014) (No “technological invention” where patent Owner failed to show “persuasively that any specific, unconventional software, computer equipment, tools, or processing capabilities are required.”); *OPower, Inc. v. Cleantech Business Solutions, LLC*, CBM2014-00155, Paper 10 at 12-13 (Jan. 12, 2015) (invention did not rely upon specific novel and unobvious hardware implementation in light of patent’s reference to use of “existing” hardware and absence of more detailed disclosures); *Apple, Inc. v. Smartflash LLC*, CBM2014-00105, Paper 9 at 12 (Sept. 30, 2014) (No technological invention where patent acknowledged that “a skilled person would understand that the terminals, data processing systems and the like can all take a variety of forms”); and *Intern'l Securities Exchange LLC v. Chicago Board Options Exchange, Inc.*, CBM2013-00050, Paper 16 at 12 (Mar. 4, 2014) (Noting that challenged patent stated claimed methods and apparatus were “not related to or limited to any particular type of computer or network apparatus[.]”)

itself, for counsel, and for litigants.”<sup>166</sup> It is well settled that this authority extends to patent cases in which a Patent Office review has been requested.<sup>167</sup>

In considering whether to stay litigation pending a Patent Office review, courts balance the following three factors: “(1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set.”<sup>168</sup>

Delay occasioned by a stay does not, in and of itself, amount to undue prejudice.<sup>169</sup> By definition, NPEs do not practice the patented technology in competition with the accused infringer and cannot establish that the delay will work any prejudice to its sales or market share.<sup>170</sup> Arguments that the NPE will suffer prejudice to its “need[] to diligently enforce its patent rights” are insufficient to overcome the benefit IPR provides in “streamlining the issues in need of litigation.”<sup>171</sup>

Courts have deemed stays appropriate to avoid having the PTAB’s anticipated claim constructions undercut the efforts of the court.<sup>172</sup> Courts also have justified stays in the interest of encouraging settlement among the parties.<sup>173</sup> Courts further have commented that the PTAB proceedings themselves will expand the written record on which subsequent claim construction will be based.<sup>174</sup>

While courts have acknowledged that there are no guarantees that the PTAB proceedings will eliminate the need for litigation by cancelling all asserted claims, they nevertheless perceive advantages from awaiting the PTAB’s review. “[T]he issue is simplification, not elimination.”<sup>175</sup> Courts have noted that the record developed before the PTAB necessarily will reduce the length and complexity of this litigation and will limit the issues left to be resolved.<sup>176</sup> Orders granting stays also have cited the advantages of having the PTAB’s analysis of prior art.<sup>177</sup> Ultimately, courts are concerned that “the landscape of the litigation could change dramatically in light of any PTAB ruling.”<sup>178</sup>

<sup>166</sup> *LaSala v. Needham & Co., Inc.*, 399 F. Supp. 2d 421, 427 (S.D.N.Y. 2005) (quoting *Landis v. N. Am. Co.*, 299 U.S. 248, 254, 57 S. Ct. 163 (1936)).

<sup>167</sup> See *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1426-27 (Fed. Cir. 1988) (citations omitted) (“Courts have inherent power to manage their dockets and stay proceedings, including the authority to order a stay pending conclusion of a PTO reexamination.”).

<sup>168</sup> *Pass & Seymour, Inc. v. Hubbell, Inc.*, 532 F. Supp. 2d 418, 435 (N.D.N.Y. 2007).

<sup>169</sup> See *ImageVision.Net, Inc. v. Internet Payment Exch., Inc.*, 2012 WL 5599338, at \*5 (D. Del. Nov. 15, 2012).

<sup>170</sup> See, e.g., *Message Notification Tech, LLC v. Microsoft Corp.*, No. 13-1881, D.I. 38 at 3, n.4 (D. Del. Feb. 24, 2015) (granting a stay before an institution decision because plaintiff “is a non-practicing entity, without competing products, thus minimizing the risk of harm.”); *Canatelo LLC v. AXIS Commc’ns AB*, No. 13-1227, D.I. 57 at 2, n.2 (D. Del. May 14, 2014) (granting a stay before an institution decision because “[t]he relationship of the parties favors granting a stay here since [plaintiff] Canatelo is a non-practicing entity and, by its own admission, does not compete with the defendants.”); *Brixham Solutions Ltd. v. Juniper Networks, Inc.*, No. 13-616, D.I. 77 at 3 (N.D. Cal. Apr. 28, 2014), (granting a stay before institution of an inter partes review because “as a non-practicing entity, [plaintiff] BSL cannot demonstrate any irreparable harm that might result from a stay.”).

<sup>171</sup> See *Star Envirotech, Inc. v. Redline Detection, LLC*, 2013 WL 1716068, at \*2 (C.D. Cal. Apr. 3, 2013) (plaintiff who provided no other justification other than it “needs to diligently enforce its patent rights” failed to overcome the benefit IPR provides in “streamlining the issues in need of litigation”) (citation omitted).

<sup>172</sup> See *AIP Acquisition LLC v. Level 3 Communications LLC*, No. 1:12-cv-01689, D.I. 61 at 5 n.5 (D. Del. Jan. 9, 2014) (stay appropriate where anticipated PTAB claim constructions could undercut Court’s own efforts.)

<sup>173</sup> See *Evolutionary Intelligence, LLC v. Twitter, Inc.*, Case No. 5-13-cv-04207, D.I. 111 at 4-5 (N.D. Cal. Feb. 25, 2014)

(“Development of the inter partes review record may also clarify claim construction positions for the parties, raise estoppel issues, and encourage settlement.”)

<sup>174</sup> See *Intellectual Ventures I LLC, et al. v. Motorola Mobility LLC*, Case No. 13-cv-61358, D.I. 195 at 3 (S.D. Fla. July 17, 2014)(“the IPR proceedings will become part of the intrinsic records of the five patents at issue.”)

<sup>175</sup> See *Rothschild Storage Retrieval Innovations, LLC v. Sony Mobile Communications (USA) Inc.*, Case No. 3-15-cv-00234, D.I. 80 at 6 (N.D. Cal. May 6, 2015).

<sup>176</sup> See *One StockDuq Holdings, LLC v. Becton, Dickinson and Co.*, Case No. 2-12-cv-03037, D.I. 85 at 15 (W.D. Tenn. Nov. 12, 2013).

<sup>177</sup> See *Dorman Products, Inc. v. PACCAR Inc.*, 2014 WL 2725964, at \*3 (E.D. Pa. June 16, 2014) (Regardless of the outcome, “Court will likely benefit . . . from the PTO’s analysis of prior art that is later presented to the Court.”)

<sup>178</sup> See *PersonalWeb Technologies LLC, et al. v. Apple Inc.*, 2014 WL 4757816, at \*3 (N.D. Cal. Sept. 24, 2014) (“[T]he parties should have the benefit of that change before making strategic choices for trial.”)

By seeking post-grant review early, by making known early its intention to seek a stay, and by seeking such a stay immediately following the filing of its petition with the PTAB, an accused infringer may rebut suggestions that it is merely seeking a tactical advantage.<sup>179</sup>

While courts have relied upon this inherent authority to stay litigation in favor of IPR proceedings, Congress has included a specific grant of such authority in relation to CBMs. Section 18(b)(1) of the AIA provides:

[T]he court shall decide whether to enter a stay based on--

(A) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;

(B) whether discovery is complete and whether a trial date has been set;

(C) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and

(D) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

A party is has the right to an immediate interlocutory appeal to the Federal Circuit from the decision of the district court on a motion to stay the litigation filed in connection with a CBM petition.<sup>180</sup>

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<sup>179</sup> See, e.g., *Think Products, Inc. v. Acco Brands Corp.*, No. CV 14-6659, D.I. 31 at 5 (E.D.N.Y. June 19, 2015); see also *Neste Oil Oyj v. Dynamic Fuels LLC*, 2013 WL 424754, at \*2 (D. Del. Jan. 31, 2013) (addressing now obsolete *inter partes* reexamination) (“[T]he timing of the reexamination request and motion to stay present no evidence that the defendants sought an unfair tactical advantage.”); *Princeton Digital Image Corp. v. Konami Digital Entertainment Inc.*, 2014 WL 3819458, at \*2 n.5 (D. Del. Jan. 15, 2014) (ordering stay despite fact Patent Office had yet to institute IPR, noting that statistical probability that the Patent Office would grant petition was “very high.”).

<sup>180</sup> AIA § 18(b)(2).